

**SECOND SUPPLEMENT DATED SEPTEMBER 11, 2014 TO
OFFICIAL STATEMENT DATED AUGUST 27, 2014**

\$854,850,000

MICHIGAN FINANCE AUTHORITY

Local Government Loan Program Revenue Bonds, Series 2014D

(Detroit Water and Sewerage Department

Water Supply System Revenue Refunding Local Project Bonds)

**Local Government Loan Program Revenue Bonds, Series 2014D-1 (AGM Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-3 (National Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-5 (Taxable)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-6 (National Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-2 (AGM Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)**

Local Government Loan Program Revenue Bonds, Series 2014D-4 (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-7 (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds)

This Second Supplement to Official Statement dated September 11, 2014 (this “Second Supplement”), hereby supplements and amends the Official Statement, dated August 27, 2014 as supplemented by the First Supplement to Official Statement dated September 3, 2014 (the “Original Official Statement”), for the above-referenced bonds (the “Series 2014D Bonds”). The information contained herein is intended to supersede and supplement, as applicable, the applicable information contained in the Original Official Statement. All capitalized terms not defined herein shall have the meanings set forth in the Original Official Statement.

The following changes are made to the Original Official Statement:

The section entitled “THE DEPARTMENT—Ongoing Discussion of Formation of Regional Authority” in the Original Official Statement shall be amended as follows:

“Since the fall of 2013, the Emergency Manager and the Department engaged in extensive negotiations with the Counties of Macomb, Oakland and Wayne (the “Counties”) regarding the potential formation of, and transfer of the functions of the Department to, a regional authority, which would have been created by agreement among the City and the Counties and incorporated as a part of the Plan of Adjustment in the City’s Bankruptcy Case. Upon confirmation of the Plan of Adjustment, the regional authority would have assumed operating control of most of the assets (including the physical plant and wholesale water and sewer service contracts) currently owned and operated by the Department. These negotiations among the City, the Department and the Counties did not result in any agreement.

On April 10, 2014, Wayne County filed a motion [Docket No. 3945] requesting that the Bankruptcy Court refer all matters relating to the potential formation of a regional authority to facilitative mediation. On April 17, 2014, the Bankruptcy Court entered an order [Docket No. 4156] referring to confidential mediation (1) the matter of whether to create a regional authority involving the City and the Counties and (2) all issues relating to the Department and the Counties.

On September 9, 2014, the City, the State and the Counties executed a Memorandum of Understanding Regarding the Formation of the Great Lakes Water Authority (the “MOU”). The MOU is a framework for the creation of a regional water and sewer/stormwater authority to be called the Great Lakes Water Authority (the “GLWA”), pursuant to Act 233 of 1955 (“Act 233”), to operate, control and improve both the Water Supply System and the Sewage Disposal System owned by the City and presently operated by the Department. The MOU was filed with the Bankruptcy Court on September 9, 2014, and a copy of the MOU is included at APPENDIX II-H to this Official Statement. The MOU contemplates that the City will lease the Water Supply System and Sewage Disposal System (excluding certain local infrastructure of the Water Supply System and the Sewage Disposal System located within the City) to the GLWA for an initial term of 40 years (the “Lease”), extendable to at least match the term of any outstanding bonds of the GLWA. In addition to the assumption of all outstanding DWSD Bonds, consideration for the Lease would be an allocation of a total of \$50 million per year, to be funded from the revenue requirements, a portion of which is funded from the Water Supply System and a portion of which is funded from the Sewage Disposal System, applied to all customers on a common-to-all basis (the “Consideration”) to be held by the GLWA.

The City understands that the parties to the MOU anticipate that, due to efficiencies, restructuring opportunities, local and regional capital improvements now underway or planned for the future and other cost savings, funding of the Consideration, which will flow through the existing flow of funds, together with other funding requirements, will not increase the revenue requirements for the Water Supply System or Sewage Disposal System by more than the 4% annual revenue increases included in the revenue projections. Nothing in the MOU would change the obligation of the GLWA to comply with the rate covenant under the Bond Ordinance. The Consideration will not be treated as an operation and maintenance expense and may be applied solely, at the City’s direction and discretion, to the cost of improvements to the local system infrastructure located within the City (payable from below debt service in the flow of funds), the payment of debt service on GLWA bonds associated with such improvements or the City’s share of debt service on GLWA bonds associated with common-to-all improvements. Any bonds issued to finance City local infrastructure would be issued by the GLWA and would be secured by the Net Revenues.

The consummation of the transactions contemplated by the MOU remains subject to negotiation and execution of definitive documentation and the receipt of all required consents and approvals required for the transactions contemplated therein, including but not limited to:

- (i) the City and the Counties shall have established the GLWA and the GLWA Board will have adopted an ordinance or resolution addressing all matters for which an ordinance is required to permit the contemplated transaction and operation of the Water Supply System and Sewage Disposal System by the GLWA;

- (ii) the GLWA and the City shall have negotiated a Lease, an agreement regarding the operation and management of the City local system effective on the

transfer date, and an agreement relating to the provision of services on a transitional basis by the City to the GLWA;

(iii) the GLWA shall have secured all necessary permits and other approvals to operate the Water Supply System and the Sewage Disposal System;

(iv) the City will have received approvals required under Act 436 and will have a confirmed plan of adjustment that contemplates the creation of the GLWA; and

(v) the City shall have secured the consent to the transfer of the Water Supply System and Sewage Disposal System to the GLWA from the Credit Enhancers and a majority of the holders of DWSD Bonds.

Additionally, the MOU contemplates that the GLWA shall, in connection with its assumption of or substitution for outstanding DWSD Bonds, adopt covenants consistent with those described under “—Consent to Transfer to Regional Authority,” including compliance with combined coverage requirements for both additional bonds test and rate covenant purposes, maintenance of a flow of funds consistent with Act 94 and compliance with the Bankruptcy Order. The MOU also contemplates that the GLWA shall have received confirmation from one or more nationally recognized rating agencies that the DWSD Bonds, after assumption or substitution by the GLWA are rated not less than the then-current rating on the DWSD Bonds.

The MOU provides that the Articles of Incorporation must be presented to the City and the legislative bodies of the Counties for approval or disapproval no later than October 10, 2014. The Articles of Incorporation have been presented to the City Council, and a copy of the proposed Articles of Incorporation is included at APPENDIX II-H to this Official Statement. The GLWA shall be established upon adoption of the Articles of Incorporation by the City and the legislative body of at least one County, and the publication and filing of the Articles of Incorporation as provided in Act 233. The Articles of Incorporation provide that the GLWA will automatically dissolve if the Lease has not been executed within 200 days following the establishment of the GLWA.

Confidential mediation among the City and the Counties is still ongoing for purposes of implementing the provisions of the MOU. There can be no assurance that the GLWA will be implemented or that all prerequisite approvals and consents will be obtained.”

The section of the Official Statement entitled “THE DEPARTMENT—Ongoing Discussion of Formation of Regional Authority—Consent to Transfer to Regional Authority,” which will apply to any transfer to the GLWA contemplated by the MOU, remains unchanged. The City understands that the parties to the MOU intend to implement the GLWA within the parameters of the existing consents; however, to the extent that the definitive documents developed to implement the GLWA do not comply with the parameters set forth in such section, further bondholder consents will be required.

The Original Official Statement shall be amended to include APPENDIX II-H—Documents Related to GLWA, attached hereto.

Effective on the date of this Second Supplement, all references to the “Official Statement” for the Series 2014D Bonds shall mean the Original Official Statement as supplemented and amended by this Second Supplement without regard to whether this Second Supplement is expressly referenced.

APPENDIX II-H
DOCUMENTS RELATING TO GLWA

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**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

-----X	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
	:	
-----X	:	

**NOTICE OF EXECUTION OF FRAMEWORK FOR
CREATING A WATER AND SEWER AUTHORITY**

PLEASE TAKE NOTICE THAT:

1. On September 9, 2014, the City of Detroit (the "City");¹ the State of Michigan; the County of Oakland, Michigan; the County of Wayne, Michigan; and the County of Macomb, Michigan (collectively, the "Counties") entered into a Memorandum of Understanding Regarding the Formation of the Great Lakes Water Authority (the ("MOU"), which is attached hereto as Exhibit A. This is a framework for the creation of a regional water and sewer/stormwater authority to be called the Great Lakes Water Authority (the "GLWA"), pursuant to Act 233 of 1955 (Act 233), to operate, control and improve both the Water Supply

¹ Capitalized terms not otherwise defined herein have the meanings given to them in the Sixth Amended Plan for the Adjustment of Debts of the City of Detroit, dated August 20, 2014 [Docket No. 6908] (the "Plan").

and Sewage Disposal Systems owned by the City and presently operated by the Detroit Water and Sewerage Department (“DWSD”).

2. The conditions precedent to the creation of the GLWA and the consummation of the transactions contemplated in the MOU include:

- a. the negotiation and execution of definitive documentation;
- b. the receipt of all governmental consents and approvals required for the transactions contemplated in the MOU;
- c. the establishment of the GLWA and the adoption and approval or ratification of Articles of Incorporation for the GLWA;
- d. the Board of the GLWA’s adopting an ordinance or resolution addressing all matters for which an ordinance is required to permit the contemplated transaction and operation of the water and sewer systems by the GLWA;
- e. the GLWA and the City’s negotiating a lease, an agreement regarding the operation and management of the Detroit local system effective on the transfer date and an agreement relating to the provision of services on a transitional basis by the City to the GLWA;
- f. the GLWA’s securing all necessary permits and other approvals to operate the water and sewer systems;
- g. the receipt by the City of all approvals required under PA 436 of 2012;
- h. the City having a confirmed plan of adjustment that contemplates the creation of the Authority; and
- i. the receipt by the City of the consent to the transfer of the water and sewer systems to the GLWA from the credit enhancers and a majority of the holders of DWSD bonds.

3. The contemplated GLWA transaction would constitute a Qualifying DWSD Transaction; however, if the GLWA is formed and the conditions set forth in paragraph 2 are satisfied, the City's General Fund will not receive any proceeds therefrom.

4. Upon execution of the MOU, the Counties have agreed that their objections to confirmation of the Plan are withdrawn with prejudice.

Dated: September 9, 2014

Respectfully submitted,

/s/ Heather Lennox

David G. Heiman (OH 0038271)

Heather Lennox (OH 0059649)

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ATTORNEYS FOR THE CITY

EXHIBIT A

**MEMORANDUM OF UNDERSTANDING
REGARDING THE FORMATION OF THE GREAT LAKES WATER AUTHORITY**

The following memorandum of understanding (MOU) represents a framework for the establishment by the City of Detroit, Oakland County, Wayne County and Macomb County (each, an "Incorporating Municipality") of a regional water and sewer/stormwater authority to be called the Great Lakes Water Authority, pursuant to Act 233 of 1955 (Act 233), to operate, control, and improve both the Water Supply and Sewage Disposal Systems (Systems) owned by the City and presently operated by the Detroit Water and Sewerage Department (DWSD). This framework describes terms to be incorporated into articles of incorporation which shall be presented to the City and the legislative bodies of the Counties as soon as practicable, for approval or disapproval no later than October 10, 2014. The Authority shall be established upon adoption of the articles of incorporation by the City and the legislative body of at least one County, and the publication and filing of the articles of incorporation as provided in Act 233.

GOVERNANCE

The Board of the Authority shall be comprised of six voting members:

- Two members appointed by the Mayor of the City
- One member appointed by each County which adopts the articles of incorporation
- One member resident of a service area outside the territories of the three Counties appointed by the Governor

In the event that Wayne, Oakland or Macomb County does not adopt the articles of incorporation the Governor shall also appoint a Board member resident in the service area within that County. Board members shall have four year, staggered terms, with no more than two members' terms expiring in same year. Each Board member shall serve at the will of and may be removed by the appointing authority.

The Board shall act by simple majority vote, except that a supermajority (5/6) shall be required for:

- Appointment of the Authority's general manager/executive director
- Approval of rates, fees and charges and rate-setting protocols
- Issuance of debt, which shall be revenue-backed debt
- Approval of annual operating budget
- Annual approval of a rolling Five Year Capital Improvement Plan

- Adoption of a procurement policy, which will include the terms on which any aspect of the operations of either System may be privatized
- Approval of a Lease of the Systems from the City
- Removal of any Board member for cause.

All Board members shall possess minimum education and professional experience standards, to wit: at least seven years of experience in a regulated industry, a utility, engineering, finance, accounting or law.

Compensation of Board members shall be determined by a supermajority vote of the Authority Board, and shall be consistent with the practices for other large public utilities.

LEASE

The City shall lease the Systems (except the Detroit local system infrastructure) to the Authority for an initial term of 40 years, extendable to at least match the term of any outstanding bonds of the Authority. Consideration for the Lease shall be the \$50 million common-to-all charge per year (not subject to further Board approval) to be held by the Authority in the funds described below and used at the City's direction and discretion to fund any or a combination of the following: Detroit local system infrastructure improvements, debt service associated with such improvements or the City's share of the cost of common-to-all improvements. The parties agree that no Lease shall be entered into if the payment in consideration for the Lease would cause the Systems to be unable to provide a reasonable level of service, satisfy its debt obligations and adhere to the rate structure set forth in the Plan of Adjustment. Initially, 45% of the charge shall be allocated to Water Supply System customers and 55% shall be allocated to Sewage Disposal System customers, such allocation to be subject to review and adjustment by the Board every three to five years consistent with the method of allocation of other common-to-all charges between the two Systems, provided, that no such adjustment shall reduce the availability of such revenues to pay debt service on bonds issued to finance Detroit local system improvements below the level in anticipation of which such bonds were issued.

KEY FINANCIAL TERMS

The Authority shall have no taxing power.

A financial obligation of the Authority shall be the financial obligation of the Authority only and not a financial obligation of an Incorporating Municipality or a constituent municipality except to the extent a municipality which is a wholesale customer may have liability in that capacity.

The State shall allow the Authority to use the Michigan Finance Authority to issue bonds on behalf of the Authority.

The Authority's common-to-all rate structure shall include:

- The \$50 million annual charge to be deposited with the Authority and applied, at the City's direction and discretion, (i) in the case of funds to be used for pay-as-you-go Detroit local system improvements, in a separate subaccount within the Authority's Construction Fund or Extraordinary Repair and Replacement Reserve Fund, as appropriate, for the related System, to be dedicated to Detroit local system infrastructure improvements; and/or (ii) in the case of funds to be applied to the payment of debt service on Authority bonds (either debt service allocable to Detroit's share of the cost of common-to-all capital improvements or to bonds issued by the Authority to finance Detroit local system improvements) to the appropriate Debt Service Account.
- \$4.5 million in 2014/15 and an amount equal to .5% of base budgeted operating revenues per year thereafter, for deposit to an independently-administered Water Residential Assistance Program fund to provide assistance to indigent residential customers throughout the Systems who agree to take appropriate actions to reduce consumption.

The existing recognitions of the City's ownership and system support in the water and sewer system rate structures (return on equity for water and per settlement for sewer) will be frozen and continue at \$26.216 million per year [\$20,700,000 as the rate of return for the water system and \$5,516,000 pursuant to settlements for the sewer system] during the term of the Authority.

The transfer of the Systems to the Authority shall not cause impairment of tax treatment of outstanding DWSD bonds. New debt and refunding bonds shall be issued pursuant to the Revenue Bond Act (PA 94 of 1933) or other statutory authority.

The MOU is predicated in part upon the assumption that the Bankruptcy Court will approve the terms of the City's Sixth Amended Plan of Adjustment (as it may be modified, supplemented or amended) (the "Plan of Adjustment") allocating liability to DWSD for funding the City's frozen General Retirement System (GRS) pension plan (the Pension Liability) and the City's settlement of claims associated with the swaps for its Pension Obligation Certificates, and for payments relating to debt service on DWSD's allocated share of liability on the New B Notes attributable to the GRS VEBA and Pension Obligation Certificates. The financial analysis

undertaken by the parties assumes that the Authority will issue bonds to prepay its Pension Liability or identify other savings should such financing prove to be infeasible and the Pension Liability is paid over the schedule provided in the Plan. Within 90 days after the establishment of the Authority, the Authority, working with the City and the Investment Committee of the GRS (Investment Committee) shall develop a process to reach agreement on the dollar amount which the Authority would need to deposit with the GRS as a one-time payment in lieu of the Pension Liability payments payable at the rate of \$42.9 million per year (not including \$2.5 million in annual administrative expenses or the one-time restructuring cost payment of \$20 million in 2014/15) over nine years pursuant to the Plan of Adjustment. Notwithstanding the foregoing, nothing in this MOU modifies, or purports to modify, the obligations of DWSD as set forth in the Plan of Adjustment, and the Authority shall assume and comply with such obligations.

The Investment Committee established for the GRS pursuant to Section 13g of the Public Employee Retirement System Investment Act (MCL 38.1133g) (PERSIA) is obligated to receive and approve summary annual report, a public document prepared pursuant to Section 13(3) of PERSIA. It is the expectation of the parties that the Investment Committee will provide the Authority with a copy of each summary annual report prior to the formal approval of such report. The parties understand that the summary annual report will continue to (a) track DWSD retirees, deferred retirees, and active vested members, pension benefits paid and actuarial accrued liabilities separately from other GRS members and (b) shall allocate to the DWSD/Authority an undivided interest in GRS administrative expenses and in each investment and class of investment in the GRS, to enable the Authority to verify the appropriateness of allocations to the Authority. For each fiscal year commencing from and after July 1, 2023, on its normal schedule for determining the current fiscal year's contributions to GRS, GRS shall determine whether DWSD's/Authority's unfunded accrued actuarial liability on a market value of assets basis for its component of the frozen GRS plan ("DWSD GRS Component II UAAL") is fully funded at 100%. If DWSD GRS Component II UAAL is funded at 100% or more, no contributions for the current fiscal year will be required from the Authority. If DWSD GRS Component II UAAL is less than 100% funded, then the Authority shall make such level annual contributions to GRS as necessary to amortize such shortfall over 5 years at an interest rate equal to the then current GRS investment return assumption.

Each System, as a whole, is assumed to experience revenue requirement increases of not more than 4% for each of the first ten years under Authority management. The rates and

percentage increases for different customers may vary in order to meet their specific revenue requirements.

The Authority shall commit to and adopt reporting practices which provide transparency in system operations and management. By Fiscal Year 2017 the Authority shall adopt a two year operating budget.

~~The City and each wholesale customer~~ shall retain complete responsibility for all obligations associated with their individual revenue requirements.

The Authority shall make every effort to employ individuals and contract with vendors from throughout the service areas.

OPERATION AND MANAGEMENT OF DETROIT AND OTHER LOCAL SYSTEMS

The City shall have the right to continue to operate and retain employees to operate, maintain, repair and improve the local system in Detroit, including capital improvements and repairs, and billing and collection services and any other services or may contract with the Authority or another third party for all or a portion of those or other functions. The City shall continue to develop the capital improvement program for the Detroit local system infrastructure and may elect to administer the maintenance and improvements to that system, and in any event, will direct the expenditure of the funds dedicated for those purposes. Billing and collection shall be managed such that the statutory lien on net revenues created by the Revenue Bond Act applies to payments received by the Authority or its trustee from Detroit local system customers and the Authority will have the power to enforce the collection of such payments. The Authority will finance Detroit local system improvements through the issuance of Authority bonds under the Revenue Bond Act, with the debt service to be allocated solely to Detroit local system ratepayers. City local rates may fund the Rate Stabilization Fund, contemplated by prior rate settlement agreements but as yet unfunded, from a portion of improved local collections until the accumulated balance is sufficient to stabilize rates and reduce delinquencies. The City will adopt metering or other practical methods of measuring water loss in the Detroit local system.

The Authority may provide services and issue bonds to finance improvements for other local systems within its service areas on the same basis.

CAPITAL IMPROVEMENTS

The State agrees to identify ways to facilitate access and eligibility for the Authority to the Clean Water State Revolving Fund and Drinking Water State Revolving Fund (collectively, SRF), grants and other sources of State funding to mitigate the cost of improvements for the

Systems and local system improvements, particularly for the areas of greatest health and environmental need, and commits to using its best efforts to facilitate such funding for the Authority. The City will determine priorities for capital improvements to the Detroit local system.

TREATMENT OF EXISTING CONTRACTS

Unless otherwise agreed by the parties, the City will assign all customer contracts to the Authority, which shall assume the same.

The Authority shall be a successor employer to DWSD for those employees transferring to the Authority, and will assume and honor DWSD's collective bargaining agreements for those employees.

Existing DWSD vendor contracts shall be assigned to and assumed by the Authority.

EVALUATION AND TRANSITIONAL/TRANSACTIONAL COSTS

The State's Competitive Grant Assistance Program (CGAP) provides incentive-based grants to stimulate smaller, more efficient government and encourage mergers, consolidations, and cooperation between two or more qualified jurisdictions. The program is focused on stimulating projects between two or more qualified jurisdictions that are creating new mergers, consolidations, and/or cooperative efforts/collaborations of existing services.

The State agrees to give priority consideration to a grant from any of the parties to this MOU to assist with payment of transactional costs associated with establishing and transferring the Systems to the Authority.

The City shall retain Veolia to undertake an assessment of the Systems and make recommendations to assist the parties in evaluating operating models, capital requirements and savings opportunities, with no commitment by DWSD, the City or the Authority to enter into a contract with Veolia to operate, manage or maintain the Systems. The Authority will be free to adopt ideas generated by such assessment and recommendations without any further obligation to Veolia. In the event the Authority is formed and a CGAP grant is received, sufficient of such funds shall be used to reimburse the City for the cost of the Veolia assessment.

MANAGEMENT OF THE SYSTEMS FOR BENEFIT OF CUSTOMERS

It is the parties' expectation that the Authority will use its best efforts to manage the Systems for the benefit of all Authority customers. Upon commencement of operations the Authority will review and revise as necessary the DWSD water and wastewater Master Plans. In reviewing those plans the Authority will use its best efforts to optimize the capacity of the water supply system and optimize and maximize the capacity of the wastewater system to treat flow so that operational economies of scale may be realized. The Board will take into account

the needs of the region in planning and operating the water and wastewater systems and will strive to become the provider of choice for southeastern Michigan and consider incentives for customers to utilize the system for their water supply needs and wastewater flow.

TERMINATION OF AUTHORITY OR WITHDRAWAL FROM MEMBERSHIP

Any withdrawing Incorporating Municipality shall remain liable for any contractual obligations it has to the Authority. Upon withdrawal of an Incorporating Municipality, the Governor shall thereafter appoint the member of the Board previously appointed by the withdrawing Incorporating Municipality; such member shall be a resident of the service area previously represented by the withdrawing Incorporating Municipality.

The City will forego its consideration for the Lease if it withdraws from the Authority.

CONDITIONS PRECEDENT TO TRANSFER

This MOU is subject to the negotiation and execution of definitive documentation and the receipt of all required consents and approvals required for the transactions contemplated herein, including, but not limited to, the following:

The Incorporating Municipalities shall have established the Authority and the Board will have adopted an ordinance or resolution addressing all matters for which an ordinance is required to permit the contemplated transaction and operation of the Systems by the Authority.

The Authority and the City shall have negotiated a Lease, an agreement regarding the operation and management of the Detroit local system effective on the transfer date, and an agreement relating to the provision of services on a transitional basis by the City to the Authority.

The Authority shall have secured all necessary permits and other approvals to operate the Systems.

The City will have received approvals required under PA 436 of 2012 and will have a confirmed plan of adjustment that contemplates the creation of the Authority.

The City shall have secured the consent to the transfer of the Systems to a regional authority from the credit enhancers and a majority of the holders of DWSD bonds.

Tender Financing and Creditor Settlement Terms regarding Transfer

The Authority shall, in connection with its assumption of or substitution for outstanding DWSD bonds, covenant to:

- maintain compliance with DWSD's three-part combined coverage requirements of 1.20, 1.10 and 1.00 for senior lien, second lien, and SRF junior lien

indebtedness, respectively, for both additional bonds test and rate covenant purposes; and

- maintain, pursuant to such ordinances or indentures, a flow of funds consistent with Act 94, in the following order of priority required by Act 94: (x) operation and maintenance expenses of the related System, and (y) debt service on all bonds payable from net revenues of the related System before making deposits to other accounts in the flow of funds; and
- comply with the provisions of the Bankruptcy Court Order dated August 25, 2014 approving the DWSD tender and new money financing, including but not limited to paragraph 24 thereof [requiring the method of making the pension payments to the frozen defined GRS plan].

The Authority shall also have(I) received (a) an opinion of nationally recognized bond counsel to the effect that the transfer of the Systems to the Authority and assumption of the outstanding DWSD bonds, in and of themselves, will not materially impair the tax-exempt status of the interest on such bonds; and (b) confirmation from one or more nationally recognized rating agencies that the bonds, after assumption or substitution by the Authority are rated not less than the then-current rating on the bonds; (II) demonstrated the ability of each System, under the additional bonds test described above, to issue at least One Dollar of additional indebtedness at each level of priority; and (III) provide in the Lease or other relevant agreement that any lease or other payment by the Authority to the City's general fund or other fund at the City (other than payments for customary services historically provided by the City to DWSD that constitute operation and maintenance expenses under the related DWSD Ordinance and payments in respect of pension obligations to be paid as operation and maintenance expense consistent with the Bankruptcy Court Order referred to above) shall be subordinated to all payments on the DWSD bonds assumed by the Authority.

STATEMENT REGARDING STATE COMMITMENTS

In agreeing to the terms of this MOU, the Representatives understand that the State will undertake all efforts, subject to all legal requirements, to facilitate the transaction as relates to consideration of permit matters (including a transfer of the current NPDES permit and associated Administrative Consent Order without material change to existing requirements), and applications for grant or loan funding. The State agrees to make such efforts.

PLAN OBJECTIONS

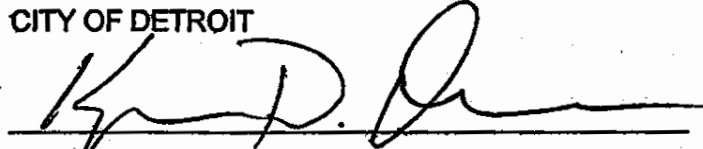
Upon execution of the MOU the Counties represented by the signatories to this MOU which have filed objections to the Plan of Adjustment shall each immediately withdraw with prejudice their objections to the Confirmation of the Plan of Adjustment.

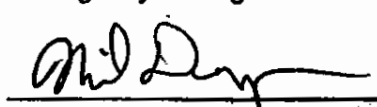
COUNTERPARTS

This MOU may be executed in counterparts.

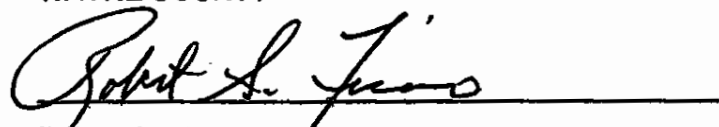
EXECUTION BY REPRESENTATIVES

CITY OF DETROIT

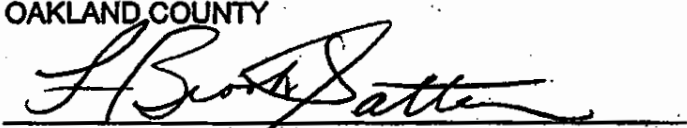

Kevyn D. Orr
Emergency Manager


Mike Duggan
Mayor


WAYNE COUNTY


Robert A. Ficano
County Executive

OAKLAND COUNTY


L. Brooks Patterson
County Executive

MACOMB COUNTY


Mark A. Hackel
County Executive

STATE OF MICHIGAN


Rick Snyder
Governor

September 9, 2014

CERTIFICATE OF SERVICE

I, Heather Lennox, certify that the foregoing Notice of Execution of Framework for Creating a Water and Sewer Authority was filed and served via the Court's electronic case filing and noticing system on this 9th day of September, 2014.

/s/ Heather Lennox
Heather Lennox

ARTICLES OF INCORPORATION OF GREAT LAKES WATER AUTHORITY

These Articles of Incorporation are adopted by the incorporating municipalities identified in Article 2 hereof to create an authority under the provisions of 1955 PA 233, as amended, MCL 124.281 *et seq.* (the “Act”).

ARTICLE 1 - NAME

The name of the Authority is the “Great Lakes Water Authority.” The principal office of the Great Lakes Water Authority (“Authority”) will initially be located at Detroit, Michigan, the mailing address of which is 735 Randolph Street, Suite 501, Detroit, MI 48226, or at such other location(s) as the Board (as defined herein) shall determine from time to time.

ARTICLE 2 - INCORPORATING MUNICIPALITIES

The incorporating municipalities creating this Authority are the City of Detroit, Michigan (the “City”), and any overlapping or contiguous Charter or 1973 PA 139 County whose legislative body adopts these Articles of Incorporation pursuant to section 2 of the Act (individually a “County” and collectively the “Counties”), which are designated as the “Incorporating Municipalities.”

ARTICLE 3 - PURPOSE

The Authority is incorporated for the purpose of acquiring, owning, leasing, improving, enlarging, extending, financing, refinancing and operating a water supply system and a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, and for exercising any of the powers of the Authority under these Articles and for purposes authorized under Article 7, Section 28 of the Michigan Constitution, the Act and other Michigan law. The terms “water supply system” and “sewage disposal system”, as used in these Articles of Incorporation shall be as now or later defined in Section 1 of the Act.

ARTICLE 4 - POWERS

A. The Authority shall be a public body corporate with the power to sue and be sued in any court of this State. The Authority shall be comprised of all of the territory within the corporate boundaries of the Incorporating Municipalities. The Authority shall possess all of the powers now or later granted by the Act, the State of Michigan Constitution of 1963, as may be amended, or by any other applicable statute or law and by these Articles and all other powers incident thereto, including all powers necessary to carry out its purposes and all powers incident thereto, except that the Authority shall not exercise any of the powers set forth in Section 7 of the Act without the consent of the applicable Incorporating Municipality or constituent municipality. The Authority may acquire property by purchase, construction, lease, grant, gift, devise or condemnation, either within or without its corporate limits, and may hold, manage, control, sell, exchange or lease such property. For the purpose of condemnation it may proceed under any statute which grants any municipality or public body the authority to acquire private property for

public use. The enumeration of any powers in these Articles shall not be construed as a limitation upon the Authority's general powers unless the context shall clearly indicate otherwise. The Authority shall have a corporate seal.

B. Except as otherwise provided in the Act or these Articles, and without limiting the generality of the foregoing paragraph (A), the Authority may do all things necessary or convenient to implement the purposes, objectives, and provisions of the Act and the purposes, objectives, and jurisdictions vested in the Authority or the Board by the Act or other law, including, but not limited to, all of the following:

(1) Borrow money and issue bonds and notes according to the provisions of the Act and these Articles.

(2) Make and enter into contracts, agreements, or instruments necessary, incidental, or convenient to the performance of its duties and execution of its powers, duties, and jurisdictions under the Act with any federal, state, local, or intergovernmental governmental agency or with any other person or entity, public or private, upon terms and conditions acceptable to the Authority. No contract shall be for a period exceeding 40 years.

(3) Engage in collective negotiation or collective bargaining and enter into agreements with a bargaining representative as provided by 1947 PA 336, MCL 423.201 to 423.217.

(4) Solicit, receive, and accept gifts, grants, labor, loans, contributions of money, property, or other things of value, and other aid or payment from any federal, state, local, or intergovernmental government agency or from any other person or entity, public or private, upon terms and conditions acceptable to the Authority, or participate in any other way in a federal, state, local, or intergovernmental government program.

(5) Make application for and receive loans, grants, guarantees, or other financial assistance in aid of a water supply system or a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, from any state, federal, local, or intergovernmental government or agency or from any other source, public or private, including, but not limited to, financial assistance for purposes of developing, planning, constructing, improving, and operating a water supply system or a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems.

(6) Procure insurance or become a self-funded insurer against loss in connection with the property, assets, or activities of the Authority.

(7) Indemnify and procure insurance indemnifying Board members from personal loss or accountability for liability asserted by a person with regard to bonds or other obligations of the Authority, or from any personal liability or accountability by reason of the issuance of the bonds or other obligations or by reason of any other action taken or the failure to act by the Authority.

(8) Invest money of the Authority, at the discretion of the Board, in instruments, obligations, securities, or property determined proper by the Board and name and use depositories for Authority money. Investments shall be made consistent with an investment policy adopted by the Board that complies with the Act and 1943 PA 20, MCL 129.91 to 129.96.

(9) Contract for goods and services as necessary and as provided under the Act. The Authority may contract with a management firm, either corporate or otherwise, to operate a

water supply system or a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, under the supervision of the Authority.

(10) Employ legal and technical experts, other officers, agents, employees, or other personnel, permanent or temporary, as considered necessary by the Board as provided under the Act.

(11) Contract for the services of persons or entities for rendering professional or technical assistance, including, but not limited to, consultants, managers, legal counsel, engineers, accountants, and auditors, as provided under the Act.

(12) Establish and maintain an office.

(13) Acquire by gift, devise, transfer, exchange, purchase, lease, or otherwise on terms and conditions and in a manner the Authority considers proper property or rights or interests in property. Property or rights or interests in property acquired by the Authority may be by purchase contract, lease purchase, agreement, installment sales contract, land contract, or otherwise. The acquisition of any property by the Authority for a water supply system or a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, in furtherance of the purposes of the Authority is for a public use, and the exercise of any other powers granted to the Authority is declared to be public, governmental, and municipal functions, purposes, and uses exercised for a public purpose and matters of public necessity.

(14) Hold, clear, remediate, improve, maintain, manage, protect, control, sell, exchange, lease, or grant easements and licenses on property or rights or interests in property that the Authority acquires, holds, or controls.

(15) Except as may be provided under state or federal law, convey, sell, transfer, exchange, lease, or otherwise dispose of property or rights or interest in property, to any person or entity on terms and conditions, and in a manner and for consideration the Authority considers proper, fair, and valuable.

(16) Develop a water supply system or a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems.

(17) Assume and perform the obligations and covenants, including the debt obligations, of a local government, including without limitation the City, related to a water supply system or sewage disposal system, including a storm water collection and treatment system, or a combination of such systems.

(18) Enter into contracts or other arrangements with persons or entities, for granting the privilege of naming or placing advertising on or in all or any portion of a water supply system or sewage disposal system, including a storm water collection and treatment system, or a combination of such systems.

(19) Establish and fix a schedule of rates, fees, or other charges for use of, or services provided with respect to, any water supply system or sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, operated by the Authority and provide for the collection and enforcement of those rates, fees, or other charges.

(20) Do all other acts and things necessary or convenient to exercise the powers, duties, and jurisdictions of the Authority under the Act or other laws that relate to the purposes, powers, duties, and jurisdictions of the Authority.

C. Notwithstanding any other provision of law to the contrary, the Authority shall not have the power to impose or levy a tax.

D. Any further limitation of powers granted under these Articles must be accomplished by rule or regulation adopted by the Authority in accordance with the procedure therefor set forth in the Act. All other aspects of the operation of the Authority shall be through policies adopted by the Board, unless otherwise provided by law.

ARTICLE 5 - TERM OF EXISTENCE

A. The Authority shall continue in existence until dissolved by unanimous act of the Board or by law, but in no event before all existing and future indebtedness of the Authority has been paid or provision for payment thereof has been made in accordance with the terms of such indebtedness. The Authority shall not be dissolved if such dissolution could operate as an impairment of any of its contracts or the terms of any of its indebtedness. After the affirmative unanimous vote of the Board to dissolve the Authority, the Board shall determine how assets of the Authority are to be distributed by vote of the Board as set forth in Article 9.

B. Notwithstanding any other provision of these Articles, an Incorporating Municipality may be released from membership in the Authority if all of the following conditions are met:

(1) Adoption of a resolution by a 2/3 majority vote of the members elected to and serving on the legislative body of the Incorporating Municipality requesting release from membership.

(2) Acceptance of the request by a unanimous vote of the members serving on the Board of the Authority, excluding the member representing the Incorporating Municipality requesting release.

(3) Payment or the provision for is made regarding all obligations of the Incorporating Municipality to the Authority or its creditors.

(4) An Incorporating Municipality that withdraws from the Authority may continue to receive services from the Authority pursuant to contract upon such terms and conditions are otherwise authorized or permitted by law and mutually agreed upon by the Authority and the Incorporating Municipality.

C. Automatic Dissolution. The Authority shall immediately dissolve upon the occurrence of any of the following:

(1) If at any time before the issuance of debt in the name of the Authority a Bankruptcy Court or other court of competent jurisdiction rejects, modifies, revokes, suspends,

severs or otherwise alters, with a material adverse impact on any of the City's water supply or sewage disposal system or the Authority, any material provision of these Articles or the provisions in the City's Sixth Amended Plan of Adjustment addressing the Detroit Water and Sewerage Department ("DWSD") component of the City's General Retirement System pension liabilities.

(2) If, within 200 days of the effective date of the establishment of the Authority, the Board fails to approve and execute separate leases with the City (collectively, the "DWSD Lease") for the City's water supply system and sewage disposal system, respectively, which have been under the control of DWSD. The 200-day time period shall be tolled during any period where the Board's authority to act is enjoined or restrained by a court of competent jurisdiction.

(3) The DWSD Lease differs in any material respect from the Memorandum of Understanding, executed as of September 9, 2014, by the Emergency Manager and Mayor of the City, the County Executive of each County and the Governor of the State of Michigan (the "MOU").

D. In approving these Articles, the City agrees to execute and enter into a lease for each of its water supply and sewage disposal systems and to transfer or lease of related personal property with terms which conform to the parameters for such lease set forth in the MOU and these Articles, and the Mayor of the City is hereby empowered to negotiate and enter into such lease with the Authority.

ARTICLE 6 - FISCAL YEAR

The fiscal year of the Authority shall commence on July 1 and end on June 30.

ARTICLE 7- BOARD OF DIRECTORS AND OFFICERS

The governing body of the Authority shall be a Board of Directors (the "Board") composed of six voting members selected in the following manner:

A. Two members of the Board shall be residents of the City of Detroit, shall be appointed by the Mayor of the City and shall serve at the appointing authority's pleasure. The initial term for the members appointed under this paragraph shall be three (3) years and all subsequent terms shall be for four (4) years.

B. Each Charter or 1973 PA 139 County that adopts these articles of incorporation shall appoint one member who shall be a resident of the County from which appointed. The appointments shall be made by the Executive or Administrative authority designated under the respective Charters or 1973 PA 139 and the appointees shall serve at the appointing authority's pleasure. The initial term for the appointees from the Counties with the highest and second highest population shall be two (2) years and all subsequent terms shall be for four (4) years. The initial term for the appointees from any other county shall be one (1) year and all subsequent terms shall be four (4) years.

C. One member of the Board who shall be a resident of an area served by the Authority outside of the City of Detroit and the Counties of Wayne, Oakland and Macomb shall be

appointed by the Governor of the State of Michigan. Such member and shall serve at the pleasure of the Governor. The initial term for the member appointed under this paragraph shall be four (4) years and all subsequent terms shall be for four (4) years.

D. If an Authority is incorporated under Section 2 of Act 233 but the legislative body of any of Wayne County, Oakland County or Macomb County fails or refuses to adopt these Articles of Incorporation on or before October 10, 2014, then the Governor of the State of Michigan shall appoint a board member for that County who shall be a resident of the area to be served by the Authority located within the County failing or refusing to adopt these Articles and such member shall serve at the pleasure of the Governor. The initial term for a member appointed under this paragraph shall, on the basis of population, be as set forth in paragraph B above. If any County that failed to adopt these Articles on or before October 10, 2014 subsequently adopts these Articles prior to the execution and delivery of the DWSD Lease, then such County shall appoint a member to the Board and such member shall replace the member appointed by the Governor as provided in this paragraph D.

E. All members of the Board appointed under this Article 7 shall have at least seven years of experience in a regulated industry, a utility, engineering, finance, accounting or law. Members may be compensated within the limits set by the affirmative vote of at least 5 members of the Board and approved by the Mayor of the City and the County Executives of each County, consistent with practices for other large public utilities. Board members may be reimbursed for actual and necessary expenses incurred while attending Board meetings or performing other authorized official business of the Authority.

F. No later than 30 days after the date on which the Authority becomes effective as provided in Article 17, members of the Board shall be appointed. Upon appointment to the Board and upon taking and filing the oath of office required by section 1 of article XI of the state constitution of 1963, a Board member shall enter office and exercise the duties of the office of Board member.

G. Within not more than 30 days following the appointment of at least 4 of the members of the Board, the Board shall meet for the purpose of organizing the Board. The time and place for such initial meeting shall be fixed by the Mayor of the City, and notice of that meeting shall be served upon all members in the manner provided in these Articles and the Open Meetings Act (OMA), 1976 PA 267, as amended, MCL 15.261 to 15.275. No appointment to the Board and no selection of an officer of the Board shall be deemed to be invalid because it was not made within or at the time specified in these Articles. The Authority shall, at its organizational meeting, enter into an interlocal agreement to permit the appointment of any gubernatorial appointee.

H. The Board shall elect from among its members a Chairperson, a Vice-Chairperson and a Secretary. The Board shall also elect or appoint a Treasurer, who shall not be a member of the Board and who shall serve as the chief financial officer of the Authority. The Board may elect other officers as the Board considers necessary. All officers shall be elected annually by the Board.

I. An individual who has been convicted of, pled guilty or no contest to, or forfeited bail concerning a felony under the laws of this state, any other state, or the United States shall not be appointed or remain as a member of the Board. A member of the Board to whom this paragraph

applies may be removed at the pleasure of the appointing authority or shall be removed for cause by the Board as provided herein.

J. The Board shall appoint an audit committee consisting of 3 members of the Board. The audit committee shall hold its first meeting within 60 days after the effective date of the Authority. A majority of members appointed and designated as audit committee members by the Board under this paragraph may conduct the business of the committee. The audit committee shall meet not less than 4 times each year with the chief financial officer and the chief executive officer of the Authority, and the Authority's independent public auditors to review the reports related to the financial condition, operations, performance, and management of the Authority, including, but not limited to, all contractors and subcontractors, and may also order special investigations or audits, the cost of which shall be paid by the Authority. The audit committee shall also review the activities and reports of the internal auditor of the Authority who shall be appointed by the chief executive officer of the Authority. The audit committee shall, once every 3 years, recommend 3 independent certified public accounting firms that, in the judgment of the audit committee, possess sufficient resources and qualifications to conduct annual financial audits of the accounts of the Authority. From the 3 recommendations of the audit committee, the Board may select, not more than 30 days after receipt of the recommendations of the audit committee, the independent certified public accounting firm with whom the Authority shall execute an agreement to conduct annual financial audits for the succeeding 3 fiscal years of the accounts of the Authority. If the Board does not select 1 of the recommended independent certified public accounting firms to conduct annual financial audits for the next 3 fiscal years of the Authority within 30 days after receipt of the recommendations of the audit committee, the audit committee shall have the sole power to select the independent certified public accounting firm with whom the Authority shall execute an agreement to conduct annual financial audits of the accounts of the Authority for the next 3 fiscal years. A person may not prevent or prohibit the internal auditor or the audit committee from carrying out or completing any audit or investigation. The internal auditor and members of the audit committee shall be protected under the whistleblowers' protection act, 1980 PA 469, MCL 15.361 to 15.369.

K. The members of the Board. shall, at time of appointment meet all of the following qualifications: (a) neither the Board member, nor his or her spouse nor his or her siblings, children or step-children or their spouses, parents, or siblings or their spouses of the Board member maybe actively engaged or employed in any other businesses, vocation, or employment of any of the business having a contractual relationship with the Authority or under the control of the Authority, (b) neither the Board member, nor his or her spouse nor his or her siblings, children or step-children or their spouses, parents, or siblings or their spouses of the Board member, may have a combined 1% or greater direct pecuniary interest in any enterprise having a contractual relationship with the Authority or under the control of the Authority; and (c) the Board member would not be considered to have a conflict of interest under 1968 PA 318, MCL 15.301 - 15.310, in respect of any contract or subcontract involving the Authority if the Board member were considered a state officer under 1968 PA 318, MCL 15.301 - 15.310. Nothing in this paragraph shall preclude an Incorporating Municipality from appointing an employee or other official of the Incorporating Municipality to serve on the Board.

A Board member who, at any time during his or her term of service, becomes in violation of the preceding paragraph shall have 30 days to divest, or arrange for the divestment of, the interest that caused the violation. If the Board member or his or her relative is still in violation of subparagraph (a), (b) or (c) of the preceding paragraph after the expiration of the 30-day period, the appointing authority that appointed that Board member shall remove the Board member from office and such removal shall be deemed “for cause”.

With respect to the management of the affairs of the Authority, a Board member shall exercise the duties of a fiduciary toward the Authority and shall discharge the duties of his or her position in a nonpartisan manner, in good faith, and with the degree of diligence, care and skill that an ordinarily prudent person would exercise under similar circumstances in a like position. In discharging his or her duties, a Board member, when acting in good faith, may rely upon the opinion of counsel for the Authority and other experts or advisors retained by the Authority, the report of an independent appraiser selected by the Board, financial statements of the Authority represented to the Board member to be correct by the person having charge of the Authority’s books of account or stated in a written report by or a certified public account, a firm of certificated accountants, to reflect the financial condition of the Authority.

ARTICLE 8 – VACANCIES

A. A member of the Board may resign by written notice to the Board and the appointing authority. The resignation will be effective upon its receipt by the Board or a subsequent time as set forth in the notice of resignation. A member of the Board may be removed at the pleasure of the appointing authority or, as set forth in paragraph J or K of Article 7, for cause, by the affirmative vote of 5 members of the Board.

B. If a vacancy occurs on the Board due to resignation, cause, death, disability, change in required residency, conflict of interest, or other condition set forth in these Articles, the Authority shall notify the appointing authority and such seat shall be filled in accordance with the provisions of paragraphs A, B, C, D or E of Article 7 hereof, as applicable.

C. If an Incorporating Municipality withdraws from the Authority as provided in these Articles, the Governor shall appoint a replacement Board member who shall be a resident of the withdrawing municipality and who shall serve at the Governor’s pleasure.

ARTICLE 9 - BOARD MEETINGS, VOTING

A. The Board shall conduct regular meetings as needed and not less than at least once during each quarter of each year. The business of the Board shall be conducted at a public meeting of the Board held in compliance with the OMA. Public notice of the time, date, and place of the meeting shall be given in the manner required by the OMA. After organization, the Board shall adopt a schedule of regular meetings and adopt a regular meeting date, place, and time. A special meeting of the Board may be called by the Chairperson of the Board or as provided in bylaws adopted by the Board. Notice of a special meeting shall be given in the manner required by the OMA.

B. At least a majority of the members of the Board constitute a quorum for ordinary business. Each Board member shall have one vote. The Board shall act by resolution or may act, if permitted or required by law, by ordinance.

C. For the adoption of any action there shall be required a majority vote of all of the members of the Board, unless a greater majority or a unanimous vote of all Board members is required by the Act, these Articles or the Authority's bylaws. Action required to (i) set or approve rates and/or charges for the provision of water and sewer services, including storm water collection and treatment services, or for a combination of such services, (ii) establish and adopt the Authority's operating budget, (iii) establish and annually approve a five year capital improvement program, (iv) establish and adopt procurement rules and regulations, (v) select a chief executive officer, (vi) authorize the issuance of debt, (vii) remove a Board member for cause, or (viii) approve or modify the DWSD Lease, shall require compliance with the Act and the affirmative vote of at least 5 members of the Board. Any amendment to these Articles of Incorporation shall require compliance with section 6 of the Act and the unanimous vote of the Board.

D. The Board shall adopt bylaws governing its procedures and regulating the affairs of the Authority which are not in conflict with the terms of the Act, any other statute, or these Articles.

E. Subject to paragraph D of Article 5, the Board shall adopt rules and regulations by resolution and with concurrence by resolution of constituent municipalities in accordance with the Act.

F. The Board shall keep a written or printed record of each meeting, which record and any other document or record prepared, owned, used, in the possession of, or retained by the Authority in the performance of an official function shall be made available to the public in compliance with the freedom of information act, 1976 PA 442, MCL 15.231 to 15.246. The Board's written or printed record shall be signed by the Secretary and shall show how each member voted. Each member shall vote upon all motions, resolutions and ordinances unless disqualified from voting thereon by reason of any personal interest as defined by the conflict of interest laws of the State of Michigan or these Articles. All votes shall be "yeas" and "nays," except that where the vote is unanimous, it shall only be necessary to so state.

G. The Board shall provide for a system of accounts for the Authority to conform to a uniform system required by law and for the auditing of the accounts of an authority. The Board shall obtain an annual audit of the Authority by an independent certified public accountant and report on the audit and auditing procedures in the manner provided by sections 6 to 13 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.426 to 141.433. The audit also shall be in accordance with generally accepted government auditing standards and shall satisfy federal regulations relating to federal grant compliance audit requirements.

H. Before the beginning of each fiscal year, the Board shall cause to be prepared a budget for the Authority containing an itemized statement of the estimated current operational expenses and the expenses for capital outlay including funds for the operation and development of the facilities under the jurisdiction of the Board, including the amount necessary to pay the principal and interest of any outstanding bonds or other obligations of the Authority maturing during the next fiscal year or that have previously matured and are unpaid, and an estimate of the estimated revenue of the Authority from all sources for the next fiscal year. The Board shall adopt a budget

for each fiscal year in accordance with the uniform budget and accounting act, 1968 PA 2, MCL 141.421 to 141.440a.

I. For fiscal year 2017 and beyond, the Board shall formally adopt a two-year operating budget.

J. Not less than quarterly, the chief executive officer shall present to the Board reports showing budget to actual comparisons of expenses and revenues incurred and received together with projections of operations through the current fiscal year. Explanations for variances from the operating budget and proposed adjustments to the operating budget relating thereto shall also be presented to the Board for their consideration and action.

K. The Board shall adopt a procurement policy meeting the requirements of this Article 9. The procurement policy shall provide for all of the following:

(1) the purchase of, the contracting for, and the providing of supplies, materials, services, insurance, utilities, third-party financing, equipment, printing, and all other items as needed by the Authority the cost of which exceeds a threshold to be established by the Board to efficiently and effectively meet the needs of the Authority using competitive procurement methods to secure the best value for the Authority.

(2) the acquisition of professional services in accordance with a competitive, qualifications-based selection process and procedure for the type of professional service required by the Authority. The Authority shall not be required to use competitive bidding when acquiring proprietary services, equipment, or information available from a single source, such as a software license agreement or for emergency repairs, or to respond to a declared state of emergency or if procurement is necessary for the imminent protection of or mitigation of an imminent threat to public health or safety. The Board may enter into a cooperative purchasing agreement with the federal government, the state, or other public entities for the purchase of goods or services necessary for the Authority.

(3) a requirement for the Authority to use its best efforts within the competitive solicitation requirements of these Articles to achieve fairness in the number and value of contracts for goods or services entered into by the Authority with persons or firms based in the Authority territory area consistent with applicable law.

(4) the control, supervision, management, and oversight of each contract to which the Authority is a party.

(5) monitoring the performance of each contract for goods or services including, but not limited to, a contract that exists on the date the Authority assumes control of a water supply system or sewage disposal system, to assure execution of the contract within the budget and time periods provided under the contract and compliance with the terms of the contract, the Act, these Articles and federal and state procurement law.

(6) unless specifically provided for in the procurement policy, that the chief executive officer or other authorized employee of the Authority shall not sign or execute a contract until the contract is approved by the Board.

(7) preclude the Authority from entering into a procurement or employment contract with a person who has been convicted of a criminal offense incident to the application for or

performance of a contract or subcontract with a local government, state or federal governmental entity or with a person who has been held liable in a civil proceeding or has been convicted of a criminal offense that negatively reflects on the person's business integrity, based on a finding of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or violation of state or federal antitrust statutes, or similar laws.

L. The Board shall prepare an annual report detailing all contracts entered into by the Authority during the immediately preceding fiscal year, which report shall be made publically available and posted on the Authority's website. As used in this paragraph, if a person is a business entity, person includes affiliates, subsidiaries, officers, directors, managerial employees, and any person who, directly or indirectly, holds a pecuniary interest in that business entity of 20% or more. Nothing in this paragraph shall be construed as creating a quota or set-aside for any city or any county in the Authority territory area.

M. The Board may employ personnel as the Board considers necessary to assist the Board in performing the power, duties, and jurisdictions of the Authority, including, but not limited to, employment of a chief executive officer. The Board shall adopt an employment policy consistent with applicable law that includes a requirement for the Authority to use best efforts to achieve fairness in the hiring of employees from among residents of the City of Detroit and each Incorporating Municipality within the Authority territory area. Nothing in this paragraph shall be construed as creating a quota or set-aside for any city or any county in the Authority territory area.

N. The Board shall establish policies to assure that the Board and the Authority shall not do either of the following:

(1) Fail or refuse to hire, recruit, or promote; demote; discharge; or otherwise discriminate against a person with respect to employment, compensation, or a term, condition, or privilege of employment, or a contract with the Authority because of religion, race, color, national origin, age, sex, sexual orientation, height, weight, marital status, partisan considerations, or a disability or genetic information that is unrelated to the person's ability to perform the duties of a particular job, position, or contract.

(2) Limit, segregate, or classify an employee, a contractor, or applicant for employment or a contract in a way that deprives or tends to deprive the employee, contractor, or applicant of an employment opportunity or otherwise adversely affects the status of an employee, contractor, or applicant because of religion, race, color, national origin, age, sex, sexual orientation, height, weight, marital status, partisan considerations, or a disability or genetic information that is unrelated to the person's ability to perform the duties of a particular job or position.

ARTICLE 10 - BOARD AFFAIRS

A. The Chairperson of the Board shall be its presiding officer and except as otherwise provided in these Articles, the Chairperson shall not have any executive or administrative functions other than as a member of the Board. In the absence or disability of the Chairperson, the Vice-Chairperson shall perform the duties of the Chairperson. The Secretary of the Board shall be the recording officer of the Board.

B. The Treasurer of the Board shall be custodian of the funds of the Authority and shall provide a bond conditioned upon the faithful performance of the duties of his or her office as

provided in paragraph D of Article 13. The cost of this bond shall be paid by the Authority. All money shall be deposited in financial institutions designated by the Board as permitted by 1943 PA 20, MCL 129.91 to 129.96, and all checks or other forms of withdrawal therefrom shall be signed by the Chairperson or Vice-Chairperson and by the Treasurer or Secretary. The Board shall appoint and employ a chief financial officer who is not a member of the Board as Treasurer.

C. The officers of the Board shall have such other powers and duties as may be conferred upon them by the Board.

D. The provisions of this Article shall be considered controlling over all other provisions of these Articles of Incorporation.

ARTICLE - 11 REVENUES

A. In addition to the requirements set forth in paragraph C of this Article 11, the Authority may raise revenues to fund all of its activities, operations, and improvements consistent with its purposes. The sources of revenue available to the Authority may include, but are not limited to, any of the following:

(1) Rents, fees, or other charges for use of a water supply system or a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, which the Authority may fix, regulate, and collect.

(2) Federal, state, or local government grants, loans, appropriations, payments, or contributions.

(3) The proceeds from the sale, exchange, lease, or other disposition of property to which the Authority has title.

(4) Grants, loans, appropriations, payments, proceeds from repayments of loans made by the Authority, or contributions from public or private sources.

(5) Investment earnings on the revenues described in subparagraphs (1) to (4).

B. The revenues raised by the Authority may be pledged, in whole or in part, for the repayment of bonded indebtedness and other expenditures issued or incurred by the Authority.

C. The Board by resolution shall establish and fund a separate segregated fund for each water supply system and sewage disposal system under its jurisdiction for the sole purpose of receiving rates and charges imposed in consideration for the lease of the related system from the City which shall be used at the City's direction and discretion to fund any or a combination of the following: Detroit local system infrastructure improvements, debt service associated with such improvements or the City's share of the cost of common-to-all improvements.

ARTICLE 12 – SALE AND ISSUANCE OF BONDS, NOTES AND OTHER INDEBTEDNESS

A. The Authority may borrow money and issue bonds, notes, and other evidences of indebtedness in accordance with and exercise all of the powers conferred upon the Authority by the laws of the state, including without limitation, the Act, the revenue bond act of 1933, 1933 PA 94, MCL 141.101 to MCL 141.140, and the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

B. Bonds issued by the Authority are debt of the Authority and not a debt of any Incorporating Municipality except to the extent that a withdrawing Incorporating Municipality retains liability.

C. The issuance of bonds, notes, or other evidences of indebtedness by the Authority shall require approval of the Board as set forth in paragraph C of Article 9.

ARTICLE 13 - EMPLOYEES

A. The Board shall appoint and fix the compensation of a chief executive officer for the Authority. The Board shall prescribe the duties and responsibilities of the chief executive officer in addition to any duties and responsibilities imposed upon the chief executive officer under the Act, these Articles or law. The chief executive officer of the Authority shall serve at the pleasure of the Board.

B. The chief executive officer shall supervise and be responsible for the day-to-day operation of the Authority, including the control, supervision, management, and oversight of a water supply system or a sewage disposal system (including a storm water collection and treatment system, or a combination of such systems), the issuance of bonds, notes and other evidences of indebtedness approved by the Board, the negotiation and establishment of compensation and other terms and conditions of employment for any employees of the Authority, the negotiation, supervision, and enforcement of contracts entered into by the Authority and approved by the Board, and the supervision of contractors of the Authority in their performance of their duties. The Board may delegate to the chief executive officer of the Authority the power and responsibility to execute and deliver, and sign for, contracts, leases, obligations, and other instruments as have been approved by the Board.

C. The chief executive officer of the Authority shall have all powers as are incident to the performance of his or her duties that are prescribed by the Act, these Articles or by the Board. All actions of the chief executive officer of the Authority shall be in conformance with the policies of the Board and in compliance with applicable law.

D. The Board shall require the chief executive officer of the Authority and the Treasurer and chief financial officer of the Authority to post a suitable bond of not less than \$50,000.00 issued by a responsible bonding entity, with the cost of the premium of the bond paid by the Authority.

E. The Board shall not authorize the chief executive officer of the Authority to do any of the following:

(1) Appoint a successor to the chief executive officer.

(2) Except as may be specifically provided in the procurement policy adopted pursuant to Article 9, approve a contract or a contract amendment.

(3) Appoint or hire legal counsel for the Board.

(4) Prescribe ethical standards for the Board or Authority employees without Board approval.

F. The Board shall have power to hire employees to assist the Board in the execution of Board functions and to fix the compensation therefor.

ARTICLE 14 - FEDERAL, STATE OR LOCAL GRANTS IN AID

The Board, on behalf of the Authority, shall have the power to accept contributions, capital, grants, gifts, donations, services, loans or other financial assistance from the United States of America or any agency or instrumentality thereof or from the State of Michigan or any agency, instrumentality or political subdivision thereof.

ARTICLE 15 - AUDIT

The Board shall cause an annual audit to be made of its financial statements, including such federal and state audits as may be required relating to grants and awards, by a certified public accountant, and shall furnish at least two copies to each Incorporating Municipality. The books and records of the Authority shall be open for inspection by any Incorporating Municipality at all reasonable times upon reasonable notice.

ARTICLE 16 - PUBLICATION

A. These Articles shall be published once in the Detroit News, Detroit, Michigan, which newspaper has general circulation within the territory encompassed by the Authority. One printed copy of the Articles of Incorporation as printed in this newspaper, certified as a true copy thereof as provided below, with the date and place of publication shown by a publisher's affidavit of publication attached thereto, shall be filed with the Michigan Secretary of State and also the Clerk of the City of Detroit and the Clerk of the Counties which are Incorporating Municipalities after the execution and publication thereof has been completed. The fact of the adoption of these Articles shall be endorsed on the Articles in the manner mandated by section 2 of the Act, MCL 124.282.

B. The Oakland County Clerk is hereby designated as the person to cause these Articles of Incorporation to be published, certified and filed as described.

C. All expenses for the publication of these Articles and all other expenses incurred in the incorporation and establishment of the Authority shall be paid as a common-to-all expense by DWSD or from such grant funds as may be secured to support such expenses.

ARTICLE 17 - EFFECTIVE DATE

This Authority shall become effective upon the filing of certified copies of these Articles of Incorporation, as provided in the preceding Article 16.

ARTICLE 18 - EXEMPTION FROM TAXATION

The property of the Authority shall be exempt from all taxation and assessment and no writ of attachment or writ of execution shall be levied upon the property of the Authority.

ARTICLE 19 - AMENDMENTS

These Articles of Incorporation may be amended at any time as provided in the Act and these Articles so as to permit any county, city, village, township or charter township to become a member of the Authority, if such amendment to the Articles of Incorporation is adopted by the legislative body of such county, city, village, township or charter township proposing to become a member, and if such amendment is adopted by the legislative body of each Incorporating Municipality of which the Authority is composed. Other amendments may be made to these Articles of Incorporation at any time if adopted by the legislative body of each Incorporating Municipality of which the Authority is composed. Any such amendment shall be endorsed,

published, and certified and printed copies filed in the same manner as the original Articles of Incorporation, except that the filed and printed copies shall be certified by the recording officer of this Authority.

ARTICLE 20 - MISCELLANEOUS

A. These Articles of Incorporation may be executed in two or more counterparts, each of which shall be deemed an original.

B. The captions in these Articles of Incorporation are for convenience only and shall not be considered as part of these Articles of Incorporation or in any way limiting or amplifying the terms and provisions hereof.

C. These Articles have been adopted by the Incorporating Municipalities, as is set forth in the following endorsements and the designated officials of each Incorporating Municipality have endorsed a statement of such adoption.

These Articles of Incorporation were approved by the _____ of the City of Detroit by _____ dated _____, 2014.

City of Detroit

These Articles of Incorporation were approved by the Board of Commissioners of the Charter County of Macomb, Michigan, at a meeting duly held on _____, 2014.

County Clerk
Macomb County

These Articles of Incorporation were approved by the Board of Commissioners of the County of Oakland, Michigan, at a meeting duly held on _____, 2014.

County Clerk
Oakland County

These Articles of Incorporation were approved by the County Commission of the Charter County of Wayne, Michigan, at a meeting duly held on _____, 2014.

County Clerk
Wayne County

**SUPPLEMENT DATED SEPTEMBER 3, 2014 TO
OFFICIAL STATEMENT DATED AUGUST 27, 2014**

\$854,850,000

**MICHIGAN FINANCE AUTHORITY
Local Government Loan Program Revenue Bonds, Series 2014D
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-1
(AGM Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-3
(National Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-5 (Taxable)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-6
(National Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Second Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-2
(AGM Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-4
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)**

**Local Government Loan Program Revenue Bonds, Series 2014D-7
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Second Lien Local Project Bonds)**

This Supplement to Official Statement dated September 3, 2014 (this “Supplement”), hereby supplements and amends the Official Statement, dated August 27, 2014 (the “Original Official Statement”), for the above-referenced bonds (the “Series 2014D Bonds”). The information contained herein is intended to supersede and supplement, as applicable, the applicable information contained in the Original Official Statement. All capitalized terms not defined herein shall have the meanings set forth in the Original Official Statement.

The following changes are made to the Original Official Statement:

The last sentence in the section entitled “RISK FACTORS—Future Bankruptcy” in the Original Official Statement (pertaining to extraordinary redemption of the Series 2014D Bonds) shall be deleted, so that such section, as so amended, shall read as follows in its entirety:

“There can be no assurance that the City will not file another bankruptcy petition under Chapter 9. If another Chapter 9 case were to be commenced by the City prior to the payment in full of the Series 2014D Bonds, the rights and remedies of the Holders of the Series 2014D Bonds would be subject to the provisions of Chapter 9.”

Effective on the date of this Supplement, all references to the “Official Statement” for the Series 2014D Bonds shall mean the Original Official Statement as supplemented and amended by this Supplement without regard to whether this Supplement is expressly referenced.

OFFICIAL STATEMENT DATED AUGUST 27, 2014

NEW ISSUE--BOOK-ENTRY ONLY

See "Ratings" herein.

In the opinion of Bond Counsel and the Attorney General of the State of Michigan, subject to compliance with certain covenants, under existing law and except as described under "TAX MATTERS" herein, (i) interest on the Series 2014D Bonds (other than the Series 2014D-5 Bonds) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (ii) the interest on the Series 2014D-5 Bonds is included in gross income for federal tax purposes, and (iii) the Series 2014D Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Series 2014D Bonds. See "TAX MATTERS."

\$854,850,000

MICHIGAN FINANCE AUTHORITY
Local Government Loan Program Revenue Bonds, Series 2014D
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-1
(AGM Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-2
(AGM Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-3
(National Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-4
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-5 (Taxable)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-6
(National Insured)
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Second Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-7
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Second Lien Local Project Bonds)

See Inside Cover for Maturity Schedule, Interest Rates, Prices or Yields, and CUSIP Numbers

Dated: Date of Delivery

Due as shown on inside cover page

Each Series of the Local Government Loan Program Revenue Bonds set forth above (collectively, the "Series 2014D Bonds") will be issued by the Michigan Finance Authority (the "Authority") in fully registered form in denominations of \$5,000 or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2014D Bonds. Bondholders will not receive certificates representing their ownership interest in the Series 2014D Bonds purchased. See "THE SERIES 2014D BONDS - Book-Entry-Only System." Interest on the Series 2014D Bonds will be payable semiannually on January 1 and July 1, commencing January 1, 2015.

The Series 2014D Bonds are being issued under the Resolution (as defined herein) of the Authority to (i) finance the purchase by the Authority of DWSD Obligations (as defined herein) issued by the City of Detroit, County of Wayne, State of Michigan (the "City"), and (ii) pay the Costs of Issuance (as defined herein). Proceeds of the DWSD Obligations will be used by the Detroit Water and Sewerage Department (the "Department" or "DWSD") for the purposes described herein, including the refunding of certain outstanding bonds issued by the Department as set forth on the table entitled "Tendered and Refunded Bonds" attached as Schedule I hereto. The United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") has entered an order approving the issuance of the Series 2014D Bonds.

The DWSD Obligations are payable from the revenues pledged as security therefor. The Series 2014D Bonds are limited obligations of the Authority. The Authority is authorized to sell Bonds in any one or more of several Types as described herein. The Series 2014D Bonds shall be issued as seven separate Types as described herein. Bonds of each Type are separately secured from Bonds of other Types and are payable solely from the revenues pledged therefor (as described herein). The Series 2014D Bonds are payable solely from payments on the related DWSD Obligations and the moneys on deposit in funds and accounts corresponding to such Type held by the applicable Depository and Trustee under the Resolution. The Depository and Trustee for the Series 2014D Bonds is Wilmington Trust, National Association.

The Series 2014D Bonds shall not be in any way a debt or liability of the State of Michigan or of any political subdivision thereof and shall not create or constitute any indebtedness, liability or obligation of the State of Michigan or of any political subdivision thereof or be or constitute a pledge of the full faith and credit or the taxing power of the State of Michigan or of any political subdivision thereof. The Authority has no taxing power.

The maturity schedule for the Series 2014D Bonds is set forth on the inside of this cover page.

The scheduled payment of principal of and interest on the Series 2014D-1 Bonds and the Series 2014D-2 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2014D-1 Bonds and the Series 2014D-2 Bonds by Assured Guaranty Municipal Corp.



The scheduled payment of principal of and interest on the Series 2014D-3 Bonds and the Series 2014D-6 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2014D-3 Bonds and the Series 2014D-6 Bonds by National Public Finance Guarantee Corporation.



The Series 2014D Bonds are subject to optional redemption prior to maturity. See "THE SERIES 2014D BONDS - Optional Redemption." The Series 2014D Bonds that are issued as Term Bonds are subject to Mandatory Redemption as provided herein. See "THE SERIES 2014D BONDS - Mandatory Redemption of Series 2014D Bonds Term Bonds."

The Series 2014D Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and subject to approval of legality by the Attorney General of the State of Michigan, and by Bond Counsel, Dickinson Wright PLLC, Lansing, Michigan. Certain legal matters will be passed upon by Dykema Gossett PLLC, Lansing, Michigan, bond counsel to the Department. Certain legal matters will be passed upon by Kutak Rock LLP, Washington, D.C., counsel to the Underwriters. It is expected that the Series 2014D Bonds in book-entry form will be available for delivery against payment therefor through the facilities of The Depository Trust Company ("DTC") on or about September 4, 2014.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. There are numerous risk factors that prospective investors should carefully consider before making an investment decision regarding the Series 2014D Bonds. See "RISK FACTORS" herein.

Citigroup

Barclays

J.P. Morgan

Loop Capital Markets

PNC Capital Markets LLC

BMO Capital Markets

Comerica Securities, Inc.

Jefferies

Dated: August 27, 2014

\$206,540,000
Local Government Loan Program Revenue Bonds, Series 2014D-1 (AGM Insured)
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

\$206,540,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>
2015	\$3,925,000	5.000%	0.350%	59447PC33
2016	2,400,000	5.000%	0.800%	59447PC41
2017	8,065,000	5.000%	1.150%	59447PC58
2018	2,275,000	5.000%	1.510%	59447PD40
2020	37,165,000	5.000%	2.250%	59447PC66
2021	40,260,000	5.000%	2.620%	59447PC74
2022	41,225,000	5.000%	2.960%	59447PC82
2023	27,035,000	5.000%	3.240%	59447PC90
2035	20,020,000	5.000%	4.460%*	59447PD24
2037	24,170,000	5.000%	4.520%*	59447PD32

*Yield to par call date on July 1, 2024.

\$188,455,000
Local Government Loan Program Revenue Bonds, Series 2014D-2 (AGM Insured)
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

\$188,455,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP[†]</u>
2023	\$5,975,000	5.000%	3.240%	59447PE23
2024	45,555,000	5.000%	3.440%	59447PD57
2025	29,525,000	5.000%	3.650%*	59447PD65
2026	50,370,000	5.000%	3.860%*	59447PD73
2027	34,340,000	5.000%	3.930%*	59447PD81
2028	22,690,000	5.000%	4.090%*	59447PD99

*Yield to par call date on July 1, 2024.

[†] Registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. Neither the Authority, the Trustee nor the Underwriters take any responsibility for the accuracy of such numbers.

\$62,700,000
Local Government Loan Program Revenue Bonds, Series 2014D-3 (National Insured)
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

\$62,700,000 Serial Bonds

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†]
2018	\$39,410,000	5.000%	1.600%	59447PE31
2019	21,900,000	5.000%	2.000%	59447PE49
2020	1,390,000	5.000%	2.390%	59447PE56

\$307,645,000
Local Government Loan Program Revenue Bonds, Series 2014D-4
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Second Lien Local Project Bonds)

\$247,320,000 Serial Bonds

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>
2015	\$31,960,000	2.000%	0.730%	59447PE64
2016	32,500,000	5.000%	1.140%	59447PE72
2017	33,825,000	5.000%	1.490%	59447PE80
2029	47,265,000	5.000%	4.500%*	59447PF55
2030	54,305,000	5.000%	4.550%*	59447PE98
2031	28,515,000	5.000%	4.620%*	59447PF22
2032	18,950,000	5.000%	4.650%*	59447PF30

\$60,325,000 Term Bonds

\$60,325,000 5.00% Term Bonds
Due July 1, 2034, Yield 4.730%* CUSIP[†] 59447PF48

*Yield to par call date on July 1, 2024.

[†] Registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. Neither the Authority, the Trustee nor the Underwriters take any responsibility for the accuracy of such numbers.

\$9,270,000
Local Government Loan Program Revenue Bonds, Series 2014D-5 (Taxable)
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

\$9,270,000 Serial Bonds

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†]
2019	\$9,270,000	2.850%	2.850%	59447PF63

\$65,425,000
Local Government Loan Program Revenue Bonds, Series 2014D-6 (National Insured)
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Second Lien Local Project Bonds)

\$63,215,000 Serial Bonds

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†]
2019	\$2,810,000	5.000%	2.290%	59447PH38
2020	4,690,000	5.000%	2.680%	59447PF71
2021	6,355,000	5.000%	3.020%	59447PF89
2022	2,080,000	5.000%	3.340%	59447PF97
2023	3,670,000	5.000%	3.620%	59447PG21
2024	2,130,000	5.000%	3.820%	59447PG39
2025	2,870,000	5.000%	4.030%*	59447PG47
2026	1,895,000	5.000%	4.240%*	59447PG54
2027	1,930,000	5.000%	4.320%*	59447PG62
2033	455,000	5.000%	4.780%*	59447PG88
2034	1,215,000	5.000%	4.830%*	59447PG96
2036	33,115,000	5.000%	4.870%*	59447PH20

\$2,210,000 Term Bonds

\$2,210,000 5.000% Term Bonds
Due July 1, 2032, Yield 4.700%* CUSIP[†] 59447PG70

*Yield to par call date on July 1, 2024.

[†] Registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. Neither the Authority, the Trustee nor the Underwriters take any responsibility for the accuracy of such numbers.

\$14,815,000
Local Government Loan Program Revenue Bonds, Series 2014D-7
(Detroit Water and Sewerage Department
Water Supply System Revenue Refunding Second Lien Local Project Bonds)

\$14,815,000 Serial Bonds

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†]
2015	\$3,160,000	2.000%	0.980%	59447PH46
2016	725,000	5.000%	1.500%	59447PH53
2017	2,630,000	5.000%	1.830%	59447PH61
2018	8,300,000	5.000%	2.170%	59447PH79

[†] Registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. Neither the Authority, the Trustee nor the Underwriters take any responsibility for the accuracy of such numbers.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2014D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2014D BONDS TO CERTAIN DEALERS AND DEALER BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER OF THIS OFFICIAL STATEMENT. SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to make any representation other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriters. The information set forth in this Official Statement has been obtained from the Authority, the State of Michigan (the "State"), the City, the Department, The Depository Trust Company ("DTC"), and other sources that are deemed to be reliable, but as to information from sources other than themselves, is not to be construed as a representation by the Authority, the State, the City, the Department, DTC, or the Underwriters respectively. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of the Series 2014D Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the State, the City, the Department, or DTC since the date of this Official Statement. None of the information contained in this Official Statement has been supplied or verified by the Depository or the Trustee, and the Depository and the Trustee make no representations, warranties or guarantee as to the accuracy or completeness of any information in this Official Statement.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014D Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2014D Bonds.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY, THE CITY AND THE DEPARTMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Certain statements contained in this Official Statement, including in the Appendices hereto, reflect not historical facts but forecasts and "forward-looking statements." Such forward-looking statements can be identified, in some cases, by the terminology used, such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "illustrate," "example," and "continue," or the singular, plural, negative or other derivations of these or other comparable terms. Purchasers and holders of any of the Series 2014D Bonds should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority, City and Department on the date hereof, and the Authority, City and Department assume no obligation to update any such forward-looking statements. Actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, the risks and uncertainties described herein and risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in geopolitical, military, social,

economic, business, industry, market, legal or regulatory circumstances, and conditions or actions taken or omitted to be taken by third parties, including customers, suppliers, and business partners, and legislative, judicial, and other governmental authorities and officials. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Official Statement and such variations may be material, which could affect the Authority's ability to fulfill some or all of its obligations under the Series 2014D Bonds or the Department's ability to fulfill some or all of its obligations under the DWSD Obligations.

No party that has provided information for this Official Statement has any obligation to update or otherwise revise any projections, forecasts and estimates, including any revisions to reflect changes in conditions or circumstances arising after the date of this Official Statement, or to reflect the occurrence of unanticipated events. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions or future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Authority, City or Department. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate. New factors emerge from time to time and it is not possible for the Authority, City or Department to predict all of such factors. Further, the Authority, City or Department cannot assess the impact of each such factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

All projections, forecasts, assumptions, expressions of opinions, estimates, and other forward-looking statements are expressly qualified in their entirety by the foregoing and the other cautionary statements set forth in this Official Statement.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Series 2014D Bonds or the advisability of investing in the Series 2014D Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and Appendix VI—Specimen AGM Municipal Bond Insurance Policy".

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OFFICIAL STATEMENT

Relating to

\$854,850,000

MICHIGAN FINANCE AUTHORITY

Local Government Loan Program Revenue Bonds, Series 2014D (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-1 (AGM Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-3 (National Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-5 (Taxable)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-6 (National Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-2 (AGM Insured)
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-4
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds)

Local Government Loan Program Revenue Bonds, Series 2014D-7
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds)

INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. Capitalized terms used in this Official Statement that are not otherwise defined herein have the meanings set forth in APPENDIX I - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION attached hereto.

Purpose of this Official Statement

This Official Statement, including the cover pages and the Appendices hereto, is provided to furnish information in connection with the offering by the Michigan Finance Authority (the “Authority”) of the following seven Types: (i) Local Government Loan Program Revenue Bonds, Series 2014D-1 (AGM Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds), in the aggregate principal amount of \$206,540,000, issued as the Type: DWSD Water Supply System Revenue Refunding Senior Lien Local Project Bonds (AGM Insured) (the “Series 2014D-1 Bonds”), (ii) Local Government Loan Program Revenue Bonds, Series 2014D-2 (AGM Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds), in the aggregate principal amount of \$188,455,000, issued as the Type: DWSD Water Supply System Revenue Refunding Senior Local Project Bonds (AGM Insured) (the “Series 2014D-2 Bonds”), (iii) Local Government Loan Program Revenue Bonds, Series 2014D-3 (National Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds), in the aggregate principal amount of \$62,700,000, issued as the Type: DWSD Water Supply System Revenue Refunding Senior Lien Local Project Bonds (National Insured) (the “Series 2014D-3 Bonds”), (iv) Local Government Loan Program Revenue Bonds,

Series 2014D-4 (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds), in the aggregate principal amount of \$307,645,000, issued as the Type: DWSD Water Supply System Revenue Refunding Senior Lien Local Project Bonds (the “Series 2014D-4 Bonds”), (v) Local Government Loan Program Revenue Bonds, Series 2014D-5 (Taxable) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds), in the aggregate principal amount of \$9,270,000, issued as the Type: DWSD Water Supply System Revenue Refunding Senior Lien Local Project Bonds (Taxable) (the “Series 2014D-5 Bonds”), (vi) Local Government Loan Program Revenue Bonds, Series 2014D-6 (National Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds), in the aggregate principal amount of \$65,425,000, issued as the Type: DWSD Water Supply System Revenue Refunding Second Lien Local Project Bonds (National Insured) (the “Series 2014D-6 Bonds”), and (vi) Local Government Loan Program Revenue Bonds, Series 2014D-7 (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds), in the aggregate principal amount of \$14,815,000, issued as the Type: DWSD Water Supply System Revenue Refunding Second Lien Local Project Bonds (the “Series 2014D-4 Bonds” and, collectively with the Series 2014D-1 Bonds, Series 2014D-2 Bonds, Series 2014D-3 Bonds, Series 2014D-4 Bonds, Series 2014D-5 Bonds, and Series 2014D-6 Bonds, the “Series 2014D Bonds”).

The Authority

The Michigan Finance Authority is an autonomous public body corporate, separate and distinct from the State of Michigan (the “State”). See “THE MICHIGAN FINANCE AUTHORITY” for more information about the Authority.

Statutory Authority and the Resolution

The Series 2014D Bonds will be authorized, executed, delivered and secured pursuant to and in accordance with Executive Order No. 2010-2 issued by the Governor on March 4, 2010 (the “Executive Order”), and effective by its terms on May 30, 2010, as supplemented, and Act 227, Public Acts of Michigan 1985, as amended (the “Act”) and the Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Program Revenue Bonds, adopted by the Authority on May 15, 2014 (the “General Resolution”), a Supplemental Resolution adopted by the Authority on August 12, 2014 (the “Supplemental Resolution” and, together with the General Resolution, the “Resolution”) and the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, each dated as of September 1, 2014 and each between the Authority and Wilmington Trust, National Association, as Trustee. The General Resolution authorizes the issuance and sale of bonds pursuant to Supplemental Resolutions and Supplemental Indentures, in any one or more of several Types. Separate Series are so designated in Supplemental Resolutions and Supplemental Indentures. Bonds of each Type are separately secured but all Bonds of the same Type, regardless of their original issue date, are equally and ratably secured under the General Resolution.

The Detroit Water and Sewerage Department

The Detroit Water and Sewerage Department (the “Department” or “DWSD”) is established under the City Charter of the City of Detroit (the “City”). The Department is governed by a seven-member board, known as the Board of Water Commissioners (the “Board of Water Commissioners”), which meets monthly. Four members of the Board of Water Commissioners (each being a resident of the City) are appointed by the Mayor of the City (the “Mayor”). Key executives of the Counties of Macomb, Oakland, and Wayne each nominate a member to the Board of Water Commissioners for appointment by the Mayor. See “THE DEPARTMENT” for more information about the Department.

Pursuant to (i) the provisions of Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”), (ii) Bond Ordinance No. 30-02, as amended and restated, adopted by the City Council of Detroit on January 26, 2005, as thereafter amended (the “Bond Ordinance”), (iii) the Orders of the United States District Court in *United States v. City of Detroit, et al.*, 77-71100, E.D. Michigan, (iv) the Resolution and Ordinance Authorizing the Issuance and Sale of Water Supply System Revenue Refunding Senior Lien Bonds of the City of Detroit and of Water Supply System Revenue Refunding Second Lien Bonds of the City of Detroit, adopted by the Board of Water Commissioners on August 13, 2014 and approved by the emergency manager of the City (the “Emergency Manager”) on August 16, 2014 (the “DWSD Bond Resolution”), (v) a Trust Indenture by and among the City, the Department and U.S. Bank National Association, as trustee (the “DWSD Trustee”) dated as of February 1, 2013, as amended by the First Supplemental Indenture thereto dated as of September 1, 2014 (collectively, the “DWSD Indenture”), and (vi) a Sale Order of the Director of the Department dated August 27, 2014 and approved by the Emergency Manager on August 27, 2014 (the “Sale Order” and, collectively with the Bond Ordinance, the DWSD Bond Resolution and the DWSD Indenture, the “DWSD Authorizing Documents”), the City is issuing the following bonds (collectively, the “DWSD Obligations”):

(i) \$206,540,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A,

(ii) \$188,455,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014B,

(iii) \$62,700,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014C,

(iv) \$307,645,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014D,

(v) \$9,270,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E,

(vi) \$65,425,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014F, and

(vii) \$14,815,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014G.

Under certain conditions, the purchasers of the Series 2014D Bonds shall be deemed to have consented to the creation of a new regional water and sewer authority which would be responsible for the obligations of the Department, including payment of the DWSD Obligations. See “THE DEPARTMENT—Ongoing Discussion of Formation of Regional Authority—Consent to Transfer to Regional Authority,” below.

Use of Proceeds of the Series 2014D Bonds

The Authority will use the proceeds of the sale of the Series 2014D Bonds, together with other available moneys, to (i) finance the purchase by the Authority of the DWSD Obligations and (ii) pay the Costs of Issuance (as defined below). See “—Sources and Uses of Funds for the Series 2014D Bonds” below.

Security and Sources of Payment for the Series 2014D Bonds

The Series 2014D Bonds are payable solely from the revenue pledged as security for the Series 2014D Bonds in the Resolution, including payment of the DWSD Obligations, and the funds and accounts established under the Resolution for the benefit of the Series 2014D Bonds. The DWSD Obligations are payable from the revenue pledged as security therefor. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014D BONDS.”

The Series 2014D Bonds are not a debt or liability of the State or any agency or instrumentality of the State, other than the Authority as set forth in the Act and the Resolution. The Series 2014D Bonds do not create or constitute an indebtedness, liability or obligation of the State or constitute a pledge of the faith and credit of the State. The Authority has no taxing power.

Trustee

Wilmington Trust, National Association, will serve as the Trustee, Depository, Bond Registrar and Paying Agent for the Series 2014D Bonds.

Availability of Documents

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. A summary of certain portions of the Resolution is set forth in APPENDIX I hereto. All references herein to the Series 2014D Bonds, the Resolution, the DWSD Obligations and the DWSD Authorizing Documents are qualified in their entirety by such documents, copies of which are available from the Underwriters prior to the execution and delivery of the Series 2014D Bonds and thereafter may be examined or obtained at the expense of the person requesting the same at the corporate trust office of the Trustee.

THE MICHIGAN FINANCE AUTHORITY

Powers and Duties

The Michigan Finance Authority is an autonomous public body corporate and politic, separate and distinct from the State, created by the Executive Order. Under the Executive Order, among other things, the Authority is the successor to the Michigan Municipal Bond Authority, which was created by the Act in 1985 for the purposes of fostering and promoting the borrowing of money by governmental units within the State for financing public improvements and for other municipal purposes. In order to effectuate such purposes, the Authority is authorized to issue its bonds or notes and to make money available to governmental units by the purchase of their municipal obligations.

In addition to the Series 2014D Bonds, the Authority (including its various predecessor authorities under the Executive Order) has outstanding, and the Authority expects to issue in the future, short and long term obligations under other Authority programs. The Security for the Series 2014D Bonds does not serve as security for the Authority's other program obligations and the security for the Authority's other program obligations does not serve as security for the Series 2014D Bonds.

Under the Executive Order, the Authority is within the State Department of Treasury but exercises its powers, duties and functions independently of the State Treasurer (except for the State Treasurer's appointment of administrative staff and exercise of certain administrative functions related to staff, pursuant to the Governor's Executive Order 2002-12). The Authority's address is Richard H. Austin State Office Building, 430 West Allegan Street, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

Membership

The Authority is governed by a board of directors (the "Authority Board"). The State Treasurer serves as the Chairperson of the Authority Board. The Authority is authorized to employ an Executive Director, legal and technical experts and other officers, agents or employees, permanent or temporary.

The members of the Authority Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office.

The members of the Authority Board are:

R. Kevin Clinton, Chairperson	State Treasurer
MaryLee Davis	Senior Advisor to the Dean and Professor, College of Osteopathic Medicine, Michigan State University
Charlotte P. Edwards	Retired Banker
Don Gilmer	Retired Administrator, Kalamazoo County
Travis Jones	Senior Vice President and Chief Financial Officer, Greenstone Farm Credit Services

JulieAnn Karkosak

Vice President and General Counsel,
Toyota Boshoku America, Inc.

David S. Mittleman

Shareholder, Church Wyble, P.C

The Resolution provides that the covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution are those of the Authority and not of any member of the Authority Board or any officer or employee of the Authority in his or her individual capacity and that no recourse shall be had for the payment of the principal of or interest on the Series 2014D Bonds or for any claim based thereon or on the Resolution against any member of the Authority Board, any officer or employee of the Authority or any person executing the Series 2014D Bonds.

The Executive Director of the Authority is Joseph L. Fielek, Director, Bureau of State and Authority Finance, Michigan Department of Treasury.

THE MICHIGAN FINANCE AUTHORITY'S LOCAL GOVERNMENT LOAN PROGRAM

Pursuant to the Act, the Authority's local government loan program has been established for the purpose of making loans to governmental units of the State for financing public improvements and for other municipal purposes. The Authority accomplishes this purpose by purchasing obligations issued by counties, cities, townships, villages, school districts, community colleges, public universities, authorities, districts or other political subdivisions of the State (the "Governmental Units").

Pursuant to the Supplemental Resolution, proceeds of the Series 2014D Bonds, after payment of Costs of Issuance, will be used by the Authority to purchase the DWSD Obligations issued by the Department.

The Series 2014D Bonds are payable solely from the revenues pledged therefor, including payments on the related DWSD Obligations and accounts established under the Resolution for the benefit of the Series 2014D Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014D BONDS." The Series 2014D Bonds are not in any way a debt or liability of the State and do not constitute a pledge of the faith and credit or taxing power of the State. The Authority has no taxing power.

Wilmington Trust, National Association has been appointed to act as Trustee, Depository and Bond Registrar and Paying Agent under the Supplemental Resolution with respect to the Series 2014D Bonds.

THE SERIES 2014D BONDS

General

The Series 2014D Bonds are being issued by the Authority and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The Series 2014D Bonds will bear interest from their dated date of delivery until maturity or prior

redemption, payable semiannually on January 1 and July 1 of each year commencing January 1, 2015 at the respective interest rates set forth on the inside cover of this Official Statement. The Series 2014D Bonds will be issued as fully registered bonds in denominations of \$5,000 and integral multiples thereof.

Book-Entry Only System

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series 2014D Bonds. The Series 2014D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Series 2014D Bond will be issued for the Series 2014D Bonds of each series and maturity in aggregate principal amount of such maturity and will be deposited with DTC. A description of the DTC procedures is set forth in APPENDIX V.

Sources and Uses of Funds for the Series 2014D Bonds

Sources:

Par Amount of Series 2014D Bonds	\$854,850,000.00
Premium/Original Issue Discount	<u>68,374,999.15</u>
Total Sources	<u>\$923,224,999.15</u>

Uses:

Purchase of the DWSD Obligations	\$903,271,910.46
Bond Insurance Premium	9,820,502.53
Underwriters’ Discount	4,021,339.64
Costs of Issuance ⁽¹⁾	3,555,740.76
Surety Policy	2,542,824.69
Contingency	<u>12,681.07</u>
Total Uses	<u>\$923,224,999.15</u>

⁽¹⁾ Includes certain costs of issuance of the Authority with respect to the Series 2014D Bonds and of the Department with respect to the DWSD Obligations, including legal fees, printing costs, rating agency fees and other costs (collectively, the “Costs of Issuance”).

Optional Redemption

The Series 2014D-1 Bonds maturing on or prior to July 1, 2023 are not subject to optional redemption prior to maturity. The Series 2014D-1 Bonds maturing on or after July 1, 2035 are subject to redemption at the option of the Authority on or after July 1, 2024 in whole or in part, at any time and, if in part, from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

The Series 2014D-2 Bonds maturing prior to July 1, 2024 are not subject to optional redemption prior to maturity. The Series 2014D-2 Bonds maturing on or after July 1, 2025 are subject to redemption at the option of the Authority on or after July 1, 2024 in whole or in part, at any time and, if in part, from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

The Series 2014D-4 Bonds maturing on or prior to July 1, 2017 are not subject to optional redemption prior to maturity. The Series 2014D-4 Bonds maturing on or after July 1, 2029 are subject to redemption at the option of the Authority on or after July 1, 2024 in whole or in part, at any time and, if in part, from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

The Series 2014D-6 Bonds maturing prior to July 1, 2024 are not subject to optional redemption prior to maturity. The Series 2014D-6 Bonds maturing on or after July 1, 2025 are subject to redemption at the option of the Authority on or after July 1, 2024 in whole or in part, at any time and, if in part, from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

The Series 2014D-3 Bonds, Series 2014D-5 Bonds and Series 2014D-7 Bonds are not subject to optional redemption prior to maturity.

Mandatory Redemption of Series 2014D Bonds Term Bonds

The Series 2014D-4 Bonds maturing on July 1, 2034 are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

Series 2014D-4 Term Bonds maturing July 1, 2034

<u>Date</u>	<u>Amount</u>
July 1, 2033	\$7,765,000
July 1, 2034	52,560,000

The Series 2014D-6 Bonds maturing on July 1, 2032 are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

Series 2014D-6 Term Bonds maturing July 1, 2032

<u>Date</u>	<u>Amount</u>
July 1, 2028	\$445,000
July 1, 2029	500,000
July 1, 2030	405,000
July 1, 2031	420,000
July 1, 2032	440,000

The principal amounts of the Series 2014D Bonds Term Bonds to be redeemed in each year as set forth in the preceding table may be reduced through the earlier purchase or optional redemption thereof by the Authority, with any partial purchase or optional redemptions of such Series 2014D Bonds Term Bonds credited against such future sinking fund requirements as the Authority shall determine.

In the event that the Authority receives notice of redemption of any of the DWSD Obligations, the Authority will give notice of redemption of the related Series 2014D Bonds, in the manner described under “—Redemption Procedures” below.

Redemption Procedures

Notice of Redemption

Under the Resolution, the Bond Registrar and Paying Agent will mail, by first class mail, as specified in the Resolution, a notice of redemption to the Holders of the Bonds to be redeemed at least 30 and not more than 60 days prior to the redemption date. If any optional redemption is to be made under the Resolution with funds that the Authority expects to receive between the time of the giving of such notice and the redemption date, the notice will expressly condition such redemption on timely receipt of such funds. The failure of any Bondholder to receive any such notice or any defect in such notice with respect to any Series 2014D Bond or portion thereof will not affect the validity of any proceedings for the redemption of any Series 2014D Bonds.

Selection of Bonds to be Redeemed

When Bonds are to be redeemed in part, the Authority shall specify to the Bond Registrar and Paying Agent the Series designation, maturity, Type and Original Issue Date of the Bonds from which Bonds or portions of Bonds to be redeemed shall be selected. Subject to the Authority’s specification, the particular Bonds or portions of Bonds to be redeemed will be selected by the Bond Registrar and Paying Agent by lot or in such other manner as the Bond Registrar and Paying Agent in its discretion may deem fair, provided that (i) if only a portion of any Series 2014D Bond is to be redeemed, the principal amount of the portion remaining Outstanding will be equal to \$5,000 or an integral multiple of \$5,000 and (ii) in selecting Series 2014D Bonds for redemption, the Bond Registrar and Paying Agent will treat each Series 2014D Bond as representing that number of Series 2014D Bonds that is obtained by dividing the principal amount of such Series 2014D Bond by \$5,000.

Issuance of Additional Bonds on a Parity Basis with the Series 2014D Bonds

Pursuant to the Resolution, additional Series of Bonds comprised of Bonds of each Type may be issued from time to time under Supplemental Resolutions. Notwithstanding the dates upon which particular Bonds of any Type are issued, all of the Bonds of each Type will be equally and ratably secured under the Resolution, and no holder of any Bond will have priority over any other holders of the Bonds of the same Type. The Authority expects to issue additional bonds under the Resolution in the future, but the Authority does not expect to issue additional Series of Bonds of the Types described herein, unless it correspondingly purchases additional DWSD Obligations from the City.

Replacement Bonds

In the event that the book-entry-only system is discontinued, the Trustee will authenticate and make available for delivery replacement Series 2014D Bonds in the form of fully registered bond certificates. In addition, the following provisions would apply: (i) principal of and redemption premium, if any, on the Series 2014D Bonds will be payable in lawful money of the

United States of America at the corporate trust office of the Trustee or such other office as may be designated by the Authority; (ii) interest on the Series 2014D Bonds will be payable by check or draft mailed to the registered owners thereof whose names appear on the registration books of the Bond Registrar and Paying Agent as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date, all as provided more particularly in the Resolution (“Registered Owners”) and, upon five days written notice to the Bond Registrar and Paying Agent given by a Registered Owner of a Series 2014D Bonds in an aggregate principal amount of at least \$100,000, by wire transfer of funds to a bank account in the United States designated by such Registered Owner.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014D BONDS

The Series 2014D Bonds shall not be in any way a debt or liability of the State or any political subdivision thereof and shall not create or constitute any indebtedness, liability or obligations of the State or any political subdivision thereof, or be or constitute a pledge of the full faith and credit or the taxing power of the State or any political subdivision thereof. The Authority has no taxing power. The Series 2014D Bonds are limited obligations of the Authority, payable by the Authority solely from the revenues pledged therefor, including the related DWSD Obligations issued to and purchased by the Authority, as described herein, and the funds and accounts held by the applicable Depository and Trustee under the Resolution for the benefit of the Series 2014D Bonds.

Pledge of DWSD Obligations

Pursuant to the Resolution, the Authority will pledge and assign to the Trustee, for the benefit of each subseries of the Series 2014D Bonds, (i) all of the Authority’s rights and interest in the related DWSD Obligations and the Collateral Documents pertaining to the related DWSD Obligations, subject to reservation by the Authority of rights to indemnification and to make all determinations and approvals and receive all notices accorded to it under the DWSD Obligations, (ii) all moneys in the Revenue Fund established for the Series 2014D Bonds under the Resolution (the “Revenue Fund”), and (iii) all of the proceeds of the foregoing, including without limitation investments thereof and interest and earnings thereon.

The pledge made to the Trustee under the Resolution with respect to each Type of the Series 2014D Bonds is for the equal and ratable benefit of all of the Holders of such Type of the Series 2014D Bonds.

Debt service payments on the DWSD Obligations are scheduled at such times and in such amounts as will provide sufficient amounts, when combined with other funds available for use by the Authority, to make timely payments of interest on and principal of the Series 2014D Bonds.

The DWSD Obligations

The City, upon authorization from the Board of Water Commissioners and the Emergency Manager, is issuing the DWSD Obligations. The DWSD Obligations are issued pursuant to the DWSD Authorizing Documents.

Concurrently with the issuance of the DWSD Obligations, the City expects to issue one or more series of its City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue and Revenue Refunding Senior Lien and Second Lien Bonds (the “DWSD Sewer Obligations”) to the Authority for purposes of paying the purchase price or redemption price of outstanding Sewage Disposal System Revenue and Revenue Refunding Senior and Second Lien Bonds. The Authority will issue one or more series of its \$935,860,000 Local Government Loan Program Revenue Bonds, Series 2014C (Detroit Water and Sewerage Department Sewage Disposal System Revenue and Revenue Refunding Local Project Bonds) (the “Series 2014C Bonds”) to finance the purchase of the DWSD Sewer Obligations. The Series 2014C Bonds will be offered by a separate Official Statement, and are not being offered hereby.

Bond Insurance

The scheduled payment of the principal of and interest on the Series 2014D-1 Bonds and the Series 2014D-2 Bonds (together, the “AGM Insured Bonds”) when due will be insured by a municipal bond insurance policy (the “AGM Policy”) to be issued by Assured Guaranty Municipal Corp. (“AGM”) simultaneously with the delivery of the AGM Insured Bonds. It is anticipated that payment of the principal of and interest on the Series 2014D-3 Bonds and the Series 2014D-6 Bonds (together, the “National Insured Bonds”) when due will be insured by a municipal bond insurance policy (the “National Policy”) to be issued by National Public Finance Guarantee Corporation (“National”) simultaneously with the delivery of the National Insured Bonds. See “BOND INSURANCE” below.

Plan of Finance for the DWSD Obligations

Estimated Sources and Uses of Funds

The proceeds of the DWSD Obligations are expected to be applied as set forth below:

Sources:

Par Amount of the DWSD Obligations	\$854,850,000.00
Net Premium/Discount	48,421,910.46
Reserve Releases	32,022,896.00
Accrued Interest Equity Contribution	<u>8,206,804.49</u>
Total Sources	<u>\$943,501,610.95</u>

Uses:

Purchase or Redemption of Outstanding DWSD Bonds	<u>\$943,501,610.95</u>
Total Uses	<u>\$943,501,610.95</u>

Refunding

A portion of the DWSD Obligations will be used to fund the purchase of certain outstanding water supply system revenue and revenue refunding bonds issued by the City (the “Outstanding DWSD Bonds”), as approved by the Board of Water Commissioners, the Emergency Manager and the United States Bankruptcy Court for the Eastern District of

Michigan (the “Bankruptcy Court”), as described below. In addition, a portion of the DWSD Obligations will be used to pay the redemption price of certain Outstanding DWSD Bonds which are currently subject to optional redemption. A schedule of the Outstanding DWSD Bonds being purchased and being redeemed is attached as SCHEDULE I –TENDERED AND REFUNDED BONDS. Each series of DWSD Obligations will be issued on the same parity lien priority as the series of Outstanding DWSD Bonds being purchased or refunded.

The City, upon authorization from the Board of Water Commissioners and the Emergency Manager, invited each holder (a “Bondholder”) of the Outstanding DWSD Bonds to submit offers (the “Offers”) to sell all or a portion of the Outstanding DWSD Bonds held by such Bondholder to the City for a fixed purchase price, as well as accrued and unpaid interest, subject to the conditions and upon the terms specified in the Invitation to Tender Bonds dated August 7, 2014 (the “Invitation”).

The City undertook its Invitation as part of a plan of finance, the purpose of which was to reduce the debt service costs related to the Outstanding DWSD Bonds and remove the risk to the Department’s future costs posed by the impairment provisions set forth in the City’s Plan of Adjustment filed in the City’s Bankruptcy Case (as defined herein) on certain classes of Outstanding DWSD Bonds.

The City believes that it can realize savings, with the sufficiency thereof determined in the sole discretion of the Board of Water Commissioners and the Emergency Manager, in connection with the purchase of certain of the Outstanding DWSD Bonds. To provide funds to purchase all Outstanding DWSD Bonds tendered and accepted by the City pursuant to the terms of the Invitation, the City will issue its DWSD Obligations.

Pursuant to the Eighth Amended Order Establishing Procedures, Deadlines and Hearing Dates Relating to the Debtor’s Plan of Adjustment, entered on August 13, 2014 (the “Eighth Amended Order”), on August 20, 2014, the City filed its Sixth Amended Plan of Adjustment (as may be further amended or modified from time to time, the “Plan of Adjustment”) with the Bankruptcy Court. The Plan of Adjustment provides that if any Outstanding DWSD Bonds are purchased pursuant to the Invitation, then, effective on the Settlement Date (as defined herein), all Outstanding DWSD Bonds will be unimpaired (meaning that the provisions contained in the Plan of Adjustment that impair certain classes of the Outstanding DWSD Bonds, including, without limitation, those provisions which provide for the impairment of the interest rate and call protection in respect of the Outstanding DWSD Bonds, will not be effective); provided, however, that if the City accepts none of (i) the Outstanding DWSD Bonds pursuant to the Invitation or (ii) the Sewage Disposal System bonds pursuant to the separate invitation related thereto (the “Sewer Invitation” and, together with the Invitation, the “Invitations”) for purchase or if the Settlement Date does not occur, then the treatment of the Outstanding DWSD Bonds will be as provided in the Plan of Adjustment, including the impairment of certain classes of the Outstanding DWSD Bonds, including, without limitation, those provisions which provide for the impairment of the interest rate and call protection in respect of the Outstanding DWSD Bonds. Each of (i) consummation of the purchase of the Outstanding DWSD Bonds pursuant to the Invitation, (ii) the issuance of the DWSD Obligations and (iii) the issuance of the Series 2014D Bonds (each such event to occur simultaneously on a settlement date to be set by the Authority, the Department and the City, the “Settlement Date”) is conditioned upon the entry of and the validity

and enforceability of the Bankruptcy Order (as defined herein), as described in greater detail in “CITY OF DETROIT BANKRUPTCY MATTERS” below. The purchase of any of the Outstanding DWSD Bonds is also conditioned upon the City receiving all legally required approvals to issue the DWSD Obligations, the City and the Department completing the issuance of the DWSD Obligations on terms satisfactory to them, with net proceeds sufficient to pay the purchase price of the Outstanding DWSD Bonds being purchased, and other conditions set forth in the Invitation. It is a condition to the issuance of the DWSD Obligations and the Series 2014D Bonds that such issuances have been approved by the Bankruptcy Court.

On August 25, 2014, the Bankruptcy Court entered a final order in *In re City of Detroit, Michigan*, Case No. 13-53846, Docket No. 7028 (the “Bankruptcy Order”), in substance (i) authorizing the City to enter into and perform the transactions described in this Official Statement, including but not limited to all transaction documents, (ii) authorizing the City to grant a lien equal and senior to existing liens to secure post-petition indebtedness of the City pursuant to §§ 364(c) and 364(d) of the Bankruptcy Code, (iii) finding that the Authority, the Underwriters, AGM, National, the holders of the DWSD Obligations and the Series 2014D Bonds and all assignees and transferees of the foregoing are extending credit to the City in good faith for purposes of §§ 364(e) and 921(e) of the Bankruptcy Code, (iv) the Pledged Assets (as defined herein) consisting of Net Revenues (as defined herein) constitute “special revenues” as defined in § 902(2) of the Bankruptcy Code and “pledged special revenues” as that term is used in §§ 922(d) and 928 of the Bankruptcy Code, (v) finding (or concluding) that the satisfaction of Required Combined Coverage (as defined herein) together with the Rate Covenant constitute adequate protection of the interests of all holders of pre-petition liens securing Secured Obligations (as defined in the Bond Ordinance) that were validly existing and outstanding as of the petition date for purposes of § 364(d)(1)(B) of the Bankruptcy Code, all as more particularly described in the Bankruptcy Order and (vi) approving a compromise among the City and certain parties (the “DWSD Settlement Parties”) resolving objections to the City’s Plan of Adjustment filed by one or more of the DWSD Settlement Parties, all as more particularly described in the Bankruptcy Order (the “DWSD Settlement Agreement”). See APPENDIX II-G—BANKRUPTCY COURT ORDER.

There can be no assurance that any Plan of Adjustment will be confirmed by the Bankruptcy Court. Moreover, any order of the Bankruptcy Court confirming the Plan of Adjustment may be appealed to a higher court. Even if confirmed, there can be no assurance if or when the Plan of Adjustment will become effective or ultimately be consummated. If the Bankruptcy Court approves the issuance of the Series 2014D Bonds and the Settlement Date occurs, the Series 2014D Bonds and the DWSD Obligations will not be impaired in the current Bankruptcy Case.

It is a condition to the Underwriters purchasing and accepting delivery of the Series 2014D Bonds that the Bankruptcy Order has been issued by the Bankruptcy Court and has not been stayed pending appeal. It is not a condition, however, to such purchase and acceptance that there be no appeal pending at the time of settlement and delivery of the Series 2014D Bonds.

Consent to Amendments to Bond Ordinance and DWSD Indenture

In connection with issuance of the Series 2014D Bonds and the related DWSD Obligations, the City and the Department are amending the Bond Ordinance and the DWSD Indenture to (i) create the Pension Liability Payment Fund, described under “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Flow of Funds” below, which is funded after the Operation and Maintenance Fund and all Interest and Redemption Funds, and (ii) permit Credit Enhancement to be purchased to fulfill the City’s obligation to fund any Reserve Account, on a series-specific basis, with a provider rated in less than the highest rating category of each Rating Agency then rating the DWSD Bonds having the benefit of such Reserve Account, provided that (a) such Credit Enhancement is issued on a series-specific basis, and (b) such Credit Enhancement is issued by a provider with a rating at least equal to the greater of (x) the rating of the provider of any Credit Enhancement relating to the DWSD Bonds having the benefit of such Reserve Account and (y) the rating of the DWSD Bonds having the benefit of such Reserve Account, and (c) such Credit Enhancement is consented to by each purchaser of the Bonds of such Series having the benefit of such Reserve Account.

It is the intent of the City and the Department to fund Reserve Account requirements for DWSD Obligations related to the Series 2014D Bonds to be insured by AGM with series-specific Reserve Account sureties issued by AGM. By purchasing Series 2014D Bonds, each purchaser is consenting to the amendments described in clause (ii) of the preceding paragraph and directing the Authority to consent to such amendments. By purchasing Series 2014D-1 Bonds, each purchaser acknowledges that the Reserve Account for the related DWSD Obligations will not be funded by a surety issued by a provider rated in the highest rating category of each Rating Agency then rating the DWSD Obligations.

It is not the intent of the City or the Department to substitute or otherwise modify Reserve Account Credit Enhancement for outstanding DWSD Obligations. For information on existing Reserve Account instruments, see “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Reserve Accounts and Reserve Requirements.” In addition, in the event that a new regional authority is created, the purchasers of Series 2014D Bonds will be deemed under certain conditions to have consented to a Change in Obligor and other matters as described in “THE DEPARTMENT—Ongoing Discussion of Formation of Regional Authority.”

Availability of Documents

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. All references herein to the DWSD Obligations and the DWSD Authorizing Documents, to the extent such documents have been prepared, are qualified in their entirety by such documents, copies of which are available from the Underwriters and may be examined or obtained at the expense of the person requesting the same at the corporate trust offices of the Underwriters.

As described in greater detail in “CITY OF DETROIT BANKRUPTCY MATTERS” below, the City has filed a voluntary petition for relief under Chapter 9 of the Bankruptcy Code, which case is pending under case number 13-53846 (the “Bankruptcy Case”). Pursuant to

Section 941 of the Bankruptcy Code, the City has filed with the Bankruptcy Court the Plan of Adjustment, and the accompanying Disclosure Statement to the Plan of Adjustment (the “Bankruptcy Disclosure Statement”). The Plan of Adjustment sets forth the manner in which all claims in the Bankruptcy Case will be treated if the Plan of Adjustment is confirmed by the Bankruptcy Court and becomes effective. For a complete understanding of the Plan of Adjustment, as it may be amended or modified from time to time, Bondholders should read the Plan of Adjustment and Bankruptcy Disclosure Statement (including all supplements, exhibits and appendices attached thereto). Electronic copies of certain documents filed with the Bankruptcy Court, including among others, the current Plan of Adjustment and the Bankruptcy Disclosure Statement, may be found free of charge on the internet at <http://www.detroitmi.gov/EmergencyManager/BankruptcyChapter9.aspx>. This reference is for convenience only and the information on this website is not incorporated in, and shall not be incorporated in, and shall not be deemed a part of, this Official Statement. There can be no assurance that any filed Plan of Adjustment will be reflective of the City’s final plan of adjustment in the Bankruptcy Case, and there can be no assurance that any plan of adjustment will be confirmed by the Bankruptcy Court or become effective.

BOND INSURANCE

Assured Guaranty Municipal Corp. has supplied the following information for inclusion in this Official Statement, other than the information under the caption “Rights of AGM.” No representation is made by the Authority, the City, the Department or the Underwriters as to the accuracy or completeness of this information. Reference is made to Appendix VI for the Specimen AGM Municipal Bond Insurance Policy.

AGM Bond Insurance Policy

Concurrently with the issuance of the Series 2014D-1 Bonds and Series 2014D-2 Bonds, AGM will issue its Municipal Bond Insurance Policy for the AGM Insured Bonds (the “AGM Policy”). The AGM Policy guarantees the scheduled payment of principal of and interest on the AGM Insured Bonds when due as set forth in the form of the AGM Policy included as an exhibit to this Official Statement.

The AGM Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Capitalization of AGM

At June 30, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,654 million and its net unearned premium reserve was approximately \$1,850 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd., and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (filed by AGL with the SEC on May 9, 2014); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (filed by AGL with the SEC on August 8, 2014).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the AGM Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE—Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the AGM Insured Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such AGM Insured Bonds or uninsured bonds for investment or may sell or otherwise dispose of such AGM Insured Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Series 2014D Bonds or the advisability of investing in the Series 2014D Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE.”

Rights of AGM

AGM shall be deemed the sole holder of the AGM Insured Bonds (and the related DWSD Obligations) for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the AGM Insured Bonds are entitled to take pursuant to the Resolution (including the exercise of remedies under the Bond Ordinance) pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee, including, without limitation, the right to vote to accept or reject any plan of adjustment in a Chapter 9 bankruptcy proceeding of either the Authority or the City to the extent that such plan, as proposed to become effective in accordance with its terms, would result in a default or breach of the terms of a Related Document (as defined below). Any amendment, supplement, modification to, or waiver of, the Resolution or any other transaction document, including any underlying security agreement (each a “Related Document”) that requires the consent of Bondholders or adversely affect the rights of AGM shall be subject to the prior written consent of AGM. AGM is included as a third party beneficiary to the Resolution. See the Fourth Supplemental Indenture included at APPENDIX I—SUMMARY OF CERTAIN PROVISIONS OF THE AUTHORITY RESOLUTION.

National Public Finance Guarantee Corporation has supplied the following information for inclusion in this Official Statement, other than the information under the caption “Rights of National.” No representation is made by the Authority, the City, the Department or the Underwriters as to the accuracy or completeness of this information. Reference is made to Appendix VII for the Specimen Financial Guaranty Insurance Policy.

National Bond Insurance Policy

National does not accept any responsibility for the accuracy or completeness of any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding National and the Financial Guaranty Insurance Policy issued by National (the “National Policy”). Additionally, National makes no representation regarding the Series 2014D Bonds or the advisability of investing in the Series 2014D Bonds. A specimen of the National Policy is attached hereto as Appendix VII.

The National Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the National Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the National Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless National elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Holder of the National Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment

constitutes an avoidable preference to such Holder within the meaning of any applicable bankruptcy law (a “Preference”).

The National Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any National Insured Bonds. The National Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of National Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The National Policy also does not insure against nonpayment of principal of or interest on the National Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the National Insured Bonds.

National Public Finance Guarantee Corporation

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands.

The principal executive offices of National are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 765-3333.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The National Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

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Financial Strength Ratings of National

National's current financial strength ratings from the major rating agencies are summarized below:

Agency	Ratings	Outlook
S&P	AA-	Stable
Moody's	A3	Negative
KBRA	AA+	Stable

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2014D Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2014D Bonds. National does not guaranty the market price of the Series 2014D Bonds nor does it guaranty that the ratings on the Series 2014D Bonds will not be revised or withdrawn.

Recent Litigation

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. For additional information concerning material litigation involving National and MBIA Inc., see MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013 and MBIA Inc.'s Quarterly Report on Form 10Q for the quarter ended June 30, 2014, which is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.'s web site at <http://www.mbia.com>.

MBIA Inc. and National are defending against/pursuing the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

Other than as described above and referenced herein, there are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National Financial Information

Based upon statutory financials, as of June 30, 2014, National had cash and admitted assets of \$5.4 billion (unaudited), total liabilities of \$3.2 billion (unaudited), and total surplus of \$2.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2013, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2013, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the “SEC”) are incorporated by reference into this Official Statement:

MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2013;

MBIA Inc.’s Quarterly Report on Form 10Q for the quarter ended June 30, 2014.

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.’s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2014D Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

MBIA Inc., files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.’s SEC filings (MBIA Inc.’s Quarterly Report on Form 10Q for the quarter ended June 30, 2014 and MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2013) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to National at its principal executive offices.

Rights of National

National shall be deemed the sole holder of the National Insured Bonds (and the related DWSD Obligations) for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the National Insured Bonds are entitled to take pursuant to the Resolution (including the exercise of remedies under the Bond Ordinance) pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee, including, without limitation, the right to vote to accept or reject any plan of adjustment in a Chapter 9 bankruptcy proceeding of either the Authority or the City to the extent that such plan, as proposed to become effective in accordance with its terms, would result in a default or breach of the terms of a Related Document (as defined below). Any amendment, supplement, modification to, or waiver of, the Resolution or any Related Document that requires the consent of Bondholders or adversely affect the rights of National shall be subject to the prior written consent of National. National is included as being a third party beneficiary to the Resolution. See the Fifth Supplemental Indenture included at APPENDIX I—SUMMARY OF CERTAIN PROVISIONS OF THE AUTHORITY RESOLUTION.

SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS

Pursuant to the provisions of Act 94, all bonds issued, including the DWSD Obligations, and to be issued by the City under the Bond Ordinance (collectively, the “DWSD Bonds”) are payable solely from the Pledged Assets (as hereinafter defined), which include the Net Revenues of the Water Supply System and amounts available in certain funds and accounts established in accordance with the Bond Ordinance. The DWSD Bonds, including the DWSD Obligations, are secured by a statutory lien on Pledged Assets pursuant to Act 94 and the Bond Ordinance. In addition, the City and the Department have entered into the DWSD Indenture with the DWSD Trustee to hold in trust the amounts required or permitted to be transferred by the City to certain funds and accounts under the Bond Ordinance for the payment of the DWSD Bonds. Funds and accounts held by the DWSD Trustee under the DWSD Indenture are administered by the DWSD Trustee, in specified circumstances upon the direction of the Department. Capitalized terms used under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS” that are not otherwise defined herein have the meaning ascribed to such terms in the Bond Ordinance.

In accordance with the City Charter of the City of Detroit (the “City Charter”), monies from fees collected for water, drainage or sewerage services are to be used exclusively for the payment of expenses incurred in the provision of these services, including the interest or principal of any obligations to finance the water supply or sewerage disposal facilities of the City, and shall be kept in separate funds.

Pledged Assets

“Pledged Assets” under the Bond Ordinance consist of:

- Net Revenues (defined below);

- the funds and accounts established by or pursuant to the Bond Ordinance except for the Operation and Maintenance Fund and the Construction Fund and any account thereof;
- investments of amounts credited to any fund, account or subaccount that is a Pledged Asset; and
- any income or gain realized from investments that are Pledged Assets to the extent that such income or gain is not a Net Revenue.

“Revenues” are defined in the Bond Ordinance and the DWSD Indenture as the revenues of the City from the Water Supply System (construed in accordance with Act 94) and include amounts received by the City under any hedge agreements with respect to its DWSD Bonds, including any termination payments, and income earned and gains realized from the investment of amounts in the various funds, accounts and sub-accounts established by the DWSD Indenture in accordance with the Bond Ordinance (other than the Construction Fund for any Fiscal Year that earnings on the Construction Fund are not credited to the Receiving Fund).

“Net Revenues” are defined in the Bond Ordinance and the DWSD Indenture as, for any period of time, all Revenues received during that period of time except for those transferred to the Operation and Maintenance Fund.

Priority of Lien and Payment Status

DWSD Bonds are secured under the Bond Ordinance in accordance with their relative priorities by a statutory lien on Pledged Assets, as described below. The Bond Ordinance permits the City to secure Ancillary Obligations (as defined herein) by a lien on Pledged Assets having the same or a lower priority than the lien securing the particular DWSD Bonds to which the Ancillary Obligations relate. Ancillary Obligation Fees and Expenses (as defined herein) have a higher payment status than DWSD Bonds and Ancillary Obligations, as described below.

“Ancillary Obligations” are obligations incurred by the City with respect to particular DWSD Bonds and consist of Hedge Obligations and Reimbursement Obligations. Hedge Obligations are payment obligations under a hedge agreement, such as an interest rate swap, other than the fees and expenses to be paid in the ordinary course of the transaction. Reimbursement Obligations are repayment obligations under a credit enhancement or liquidity facility, other than the fees and expenses to be paid in the ordinary course of the transaction. The fees and expenses payable by the City in connection with any hedge agreement, credit enhancement or liquidity facility in the ordinary course of the transaction are referred to as the “Ancillary Obligation Fees and Expenses,” and are treated separately under the DWSD Authorizing Documents from payments on DWSD Bonds.

- All Ancillary Obligation Fees and Expenses are paid from Revenues in the Operation and Maintenance Fund on the same basis as operating and administrative fees and expenses of the Water Supply System, with the result being that they are paid before debt service on the DWSD Bonds, which are paid from Net Revenues, and before Ancillary Obligations.

- Senior Lien Water Supply System Revenue Bonds (“Senior Lien DWSD Bonds”) and related Ancillary Obligations are secured by a first lien on Pledged Assets and rank first in the order of payment from Net Revenues; provided that any lien securing Ancillary Obligations in respect of Senior Lien DWSD Bonds shall be subject to the rights of the holders of the City’s outstanding Water Supply System Revenue Second Lien Bonds, Series 1995-A, except to the extent that such Ancillary Obligations arise in connection with a Financial Facility acquired to fund any portion of the Reserve Account or to be substituted for cash therein.
- Second Lien Water Supply System Revenue Bonds (“Second Lien DWSD Bonds”) and related Ancillary Obligations secured on a parity therewith are secured by a lien on Pledged Assets second only to the Senior Lien DWSD Bonds and their parity Ancillary Obligations, and rank second in order of payment from Net Revenues; and
- Any other Junior Lien Water Supply System Revenue Bonds (“Junior Lien DWSD Bonds”), if issued, would have a lien subordinate to the lien of all Senior Lien DWSD Bonds and Second Lien DWSD Bonds and their parity Ancillary Obligations, and rank last in order of payment from Net Revenues.

Flow of Funds

General

In accordance with the requirements of Act 94, the City Charter and the Bond Ordinance, the City has established certain funds and accounts for the Water Supply System under the DWSD Indenture to be held in trust by the DWSD Trustee. The DWSD Authorizing Documents permit the establishment of additional funds for additional priorities of DWSD Bonds.

The Revenue Receipts Fund

All Revenues of the Water Supply System are deposited upon receipt or, if applicable, upon completion of credit card processing activities, in either the “Revenue Receipts Fund” or the “Receiving Fund” established under the DWSD Indenture. In general, Revenues from wholesale customers are directly deposited into the Receiving Fund. Since almost all Detroit retail customers receive both water and sewer services, revenues collected by the Department from these customers are initially deposited in the Revenue Receipts Fund. All Revenues collected and deposited into the Revenue Receipts Fund will be allocated by the DWSD Trustee, at the direction of the Department, to the Water Supply System Receiving Fund and the Sewage Disposal System Receiving Fund. The Revenues may be temporarily commingled with gross revenues of the Sewage Disposal System. The DWSD Trustee will then transfer certain funds from the Water Supply System Receiving Fund to the Operation and Maintenance Fund, the Senior Lien Bond Interest and Redemption Fund, the Second Lien Bond Interest and Redemption Fund, the Junior Lien Bond Interest and Redemption Fund and other System funds pursuant to the flow of funds under the Bond Ordinance and the DWSD Indenture.

Flow of Funds

The City and the Department have agreed that the Department shall pay its contribution to the General Retirement System's ("GRS") pension plan set forth in the Plan of Adjustment as follows: a portion of that contribution equal to \$24 million annually, plus the Department's share of the annual "defined contribution" payments related to its employees, both to be allocated between the Sewage Disposal System and the Water Supply System, will be paid as operation and maintenance expenses under priority "First" below, and the difference between the Department's annual GRS pension plan contribution provided for in the Plan of Adjustment and \$24 million will be paid out of the Pension Liability Payment Fund under priority "Fifth" below.

In accordance with the terms of Act 94, the City Charter and the Bond Ordinance, all Revenues received by the City are set aside as collected and credited to the Receiving Fund, which shall be held by the DWSD Trustee in accordance with the DWSD Indenture. As received, amounts credited to the Receiving Fund are transferred seriatim into the following funds and accounts but only within the respective limitations and only if the maximum amount within such limitation has been transferred to the preceding fund or account:

First: to the Operation and Maintenance Fund held by a custodian, a sum identified by the Department, in its sole discretion, as sufficient to provide for the payment of the next month's expenses of administration and operation of the Water Supply System (including Ancillary Obligation Fees and Expenses) and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order;

Second: to the Senior Lien Debt Service Account, an amount that, when added to all other amounts then on deposit therein, shall equal the Debt Service Installment Requirement for Senior Lien DWSD Bonds and related Ancillary Obligations of the same priority as of the first day of such month;

Third: to the Senior Lien Bond Reserve Account, an amount that, when added to all other amounts then on deposit therein, shall equal the Reserve Requirement for Senior Lien DWSD Bonds;

Fourth: to the Interest and Redemption Fund established for each priority of Junior Lien DWSD Bonds, beginning with the Second Lien DWSD Bonds and continuing in descending order of priority to, and including, the priority of lien of Junior Lien DWSD Bonds, as follows:

First: to the Debt Service Account established for such priority of lien, an amount that, when added to all other amounts then on deposit therein, shall equal the Debt Service Installment Requirement for Junior Lien DWSD Bonds and related Ancillary Obligations of the same priority of lien as of the first day of such month; and

Second: to the Reserve Account, if any, established for such priority of lien an amount that, when added to all other

amounts then on deposit therein, shall equal the Reserve Requirement for such priority of lien of Junior Lien DWSD Bonds; and

Fifth: to a newly created Pension Liability Payment Fund, *first* the amount of the difference between the Department's annual GRS pension plan contribution allocated to the Water Supply System provided for in the Plan of Adjustment and the portion of the \$24 million allocated to the Water Supply System payable annually out of the Operation and Maintenance Fund, and *second*, and to the extent of available funds, the amount of the Department's allocable share of debt service on the City's New B Notes allocated to the Water Supply System, which allocable share constitutes the amount of such debt service related to other pension and employee benefits funded with the City's New B Notes and directly related to Department employees;

Sixth: to the Extraordinary Repair and Replacement Reserve Fund, the amount of the Extraordinary Repair and Replacement Minimum Requirement so long as the balance thereof is less than the Extraordinary Repair and Replacement Maximum Requirement, except that an amount withdrawn from such Fund and transferred to the Improvement and Extension Fund as provided in the DWSD Indenture, shall be deducted from the Extraordinary Repair and Replacement Maximum Requirement in the Fiscal Year of withdrawal.

In any month, funds on deposit in the Receiving Fund in excess of the requirements set forth above may, upon the direction of the Department, be transferred to the Improvement and Extension Fund (provided that no amount shall be deposited to the Improvement and Extension Fund or credited thereto for so long as a borrowing from the Extraordinary Repair and Replacement Reserve Fund remains unpaid).

Amounts remaining in the Receiving Fund as of the last day of each Fiscal Year shall be credited to the Surplus Fund. For additional information on the use and application of amounts in the funds and accounts established by the DWSD Indenture, see the DWSD Indenture in APPENDIX II-C—DWSD AUTHORIZING DOCUMENTS.

Priority of Funds and Accounts

Pursuant to the Bond Ordinance, if amounts in the Receiving Fund are insufficient to provide for current requirements of the Operation and Maintenance Fund and each Interest and Redemption Fund (including the Reserve Account, if any, therein), then any amounts or securities held in the Surplus Fund, the Improvement and Extension Fund and the Extraordinary Repair and Replacement Reserve Fund shall be credited or transferred, first, to the Operation and Maintenance Fund and second, to the particular Interest and Redemption Fund, to the extent of the insufficiency therein from the aforesaid funds in the order listed.

If any principal (and redemption premium, if any) of or interest on DWSD Bonds of a priority or any related Ancillary Obligations become due (whether on a stated or scheduled date, by reason of call for redemption or otherwise), and there are insufficient amounts for the payment thereof in the Interest and Redemption Fund established for such priority of DWSD Bonds and Ancillary Obligations after applying payments in the Reserve Account, if any,

established for such priority of DWSD Bonds, then there shall be applied to such payment amounts in each Interest and Redemption Account¹ established for each lower priority of DWSD Bonds, beginning with the lowest priority and proceeding seriatim in ascending order of priority, until such payments are made in full.

Certain Other Funds

The Extraordinary Repair and Replacement Reserve Fund

Amounts in the Extraordinary Repair and Replacement Reserve Fund may be used to pay costs of making major unanticipated repairs and replacements to the Water Supply System which individually cost or are reasonably expected to cost in excess of \$1 million. The Extraordinary Repair and Replacement Reserve Fund is funded by monthly transfers of Revenues in minimum amounts equal to 1/12 of 3% of the budgeted operation and maintenance expense of the Water Supply System for the Fiscal Year, until the balance in such fund equals no greater than 15% of the budgeted operation and maintenance expense of the Water Supply System for such Fiscal Year, less in any Fiscal Year any amount that is withdrawn from such fund for paying a major unanticipated repair or replacement, but only in the Fiscal Year that such amount is withdrawn. The DWSD Indenture authorizes the Department, on and after the first day of each Fiscal Year, to transfer not more than 50% of the balance in the Extraordinary Repair and Replacement Reserve Fund to the Improvement and Extension Fund, but only if by the first day of the month of such transfer the full amount of the minimum monthly transfer has been credited to the fund, and the amounts of all prior transfers from the fund to the Improvement and Extension Fund have been restored in full.

The Improvement and Extension Fund

Amounts in the Improvement and Extension Fund shall be used for improvements, enlargements, extensions or betterment to the Water Supply System.

The Rate Stabilization Fund

The Bond Ordinance permits the creation of a Rate Stabilization Fund, the purpose of which is to enable the City to set aside Prior Revenues (as defined herein) to augment Revenues in future years in order to satisfy the requirements of the Bond Ordinance with respect to rate covenants related to DWSD Bonds. See “—Rate Covenant” below for a description of the restriction on use of transfers from the Rate Stabilization Fund in meeting the rate covenant’s coverage requirements. Any funding of the Rate Stabilization Fund is at the sole discretion of the Board of Water Commissioners. To date, the City has not transferred any funds into the Rate Stabilization Fund.

Only Prior Revenues may be deposited in the Rate Stabilization Fund. “Prior Revenues” are Revenues or Net Revenues only to the extent they may be applied to any lawful purpose of the Water Supply System, in effect limiting Prior Revenues to Net Revenues that, in the Fiscal

¹ Although the Bond Ordinance refers to an “Interest and Redemption Account” in this particular section, the correct defined term is “Interest and Redemption Fund,” as otherwise used in the Bond Ordinance.

Year of receipt, exceed the required deposits described above under “—Flow of Funds” and the amounts needed to meet the coverage requirements described below under “—Rate Covenant.” The deposit of Prior Revenues into the Rate Stabilization Fund is limited in any Fiscal Year as described in APPENDIX II-C—DWSD AUTHORIZING DOCUMENTS—Rate Stabilization Fund. Except as taken into account in connection with a coverage determination, amounts on deposit in the Rate Stabilization Fund may be applied for any lawful purpose of the Water Supply System.

The Surplus Fund; Uses and Replenishments of Deficits in Other Funds

Amounts from time to time on deposit in the Surplus Fund may, at the option of the Department, be withdrawn upon written request to the DWSD Trustee and used for any purposes related to the Water Supply System. These purposes can include depositing such funds in the Receiving Fund and applying such funds pursuant to the Flow of Funds described above. If and whenever there is any deficit in the Operation and Maintenance Fund or in any Interest and Redemption Fund (including any Reserve Account therein), the DWSD Trustee shall transfer funds to the extent of any such deficit from the Surplus Fund to such funds in the order and priority described above.

Reserve Accounts and Reserve Requirements

Pursuant to the Bond Ordinance and the DWSD Indenture, there has been established a Senior Lien Bond Reserve Account and a Second Lien Bond Reserve Account. Such Reserve Accounts are held by the DWSD Trustee under and pursuant to the Bond Ordinance and the DWSD Indenture. Junior Lien DWSD Obligations are not secured by any Reserve Account. Amounts in a Reserve Account shall be used solely for the payment of the principal (and premium, if any) of and interest on the DWSD Obligations and Ancillary Obligations of the priority for which such Reserve Account was established, as to which there would otherwise be a default.

The Reserve Requirement for Senior Lien DWSD Bonds is the maximum Annual Debt Service on all Senior Lien DWSD Bonds then outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Internal Revenue Code of 1986, as amended (the “Code”). “Annual Debt Service” means, for any Fiscal Year and with respect to Indebtedness of any particular priority, the amount of such Indebtedness due in such Fiscal Year in accordance with their respective terms. The Reserve Requirement for Second Lien DWSD Bonds is the average Annual Debt Service on all Second Lien DWSD Bonds then outstanding for the current or any future Fiscal Year or the average amount permitted by the Code. If a Reserve Account is established for any other priority of Junior Lien DWSD Bonds, the Reserve Requirement for such other Junior Lien DWSD Bonds shall be the amount set forth in the supplemental action establishing such Reserve Account, and if no amount is set forth, shall be the average Annual Debt Service on all Junior Lien DWSD Bonds of such priority then outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code.

Concurrently with the issuance of DWSD Bonds of a priority for which a Reserve Account has been or is being established, the Bond Ordinance and the DWSD Indenture require there be credited to such Reserve Account the amount that, when added to the amount on deposit

in such account or credited thereto, equals the Reserve Requirement for the DWSD Bonds then to be issued and all DWSD Bonds of the same priority then outstanding. As of the date of this Official Statement, the funds on deposit in the Senior Lien Bond Reserve Account and Second Lien Bond Reserve Account were sufficient to meet or exceeded the Reserve Requirement for the outstanding Senior Lien DWSD Bonds and Second Lien DWSD Bonds, respectively. Pursuant to the Bond Ordinance, any Reserve Requirement with respect to variable rate bonds is calculated based on an interest cost assumption for unhedged variable rate debt of 125% of the 5-year average of the SIFMA Municipal Index.

The Bond Ordinance permits the use of Credit Enhancement to fund any Reserve Account or to substitute for amounts on deposit in a Reserve Account, if the provider is rated in the highest rating category of each Rating Agency then rating the DWSD Bonds having the benefit of such Reserve Account, and the City receives an opinion of nationally recognized bond counsel to the effect that such Credit Enhancement will not adversely affect the tax-exempt status of interest on any DWSD Bonds. There is no Bond Ordinance requirement that the rating of Credit Enhancement which has been properly credited to a Reserve Account be maintained.

The following table summarizes the funding of the Reserve Requirements for the Senior Lien Bond Reserve Account and Second Lien Bond Reserve Account as of August 27, 2014.

	Senior Lien DWSD Bonds	Second Lien DWSD Bonds	Aggregate System
Reserve Requirement	\$134,908,741	\$62,940,000	\$197,848,741
Funding Amounts:			
Cash and Investments ⁽¹⁾	28,880,461	17,132,755	46,013,216
Credit Enhancement ⁽²⁾	110,675,441	45,815,645	156,491,086
Total	<u>\$139,555,902</u>	<u>\$62,948,400</u>	<u>\$202,504,302</u>

⁽¹⁾ Represents market value of amounts in cash and cash equivalents as of August 27, 2014.

⁽²⁾ For series-specific policies represents the lesser of (a) the maximum amount of the policy or (b) the amount of Reserve Requirement allocated to the specific series covered by such policy.

SOURCE: The Department

As of the date of this Official Statement, the Reserve Requirement for the Senior Lien Bond Reserve Account is satisfied with Cash and Investments and Credit Enhancement in the form of the following surety or insurance policies:

(a) Financial Guaranty Insurance Company (“FGIC”) surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien DWSD Bonds up to a maximum aggregate available amount of \$16,729,163 and with a termination date of July 1, 2029.

(b) FGIC surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien DWSD Bonds up to a maximum aggregate available amount of \$15,954,125 and with a termination date of July 1, 2033.

(c) National Public Finance Guarantee Corporation (“National”), as reinsurer of and administrative agent for MBIA Insurance Corporation (“MBIA”), surety policy unconditionally guarantying the payment of the payment of principal of and interest on any Senior Lien DWSD Bonds up to a maximum aggregate available amount of \$24,970,000 and with a termination date equal to the earlier of July 1, 2034 or the date on which the Series 2003(A) Bonds are no longer outstanding.

(d) FGIC surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien DWSD Bonds up to a maximum aggregate available amount of \$4,000,000 and with a termination date of July 1, 2035.

(e) Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. (“AGM”) surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien DWSD Bonds (other than those secured by a separate reserve fund) up to a maximum aggregate available amount of \$3,000,000 and with a termination date equal to the earlier of July 1, 2034 and the date on which the Series 2006(A) and Series 2006(D) Bonds are no longer outstanding.

(f) National, as reinsurer of and administrative agent for MBIA, surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien DWSD Bonds up to a maximum aggregate available amount of \$29,000,000 and with a termination date equal to the earlier of July 1, 2027 or the date on which the City has made all payments required on Senior Lien DWSD Bonds.

(g) AGM policy unconditionally guaranteeing the payment of principal and interest on the Series 2014D-1 Bonds, up to a maximum aggregate available amount of \$17,022,153 and with a termination date of July 1, 2037.

As of the date of this Official Statement, the Reserve Requirement for the Second Lien Bond Reserve Account is satisfied with Cash and Investments and Credit Enhancement in the form of the following surety or insurance policies:

(a) FGIC surety policy unconditionally guarantying the payment of principal of and interest on any Second Lien DWSD Bonds up to a maximum aggregate available amount of \$6,815,645 and with a termination date of July 1, 2033.

(b) National, as reinsurer of and administrative agent for MBIA, surety policy unconditionally guarantying the payment of the payment of principal of and interest on any Second Lien DWSD Bonds up to a maximum aggregate available amount of \$29,000,000 and with a termination date equal to the earlier of July 1, 2032 or the date on which the Series 2003(B) Bonds are no longer outstanding.

(c) AGM surety policy unconditionally guarantying the payment of principal of and interest on any Second Lien DWSD Bonds up to a maximum aggregate available amount of \$10,000,000 and with a termination date equal to the earlier of July 1, 2036 and the date on which the Bonds, Series 2006(B) Bonds and Series 2006(C) Bonds are no longer outstanding.

As noted, certain of the Reserve Account requirements currently are satisfied through surety or insurance policies issued by MBIA, FGIC and AGM. Certain obligations of FGIC, including the surety policies listed above, have been novated to National, pursuant to the Novation Agreement between FGIC and National dated as of September 14, 2012. As a result, such obligations are now directly insured by National.

Although the Bond Ordinance requires that Credit Enhancement used to fund a Reserve Account be rated in the highest rating category of each rating agency at the time of its acquisition, there is no requirement that such rating be maintained. Accordingly, all Credit Enhancements are valued at their full face value for purposes of determining satisfaction of the applicable Reserve Account Requirement, regardless of the provider's rating. If the Credit Enhancement were determined to have no value, as for example, if a court made such a determination in connection with the dissolution of the provider, then the City would be required to replenish the applicable Reserve Account with cash or through a replacement Credit Enhancement Policy, as described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Flow of Funds" and in APPENDIX II-C—DWSD AUTHORIZING DOCUMENTS.

Additionally, it is expected that one or more bond insurers will issue a Reserve Account Credit Enhancement to secure the Reserve Requirement for the related series of DWSD Obligations securing the related series of Insured Bonds in a principal amount equal to the Reserve Requirement therefor. Such bond insurers are not rated in the highest rating category of each rating agency, as described above. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014C BONDS—Consent to Amendments to Bond Ordinance and DWSD Indenture."

Rate Covenant

Pursuant to Act 94, the City has covenanted under the Bond Ordinance to maintain the Water Supply System in good repair and working order and to make all needed and proper repairs, replacements, additions and betterments so that the Water Supply System may at all times be operated properly and advantageously and so that the value and efficiency of the Water Supply System shall at all times be maintained.

The Bond Ordinance contains a covenant to fix and revise rates for water supply service from time to time as may be expected to be necessary to produce the greater of:

1. The amounts required to provide for:
 - a. the payment of the expenses for maintenance of the Water Supply System as are necessary to preserve the same in good repair and working order; and
 - b. the payment of Indebtedness coming due for the Fiscal Year of calculation; and
 - c. the creation and maintenance of reserves therefor as required by the Bond Ordinance or any ordinance or resolution adopted in accordance with the terms thereof; and

- d. such other expenditures and funds for the Water Supply System as the Bond Ordinance may require; and
2. The Required Combined Coverage (i.e., with respect to the rate covenant, projected Net Revenues for the Fiscal Year of calculation, divided by the Indebtedness coming due for such Fiscal Year). For purposes of the rate covenant, the coverage requirements for determining the Required Combined Coverage are the following percentages:

<u>Priority of DWSD Indebtedness:</u>	<u>Percentage:</u>
Senior Lien DWSD Indebtedness	120%
Second Lien DWSD Indebtedness (together with Senior Lien DWSD Indebtedness)	110%
SRF Junior Lien DWSD Bonds (together with Senior and Second Lien DWSD Indebtedness)	100%

Rates are established by the Board of Water Commissioners.

The Bond Ordinance defines “Indebtedness” as (i) principal of and interest on DWSD Bonds outstanding in the Fiscal Year of calculation, (ii) Reimbursement Obligations, and (iii) amounts payable by the City under a Hedge by reason of the early termination thereof. The City may take into account transfers from the Rate Stabilization Fund in calculating compliance with the rate covenant, but the City shall also comply with the rate covenant by maintaining rate coverage percentages of at least 100% without taking into account any transfers from the Rate Stabilization Fund.

Enforceability of Rates

The Bond Ordinance and Act 94 provide that payment of charges for water supply service to a premises may be enforced by discontinuing water service, sewage disposal service, storm water disposal service or any combination of such services to the premises. Further, the Bond Ordinance and Act 94 provide for the collection of delinquent charges for water supply and sewage disposal service by means of a lien on the respective premises of retail customers. Any such lien shall be enforced in the same manner as provided for the collection of taxes assessed upon the roll and the enforcement of tax liens. See “DWSD FINANCIAL PROCEDURES—Collections and Delinquencies.” Act 94 provides that the rates charged for services furnished by any public improvement constructed under Act 94 shall not be subject to supervision or regulation by any State bureau, board, commissioner or other like instrumentality or agency thereof.

DWSD Additional Bonds

The City may not incur any obligations payable from Pledged Assets except for DWSD Bonds, Ancillary Obligations and Ancillary Obligation Fees and Expenses, and no obligations of the City may be secured by a lien on Pledged Assets except as provided in the Bond Ordinance.

Coverage Requirements

The coverage requirements for determining the Required Combined Coverage (i.e., with respect to the DWSD Additional Bonds test described below, projected Net Revenues for the current or next succeeding Fiscal Year or historical Net Revenues for the immediately preceding audited Fiscal Year divided by the maximum Annual Debt Service) for the issuance of additional DWSD Bonds are as follows:

<u>Priority of DWSD Bonds:</u>	<u>Percentage:</u>
Senior Lien DWSD Bonds	120%
Second Lien DWSD Bonds (together with Senior Lien DWSD Bonds)	110%
SRF Junior Lien DWSD Bonds (together with Senior Lien and Second Lien DWSD Bonds)	100%

General Authority

The City may issue DWSD Bonds of any priority (the “DWSD Additional Bonds”) for repairs, extensions, enlargements, and improvements to the Water Supply System (including repaying amounts withdrawn from the Extraordinary Repair and Replacement Reserve Fund), refunding all or a part of any outstanding DWSD Bonds and paying the costs of issuing such DWSD Additional Bonds, including deposits, if any, to be made to any Reserve Account established or to be established for such DWSD Additional Bonds or any other DWSD Bonds if there is Required Combined Coverage under either the Projected Net Revenues Test or the Historical Net Revenues Test (the “Additional Bonds Test”). See “DEPARTMENT FINANCIAL OPERATIONS—Summary of Historical Revenues and Expenses” and APPENDIX II-A—FEASIBILITY CONSULTANT’S REPORT.

Projected Net Revenues Test

For purposes of the Projected Net Revenues Test, the Required Coverage Requirement means the result produced by dividing the Net Revenues for the current or next succeeding Fiscal Year, by the maximum composite Annual Debt Service in any Fiscal Year on outstanding DWSD Bonds and the DWSD Additional Bonds to be issued.

Projected Net Revenues may include 100% of the estimated increase in Net Revenues to accrue as a result of the acquisition of the repairs, extensions, enlargements and improvements to the Water Supply System to be paid for in whole or in part from the proceeds of the Additional Bonds. In projecting Net Revenues, the City shall engage the services of and be guided by a consultant of national reputation for advising municipalities with respect to setting rates and charging for the use of water supply systems.

“Annual Debt Service” is a defined term in the Bond Ordinance, and reference should be made to APPENDIX II-C—DWSD AUTHORIZING DOCUMENTS for the definition and the rules for determining Annual Debt Service. If any DWSD Additional Bonds are to be issued to refund outstanding DWSD Bonds, the Annual Debt Service to be used for determining the Required Combined Coverage shall be the Annual Debt Service on the DWSD Additional Bonds to be issued and not the Annual Debt Service on the DWSD Bonds to be refunded.

Historical Net Revenues Test

For purposes of the Historical Net Revenues Test, the Required Coverage Requirement means the result produced by dividing the actual Net Revenues for the immediately preceding audited Fiscal Year, by the maximum composite Annual Debt Service in any future Fiscal Year on outstanding DWSD Bonds and the DWSD Additional Bonds to be issued.

Instead of the immediately preceding audited Fiscal Year, the City may use any audited Fiscal Year ending not more than sixteen months prior to the date of delivery of such DWSD Additional Bonds. If any change in the rates, fees and charges of the Water Supply System has been authorized at or prior to the date of sale of such DWSD Additional Bonds, the Net Revenues for the particular preceding Fiscal Year shall be augmented by an amount reflecting the effect of such change had the Water Supply System's billings during such Fiscal Year been at the increased rates.

Net Revenues for the particular preceding audited Fiscal Year also may be augmented by 100% of the estimated increase in Net Revenues to accrue as a result of the acquisition of the repairs, extensions, enlargements and improvements to the Water Supply System to be paid for in whole or in part from the proceeds of such DWSD Additional Bonds and 100% of any acquisition, extension or connection which was made subsequent to the end of the particular preceding audited Fiscal Year. With respect to augmentation of Net Revenues, the City shall engage the services of and receive the certificate of a consultant of national reputation for advising municipalities with respect to setting rates and charges for the use of water supply systems regarding the existence of such conditions.

Alternate Test for Refundings

The City may issue DWSD Bonds of any priority without regard to the above tests for the purpose of refunding all or part of DWSD Bonds then Outstanding and paying costs of issuing such DWSD Additional Bonds, including deposits which may be made to any Reserve Account established or to be established for such DWSD Additional Bonds or any other DWSD Bonds if, but only if: (i) the combined Annual Debt Service coming due in the current Fiscal Year and each Fiscal Year thereafter until maturity on (A) the DWSD Additional Bonds to be issued and (B) giving effect to the refunding, all Outstanding unrefunded DWSD Bonds of equal and higher priority, is less than (ii) the combined Annual Debt Service coming due in the current Fiscal Year and each Fiscal Year thereafter until maturity on all DWSD Bonds of equal and higher priority, without giving effect to the refunding.

Amendments Without Consent

The Bond Ordinance may be amended or supplemented from time to time by Act of Council or Supplemental Action,² without the consent of the Holders of DWSD Bonds:

² "Act of Council" is defined by the Bond Ordinance as a resolution or ordinance of the City Council. "Supplemental Action" is defined by the Bond Ordinance as an Act of Council or a sale order or other document signed by the Finance Director of the City pursuant to an Act of Council. The authority of the Finance Director of the City and City Council under the Bond Ordinance and the City Charter has been modified by the District Court Orders and the appointment of the Emergency Manager. For further information, see "THE DEPARTMENT—Court Mandated Changes" and "THE CITY"

- To issue DWSD Bonds of any priority;
- To add to the covenants and agreements of the City in the Bond Ordinance contained, other covenants and agreements thereafter to be observed or to surrender, restrict or limit any right or power reserved to or conferred upon the City (including but not limited to the right to issue DWSD Bonds or incur other Secured Obligations of, in either case, any priority);
- To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provisions contained in the Bond Ordinance, or in regard to matters or questions arising under the Bond Ordinance, as the City may deem necessary or desirable;
- To increase the size or scope of the Water Supply System; and
- To amend or supplement the Bond Ordinance in any respect with regard to DWSD Bonds of one or more Priorities of Lien so long as such amendment does not materially adversely affect the Holders of outstanding DWSD Bonds.

The Bond Ordinance provides that no Holders of DWSD Bonds of a priority of lien shall be “materially adversely affected” for the purposes of the Bond Ordinance by the change of any coverage percentage established for DWSD Bonds of any other priority of lien, and no amendment of or supplement to the Bond Ordinance that provides for or facilitates the issuance of DWSD Bonds or incurs other Secured Obligations of, in either case, of any priority of lien shall “materially adversely affect” the Holders of DWSD Bonds of any other priority of lien for the purposes of the Bond Ordinance so long as such amendment does not change any coverage percentage established for such priority of lien or is not an amendment that requires the consent of the Holder of such DWSD Bonds because it (i) reduces the applicable percentage of Holders of DWSD Bonds required to consent to an amendment to the Bond Ordinance, (ii) extends the fixed maturity of such Holder’s DWSD Bonds or reduces the rate of interest thereon or extends the time of payment of interest, or reduces the amount of the principal or redemption premium thereof, or reduces or extends the time for payment of any premium payable on the redemption thereof or (iii) changes the priority of lien of such DWSD Bonds or deprives such Holder of the right to payment of such DWSD Bonds from Pledged Assets.

Amendments With Consent

With the consent of the Holders of not less than 51% in principal amount of Securities then Outstanding affected thereby, the City may from time to time and at any time amend the Bond Ordinance in any manner by Act of Council; provided, that no such amendment shall:

- reduce the applicable percentage of Holders of Securities required to consent to an amendment to the Bond Ordinance without the consent of the Holders of all Securities then Outstanding, or
- without the consent of the Holder of such Security affected thereby:

- extend the fixed maturity of such Security or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal or redemption premium thereof, or reduce or extend the time for payment of any premium payable on the redemption thereof, or
- change the priority of lien of such Security or deprive such Holder of the right to payment of such Security from Pledged Assets.

It shall not be necessary for the consent of the Securityholders as described above to approve the particular form of any proposed Act of Council but it shall be sufficient if such consent shall approve the substance thereof. The consent of the Holder of a Security shall bind all Holders of any Security for which such Security was the predecessor.

For the purpose of acquiring consent for the purposes of the provision of the Bond Ordinance described above, the consent of a Securityholder acquiring a Security in an offering remarketing in which the offering or remarketing circular or other disclosure document fully disclosed the terms of such amendment or supplement shall be considered obtained as if such consents were being solicited under this Section, but no actual consent shall be required, and no more than one such disclosure shall be required.

Promptly after an Act of Council amending the Bond Ordinance has obtained the requisite consent, the Finance Director of the City shall cause the Transfer Agent to notify, by mail at their addresses shown in the Registry, or by publication, Holders of all Outstanding Securities affected by such amendment, of the general terms of the substance of such Act of Council. Filing notice pursuant to the continuing disclosure agreement in respect of such Securities shall constitute sufficient notice for the purposes of the Bond Ordinance.

No amendment may be made under these provisions of the Bond Ordinance which affects the rights of the insurer or obligee of a Financial Facility or counterparty to a Hedge without its consent.

The City is considering soliciting consents to amend certain provisions of the Bond Ordinance. Any such solicitation would be implemented through a process separate and distinct from the issuance of the DWSD Obligations. Except as described herein, no consents are being solicited pursuant to this Official Statement.

Remedies under the DWSD Indenture and the Bond Ordinance

Under the DWSD Indenture, if there is a Default (as defined in the DWSD Indenture) on any DWSD Bond, the DWSD Trustee may pursue any remedy permitted by law and the Bond Ordinance to enforce the performance of or compliance with the provisions of the DWSD Indenture.

Upon the happening and continuance of a Default on any DWSD Bond, and if requested to do so by the Holders of at least 20% in aggregate principal amount of the outstanding DWSD Bonds and the DWSD Trustee is indemnified as provided in the DWSD Indenture and the Bond Ordinance, the DWSD Trustee shall exercise such of the rights and powers as the DWSD Trustee shall deem most effective to enforce and protect the interests of the Holders.

The Holder or Holders of DWSD Bonds representing in the aggregate not less than 20% of the entire principal amount thereof then Outstanding, shall have the right at any time, by a written instrument executed and delivered to the DWSD Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the DWSD Indenture, or any other proceedings under the DWSD Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the DWSD Indenture, and provided that the DWSD Trustee shall be indemnified to its satisfaction.

The Holder or Holders of DWSD Bonds representing in the aggregate not less than 20% of the entire principal amount thereof then Outstanding, may, by suit, action, mandamus or other proceedings, protect and enforce the statutory lien upon Pledged Assets, and may, by suit, action, mandamus or other proceedings, enforce and compel performance of all duties of the officers of the City, including the fixing of sufficient rates, the collection of Revenues, the proper segregation of the Revenues of the Water Supply System and the proper application thereof. The statutory lien upon Pledged Assets, however, shall not be construed to compel the sale of the Water Supply System or any part thereof.

If there is a Default in the payment of the principal (and premium, if any) of and interest on any DWSD Bonds, any court having jurisdiction in any proper action may appoint a receiver to administer and operate the Water Supply System on behalf of the City and, under the direction of the court, perform all of the duties of the officers of the City more particularly set forth herein and in Act 94.

A Holder of DWSD Bonds shall have all other rights and remedies given by Act 94 and by law for the payment and enforcement of the DWSD Bonds and the security therefor. The rights and remedies of Bondholders and the enforceability of the DWSD Bonds, the DWSD Authorizing Documents, and Act 94 may be subject to and limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or similar laws affecting the enforcement of creditors' rights generally heretofore or hereafter enacted to the extent constitutionally applicable, and by the application of general principles of equity including those relating to equitable subordination and the enforcement of such rights and remedies may also be subject to and limited by the exercise of judicial discretion in appropriate cases. The Bankruptcy Court has approved the issuance of the Series 2014D Bonds, therefore, the Series 2014D Bonds and the DWSD Obligations will not be impaired in the current Bankruptcy Case. Bankruptcy Court approval of the issuance of the Series 2014D Bonds is a condition to the issuance of the Series 2014D Bonds.

CITY OF DETROIT BANKRUPTCY MATTERS

For a complete summary of events in the City's pending Chapter 9 Bankruptcy Case, please review the Sixth Amended Plan of Adjustment and the Fourth Amended Disclosure Statement filed by the City in its Bankruptcy Case, both of which are available free of charge from the internet at <http://www.kccllc.com/detroit>.

Chapter 9 of the Bankruptcy Code provides for the court-supervised reorganization of a municipality's financial affairs. On July 18, 2013 (the "Petition Date"), the City filed a voluntary petition for relief under Chapter 9 of the Bankruptcy Code in the Bankruptcy Court, which case is pending under case number 13-53846. On December 5, 2013, the Bankruptcy Court issued its Order for Relief Under Chapter 9 of the Bankruptcy Code [Docket No. 1946] (the "Eligibility Order") ordering that the City was an eligible debtor under Chapter 9 of the Bankruptcy Code. The Eligibility Order has been appealed and those appeals are currently pending before the United States Court of Appeals for the Sixth Circuit (the "Court of Appeals").

A Chapter 9 debtor has the exclusive right to file a Chapter 9 plan of adjustment. A Chapter 9 plan of adjustment may provide for, among other things, the extension of a Chapter 9 debtor's debt maturities, the reduction of principal of or interest on its debts, the refinancing of its debt, in whole or in part, or other modifications to the debtor's debt obligations.

The City has prepared a Plan of Adjustment and filed the most recent amended Plan of Adjustment with the Bankruptcy Court on August 20, 2014. The Plan of Adjustment has not yet been confirmed by the Bankruptcy Court. On August 13, 2014, the Bankruptcy Court issued its Eighth Amended Order. The hearing on plan confirmation commences on September 2, 2014. Additional confirmation hearing dates, as necessary, have been scheduled for September 3-5, September 8-12, September 15-19, September 22-24, September 29-October 3, October 6-7, and October 14-17, 2014. These dates, and the other dates set forth in the Eighth Amended Order, may be further modified by the Bankruptcy Court.

Sections II.B.3(a) through 3(c) of the Plan of Adjustment set forth the proposed treatment of claims (the "Water and Sewer Bond Claims") arising from the existing water and sewer bonds which were outstanding as of the Petition Date (the "Existing Water and Sewer Bonds"). The Water and Sewer Bond Claims are classified in Classes 1A, 1B and 1C under the Plan of Adjustment. Potential investors should reference the Plan of Adjustment for a complete description of the proposed treatment of the Water and Sewer Bond Claims.

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Numerous and varied objections (the “Water and Sewer Objections”) have been filed with the Bankruptcy Court to the proposed treatment of the Water and Sewer Bond Claims in the Plan of Adjustment. The Water and Sewer Objections raise a myriad of legal and factual issues in opposition to the Plan of Adjustment. The Water and Sewer Objections include the following:³

<u>Objecting Party</u>	<u>Docket Reference</u>
Oakland County	Docket No. 4627 supplemented by 5694; 6648
Macomb County	Docket No. 4636 supplemented by 5692; 6666
U.S. Bank National Association as DWSD Bond Trustee	Docket No. 4647 supplemented by 5705; 6679
Berkshire Hathaway Assurance Corporation	Docket No. 4657, 6680
Wayne County	Docket No. 4663 supplemented by 5627
National Public Finance Guarantee Corporation	Docket No. 4665 supplemented by 5703; 6687
Ad Hoc Committee of DWSD Bondholders	Docket No. 4671 supplemented by 5705; 6681
Assured Guaranty Municipal Corp.	Docket No. 4674 supplemented by 5704; 6677

A summary of the foregoing Water and Sewer Objections (and the City’s responses) appears on Exhibit A to Docket No. 5034 in the City’s Bankruptcy Case. The summary, and the complete Water and Sewer Objections are available for review free of charge from the internet at <http://www.kccllc.com/detroit>.

The parties filing the Water and Sewer Objections, including holders and insurers of existing bonds and certain counties within the Department’s service areas, have retained numerous experts. Those experts have prepared reports raising a myriad of legal and factual claims regarding the Plan of Adjustment and raising various issues relating to the Department’s operations, the Plan of Adjustment’s treatment of the Department’s GRS pension liabilities, the sufficiency of the Department’s approved capital improvement plan, the affordability of its rates, the accuracy of its historical and current forecasts and its current credit quality and its likely future bond ratings and cost of capital should the Plan of Adjustment be confirmed, among numerous other matters. These reports were served on parties to the Bankruptcy Case, but, in accordance with the procedures outlined by the Bankruptcy Court, have not been filed with the Bankruptcy Court. This Official Statement may be inconsistent in some respects with one or more of these reports.

³ The summary of Water and Sewer Objections contained herein may not be an exhaustive listing of all objections put forth by parties in interest to the treatment of Water and Sewer Bonds Claims in the Plan of Adjustment. In that regard, reference should be made to the Bankruptcy Court docket in the City’s Chapter 9 Bankruptcy Case.

For a Chapter 9 plan of adjustment to become effective, it must be confirmed by order of a bankruptcy court. The requirements for confirming a Chapter 9 plan of adjustment are complex. Section 943(b) provides that a bankruptcy court shall confirm a Chapter 9 plan of adjustment if: (1) the plan complies with the provisions of the Bankruptcy Code made applicable in Chapter 9 cases by section 901 of the Bankruptcy Code; (2) the plan complies with the provisions of Chapter 9; (3) all amounts to be paid by the debtor or by any person for services or expenses in the case or incident to the plan have been fully disclosed and are reasonable; (4) the debtor is not prohibited by law from taking any action necessary to carry out the plan; (5) except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that on the effective date of the plan each holder of a claim of a kind specified in Section 507(a)(2) of the Bankruptcy Code will receive on account of such claim cash equal to the allowed amount of such claim; (6) any regulatory or electoral approval necessary under applicable non-bankruptcy law in order to carry out any provision of the plan has been obtained, or such provision is expressly conditioned on such approval; and (7) the plan is in the best interests of creditors and is feasible.

Section 901 of the Bankruptcy Code incorporates Section 1129(a)(10) of the Bankruptcy Code into Chapter 9. Accordingly, for a Chapter 9 plan of adjustment to be confirmed, at least one class of impaired claims must vote to accept the plan of adjustment (without counting the votes of any “insiders” whose claims are classified within that class). A class of impaired claims has accepted a Chapter 9 plan of adjustment only when the holders of more than half in number and at least two-thirds in dollar amount of the allowed claims actually voting in that class vote to accept the plan of adjustment.

Section 901 of the Bankruptcy Code makes applicable in Chapter 9 the so-called “cramdown” provisions of Sections 1129(a)(8), 1129(b)(2)(A) and 1129(b)(2)(B) of the Bankruptcy Code. Section 1129(b)(1) provides that, if one class of impaired claims accepts a Chapter 9 plan of adjustment, but other impaired classes do not, then the Chapter 9 debtor must demonstrate that its Chapter 9 plan of adjustment is “fair and equitable” and does not discriminate unfairly with respect to each impaired class that has not accepted the plan. With respect to a class of dissenting secured creditors, Section 1129(b)(2)(A) provides that a plan is “fair and equitable” to such dissenting secured creditors to the extent it provides:

- (i) (I) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims; and
(II) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder’s interest in the estate’s interest in such property;
- (ii) for the sale, subject to Section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale; or
- (iii) for the realization by such holders of the indubitable equivalent of such claims.

The deadline for the City to mail voting solicitation packages to the various holders of impaired claims classified under the Plan of Adjustment was May 12, 2014 for purposes of soliciting the votes of such holders on whether to accept or reject the Plan of Adjustment. Among the creditors solicited in connection with the Plan of Adjustment were the holders of the Water and Sewer Bond Claims classified in the classes of claims comprising Class 1A. Classes 1B and 1C are unimpaired under the Plan of Adjustment and are, therefore, deemed to have accepted the Plan of Adjustment and did not vote on the Plan of Adjustment. The deadline for the holders of claims to submit their votes to accept or reject the Plan of Adjustment was July 11, 2014. Voting results for each class of claims under the Plan of Adjustment are summarized in the Declaration of Michael J. Paque Regarding the Solicitation and Tabulation of Votes On, and the Results of Voting with Respect to, Fourth Amended Plan for the Adjustment of Debts of the City of Detroit dated July 21, 2014 [Docket No. 6179] and the Supplemental Declaration of Michael J. Paque Regarding the Solicitation and Tabulation of Votes On, and the Results of Voting with Respect to, Plan for the Adjustment of Debts of the City of Detroit dated August 12, 2014 [Docket No. 6665], both of which can be viewed free of charge from the internet at <http://www.kccllc.com/detroit>.

Section 944 of the Bankruptcy Code governs the effect of confirmation of a Chapter 9 plan of adjustment. Under that section, the provisions of a confirmed plan bind the debtor and any creditor, whether or not (1) a proof of such creditor's claim is filed or deemed filed under the Bankruptcy Code; (2) such claim is allowed under Section 502 of the Bankruptcy Code; or (3) such creditor has accepted the plan. Except as provided in Section 944(c) of the Bankruptcy Code, the debtor is discharged from all debts as of the time when (a) the plan is confirmed; (b) the debtor deposits any consideration to be distributed under the plan with a disbursing agent appointed by the court; and (c) the court has determined (i) that any security so deposited will constitute, after distribution, a valid legal obligation of the debtor; and (ii) that any provision made to pay or secure payment of such obligation is valid. Under Section 944(c), the debtor is not discharged from any debt (A) excepted from discharge by the plan or order confirming the plan; or (B) owed to an entity that, before confirmation of the plan, had neither notice nor actual knowledge of the case.

There can be no assurance that the City's Plan of Adjustment will ultimately conform to the Plan of Adjustment currently proposed by the City. If any Outstanding DWSD Bonds are purchased pursuant to the Invitation, then, effective on the Settlement Date, all Outstanding DWSD Bonds will be unimpaired under the Plan of Adjustment, and the City has covenanted that it will not further amend the Plan of Adjustment to impair any DWSD Bonds in the Bankruptcy Case. However, if the Settlement Date does not occur, then the treatment of the Outstanding DWSD Bonds will be as provided in the Plan of Adjustment, including the impairment of certain classes of the Outstanding DWSD Bonds. In addition, it is a condition to the issuance of the Series 2014D Bonds and the DWSD Obligations that the Bankruptcy Order described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014D BONDS—Plan of Finance for the DWSD Obligations" shall have been entered by the Bankruptcy Court, shall be valid and enforceable and shall not have been stayed pending appeal.

There can also be no assurance that the Plan of Adjustment will be confirmed by the Bankruptcy Court. Moreover, any order confirming the Plan of Adjustment may be appealed to

a higher court. Even if confirmed, there can be no assurance if or when the Plan of Adjustment will become effective or ultimately be consummated.

The provisions of the Plan of Adjustment, if confirmed and effectuated, are intended to alleviate many of the City's most significant financial problems. However, there can be no assurance that the City will not file another bankruptcy petition in the future pursuant to Chapter 9 of the Bankruptcy Code. See "RISK FACTORS—Future Bankruptcy."

RISK FACTORS

Introduction

In making a decision whether to purchase the Series 2014D Bonds, potential investors should consider certain risks and investment considerations which could affect the ability of the Department to pay debt service on the DWSD Obligations that in turn secure the Authority's limited obligation to make payment of debt service on the Series 2014D Bonds and which could affect the marketability of or the market price for such bonds. These risks and investment considerations are discussed throughout this Official Statement. Certain of these risks and considerations are set forth in this section, but this section is not intended to be comprehensive or to be a compilation of all possible risks and investment considerations, nor a substitute for an independent evaluation of the information set forth in and presented in this Official Statement, which each investor should read in its entirety in order to make an informed investment decision.

Additional risks and uncertainties not currently known by the Authority, the Department or the City, or that the Authority, the Department or the City does not currently consider to be material, or that are generally applicable to all municipalities and their ability to repay obligations, may exist. Any one or more of the factors discussed herein, and other factors not described herein, could lead to a decrease in the market value or liquidity of the Series 2014D Bonds. There can be no assurance that other risk factors not discussed below will not become material in the future. Prospective investors are advised to consider the following risk factors, among others, and to review the other information incorporated by reference into this Official Statement in evaluating an investment in the Series 2014D Bonds.

General Economic and Political Risks

The financial performance of the City and the Department will be affected by, and will be subject to, general economic and political events and conditions that will change in the future to an extent and with effects that cannot be determined at this time. These general economic and political events and conditions include, among other things, decisions by additional communities and counties currently served by the Water Supply System to exit, controversies regarding the Department's efforts to enforce payment of bills through shut-off of service and other available remedies, population declines and other demographic and employment changes and trends; periods of inflation or deflation; variable patterns of national and regional economic growth, whether cyclical or structural in nature; disruptions in credit and financial markets; political gridlock concerning, among other matters, national tax and spending policies; economic, financial and political developments in the City and the State; budget and debt limit controversies, both nationally, at the State level and locally; and unusually large numbers of

business failures and business and consumer bankruptcies and policy responses, or lack thereof, to the foregoing. See APPENDIX II-E—CHARACTERISTICS OF THE WATER SUPPLY SYSTEM SERVICE AREA.

No Full Faith and Credit Pledge

The Series 2014D Bonds are neither legal nor moral obligations of the State or any political subdivision thereof, and no recourse may be had thereto for payment of amounts owing on the Series 2014D Bonds. The assets of the Authority are not pledged to the payment of, nor are they security for, the Series 2014D Bonds.

Limited Obligation Revenue Pledge

The Series 2014D Bonds are limited obligations of the Authority. The Authority has no obligation to make payments with respect to the Series 2014D Bonds except as provided in the Resolution. The Series 2014D Bonds are payable solely from the revenue pledged as security for the Series 2014D Bonds in the Resolution, including the DWSD Obligations and the funds and accounts established under the Resolution for the benefit of the Series 2014D Bonds. The DWSD Obligations are not secured by a lien on the physical assets of the Water Supply System. Accordingly, no physical assets of the Department may be foreclosed on to produce amounts to pay the DWSD Obligations in the event that the revenue from the Water Supply System is not adequate to repay the DWSD Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014D BONDS.”

Potential for Issuance of Unsecured Obligations by the City

While the issuance of DWSD Additional Bonds is limited by an Additional Bonds Test, the DWSD Authorizing Documents do not prohibit the City from incurring other, additional debt, regardless of amount, that is not secured by the Pledged Assets. While this debt will not directly impact the debt service coverage on the DWSD Obligations, if the City is unable to repay the principal of, and interest on, such unsecured debt, it might, in extreme circumstances or in combination with other adverse conditions (such as those which existed when the City filed the Bankruptcy Case), cause the City to have to file for relief under Chapter 9 again in the future. See “—Future Bankruptcy,” below.

Water Revenues

There can be no assurance that the water revenues collected by the Department will remain at current levels since the current level of collections is dependent on many factors, including assumed and actual delinquencies and non-payment, and may be adversely affected by the departure of wholesale customers from the Water Supply System. See “THE WATER SUPPLY SYSTEM—Service Area.” The revenues of the Sewage Disposal System do not secure any payments of DWSD Bonds.

As described under “THE WATER SUPPLY SYSTEM,” the Master Plan for the Water Supply System has not been formally revised since 2004, the Department is transitioning its

wholesale customers to new model contracts, and there have been recent changes in the Water Supply System's customer base. In addition, as described under "DEPARTMENT FINANCIAL PROCEDURES," water supply rates, collections and delinquencies have varied from year to year and rate schedules for customers, while calculated pursuant to a uniform methodology, vary based on volumes, peak demands and other demographic information contained in wholesale customer contracts. Accordingly, revenues can vary, both from year to year and between historic and actual projections.

Rate Covenant and Limits on Future Rate Increases

The Bond Ordinance contains a covenant providing that, so long as any DWSD Bonds are outstanding, sufficient rates for services furnished by the Water Supply System shall be fixed and maintained. See "SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Rate Covenant." Notwithstanding this provision of the Bond Ordinance, under Michigan law, water rates established by the Department must be reasonable and nondiscriminatory and are subject to review by the courts in that regard. In establishing the rates, the actions of the Department are presumed by the courts to be reasonable, but the rates must not be arbitrary, discriminatory or excessive. Consequently, the rates established by the Department pursuant to the Bond Ordinance could be challenged as being arbitrary, discriminatory or excessive. The Department currently has affordability waivers in place with respect to certain aspects of environmental compliance to avoid excessive rate increases.

Rate Covenant Not a Guarantee

The ability to pay debt service on the DWSD Obligations depends on the ability to generate Net Revenues that meet the levels required by the Bond Ordinance. Although the Bond Ordinance contains a covenant to impose rates, fees and charges, as more particularly described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Rate Covenant," and the Department expects that sufficient Revenues will be generated through the imposition and collection of such rates, fees and charges and other Revenues described herein, there is no assurance that such imposition of such rates, fees and charges or other Revenues will result in the generation of Net Revenues in the amounts required by the Bond Ordinance. The Bond Ordinance covenant does not constitute a guarantee that sufficient Net Revenues will be available to pay debt service on the DWSD Obligations.

Pending Bankruptcy Case

As described above under "CITY OF DETROIT BANKRUPTCY MATTERS," the City is currently proceeding under Chapter 9 of the Bankruptcy Code. The City has filed a Plan of Adjustment and several amendments thereto. The Plan of Adjustment provides that if any Outstanding DWSD Bonds that are tendered pursuant to the Invitation are purchased, then, effective on the Settlement Date, all Outstanding DWSD Bonds will be unimpaired; provided, however, that if the City accepts none of (i) the Outstanding DWSD Bonds pursuant to the Invitation or (ii) the Sewage Disposal System bonds pursuant to the Sewer Invitation for purchase, or if the Settlement Date does not occur, then the treatment of the Outstanding DWSD Bonds will be as provided in the Plan of Adjustment, including the impairment of certain classes

of the Outstanding DWSD Bonds, including, without limitation, those provisions which provide for the impairment of the interest rate and call protection in respect of the Outstanding DWSD Bonds. The occurrence of the Settlement Date is conditioned upon the entry of and the validity and enforceability of the Bankruptcy Order.

Confirmation hearings are scheduled to begin on September 2, 2014. There can also be no assurance that once finalized, the City's Plan of Adjustment will be confirmed or become effective. Additionally, the City is currently projecting that, if the Plan of Adjustment is confirmed, it may exit from Chapter 9 bankruptcy protection in the fall of 2014. There is a risk that confirmation or exit may be delayed as a result of litigation or otherwise. Prospective purchasers should consult with their legal advisors regarding the risks associated with any delay in the City's exit from Chapter 9 bankruptcy protection.

As described under "THE DEPARTMENT—Ongoing Discussion of Formation of Regional Authority," "—Potential DWSD Public-Private Partnership" and "CITY OF DETROIT BANKRUPTCY MATTERS," the Bankruptcy Case is still pending and during the pendency of the City's Bankruptcy Case, the discussions regarding potential private management and Bankruptcy Court-ordered confidential mediations regarding a regional authority have occurred and are continuing to occur. The Bankruptcy Code and Act 436 (as defined herein) allow the Emergency Manager to take actions without regard to City Charter procedures. The outcome of ongoing discussions and confidential mediation, and the outcome of the Bankruptcy Case, and its impact on the Department, is uncertain, and could affect the Department and its operations, and accordingly the market price for DWSD Obligations.

Appeal and Reversal of Eligibility Order

As described above under "CITY OF DETROIT BANKRUPTCY MATTERS," the Eligibility Order is currently subject to multiple appeals. If the Eligibility Order were to be reversed, or the City was otherwise not subject to Chapter 9 of the Bankruptcy Code, the City's ability to repay the DWSD Obligations could be adversely affected.

Appeal of Bankruptcy Order

The Bankruptcy Order may be subject to appeals. No prediction can be made as to whether the Bankruptcy Order will be appealed or, if appealed, the outcome of any such appeal. Consummation of the tender offer is conditioned upon the entry of and validity and enforceability of the Bankruptcy Order, that the Bankruptcy Order has not been stayed pending appeal, and the closing and funding of the DWSD Obligations. With respect to any appeal of the Bankruptcy Order, Section 364(e) of the Bankruptcy Code provides that "[t]he reversal or modification on appeal of an authorization under this section to obtain credit or incur debt, or of a grant under this section of a priority or a lien, does not affect the validity of any debt so incurred, or any priority or lien so granted, to an entity that extended such credit in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and the incurring of such debt, or the granting of such priority or lien, were stayed pending appeal." Nevertheless, no prediction can be made as to an appellate court's interpretation of Section 364(e) or of the outcome of any appeals of the Bankruptcy Order.

Future Bankruptcy

There can be no assurance that the City will not file another bankruptcy petition under Chapter 9. If another Chapter 9 case were to be commenced by the City prior to the payment in full of the Series 2014D Bonds, the rights and remedies of the Holders of the Series 2014D Bonds would be subject to the provisions of Chapter 9. Upon the filing by the City of a future Chapter 9 case, the DWSD Obligations and related Series 2014D Bonds are subject to extraordinary optional redemption.

Five-Year Projections for Official Statement Compared with Ten-Year Business Plan for Plan of Adjustment

As part of the City's Chapter 9 proceeding, a ten-year business plan with forecasted results, referred to as the "DWSD Business Plan" is included as an Appendix to the Plan of Adjustment. In contrast, the projections included in this Official Statement are based on a five-year period and were prepared subsequent to the DWSD Business Plan contained in the Plan of Adjustment. The five-year projections included in this Official Statement assume successful consummation of the tender and amendment of the Plan of Adjustment to remove the provisions impairing certain of the Outstanding DWSD Bonds. Accordingly, the five-year Official Statement projections include only those Plan of Adjustment provisions relating to the Department that would remain in the Plan of Adjustment after the bond impairment provisions have been removed. These provisions are described more fully below. The five-year projections also include greater detail than the ten-year business plan.

Certain factors can affect the projections included in this Official Statement following confirmation of the Plan of Adjustment, including: (i) if the Department remains a part of the City; (ii) if the operations of the Department are outsourced to a contractor; or (iii) if a regional authority is created to replace the Department.

Financial Impacts of the Plan of Adjustment

The financial projections presented in this Official Statement to support the DWSD Obligations were prepared in a dynamic environment. Although the City of Detroit's Chapter 9 Plan of Adjustment has not been confirmed, certain elements of the Plan of Adjustment are included in the projections included in this Official Statement.

The following scenarios described in the Bankruptcy Disclosure Statement are included in the assumptions for the financial projections for the purposes of this Official Statement.

1. *Rates and Revenues* – The Department will maintain its Fiscal Year 2015 rate setting protocols for a minimum of five years, including a policy of setting its rates and charges at levels designed to achieve a 4% annual increase in revenues, subject to certain changes necessary to stabilize water and sewer revenues.

2. *Pension Funding Contribution* - The current Plan of Adjustment contemplates that the Department will contribute a total of \$428.5 million to GRS over the nine-year period ending June 30, 2023. The Bankruptcy Disclosure Statement states that the payments to be made by the Department constitute its presently-calculated full allocable share of the GRS unfunded accrued actuarial liability remaining after taking into account the pension modifications contemplated by the current Plan of Adjustment and related administrative and restructuring costs. The amount of the payments has been determined as the amount necessary to fund, by June 30, 2023, the underfunded GRS liabilities allocable to the Department that had accrued as of June 30, 2014. The total amount of the payments to be made by the Department has been calculated based on an assumed investment rate of return of 6.75% and further assumes that the GRS pension plan has been frozen as of June 30, 2014, which has occurred. According to the current Plan of Adjustment, after the initial nine-year period ending June 30, 2023 is completed, the Department will remain responsible for its allocable share of GRS unfunded actuarial accrued liability (“UAAL”) but is expected by the City to have only small contributions, if any, to make to the GRS on account of this liability.
3. *New B Notes (Allocable Share)* - The Plan of Adjustment provides, among other things, for the satisfaction of certain claims in exchange for the receipt of the “New B Notes” which are unsecured bonds to be issued by the City with a term of 30 years. As it relates to the Department, the New B Notes documents provide funds to settle the City’s other post-employment benefit (“OPEB”) liability and pay amounts which the City may become obligated to pay to the holders of citywide pension obligation certificates (“POC”). The New B Notes also include funding for settlement of other City claims that do not impact the Department. The Department will be responsible for its allocable share of the New B Notes consistent with prior years’ formulas for allocation of OPEB and POC liabilities.

The following potential scenarios described in the Bankruptcy Disclosure Statement are not reflected in the financial projections for the purposes of this Official Statement.

1. A potential transaction involving the transfer (including, but not limited to, a lease) to a third party of a majority of the assets of, or the right to operate and manage, the City’s water and/or sewage disposal systems currently operated by the Department in one or a series of related transactions.
2. The Plan of Adjustment contemplates an interest rate reset for certain impaired series of water system revenue bonds, which interest rate reset will be reflected in new bonds referred to in the Plan of Adjustment as the “New DWSD Obligations.” If the Settlement Date does not occur, the Department will exchange the New DWSD Obligations for those impaired DWSD Obligations as set forth in the current Plan of Adjustment. The definitive documentation governing the New DWSD Obligations will be filed with a Plan of Adjustment supplement.

3. The Bankruptcy Disclosure Statement specifically addresses the status of negotiations regarding the potential formation of a regional authority. These negotiations remain in confidential Federal Court mediation. See “THE DEPARTMENT—Ongoing Discussion of Formation of Regional Authority” below.

In addition, the City may seek to implement a rate stability program for City residents, the purpose of which would be to (i) provide a source of funds to mitigate against rate increases, (ii) enhance affordability and (iii) provide a buffer against delinquent payments. The projections contained in this Official Statement do not reflect the potential impact of such a program.

Enforceability of Remedies

The remedies available under the DWSD Authorizing Documents and the Bankruptcy Order upon the occurrence of an event of default are in many respects dependent upon judicial actions, which are often subject to substantial discretion and delay. Additionally, under State constitutional and statutory law and judicial decisions concerning remedies, certain of these remedies may be limited, or may not be readily available or enforceable. The enforceability of remedies or rights with respect to the Series 2014D Bonds and the DWSD Obligations also is limited by State and federal bankruptcy, reorganization, insolvency, sovereign immunity, moratorium and other similar laws regarding creditors’ rights or remedies currently in effect and may be limited by such laws hereafter enacted.

DWSD Additional Bonds

DWSD Additional Bonds may be issued in accordance with the provisions of the DWSD Authorizing Documents, either as additional Senior Lien DWSD Bonds on a parity with the DWSD Senior Lien Obligations, or as Junior Lien DWSD Bonds on a parity with the DWSD Second Lien Obligations and subordinate to the lien of the DWSD Senior Lien Obligations. The DWSD Additional Bonds would, in some cases, increase the debt service requirements to be serviced by the Pledged Assets. See “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—DWSD Additional Bonds.”

Limits on Future Borrowing

In certain circumstances described herein, the Water Fund (as defined herein) may be required to provide funds to pay the costs of capital improvements to the Water Supply System. If the Water Supply System does not generate sufficient revenues to pay for such capital improvements, or if other funds are not available, the City, through the Department, will have to borrow the funds. In order to issue DWSD Additional Bonds, certain conditions, including the Additional Bonds Tests, must be satisfied as described in greater detail above in “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—DWSD Additional Bonds.”

It cannot be determined at this time whether the Water Supply System will be able to satisfy the requirements for the issuance of DWSD Additional Bonds, and no assurance can be given that the Water Supply System will be able to satisfy such requirements for a considerable

period of time. If the Water Supply System is able to satisfy these requirements, it is not possible to predict what terms such additional debt may contain or whether there will be a market for such additional debt. Likewise, if the Water Supply System cannot satisfy the requirements for the issuance of DWSD Additional Bonds or if the Water Supply System qualifies to issue DWSD Additional Bonds but is unable, due to market conditions or otherwise, to obtain funds through the issuance of DWSD Additional Bonds, no assurance can be given that the Water Supply System will be able to obtain needed funds through the issuance of unsecured debt.

Additional Capital Improvements

In order to maintain the operations of the Water Supply System over the term of the DWSD Obligations, the Department will have to pay the costs of capital improvements to the Water Supply System. As part of its Fiscal Year 2015-2019 CIP, the Department expects to spend \$673,805,000 for capital improvements to the Water Supply System. The exact source of funds to pay for all capital improvements included in the CIP, and to pay capital costs exceeding those included in the CIP, is not presently known. The Department uses an incremental method of capital project funding rather than funding all projects in advance. The Department's capital financing strategy is designed to align capital project financing sources with program requirements in a framework that balances multiple goals, including to: (i) recover the costs of capital investment over the useful lives of the capital assets; (ii) minimize the impact of the capital programs on water rates; and (iii) protect and enhance the Department's financial position. The differential between total capital requirements in the CIP (as defined herein) and funds available in advance to pay capital costs may be substantial. It is not certain that the Department's CIP will be adequate to meet the capital investment needs of the Water Supply System or that the Department will be able to raise rates and/or access capital markets to borrow such funds or satisfy the requirements of the DWSD Authorizing Documents to issue DWSD Additional Bonds at the time such improvements are required to be financed or made. See "THE CAPITAL IMPROVEMENT PROGRAM."

Operating Risks

As with any water system of its size and complexity, operation of the Water Supply System could be affected by many factors, the nature and extent of which are not currently determinable, including the breakdown or failure of equipment or processes, inability to achieve expected levels of efficiency, failure to operate at design specifications, failure to operate in a manner that avoids violations of its environmental pollution elimination discharge permits and results in the incurrence of penalties and fines related to such violations, failure by third parties to perform their obligations under agreements with the Department (whether or not excused by force majeure), costs of supplies or services not under contract, changes in law or regulatory protocols, delays in receipt of or failure to obtain or maintain necessary permits or similar events.

The Water Supply System is also at risk from catastrophic events such as an intervening act of God or public enemy, water shortage, drought, flooding, extreme or unusual weather conditions, earthquake or other natural disaster, war, act of terror, sabotage, civil commotions, interference by civil or military authorities, nuclear or other explosion, radioactive or chemical contamination, fire, subsurface condition, public disorder, epidemic, quarantine restriction,

strike, labor dispute or other labor protest, stop-work order or injunction issued by a governmental authority or government embargo. The occurrence of such events could significantly reduce revenues and/or significantly increase the costs of operating the Water Supply System, thereby jeopardizing the ability of the Water Supply System to generate revenues sufficient to make timely payments of debt service on the DWSD Obligations, to pay operating expenses of the Water Supply System and/or to pay for necessary capital improvements to the Water Supply System.

Future Governmental Actions

Federal, State and local statutory and regulatory requirements (including requirements to obtain permits or other governmental approvals) applicable to the operation of the Water Supply System are subject to change, and no assurance can be given that the Department will be able to comply with such changes. The timing and impact of such future legislative or regulatory action cannot be predicted with certainty, and the impact of such action on the financial position of the Department currently cannot be determined. Delay in obtaining or failure to obtain and maintain in full force and effect any required permits or other governmental approvals may result in additional costs or reduced revenues, including fines, a moratorium on extensions and/or connections and, in extreme circumstances, the complete shutdown of the Water Supply System or a substantial portion thereof. Such a change in legal requirements could occur because (i) existing laws or regulations are revised or reinterpreted; (ii) new laws or regulations are adopted or become applicable to the Department; or (iii) a combination thereof. Further, there can be no assurance that the technology and equipment selected by the Department to comply with such revised or reinterpreted or new laws will be implemented in a timely fashion or will meet such changed requirements upon implementation. Consequently, any future revision or reinterpretation of existing laws or regulations or adoption of new laws or regulations could materially increase the cost of operating the Water Supply System, which could have a negative and material impact on the Department's ability to make timely payment of debt service on the DWSD Obligations.

Any future revision or reinterpretation of existing laws or regulations or adoption of new laws or regulations could also impose significant capital costs on the Department. See "RISK FACTORS—Additional Capital Improvements" for a description of certain risks relating to the Department's ability to fund such additional capital costs.

Rating Agency Actions

Actions by the rating agencies, such as the recent downgrades of the credit ratings of the DWSD Bonds to non-investment grade, could raise the Department's and the Authority's cost of borrowing, which could affect the Department's and the Authority's ability to borrow in the future and may have other adverse effects on the Department's and the Authority's financial condition. The market for non-investment grade securities is smaller and less liquid than the market for investment grade securities. As a result, it is possible that there may not be sufficient demand for the Department and the Authority to issue any future bonds or notes in the amounts required by the Department or that the cost to the Department and the Authority of borrowing could be substantially higher than if it were able to issue more highly-rated securities.

Lack of Liquidity and Pricing

There is no assurance that an active secondary market for the Series 2014D Bonds will develop or be maintained, so holders of the Series 2014D Bonds might not be able to sell such bonds in the future. If a secondary market does develop, prices of Series 2014D Bonds traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets. From time to time it may be necessary to suspend indefinitely secondary market trading in selected issues of bonds as a result of the financial condition or market position of the broker dealer, prevailing market conditions, lack of adequate current financial information regarding the Series 2014D Bonds, whether or not the Series 2014D Bonds are in default as to principal and interest payments, and other factors which may give rise to uncertainty concerning prudent secondary market practices. As a result, holders of the Series 2014D Bonds may not be able to liquidate their investment quickly, at an attractive price, or at all.

Environmental Regulation

The operation of the Water Supply System is subject to extensive and continuing environmental regulation. Federal, state and local standards and procedures that regulate the environmental impact of the Water Supply System are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Additionally, the Department is subject to an Administrative Consent Order issued by the Michigan Department of Environmental Quality (“MDEQ”) on July 8, 2011 (the “Administrative Consent Order”). Consequently, there is no assurance that facilities in operation will remain subject to the regulations currently in effect, will always be in compliance with further 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 and fines. Legislative, regulatory, administrative or enforcement actions involving environmental controls could also adversely affect the operation of the facilities of the Water Supply System. For example, if property owned or operated by the Department is determined to be contaminated by hazardous materials, the Department could be liable for significant clean-up costs even if it were not responsible for the contamination. See “THE WATER SUPPLY SYSTEM—Environmental Matters.”

Tax-Exempt Status

It is expected that the Series 2014D Bonds (other than the Series 2014D-5 Bonds) will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance. See “TAX MATTERS.” Bond Counsel and the Attorney General are delivering their respective opinions with respect to certain aspects of the tax status of the Series 2014D Bonds, the forms of which are attached to this Official Statement as APPENDIX III and should be read in their entirety for a complete understanding of the scope of the opinion and the conclusions expressed. A legal opinion is only the expression of professional judgment and does not constitute a guaranty with respect to the matters covered. In addition, the opinions of Bond Counsel and the Attorney General speak only as to their dates, and Bond Counsel and the Attorney General do not undertake to advise bondholders about subsequent developments.

The tax status of the Series 2014D Bonds could be affected by post-issuance events. Various requirements of the Internal Revenue Code must be observed or satisfied after the issuance of the Series 2014D Bonds (other than the Series 2014D-5 Bonds) in order for such interest to remain excludable from gross income of the holders thereof. These requirements include restrictions on the use of the proceeds of the Series 2014D Bonds and the DWSD Obligations, use of the facilities financed by the Series 2014D Bonds, investment of proceeds of the Series 2014D Bonds, and the rebate of so-called excess arbitrage earnings. Compliance with these requirements is the responsibility of the Department. Failure to comply could result in the inclusion of interest on the Series 2014D Bonds (other than the Series 2014D-5 Bonds) in gross income retroactive to the date of issuance of the Series 2014D Bonds.

The Internal Revenue Service conducts an audit program to examine compliance with the requirements applicable to tax-exempt obligations. If the Series 2014D Bonds become the subject of an audit, under current IRS procedures, the Authority or the Department would be treated as a taxpayer in the initial stages of an audit, and the owners of the Series 2014D Bonds would have limited rights to participate in the audit process. The initiation of an audit with respect to the Series 2014D Bonds could adversely affect the market value and liquidity of the Series 2014D Bonds, even though no final determination about the tax-exempt status would have been made. If an audit were to result in a final determination that the Series 2014D Bonds (other than the Series 2014D-5 Bonds) do not qualify as tax-exempt obligations, such a determination could be retroactive in effect to the date of issuance of the Series 2014D Bonds.

The City has been in contact with certain potentially interested parties regarding a recent request for information for a transaction that would establish a public-private partnership to operate and maintain the Water Supply System, which could affect the tax-exempt status of the Series 2014D Bonds (other than the Series 2014D-5 Bonds). See “THE WATER SUPPLY SYSTEM—Potential Public-Private Partnership.”

In addition to post-issuance compliance, a change in law after the date of issuance of the Series 2014D Bonds could affect the tax-exempt status of the Series 2014D Bonds (other than the Series 2014D-5 Bonds) or the economic benefit of investing in the Series 2014D Bonds. For example, Congress could eliminate the exemption for interest on the Series 2014D Bonds (other than the Series 2014D-5 Bonds), or it could reduce or eliminate the federal income tax, or it could adopt a so-called “flat tax.”

The Resolution does not provide for mandatory redemption of the Series 2014D Bonds or payment of any additional interest or penalty if a determination is made that the Series 2014D Bonds do not comply with the existing requirements of the Internal Revenue Code or if a subsequent change in law adversely affects the tax-exempt status of the Series 2014D Bonds (other than the Series 2014D-5 Bonds) or the economic benefit of investing in the Series 2014D Bonds.

Reliance on the Feasibility Report and Historical Financial Information

In preparing the Feasibility Report, the Feasibility Consultant has relied upon certain assumptions and projections regarding future operating expenses, capital expenditure and debt service on the DWSD Obligations, some of which are those of the Department or its consulting engineer. See “FEASIBILITY CONSULTANT’S REPORT.” The Feasibility Consultant has also made other assumptions, including assumptions regarding population decline, water use patterns, rate increases, collection rates and the response customers of the Water Supply System will have to rate increases. Projected operating and financial performance of the Water Supply System may not be indicative of future performance; actual results will differ from those included in the Feasibility Report, and such differences may be material. The Department cannot give any assurance that the events assumed will materialize or that actual results will match those projected, and any such differences may be material. In addition, the future policies, operations and financing decisions of the Department may not be the same as those assumed in the Feasibility Study. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2014D Bonds are cautioned not to place undue reliance upon the Feasibility Report or the revenue forecasts or other projections contained therein.

In addition, certain historical financial information is included in this Official Statement. There can be no assurance that the financial results achieved by the City in the future will be similar to historical results, and the financial information is expressly qualified in its entirety by the disclaimers set forth in such financial information and the disclosure in this Official Statement. Such future results will vary from historical results, and actual variations may be material. Therefore, the historical operating results of the Water Supply System contained in this Official Statement cannot be viewed as a representation that sufficient revenues will be generated in the future to make timely payment of principal of, redemption premium, if any, and interest on the Series 2014D Bonds.

Forward-Looking Statements are Subject to Risks and Uncertainties

If and when included in this Official Statement, the words “may,” “will,” “should,” “expects,” “forecasts,” “projects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “assumes,” “potential,” “illustrate,” “example,” and “continue” and analogous expressions are intended to identify forward looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Authority and the Department. These forward-looking statements speak only as of the date of this Official Statement. The parties disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority’s or the Department’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

OUTSTANDING DEPARTMENT INDEBTEDNESS

The following table sets forth information with respect to outstanding Water Supply System Revenue Bonds as of August 27, 2014, reflecting the issuance of the DWSD Obligations.

Water Supply System Revenue Bonds	Original Principal Amount	Outstanding as of August 27, 2014 ⁽¹⁾
Senior Lien Bonds		
Water Supply System Revenue & Revenue Refunding Bonds (Senior Lien), Series 1993	\$ 193,805,000	\$ 10,715,000
Water Supply System Revenue Senior Lien Bonds, Series 1997A	215,300,000	1,400,000
Water Supply System Revenue Senior Lien Bonds, Series 2003A	234,805,000	25,000,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2003D	142,755,000 ⁽²⁾	117,075,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2004B	153,830,000 ⁽²⁾	20,830,000
Water Supply System Revenue Senior Lien Bonds, Series 2005A	105,000,000	57,965,000
Water Supply System Revenue Senior Lien Bonds, Series 2005B	194,900,000	153,800,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2005C	126,605,000	18,885,000
Water Supply System Revenue Senior Lien Bonds, Series 2006A	280,000,000	122,745,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2006D	146,590,000	59,840,000
Water Supply System Revenue Senior Lien Bonds, Series 2011A	379,590,000	302,560,000
Water Supply System Revenue Senior Lien Bonds, Series 2011B	17,195,000	5,405,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2011C	103,890,000	75,145,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A	206,540,000	206,540,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014B	188,455,000	188,455,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014C	62,700,000	62,700,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014D	307,645,000	307,645,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E	9,270,000	9,270,000
	\$ 2,689,260,000	\$ 1,366,360,000
Second Lien Bonds		
Water Supply System Revenue Refunding Second Lien Bonds, Series 2001C	\$ 190,405,000 ⁽²⁾	\$ 180,105,000
Water Supply System Revenue Second Lien Bonds, Series 2003B	172,945,000	40,500,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2004A	72,765,000 ⁽²⁾	38,930,000
Water Supply System Revenue Second Lien Bonds, Series 2006B	120,000,000	85,690,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2006C	220,645,000	203,935,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2014F	65,425,000	65,425,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2014G	14,815,000	14,815,000
	\$ 857,000,000	\$ 629,400,000
SRF Junior Lien Bonds		
Water Supply System Revenue Bonds, Series 2005-SRF-1	\$ 13,805,164	\$ 9,960,164
Water Supply System Revenue Bonds, Series 2005-SRF-2	8,891,730	6,241,730
Water Supply System Revenue Bonds, Series 2006-SRF	5,180,926	3,715,926
Water Supply System Revenue Bonds, Series 2008-SRF	2,590,941	1,535,941
	\$ 30,468,761	\$ 21,453,761
Total Water Supply System Revenue Bonds	\$ 3,576,728,761	\$ 2,017,213,761

(1) Assumes the issuance of the DWSD Obligations, and excludes the Refunded Bonds.

(2) Original Principal Amount reflects par amount of most current remarketing.

SOURCE: The Department

DEBT SERVICE REQUIREMENTS

The following table sets forth the annual principal and interest requirements for the outstanding Senior Lien DWSD Bonds, Second Lien DWSD Bonds, SRF Junior Lien DWSD Bonds and the DWSD Obligations.

Fiscal Year Ended June 30 ⁽¹⁾	Senior Lien Bonds						Second Lien Bonds						Outstanding	
	Outstanding	Less:	Senior Lien Bonds, Series 2014D			Total	Outstanding	Less:	Second Lien Bonds, Series 2014D			Total	Outstanding	Total
	Senior Lien	Refunded	Principal	Interest	Total	Debt Service	Second Lien	Refunded	Principal	Interest	Total	Debt Service	SRF	System
	Debt Service	Debt Service					Debt Service	Debt Service					Junior Lien	
2015	\$ 140,159,649	\$ 72,221,824	\$ 35,885,000	\$30,997,226	\$ 66,882,226	\$ 134,820,051	\$ 43,031,713	\$ 7,109,188	\$ 3,160,000	\$3,231,690	\$ 6,391,690	\$ 42,314,215	\$ 1,773,543	\$ 178,907,809
2016	140,248,852	76,977,056	34,900,000	36,736,945	71,636,945	134,908,741	42,911,013	5,304,788	725,000	3,854,000	4,579,000	42,185,225	1,774,121	178,868,087
2017	140,199,029	82,219,625	41,890,000	34,991,945	76,881,945	134,861,349	42,923,588	7,171,038	2,630,000	3,817,750	6,447,750	42,200,300	1,759,212	178,820,860
2018	139,604,466	79,920,338	41,685,000	32,897,445	74,582,445	134,266,573	43,481,775	12,713,725	8,300,000	3,686,250	11,986,250	42,754,300	1,763,771	178,784,644
2019	130,126,431	67,327,813	31,170,000	30,813,195	61,983,195	124,781,813	51,912,300	6,799,188	2,810,000	3,271,250	6,081,250	51,194,363	1,757,683	177,733,859
2020	130,021,581	73,349,513	38,555,000	29,454,000	68,009,000	124,681,068	51,911,750	8,548,988	4,690,000	3,130,750	7,820,750	51,183,513	1,756,002	177,620,583
2021	130,480,219	73,126,050	40,260,000	27,526,250	67,786,250	125,140,419	51,940,538	9,974,213	6,355,000	2,896,250	9,251,250	51,217,575	1,758,621	178,116,615
2022	130,598,694	72,079,925	41,225,000	25,513,250	66,738,250	125,257,019	51,964,138	5,386,600	2,080,000	2,578,500	4,658,500	51,236,038	1,755,540	178,248,596
2023	130,293,056	61,807,463	33,010,000	23,452,000	56,462,000	124,947,593	51,984,150	6,867,225	3,670,000	2,474,500	6,144,500	51,261,425	1,761,705	177,970,724
2024	129,513,594	72,699,275	45,555,000	21,801,500	67,356,500	124,170,819	52,011,938	5,148,425	2,130,000	2,291,000	4,421,000	51,284,513	1,757,118	177,212,449
2025	129,220,569	54,390,725	29,525,000	19,523,750	49,048,750	123,878,594	52,055,088	5,776,888	2,870,000	2,184,500	5,054,500	51,332,700	1,756,830	176,968,124
2026	128,846,269	73,760,088	50,370,000	18,047,500	68,417,500	123,503,681	52,096,613	4,658,375	1,895,000	2,041,000	3,936,000	51,374,238	1,750,843	176,628,761
2027	128,444,731	55,209,225	34,340,000	15,529,000	49,869,000	123,104,506	52,223,725	4,600,125	1,930,000	1,946,250	3,876,250	51,499,850	1,742,052	176,346,408
2028	128,596,806	41,843,700	22,690,000	13,812,000	36,502,000	123,255,106	52,332,013	3,021,863	445,000	1,849,750	2,294,750	51,604,900	119,336	174,979,342
2029	128,328,506	65,282,900	47,265,000	12,677,500	59,942,500	122,988,106	51,787,125	3,051,638	500,000	1,827,500	2,327,500	51,062,988	117,390	174,168,484
2030	127,620,163	69,964,775	54,305,000	10,314,250	64,619,250	122,274,638	51,307,000	2,929,588	405,000	1,802,500	2,207,500	50,584,913		172,859,550
2031	127,519,619	41,456,163	28,515,000	7,599,000	36,114,000	122,177,456	51,300,875	2,925,525	420,000	1,782,250	2,202,250	50,577,600		172,755,056
2032	127,534,625	30,464,275	18,950,000	6,173,250	25,123,250	122,193,600	51,294,750	2,925,463	440,000	1,761,250	2,201,250	50,570,538		172,764,138
2033	127,842,600	18,330,325	7,765,000	5,225,750	12,990,750	122,503,025	51,284,375	2,919,150	455,000	1,739,250	2,194,250	50,559,475		173,062,500
2034	126,384,150	62,739,338	52,560,000	4,837,500	57,397,500	121,042,312	51,735,500	3,656,838	1,215,000	1,716,500	2,931,500	51,010,163		172,052,475
2035	149,947,538	27,571,063	20,020,000	2,209,500	22,229,500	144,605,975	7,870,375	2,321,275	-	1,655,750	1,655,750	7,204,850		151,810,825
2036	31,264,613	2,355,438	-	1,208,500	1,208,500	30,117,675	125,263,750	35,494,213	33,115,000	1,655,750	34,770,750	124,540,288		154,657,962
2037	74,232,863	30,721,188	24,170,000	1,208,500	25,378,500	68,890,175								68,890,175
2038	74,233,500	1,048,913				73,184,587								73,184,587
2039	74,231,625	1,044,825				73,186,800								73,186,800
2040	74,234,913	1,043,688				73,191,225								73,191,225
2041	72,929,488	1,030,238				71,899,250								71,899,250
	\$ 3,172,658,146	\$ 1,309,985,749	\$ 774,610,000	\$ 412,549,756	\$ 1,187,159,756	\$ 3,049,832,153	\$ 1,134,624,088	\$ 149,304,313	\$ 80,240,000	\$ 53,194,190	\$ 133,434,190	\$ 1,118,753,965	\$ 23,103,767	\$ 4,191,689,885

(1) Amounts due July 1 are shown as debt service for the preceding Fiscal Year ending June 30 (the amounts actually required to be set aside in that Fiscal Year). For Example, debt service payments for July 1, 2015, are shown in the Fiscal Year ending June 30, 2015. All figures are net of capitalized interest. Amounts may vary due to rounding.

Source: The Department.

THE DEPARTMENT

Organization

The Department is established under the City Charter. The Department is governed by a seven-member board, known as the Board of Water Commissioners, which meets monthly. Four members of the Board of Water Commissioners (each being a resident of the City) are appointed by the Mayor of the City (the “Mayor”). Key executives of the Counties of Macomb, Oakland, and Wayne each nominate a member to the Board of Water Commissioners for appointment by the Mayor.

The Water Supply System, which provides water services to the residents of the City and to a substantial area outside the City, is owned by the City and is accounted for by the City as a separate enterprise fund (the “Water Fund”) through the Department. The Department is empowered to supply water services within and outside the City under the City Charter. The Water Supply System is accounted for separate and apart from the Sewage Disposal System.

The Department continues to implement a number of changes mandated by the United States District Court, Eastern District of Michigan, Southern Division (the “District Court”) as part of a lawsuit filed by the United States Environmental Protection Agency (the “EPA”) against the City in 1977, *United States v. City of Detroit*, et al., Case No. 77-71100 (E.D. Michigan). All of the changes are intended to separate many affairs of the Department from the City and give the Department greater authority and autonomy to manage and operate the Water Supply System and the Sewage Disposal System. See “—Court Mandated Changes” below.

Court Mandated Changes

As a result of several decades of intermittent noncompliance with the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977 and the Water Quality Act of 1987 (collectively, the “Clean Water Act”) during the pendency of *United States v. City of Detroit*, the District Court mandated changes intended to rectify the root causes of noncompliance through a series of orders, including, but not limited to, the Stipulated Order dated February 11, 2011 (the “February 11, 2011 Stipulated Order”), the Order dated November 4, 2011 (the “November 4, 2011 Order”), the Order dated October 5, 2012 (the “October 5, 2012 Order”) and the Order dated December 14, 2012 (the “December 14, 2012 Order” and, collectively, the “District Court Orders”). The District Court Orders were intended to provide for a more empowered and autonomous regional governing Board of Water Commissioners, as well as operational independence from the City in several key administrative areas.

The February 11, 2011 Stipulated Order required certain changes in the composition of the Board of Water Commissioners, to provide for more meaningful regional inclusion. Additionally, the February 11, 2011 Stipulated Order established minimum professional qualifications for members of the Board of Water Commissioners. Through a subsequent District Court Order, the District Court ordered that members of the Board of Water Commissioners could only be removed for cause, instead of serving at the pleasure of the Mayor. See “—The Board of Water Commissioners” below.

The November 4, 2011 Order required the Department to establish its own autonomous divisions of Purchasing, Human Resources, Law and Finance. The heads of the Department's new divisions are required to report to the Director of the Department, rather than to the directors of the other City departments.

The November 4, 2011 Order sets forth specific hiring and removal procedures for all future Directors of the Department. See “—Management Initiatives” below. The November 4, 2011 Order also provided that the Department shall develop its own Department-specific job titles and shall enter into its own collective bargaining agreements with unions that represent its employees instead of being a party to City-wide collective bargaining agreements. The November 4, 2011 Order also struck and enjoined certain provisions in the existing collective bargaining agreements that permit an employee from outside the Department to be transferred into the Department based on seniority and requires that future collective bargaining agreements adopt a seniority system that does not provide for transfer rights across City departments. When the existing collective bargaining agreements expire, the Department is required to have its own collective bargaining agreements that cover Department employees only. See “—Employees and Employee Bargaining Units” below.

Under the City Charter, the Board of Water Commissioners has the authority to establish rates for water supply services. Prior to 2012, the City Council approved rates for water and sewage disposal services pursuant to Section 5e of Act 279 (as defined herein), which required rate approval by the governing body of a city for a municipal water or sewerage system that served more than 40% of the population of the State. The City Charter further provided for City Council approval of the Department's annual budgets as part of the City's overall authority over annual City budgets. The November 4, 2011 Order extended the Department's rate setting authority by giving the Board of Water Commissioners sole authority to establish revenue requirements for sewage disposal services and limiting the City Council's authority to the approval of retail rates charged to customers in the City. Thus, the City Council no longer has the authority to vote on rates charged to suburban wholesale customers. The November 4, 2011 Order also expanded the Board of Water Commissioners' budget authority by affording it sole authority to approve the Department's annual budgets, subject only to the City Council's approval authority with respect to inside-city rates. The November 4, 2011 Order also required the By-laws of the Board of Water Commissioners to be amended to reflect these changes in its authority and require a majority of five votes to approve rates and take certain other actions. The City Council, which previously approved all rates, now may vote only on retail rates charged to customers in the City, and no longer has the authority to vote on rates charged to suburban customers. The Board of Water Commissioners has sole authority to approve the budget for the Department, set revenue requirements for the Water Supply System, and approve rates for wholesale customers. The By-laws were amended to reflect these changes on January 25, 2012. Almost a year into the implementation of the November 4, 2011 Order, pursuant to various motions filed by the Department, the District Court issued the October 5, 2012 Order and the December 14, 2012 Order, to clarify and supplement the provisions of the November 4, 2011 Order.

The October 5, 2012 Order granted several requests of the Department that were aimed at clarifying the particular functions that the Department would handle independently from the

City. The October 5, 2012 Order provided, among other things, that (i) any City laws, ordinances, resolutions, executive orders, policies and regulations inconsistent with the District Court Orders were not applicable to the Department, (ii) the Department's General Counsel, rather than the City's Corporation Counsel, may provide legal advice to the Department regarding implementation of the District Court Orders, (iii) the Department is exempt from the application of City ordinances, resolutions, policies, orders and regulations and Civil Service Commission rules pertaining to payroll, employee benefits and employee and labor relations, and (iv) that the Department could establish its own finance policies and sub-units within its Finance Division to implement the November 4, 2011 Order.

The December 14, 2012 Order provided, among other things, that (i) the Department is only required to reimburse the City for actual costs, including indirect costs, of providing transition services to the Department, (ii) the Board of Water Commissioners is authorized to delegate to the Director of the Department or the Department's General Counsel final approval authority for the settlement of litigation and for the resolution of contract claims paid by the Department, (iii) the Department is authorized to establish its own self-insurance fund, and (iv) the Department is authorized to approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners unless the debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to issuance.

Previously, certain contracting and policy-making powers of the Board of Water Commissioners were subject to approval or rejection by the City Council and approval or veto of the Mayor. The November 4, 2011 Order provides that, notwithstanding anything in the City Charter or state law, the Board of Water Commissioners shall have the authority to approve legal settlements, claims, collective bargaining agreements, budgets and contracts. The City Council's authority to approve Department contracts is now limited to personal services contracts over \$150,000, goods or commodities contracts over \$2,000,000, professional services contracts over \$2,000,000 and construction contracts over \$5,000,000.

The Department believes that the terms of the November 4, 2011 Order have resulted and will continue to result in greater efficiency in its operations. Citing the Department's operational and compliance progress, on March 27, 2013, the District Court issued an order closing the case (the "Order of Dismissal") and declining to address a recommendation for the further restructuring of the Department. In the Order of Dismissal, the District Court stated that it was satisfied that the District Court Orders had been substantially implemented and would remain in effect following dismissal of the case. Within the Order of Dismissal, the District Court retained limited jurisdiction to enforce the District Court Orders.

Twelve days after entry of the Order of Dismissal, the Court of Appeals issued an opinion reversing the District Court's denial in 2011 of a motion by a union representing certain Department employees to intervene in the case to challenge provisions of the District Court Orders affecting labor matters. The Court of Appeals' opinion and resulting mandate directed the District Court to permit limited intervention by the union to contest the District Court's rulings on labor-related issues. The Court of Appeals' opinion did not address the Order of Dismissal, or address its procedural interaction with the Order of Dismissal. On May 22, 2013, the City filed a

notice of appeal of, *inter alia*, the District Court Orders. Approximately two weeks after the City's notice of appeal, the District Court entered an order directing the parties to show cause why the District Court had not been divested of jurisdiction over the case by the filing of the City's appeal after the Court of Appeals had issued its mandate to the District Court. In response, the Department filed a brief expressing its agreement with the District Court's suggestion that it did not have jurisdiction to take action other than action necessary to enforce the prior District Court Orders. The union filed a brief asserting that the District Court had authority to consider its intervention and challenge to the District Court Orders. The District Court has taken no action since the issuance of its order to show cause. After the City filed the Bankruptcy Case, the Court of Appeals issued an order holding the City's appeal in abeyance pending resolution of the Bankruptcy Case. See "LITIGATION" and APPENDIX II-F—DISTRICT COURT ORDERS.

Application of Financial Stability Agreement to the Department

In April 2012, the City and the State entered into a Financial Stability Agreement which established an independent Financial Advisory Board for the City (the "Financial Stability Agreement"). In March 2014, the City, the State and the Financial Advisory Board amended and restated the Financial Stability Agreement to reflect the appointment of the City's Emergency Manager. Under the Financial Stability Agreement, as amended and restated, the Financial Advisory Board is empowered to monitor, assist, advise and support the City in a number of respects. The Financial Stability Agreement, as amended and restated, does not require the City or the Department to seek approval of the Financial Advisory Board to issue the DWSD Obligations, and it is not anticipated that any action of the Financial Advisory Board will be requested in connection with the issuance of the DWSD Obligations.

The Board of Water Commissioners

The seven-member Board of Water Commissioners is appointed by the Mayor to head the Department based on the geography of the Water Supply System's service area. Four members are residents of the City, and three members are residents of Wayne, Oakland and Macomb Counties who are nominated by the Wayne County Executive, the Oakland County Water Resources Commissioner and the Macomb County Public Works Commissioner, respectively. Each member of the Board of Water Commissioners must be a citizen of the United States and a resident of the State of Michigan. Pursuant to a Stipulated Order of the District Court, members of the Board of Water Commissioners are also required to possess certain defined professional experience and qualifications. The members of the Board of Water Commissioners serve four-year terms which are staggered so that not more than two members' terms expire each year.

In order to more efficiently oversee the Department's operations, the Board of Water Commissioners has adopted a committee structure. Four committees were established: (i) Operations, Regulatory Compliance and Procurement; (ii) Management Development and Human Resources; (iii) Financial Management and Audit; and (iv) Legal.

The current members of the Board of Water Commissioners and the year of their original appointment to the Board of Water Commissioners are as follows:

James Fausone, Chair (2011). Mr. Fausone is a resident of Canton Township. He is a partner in the law firm of Fausone Bohn LLP, of Northville, where he practices business law, municipal law, veterans' disability law and environmental law. He previously served as president of an environmental remediation, industrial service, and waste transportation company for three years. Mr. Fausone holds a Bachelor of Science in environmental engineering and a Bachelor of Science in oceanography from the University of Michigan and a Juris Doctorate degree from Gonzaga University Law School. He serves as a trustee of Schoolcraft College, Livonia, MI and Canton Public Library. He is a Director of the University of Michigan, College of Engineering – Civil and Environmental Engineering Board, and has served as a Director of the Livonia Chamber of Commerce, among other affiliations.

Fred Barnes (2011). Mr. Barnes is a registered professional engineer from Sterling Heights. He owns and operates Fred W. Barnes Associates Inc., a consulting engineering firm. Before starting his company, Mr. Barnes was a senior project engineer with Atwell-Hicks Inc., where he managed engineering projects and supervised engineers, planners, and designers. Mr. Barnes, a former Chief engineer for the Office of the Macomb County Public Works Commissioner, he was involved with the design, operation and maintenance of more than 700 county drains, supervision of two CSO facilities, as well as the review of residential and commercial developments for 24 years. He holds a Bachelor of Science in engineering from the U.S. Military Academy at West Point.

Mary E. Blackmon (1989). Mrs. Blackmon is a retiree of Ameritech, where she served as a director of public relations and associate director of urban and civic affairs. She is a current member of the Wayne County Regional Educational Service Agency Board of Education, where she has served since 1982. Mrs. Blackmon also served for 10 years as a member of the Detroit Board of Education. She has served on several committees for the Southeast Michigan Council of Governments, where she is a vice president and is a graduate of Leadership Detroit. Mrs. Blackmon is active in a number of civic and community organizations.

Linda Forte (2011). Ms. Forte, a senior vice president at Comerica Inc., brings more than 35 years of business, finance, and commercial banking expertise to the board. A member of Comerica's senior leadership team, she is responsible for defining and driving business strategies that establish Comerica as a leader in diversity and corporate responsibility practices. Ms. Forte holds a Bachelor of Science in education from Bowling Green State University and a Master's of Business Administration in finance and accounting from the University of Michigan. She serves as a director of the Economic Development Corporation of the City of Detroit and serves on a number of other agency and organization boards as well.

Bradley Kenoyer (2011). Mr. Kenoyer brings more than a decade of cross-functional problem-solving experience in delivering customer-driven results to technical and service quality issues for Ford Motor. An honoree of the Ford/Massachusetts Institute of Technology/University of Detroit Mercy program for engineering excellence, Mr. Kenoyer holds a Bachelor of Science in mechanical engineering from Rensselaer Polytechnic Institute and a Master's of Science in product development from the University of Detroit Mercy. He has served on the Board of Directors of Preservation Wayne and has volunteered at the Ruth Ellis Center, which provides

residential safe space and support services for runaway, homeless and at risk youth in Detroit and Southeastern Michigan.

Conrad L. Mallett Jr. (2014). Mr. Mallett is the Detroit Medical Center's Chief Administrative Officer and General Counsel. His assignment places him on the cutting edge of hospital organization re-design with a particular focus on physician and patient satisfaction, cost containment, and increased medical quality. Mr. Mallett holds a Juris Doctorate degree from the University of Southern California, a Master's in Public Administration, also from the University of Southern California, a Master's of Business Administration from Oakland University with a concentration in Healthcare Management, and a Bachelor of Arts degree with a major in English from the University of California, Los Angeles. He is a member of the Board of Directors of two publicly traded companies, Lear Corporation and Kelly Services.

J. Bryan Williams (2011). Mr. Williams is an attorney with the Dickinson Wright law firm. Mr. Williams, a resident of Birmingham, practices in the areas of corporate and municipal finance law. He has served as counsel to the Oakland County Water Resources Commissioner on municipal bond financings, and has significant experience providing counsel to both privately and publicly-held companies. He holds a Bachelor of Arts in economics from the University of Notre Dame and a Juris Doctorate degree from the University of Michigan. He is a member of the City of Birmingham Planning Board, and a past member of the Board of Directors of the Economic Club of Detroit. He is also a past vice chairman of the Detroit Regional Chamber of Commerce.

Management Team

The Department was recently reorganized into five operating groups: Operations, Customer Service, Financial Services, Administration and Compliance, and Executive. The Department is staffed so that cross-functional employee assignments provide services for both the Water Supply System and Sewage Disposal System.

The Department's key personnel and their qualifications are summarized below.

Sue F. McCormick, Director. Ms. McCormick was appointed by the Board of Water Commissioners as the Director of the Department on November 17, 2011, and assumed that position on January 3, 2012. Prior to joining the Department, Ms. McCormick was the Public Services Area Administrator for the City of Ann Arbor, Michigan, where she managed that city's entire physical infrastructure, including the water and sewer system. She joined Ann Arbor city government as Water Utilities Director in January 2001. Prior to that, she was employed for 22 years by the Lansing Board of Water and Light, serving as environmental chemist, environmental laboratory manager, manager of water and steam planning, water technical support manager and business development manager. Ms. McCormick holds a Bachelor of Science in biological science from Lyman Briggs College at Michigan State University. Ms. McCormick is active in the 58,000-member American Water Works Association ("AWWA"), a prominent international organization for water industry professionals. She has served as AWWA-Michigan Director and as an association Vice President.

William M. Wolfson, Chief Administrative and Compliance Officer/General Counsel. Mr. Wolfson joined the Department as the utility's first General Counsel in June 2012. His duties expanded to include those of Chief Operating and Compliance Officer in August 2013, and Chief Administrative and Compliance Officer in January 2014. Prior to joining the Department, Mr. Wolfson served the City of Detroit Law Department as an attorney from 1986 to 1998 under Mayors Young and Archer. In 1998, Mr. Wolfson was appointed Wayne County's Deputy Corporation Counsel by County Executive Edward McNamara. The succeeding County Executive, Robert Ficano, appointed Mr. Wolfson to the position of Assistant Deputy County Executive/Director of Legal Affairs. In that position, Mr. Wolfson was responsible for the day-to-day operations of county government and its 4,500 employees. In July 2009, Mr. Wolfson retired from his Wayne County position, went into private practice and contracted to serve as Wayne County's Interim Corporation Counsel. Mr. Wolfson is a graduate of the University of Michigan and the University of Minnesota Law School. He currently serves as Co-Chairman of the Detroit-Wayne County Stadium Authority, Vice Chairman of the Wayne County Zoological Authority, and is a member of the Detroit Zoological Society's Board of Directors.

Darryl A. Latimer, Deputy Director and Chief Customer Service Officer. Mr. Latimer was named Chief Customer Service Officer in January 2014 and has served as Deputy Director since February 15, 2010. Mr. Latimer served as Contracts and Grants General Manager since March 2003. Previously, he was the Head Governmental Analyst in Contracts and Grants, leading the Consultant and Local Economic Development Units. Mr. Latimer has been with the Department since 1989, and with the City of Detroit since 1985. Mr. Latimer holds a Bachelor of Science in general studies from Wayne State University and a Master's of Science in general business administration from Central Michigan University.

Cheryl Porter, Chief Operating Officer. Ms. Porter was named Chief Operating Officer in January 2014. Ms. Porter served as Assistant Director – Water Supply Operations since September 2008 and has been employed by the Department since March 1996. She holds a Bachelor of Science in chemistry from the University of Michigan, a Juris Doctor degree from the University of Detroit Mercy School of Law and a Master's of Business Administration with a concentration in human resources management from the Madonna University. She began her career with the Department as a junior chemist and has worked her way through the ranks at each level of the organization. Ms. Porter holds her F1 license for Water Treatment with the State of Michigan. Prior to joining the Department, Ms. Porter was an Analytical Chemist for Blue Planet Technologies and, earlier, a Research Assistant for the University of Michigan Department of Chemistry. Ms. Porter also participates in various community service activities, having served on the Board of Directors for Intense Mentoring, Inc., a local non-profit committed to attacking poverty through education, and mentoring young people throughout Southeastern Detroit.

Nicolette Bateson, CPA, Chief Financial Officer, Financial Services. Ms. Bateson, a certified public accountant, is the department's first CFO and began working for the Department in February 2013. Ms. Bateson has extensive financial experience. In the public sector, she served as both Assistant City Manager and Finance Director in local government. Ms. Bateson was an audit supervisor with a national accounting firm, an independent financial consultant, and most recently a visiting specialist for the State and Local Government Program at Michigan State University Extension. As a visiting specialist, Ms. Bateson worked with state and local officials

to address the needs of cities in fiscal stress. In addition, Ms. Bateson was involved with research, education, and writing related to public-sector financial challenges. Ms. Bateson has experience working with public agencies moving through substantial restructuring to attain operational and financial sustainability with reduced resources. Ms. Bateson earned a bachelor's of business administration degree in professional accounting from the University of Michigan-Dearborn and a Master's of Public Administration degree in government management from Eastern Michigan University.

Dan Rainey, Information Technology Director. Mr. Rainey came to the Department in March 2013 with more than 20 years of experience leading and transforming IT organizations – most recently including the City of Ann Arbor, the top-ranked digital city in its class. Mr. Rainey holds a master's degree in management with a specialization in strategic leadership from Walsh College and a bachelor's degree in computer science from Wayne State University. Mr. Rainey was recognized as a Computerworld Premier 100 Leader and was awarded the Michigan Excellence in Technology Leadership Award. Mr. Rainey previously served as Vice President for the Metropolitan Information Exchange, a national organization of local government Chief Information Officers. He is a member of the Society for Information Management and participates on various intergovernmental collaboration committees and advisory boards.

Terri Tabor Conerway, Organizational Development Director. Ms. Conerway was named Organizational Development Director in December 2013. She previously served as the Department's Process and Quality Control Manager since January 2006. Prior to that, Ms. Conerway served as the Department's Human Resource Manager. She has worked in various managerial positions since beginning her career with the City of Detroit in 1972. She holds a Bachelor of Science degree from Wayne State University in Psychology. Ms. Conerway is a certified Franklin Covey facilitator and is active in the International Public Management Association – Human Resources.

W. Barnett Jones, Chief Security and Integrity Officer. Chief Jones was appointed the Chief Security and Integrity Officer for the Department in May 2012. His extensive experience in law enforcement and security covers a 30-year career. Chief Jones is responsible for the Department's entire security posture that includes the physical security and safety of employees, facilities, and assets. In addition, Chief Jones has been pivotal in developing and implementing entity-wide integrity policies and procedures. Prior to his arrival at the Department, Chief Jones served as Chief of Police, Police Administrator, Captain, Lieutenant, and Deputy Sheriff with large local units of government in Michigan including the supervision of both police and fire personnel. Chief Jones earned a Master's degree in liberal studies from Eastern Michigan University and a bachelor's degree in general studies and human resources from the University of Michigan – Dearborn. He has been involved in many professional and civic organizations, including the Deputy Sheriffs' Association, the Crime Prevention Association of Michigan, and the Executive Board of the March of Dimes.

As of August 11, 2014, the position of Public Affairs Officer is vacant.

Management Initiatives

As reported in the Director's Final Compliance Report in March 2013 and noted in the Order of Dismissal, the Department has made significant progress since the November 4, 2011 Order. To advance the Department's goals of regulatory compliance and long-term sustainability, primary management initiatives include restructuring, optimization, independence from the centralized primary government functions, financial stability measures and a commitment to collaborative relationships with regulators and customers. The Director reports the status of these initiatives to the Board of Water Commissioners on a monthly basis. The Director also reports to the public on these initiatives in the Director's Compliance Report, published monthly at www.dwsd.org.

Restructuring

The Department has established structural and management changes to align operations, customer service, finance, administration and compliance. Several key executive positions have been filled since February 2013, including the Chief Administrative and Compliance Officer, Chief Operating Officer, Chief Financial Officer, Chief Customer Service Officer and Chief Security and Integrity Officer. The Department has created an office of General Counsel and Organizational Development Division, as well as realigned its Financial Services and Information Technology Divisions towards an independent operating structure.

Organizational Optimization

In October 2012, the Board of Water Commissioners approved a contract with an organizational consultant to facilitate organizational optimization. In December 2012, five distinct employee teams began the work to evaluate over 50 business processes by focusing on three key operating elements: people, processes and technology. In March 2013, the employee teams reported their findings, which supported an optimized Department through job redesign, increased use of technology and the introduction of efficiencies to reduce the vehicle fleet and operating expenses.

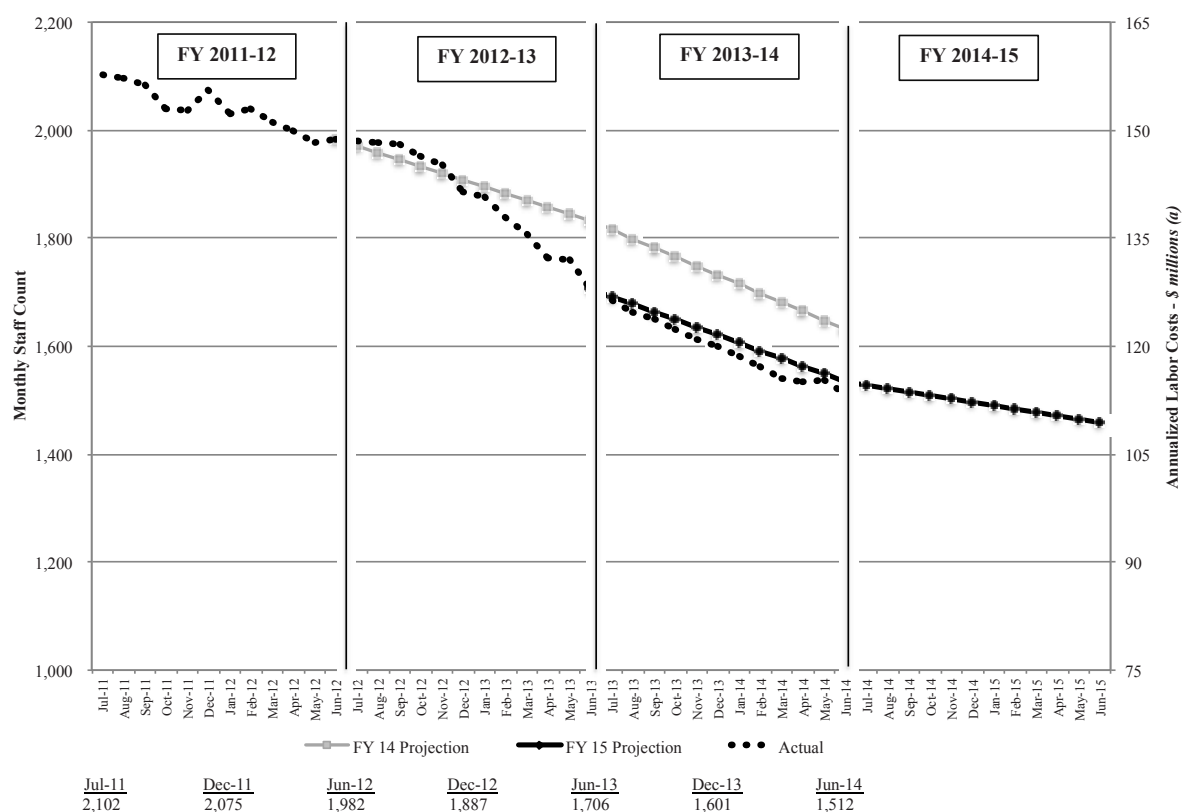
In April 2013, the Department began implementing the new organizational design. Pilot programs of the new job and business process designs are in process throughout the wastewater, water, field services, information technology and customer service areas. The Department has drafted and published 57 new job classification descriptions replacing the prior, narrowly defined 257 job classifications. Since December 2013, the Department has been in the process of posting and filling the new job classifications. Employees not selected for the new positions may be assigned to special projects teams.

The Department has been meeting with its represented workforce to discuss the terms and conditions of employment to implement the new job designs as well as changes to employee healthcare and pensions ordered by the Emergency Manager.

Prior to and throughout this timeframe, the Department instituted a modified hiring freeze and some strategic separations. This has resulted in a system-wide downsizing of over 30% since July 1, 2011. The Department reduced its total staff from 2,102 employees at the end of July

2011 to 1,512 employees at the end of June 2014. In some areas of the Department, the reductions in staffing have been more rapid than projected. Contractual assistance is engaged when necessary to fill gaps and to assure continuity of successful operations. By the end of Fiscal Year 2019, it is estimated that the Department will have reduced its workforce to 1,000 employees.

The following chart illustrates staff reductions since July 2011:



(a) Assumes average annual personnel costs of \$75,000 per position

SOURCE: The Department

Partial Independence from the Centralized Primary Government Functions

Historically, the Department's Financial Services Group was a satellite department of the City. The District Court Orders permitted the Department to establish an independent finance function. In February 2013, the Department hired its first Chief Financial Officer, and has since made progress in separation of funds, accountability, analysis, treasury and procurement practices. "Finance Transformation" is the initiative underway to expand the capacity of the Department to professionally and independently manage its financial operations. This expanded initiative complements the Department-wide effort to optimize the deployment of people, redesign business processes, and invest in technology.

The Department remains dependent upon the centralized City information technology department to support many of its business processes, including finance, human resources, law,

and risk management. The Department hired its first Information Technology Director in March 2013. The Department is now engaged in addressing its information technology governance process to ensure that updates, changes, selection of new applications and decisions to retire applications are made with an understanding of the impacts to the Water Supply System, support and staffing throughout the Department.

Financial Stability

The Department's long-term plan to build financial stability is founded upon (i) reallocating optimization savings to revenue financed capital, and (ii) rate model simplification that yields more stable and more predictable revenue and cash flow.

For many years, the Department relied on annual increases in rate revenues ranging from approximately 4% to more than 14% in order to meet its revenue requirements and maximized the issuance of debt to fund capital improvements. With increased authority for rate setting and debt management granted by the District Court Orders, the Board of Water Commissioners has maintained a 4% increase in revenue requirement for Fiscal Year 2014 and Fiscal Year 2015. The Department's management has expressed a commitment to moderate annual revenue requirement increases (currently set at 4%) as shown in the revenue projections, a focus on decreasing operational and maintenance costs through optimization, retiring debt, and, where appropriate, funding future capital needs of the Water Supply System through revenues and cost containments rather than through maximized use of debt. Rates are set annually by the Board of Water Commissioners in accordance with its standard rate-setting protocols.

Collaborative Relationships with Customers and Regulators

The Department maintains a wholesale customer outreach program which began in 1997. The effort encompasses a Water Technical Advisory Committee ("TAC"), a Wastewater Steering Committee (the "Steering Committee") and their related work groups that include staff from the Department, wholesale water and wastewater customers, the Southeast Michigan Council of Governments and MDEQ. The Steering Committee maintains several standing working groups to explore and work on issues of importance such as rates, industry best practices, public education and metering. This wholesale customer outreach program includes regular meetings and a wholesale customer portal that provides access to Department documents, as well as wholesale customer committee agendas, meetings and supporting materials.

To expand the Department's retail customer outreach program, the Board of Water Commissioners entered into its first consulting agreement in August 2013 to provide for a retail advocate. The consulting firm provides the retail customer perspective regarding changes to the rate model and related rate issues.

The Department provides office space at the wastewater treatment plant for personnel of MDEQ, the State's primary environmental regulatory agency. In addition, the Department and MDEQ communicate monthly to address operational matters, compliance, reporting and planning efforts.

Employees and Employee Bargaining Units

The total number of authorized positions for the Department in the budget for Fiscal Year 2015 was 1,674, consisting of 559 positions for the Sewage Disposal System and 1,115 for the Water Supply System. Of the 1,115 positions assigned to the Water Supply System, only 185 are entirely devoted to the Water Supply System. The other employees provide service to both the Sewage Disposal System and the Water Supply System, and costs for these positions are allocated appropriately. The budget necessarily contains more positions than are actually filled, as the budget is a planning document that must accommodate the job design restructuring, and cannot anticipate which positions will become vacant through attrition. As of June 30, 2014, the Department had 1,512 full time equivalent employees, of which approximately 1,333 were represented by the following unions:

- Association of Detroit Engineers;
- American Federation of State, County and Municipal Employees (“AFSCME”), Locals 207, 2394 and 2920;
- Association of Municipal Engineers;
- Association of Professional Construction Inspectors;
- Association of Professional and Technical Employees (“APTE”);
- Building and Construction Trades Council;
- Building and Construction Trades Foreman;
- International Union of Operating Engineers, Local 324;
- Senior Accountants, Analysts, and Appraisers Association;
- Senior Water Systems Chemists Association;
- Teamsters;
- International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, Locals 2200 and 2334; and
- Utility Workers of America (“UWA”), Locals 488, 504 and 531.

The Department’s collective bargaining agreements reflect provisions of the District Court Orders, provide for a reopener by either side for economic issues followed by an intensive bargaining period of between 30 and 60 days, and the Department’s ability to implement its last best offer at the end of the bargaining period. Collective bargaining agreements currently are in place for the following Department bargaining units: AFSCME Local 2920, Association of Professional Construction Inspectors, Building Trades Council, International Union of Operating Engineers, Senior Water Systems Chemists Association, UWA and Teamsters. The Department believes that, when its reorganization process is complete, these unions will represent the majority of its represented workforce. The collective bargaining agreements with the United Auto Workers expired in June 2012 and the Department is currently discussing terms and conditions of employment with its remaining unions. The November 4, 2011 Order struck and enjoined certain provisions in the existing collective bargaining agreements that permit an employee from outside the Department to be transferred into the Department based on seniority and requires that future collective bargaining agreements adopt a seniority system that does not provide for transfer rights across City departments. See “THE DEPARTMENT – Organization,” “LITIGATION” and APPENDIX II-F—DISTRICT COURT ORDERS. In addition, the November 4, 2011 Order requires the Department to have in place its own collective bargaining

agreements for its employees by the time the existing collective bargaining agreements expire. The Department continues to put collective bargaining agreements in place with all unions representing its unionized work force. The Department has no knowledge of any planned interruption of service from the unionized work force.

After the Department negotiated initial collective bargaining agreements with many of its bargaining units, on August 20, 2013, the Emergency Manager advised the Department that obligations to bargain collectively were suspended pursuant to section 27(3) of Act 436. Thereafter, the Department began discussions of the terms and conditions of employment with its represented workforce to reflect changes to employee healthcare and pensions ordered by the Emergency Manager and to implement the new job classifications. To date, these discussions have resulted in agreements with seven unions, and discussions continue with the remaining unions.

Ongoing Discussion of Formation of Regional Authority

Since the fall of 2013, the Emergency Manager and the Department engaged in extensive negotiations with the Counties of Macomb, Oakland and Wayne (the “Counties”) regarding the potential formation of, and transfer of the functions of the Department to, a regional authority, which would have been created by agreement among the City and the Counties and incorporated as a part of the Plan of Adjustment in the City’s Bankruptcy Case. Upon confirmation of the Plan of Adjustment, the regional authority would have assumed operating control of most of the assets (including the physical plant and wholesale water and sewer service contracts) currently owned and operated by the Department. These negotiations among the City, the Department and the Counties did not result in any agreement.

On April 10, 2014, Wayne County filed a motion [Docket No. 3945] requesting that the Bankruptcy Court refer all matters relating to the potential formation of a regional authority to facilitative mediation. On April 17, 2014, the Bankruptcy Court entered an order [Docket No. 4156] referring to mediation (1) the matter of whether to create a regional authority involving the City and the Counties and (2) all issues relating to the Department and the Counties.

As of the date hereof, this mediation is still ongoing. Parties to the mediation have not reached any definitive agreements. Any agreement, if reached, would be subject to negotiation of definitive documents, approval of incorporating municipalities and compliance with the Bond Ordinance and DWSD Indenture, including, if applicable, the solicitation of bondholder consents. Even if an agreement were to be reached, there would be no guaranty that any such approvals or consents would be obtained. The framework for ongoing mediation discussions continues to include a regional authority, which authority would assume operating control of most of the assets of the sewage disposal and water supply systems currently owned and operated by the Department, on terms falling within the parameters described under “—Consent to Transfer to Regional Authority” below.

Consent to Transfer to Regional Authority

If a new regional authority is successfully created, it is anticipated that the regional authority will become responsible for the obligations of the Department, including payment of

the DWSD Obligations. This would be accomplished by the substitution or replacement of the City by the regional authority as the sole obligor (“Change in Obligor”) on the DWSD Obligations and the assignment to and assumption by the regional authority of the DWSD Obligations, or the issuance of substitute bonds by the authority, in place of the DWSD Obligations (the “Assumed Obligations”). The Change in Obligor and the assumption or substitution of the Assumed Obligations are conditioned upon:

- (a) the regional authority adopting covenants to:
 - (i) issue revenue bonds payable from net revenues of the system under ordinances or indentures which maintain compliance with a three-part combined coverage requirement of 1.20, 1.10 and 1.00 for senior lien, second lien, and State Revolving Fund (“SRF”) junior lien indebtedness, respectively, for *both* additional bonds test and rate covenant purposes;
 - (ii) maintain, pursuant to such ordinances or indentures, a flow of funds consistent with Act 94, in the following order of priority required by Act 94: (x) operation and maintenance expenses of the system, and (y) debt service on all bonds payable from net revenues of the system before making deposits to other accounts in the flow of funds; and
 - (iii) comply with the provisions of the Bankruptcy Order, including but not limited to paragraph 24 thereof;
- (b) the ability of the system, under the additional bonds test described in (a)(i) above, to issue at least One Dollar of additional indebtedness at each level of priority;
- (c) receipt of an opinion of tax counsel of the regional authority to the effect that the Change in Obligor and assumption or substitution of the Assumed Obligations, in and of themselves, do not materially alter the tax-exempt status of the interest on the DWSD Obligations;
- (d) receipt of a rating confirmation from one or more nationally recognized rating agencies that the Assumed Obligations are rated not less than the then-current rating on the DWSD Obligations; and
- (e) the establishment of the regional authority shall provide that any lease or other payment by the new regional authority to the City’s general fund or other fund of the City (other than payments for customary services historically provided by the City to the Department that constitute operation and maintenance expenses under the Bond Ordinance and payments in respect of pension obligations to be paid as operation and maintenance expenses consistent with clause (a)(iii) above) shall be subordinated to all payments on the DWSD Obligations.

By purchasing the Series 2014D Bonds, upon satisfaction of the foregoing conditions, the purchaser is consenting to the Change in Obligor and the assumption or substitution of the Assumed Obligations and further, the purchaser is consenting to and directing the Michigan Finance Authority to accept the Change in Obligor and assumption or issuance of substitute obligations as Assumed Obligations.

Potential DWSD Public-Private Partnership

Through the Emergency Manager, the City has been in contact with certain potentially interested parties regarding a request for information (the “DWSD RFI”) for a transaction that would establish a public-private partnership with respect to the DWSD (the “Public-Private Partnership”). The DWSD RFI provides that the Emergency Manager is considering the potential Public-Private Partnership for the operation and management of the water system and sewage disposal system currently operated by DWSD. The DWSD RFI states that the Public-Private Partnership could take the form of an operating and management agreement and would be effectuated in conjunction with confirmation of the Plan of Adjustment. The DWSD RFI further provides, however, that the Emergency Manager will also consider responses that contemplate alternative transaction structures, *e.g.*, a long-term lease and concession arrangement or a sale that meets the bid criteria incorporated in the DWSD RFI, while maximizing the value to the City, maintaining or enhancing the Water Supply System and Sewage Disposal System’s operational viability and capital needs and complying with applicable law. The DWSD RFI requires that any Public-Private Partnership include a commitment to limit rate increases to generate no more than a 4% increase in revenue per year for the first 10 years.

The Department would only enter into an agreement for a Public-Private Partnership if it were compliant with the Bond Ordinance and the DWSD Indenture and the Department received an opinion of nationally-recognized bond counsel that the tax-exempt status of outstanding DWSD Bonds would not be impaired thereby. See “RISK FACTORS—Tax Exempt Status.”

The deadline for interested parties to submit indications of interest was April 7, 2014. The City received 13 indications of interest regarding the DWSD RFI, which the City is reviewing and analyzing. The Board of Water Commissioners will be asked to review and act upon any proposal that the Emergency Manager may recommend.

THE CITY

Pursuant to the provisions of the State Constitution and Act 279, Public Acts of Michigan, 1909, as amended (“Act 279”), the City is a home rule city with significant independent powers. In accordance with the City Charter, the governance of the City is organized into two branches: an Executive Branch, which is headed by the Mayor, and the legislative branch, which is comprised of the City Council and its agencies. The Mayor and the members of the City Council are elected every four years unless a special election is required as provided for in the Charter. The most recent regular election for the positions of Mayor and City Council members was on November 5, 2013, when Mike Duggan was elected for his first term as Mayor.

On March 14, 2013, Kevyn D. Orr was appointed to act as Emergency Financial Manager pursuant to the provisions of Act 72. Mr. Orr became the Emergency Manager of the City on March 27, 2013, pursuant to the provisions of Act 436, Public Acts of Michigan, 2012 (“Act 436”). Act 436 provides an emergency manager with broad powers and authority to take certain actions with respect to a local government that is in receivership under Act 436, notwithstanding any charter provision to the contrary. Act 436 provides that the governing body and the chief administrative officer of a local government in receivership under Act 436 shall not exercise any

of the powers of those offices except as may be specifically authorizing in writing by the emergency manager or as otherwise provided for in Act 436 and are subject to any conditions required by the emergency manager.

On July 28, 2014, the Emergency Manager issued his Order No. 31, which supplemented Order No. 20 and conferred on the Mayor the power he would have had with respect to the Department and the Board of Water Commissioners, absent Act 436. The Emergency Manager has retained his authority under Act 436 over, among other things, the issuance of the DWSD Obligations, as well as the Department's financial restructuring, and its ability to seek and obtain financing.

APPROVALS OF THE DWSD OBLIGATIONS

As described under "THE DEPARTMENT—Organization," "—Court Mandated Changes" and "—The Board of Water Commissioners," the Department is governed by the Board of Water Commissioners. Pursuant to the District Court Orders, the Board of Water Commissioners has approved the issuance of the DWSD Obligations.

As described under "THE CITY," an emergency manager has been appointed for the City. Pursuant to Act 436, the Emergency Manager has approved the action of the Board of Water Commissioners regarding the issuance of the DWSD Obligations.

As described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014D BONDS—Plan of Finance for the DWSD Obligations," the entry of and validity and enforceability of the Bankruptcy Order is a condition to the issuance of the DWSD Obligations and the Series 2014D Bonds.

THE CAPITAL IMPROVEMENT PROGRAM

General

The Department utilizes a five-year Capital Improvement Plan ("CIP") to maintain and improve the reliability of the Water Supply System, meet regulatory standards as well as to achieve greater operating and maintenance efficiency. The Department annually updates the CIP based on continual monitoring and review of the needs of the Water Supply System. In accordance with the terms of the February 11, 2011 Order, the CIP must be approved by a super majority of at least five members of the Board of Water Commissioners. The Department can modify individual projects within the CIP during the year to address changing costs and management decisions on specific project scope as long as the changes are within the basic framework approved by the Board of Water Commissioners. The Fiscal Year 2015-2019 CIP was approved by the Board of Water Commissioners in December 2013.

The CIP is divided into the major categories of Plant Replacement and Renovation, Metro Area Construction, Urban System Improvements, Mechanical Maintenance and Computer Systems. The Department has financed its ongoing CIP with proceeds of the DWSD Obligations, federal and State grants and loans and revenues of the Water Supply System.

The CIP provides a framework for ensuring capital plans are consistent with overall organizational goals within a set of financial considerations including fiscal capacity, debt levels, impact on operating budgets and reserve levels. Actual project proposals are initiated and reviewed within the context of the CIP. Deviations from the CIP could occur as a result of factors such as actual bids versus cost estimates, unforeseen cost-benefit scenarios and grant opportunities.

In June 2013, the Department initiated an effort to prepare an updated master plan. This two-year project includes two phases: Phase I identifies priorities for Fiscal Years 2015-2020, and Phase II identifies priorities for Fiscal Years 2021-2035. The expanded timeline for Phase II is expected to support the Department's goal of extending the formal CIP planning period from five years to ten years. The current CIP is based in large part on preliminary findings emerging from the updated 2004 Master Plan (as defined below), and from other independent evaluations recently completed by the Department and representatives of its suburban wholesale customers.

Over the past ten years, the Department spent approximately \$1 billion on capital improvements to the Water Supply System. For more information, see APPENDIX II-B – SYSTEM EVALUATION REPORT.

The following tables detail the planned expenditures and the projected funding sources for the Fiscal Year 2015-2019 CIP, as approved by the Board of Water Commissioners in December 2013.¹ Expenditures in the early part of the CIP are primarily focused on rehabilitating the Springwells Water Treatment Plant, which currently produces the most water of any of the five plants, on construction of new transmission mains to ensure reliable delivery of water in certain segments of the System, and on rehabilitation of water infrastructure in the City.

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¹ In this Official Statement, estimated figures for Fiscal Year 2014 are shown as the first year of the forecast period. See “DEPARTMENT FINANCIAL OPERATIONS—Fiscal Year 2014 Estimate.”

Capital Improvement Program Estimated Expenditure Schedule

<i>Fiscal Year Ended June 30,</i>							
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
<i>unaudited estimate</i>							
Plant Replacement and Renovation							
General Plant	6,989,000	14,931,000	17,680,000	10,900,000	3,900,000	1,000,000	55,400,000
Water Works Park	0	5,000,000	12,075,000	17,900,000	9,300,000	0	44,275,000
Springwells	8,392,000	23,236,000	32,660,000	30,654,000	46,850,000	37,084,000	178,876,000
Northeast	0	0	3,631,000	5,615,000	1,381,000	650,000	11,277,000
Southwest	2,584,000	10,000	160,000	6,985,000	15,189,000	14,000,000	38,928,000
Lake Huron	129,000	2,500,000	2,995,000	17,265,000	20,531,000	6,000,000	49,420,000
Pumping Stations & Reservoirs	<u>2,114,000</u>	<u>1,385,000</u>	<u>6,547,000</u>	<u>8,770,000</u>	<u>5,257,000</u>	<u>3,105,000</u>	<u>27,178,000</u>
Subtotal - Plant	20,208,000	47,062,000	75,748,000	98,089,000	102,408,000	61,839,000	405,354,000
Metro Area Construction	6,615,000	40,705,000	50,300,000	45,850,000	34,700,000	29,100,000	207,270,000
Urban System Improvements	8,450,000	30,615,000	13,765,000	10,000,000	10,000,000	10,000,000	82,830,000
Mechanical Maintenance	0	0	0	0	0	0	0
Computer Systems	<u>4,727,000</u>	<u>6,831,000</u>	<u>2,293,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>18,351,000</u>
Subtotal	19,792,000	78,151,000	66,358,000	57,350,000	46,200,000	40,600,000	308,451,000
Total System	40,000,000	125,213,000	142,106,000	155,439,000	148,608,000	102,439,000	713,805,000

SOURCE: The Department

The CIP Funding

The current five-year CIP is estimated to cost \$673,805,000 (excluding the estimate for 2014). Of this amount, the Department expects that \$424,708,000 (approximate net amount) will be financed with proceeds of DWSD Bonds and the balance with Water Supply System revenues and funds on hand.

Water Supply System Capital Improvement Program Projected Funding Sources

<i>Fiscal Year Ending June 30,</i>							
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
<i>unaudited estimate</i>							
Existing Improvement and Extension Funds (a)	6,260,800	0	0	0	0	0	6,260,800
Existing Construction Funds (a)	150,059,900	0	0	0	0	0	150,059,900
Current Revenues	14,522,900	19,977,200	29,090,700	35,376,800	32,815,700	43,344,300	175,127,600
Bond Proceeds	0	0	152,500,000	118,800,000	127,100,000	78,800,000	477,200,000
less: Issuance Expenses (b)	<u>0</u>	<u>0</u>	<u>(16,775,000)</u>	<u>(13,068,000)</u>	<u>(13,981,000)</u>	<u>(8,668,000)</u>	<u>(52,492,000)</u>
Net Bond Proceeds Available	<u>0</u>	<u>0</u>	<u>135,725,000</u>	<u>105,732,000</u>	<u>113,119,000</u>	<u>70,132,000</u>	<u>424,708,000</u>
State Revolving Fund Loans	0	0	0	0	0	0	0
Total Funding Sources (c)	<u>170,843,600</u>	<u>19,977,200</u>	<u>164,815,700</u>	<u>141,108,800</u>	<u>145,934,700</u>	<u>113,476,300</u>	<u>756,156,300</u>

(a) Balance available June 30, 2013. (Applies only to Fiscal Year 2014).

(b) Includes net premium / original issue discount and other amounts and amount required from bond proceeds to fund maximum annual future debt service.

(c) The difference between the total amount available to finance the capital program and the cost of the program represents funds available to finance the capital program after 2019.

SOURCE: THE FOSTER GROUP, LLC.

THE WATER SUPPLY SYSTEM

The Water Supply System is one of the largest in the nation in terms of water produced and population served. The Water Supply System has been the sole provider of all water service in the City since commencement of water supply as a public service in the mid-nineteenth century. In addition, the Water Supply System began providing wholesale service to surrounding municipalities in about 1900. The Water Supply System draws its fresh water from the Great Lakes System which is naturally available, with Lake Huron to the north, the Detroit River to the south and Lake St. Clair to the east.

The Department believes the Water Supply System is adequate to meet the needs of its current retail and wholesale customers and to meet the current requirements of the U.S. Environmental Protection Agency under the Safe Drinking Water Act. The major components of the Water Supply System include three intake facilities, five treatment plants, an extensive conveyance system consisting of over 3,400 miles of transmission and distribution mains throughout the service area (complemented by 8,982 miles of connected transmission and distribution mains owned by wholesale municipal customers), 19 booster pumping stations and 32 water storage reservoirs (18 at the water treatment plants and 14 at booster stations) located throughout the Water Supply System. Water flow and pressure throughout the Water Supply System are monitored and controlled by a Systems Control Center housed in the Department's Central Services Facility.

Service Area

The Water Supply System is responsible for treatment and distribution of water to most of southeast Michigan. The Water Supply System presently serves an area of 981 square miles in Wayne, Oakland, Macomb, Lapeer, Genesee, Washtenaw, St. Clair, and Monroe Counties. The Department currently serves a population of 3.8 million based on the 2010 census, with consumers within the suburban wholesale customer area comprising approximately 80% of the total.

Except as noted below, the Department traditionally has experienced no material competition from other water supply systems in the Southeastern Michigan region. Recently, however, Genesee County and the City of Flint (along with other neighboring communities) formed the Karegnondi Water Authority (the "KWA"), which intends to sell raw water to communities in Michigan's "thumb" area. In 2013, the Department terminated its contract with Flint and in May 2014, Flint began operating its own water treatment plant utilizing the Flint River as its raw water source. Genesee County, which previously purchased water from the Department through the Flint contract, is now purchasing water directly from the Department while the parties negotiate a long-term service contract. However, it is anticipated that if the KWA becomes operational in mid-2017 as currently planned, Genesee County will no longer rely on the Department as its primary finished water supplier and will look to the Department primarily for emergency back-up water supply.

Several other small communities in the northern portion of the Water Supply System's service area have expressed various levels of interest in joining the KWA. As part of those discussions, in July 2014, the Department sent a Notice of Termination to the Greater Lapeer

County Utilities Authority. In this communication, the Department indicated that it would like to retain those customers but alternative delivery mechanisms would need to be developed in the immediate future to ensure continuity and quality of service. Discussions are continuing in response to this communication with a goal of maintaining service agreements to ensure long-term stability in the service area. In total, the KWA communities account for approximately 6% of the Water Supply System's water use and revenue, with Flint having accounted for approximately half of that amount.

Even if all of the remaining potential KWA communities decided to leave the Water Supply System and join the KWA, the Department has evaluated and is undertaking contingency planning for management of the Water Supply System without those customers. However, the Department continues to believe that it is in the best interests of the region to maintain these customers as a part of the Water Supply System.

The following table shows historical estimates of water sales in thousands of cubic feet ("Mcf") for suburban wholesale customers, for City of Detroit retail customers and for the Water Supply System as a whole, together with total water production and non-revenue water. As is common for all large water systems, the Water Supply System experiences a differential between the quantity of water produced by the treatment plants during the Fiscal Year and the quantity of water billed to customers over the same period, and the difference is referred to as "non-revenue water." Non-revenue water results from a variety of factors such as the range of accuracy of production and retail meters, losses due to leaks or major breaks in the transmission and distribution systems, unmetered water that is used for fire protection, and the accuracy of estimates for unmetered use. The Department believes that improvements in the accuracy of the reported production figures may reduce the level of non-revenue water, since studies conducted as part of the master planning process revealed that production at two of the five water treatment plants may be over-reported by as much as 20%. Production at some of the water plants is not metered, but rather is estimated based on pump curves. This data continues to be reviewed, and the Department has initiated efforts to measure production figures and refine production estimating techniques.

Regardless of the source of non-revenue water, the data show an increase in the overall level of non-revenue water in recent years. The Water Master Plan Update (as defined herein) is intended to address this issue. Currently, the Department is considering use of a systematic program to quantify water loss by subarea with prioritized follow-up. In the meantime, the Department has begun to address non-revenue water with several other actions including the following: (i) creation of a mobile app so that citizens can report issues with running water on a vacant property or report other observed problems; (ii) implementation of an aggressive program to address non-payment by customers, which has resulted in a side benefit of locating vacant properties that have not been properly disconnected from water service; and (iii) questions have also been raised about the accuracy of the meters at the water treatment plants. A study has recently been completed to evaluate alternatives for meter upgrades. Rehabilitation has generally been found to be effective and is also the least expensive alternative. Rehabilitation work is proposed to be added to the capital improvement program.

Water Sales and Non-Revenue Water

	<u>Water Sales</u>			<u>Total</u>	<u>Non-Revenue Water</u>	
	<u>Suburban</u>	<u>Detroit</u>		<u>Water</u>		<u>As a % of</u>
	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>	<u>Produced</u>	<u>Volume</u>	<u>Production</u>
	Mcf	Mcf	Mcf	Mcf	Mcf	
2010	15,676,300	3,924,000	19,600,300	25,142,700	5,542,400	22.0%
2011	16,094,700	4,176,600	20,271,300	26,513,000	6,241,700	23.5%
2012	16,280,300	3,903,100	20,183,400	27,219,500	7,036,100	25.8%
2013	15,684,900	3,660,300	19,348,200	26,832,800	7,484,600	27.9%
2014	14,778,500	3,418,900	18,197,400	26,088,800	7,891,400	30.2%

SOURCE: The Department

Master Plan and Master Plan Update

In 2004, the Department completed a master planning study that evaluated the physical Water Supply System needs over the next 50 years (the “2004 Master Plan”). The 2004 Master Plan concluded that the demand for water within the region will most likely grow significantly over the next 50 years, but that this demand could generally be met from the existing treatment facilities (with upgrades) and that no new water treatment plants would be necessary. The 2004 Master Plan primarily focused on investments in transmission and distribution facilities that will be necessary to ensure reliability of service to all customers.

Southeastern Michigan has experienced an economic downturn in the years following the 2004 Master Plan, contributing to declining population and water demands. Recent water use patterns have not met the demands anticipated by the 2004 Master Plan and the Department initiated a new project in 2013 to update the 2004 Master Plan in an effort to guide capital investments in the short-term and long-term future (the “Master Plan Update”). The Master Plan Update covers a shorter planning period of 20 years rather than 50 years. The Department believes that it may be feasible to take one or more of the five water treatment plants out of service and still meet the demands of the service area, thereby eliminating hundreds of millions of dollars of needed investment identified previously in the CIP.

The Master Plan Update has been structured to assess the feasibility of “downsizing” the Water Supply System’s existing water treatment and production capacity and to identify improvements in the water transmission and distribution system that would be necessary to pursue that solution.

The Department has received the Phase 1 Interim Report for the Master Plan Update (the “Phase 1 Interim Report”), which includes findings, forecasts, alternatives and recommendations, and sets priorities for the first five years of the planning period, from July 1, 2015 to June 30, 2020. The Phase 1 Interim Report focused on the major engineering and planning analyses critical to early decision-making for plant capacity and transmission issues. The Department

anticipates that the Phase 1 Interim Report's recommendations will be incorporated in the Fiscal Year 2016 CIP beginning in July 2015.

Water demand projections for the 20-year planning period are being prepared under the Master Plan Update and are expected to be completed by September 2014. The Department anticipates that the water demands will be much less significant than those in the previous study and will be stable for the period from 2015 to 2035.

A fundamental component of the Master Plan is an evaluation of the possibility of repurposing one or more water treatment plants to strategically align available capacity and service requirements. The CIP contains investment allowances for short-term improvements at the Northeast and Southwest plants in order to allow them to provide reliable service while their ultimate operating scenario is determined through the Master Plan. Identification of the most appropriate capacity levels for each of the five water treatment plants is the principal goal of the Master Plan.

Wholesale Municipal Service

The Water Supply System has provided wholesale service to an increasing number of surrounding municipalities since the 1940s. The growth period for wholesale municipal customers began in 1957 with the construction of a major transmission main to serve the area north of the City, and increased beginning in 1975 with the construction of a major transmission main to serve the area west of the City. In all cases, the municipalities being served are responsible for the construction and maintenance of distribution and lateral water mains within their respective geographical boundaries to connect the customers of such municipalities to the transmission mains of the Water Supply System. In some cases, the municipal entities being served also own and maintain their own transmission mains.

The Water Supply System serves 127 municipalities through 86 wholesale contracts with municipal and other public entity customers. While Genesee County currently receives water service from the Department, it does not have a written contract for service. The water service agreements generally provide for (i) delivery of water by the Department to the wholesale customer at designated metered points at specified rates of flow and pressure and (ii) payment by the wholesale customer for all water supplied at reasonable rates established by the Department. The wholesale customer is solely responsible for distributing water from the points of delivery to its retail customers. Further details are set forth in “—Customer Outreach” below.

The Department is paid monthly by each wholesale customer, and payment is not contractually dependent upon collections by the wholesale customer from its respective retail consumers. Under the model contracts, the Department assesses a 1.5% late payment charge on bills not paid when due. While the Department has the legal right to discontinue water service to wholesale customers if not paid within 60 days, such a measure would not be practical, and wholesale customers collection problems have been resolved through negotiation or litigation. See “FINANCIAL PROCEDURES—Collections and Delinquencies.”

The following table provides information about the contracts of the ten largest wholesale water supply customers. For fiscal year ended June 30, 2013, (the last fiscal year for which

audited financial statements are available), these customers provided approximately 36% of the gross operating revenues of the Water Supply System, and accounted for 45% of billed revenue to wholesale water supply customers.

Summary of Wholesale Water Supply Contracts⁽¹⁾

	Total Billed Flow Mcf <u>FY 2013</u> <i>Mcf</i>	Total Billed Revenue <u>FY 2013</u> -	Total Billed Flow Mcf <u>FY 2014</u> <i>Mcf</i>	Total Billed Revenue <u>FY 2014</u> -	Contract <u>Date</u>
Flint ⁽²⁾	1,189,791	\$23,308,800	1,178,672	\$23,871,366	1967
Southeast Oakland County Water Authority	1,442,286	19,541,038	1,321,917	19,467,746	2009
Sterling Heights	678,000	12,089,582	614,039	12,015,093	2008
Shelby Township	431,034	10,824,461	399,123	10,770,614	2010
Farmington Hills	439,621	10,575,173	365,279	9,769,372	2009
Livonia	577,829	10,338,724	478,054	9,728,576	2009
Warren	747,777	9,945,794	759,661	9,060,112	2010
West Bloomfield Township	300,280	9,655,154	274,324	8,218,635	2008
Rochester Hills	343,656	9,529,341	324,443	9,600,373	2009
Troy	498,281	9,311,146	450,392	9,715,613	2008

Mcf = Thousand cubic feet.

(1) 10 largest in terms of billed revenue during FY 2013

(2) Flint contract terminated April 2013, but service provided through April 2014.

SOURCE: The Department

Although some wholesale customers have studied the option of establishing their own water systems, only one wholesale customer, Flint, has ceased taking water from the Water Supply System. In general, because (i) the geology of the area surrounding the City does not support a substantial water supply by subsurface wells, (ii) there is a natural supply of raw water coupled with the capital facilities of the Water Supply System in place, and (iii) there are longstanding municipal relationships extending contractually in most cases for many years, the Board believes that the wholesale customers will continue to be an integral part of the Water Supply System. See “—Service Area” above.

In 2012, MDEQ determined that water from Highland Park’s water treatment plant had a high rate of turbidity and requested that the Department supply water to Highland Park on a short term basis. At that time, Highland Park owed the Department approximately \$10 million for wastewater services. In 2013, Highland Park ceased making payments. As of July 1, 2014, Highland Park owed approximately \$20 million to the Department, including \$18,357,188 for wastewater treatment, \$1,169,386 for industrial waste treatment services and \$1,270,782 for water supply services. The Department filed an action in Wayne County Circuit Court to recover this debt and on July 31, 2014 was awarded a judgment against Highland Park. The State has declared a fiscal emergency in Highland Park pursuant to Act 436 and, as a result, the Department and other creditors are currently participating in Act 436’s Neutral Evaluation Process. The Department continues to supply water to Highland Park on an interim basis. See

“DEPARTMENT FINANCIAL PROCEDURES—Collections and Delinquencies” and “LITIGATION.”

Over the past several years various legislative bills and resolutions have been introduced in the State legislature from time to time that have provided for, or suggested studying, changes in the composition of the Board, or have attempted to legislate changes in the management and control of the Water Supply System. At present, there are two bills pending in the Michigan House and Senate that could potentially impact the Department’s operations. Senate Bill 9 was introduced in January 2013, and would subject the Department’s rate setting to regulation by the Michigan Public Service Commission. House Bill 4009 was also introduced in January 2013, and would attempt to create a regional authority to take over the operations of the Department. Neither of these bills have proceeded beyond a first reading and referral to a committee.

Customer Outreach

The Department continues its significant outreach efforts with representatives of its wholesale customers. The Department and its wholesale customers have created a Technical Advisory Committee (“TAC”), which has established a framework for discussion of major issues between the Department and all of its suburban wholesale customers. The TAC has established multi-faceted teams to explore several issues on a variety of topics, including emergency preparedness, industry best practices, water rates, and communication strategies.

The most significant accomplishment of the TAC is the development of a new model contract with standardized contract language. This document was designed to ensure that all wholesale customers are treated equitably and similarly. It also provides the Department with the same rights and controls across all agreements. Standardized model contract language was developed to address items such as contract term lengths, contract renewal, flow limitations, flow enforcement provisions, flow measurement, regulatory compliance, connection points, and contract enforcement. The contracts have a term of 30 years and renew automatically for successive 10-year terms unless five years’ notice of termination is provided. If a wholesale customer terminates the contract without cause during the initial 30-year term, the Department is entitled to early termination costs calculated by applying the applicable water rate to the minimum annual volume requirements under the contract for the remainder of the contract term. Wholesale customers may form or join a water authority for the sole purpose of collectively contracting with the Department or may be annexed or consolidated, in which case the contract is void without payment of early termination costs upon approval of a new water service contract by the Department.

The contracts formalize the TAC as the Department’s outreach vehicle for the life of the contract. The contracts include other provisions required for the orderly operation of an integrated water supply and distribution system such as the following: (i) restrictions on redistribution outside the limits of the particular municipality or other public entity without the consent of the Department; (ii) measurement of water furnished by meters; (iii) the metered flow of water is the basis for billing; (iv) prohibition against combining of Water Supply System supplied water with water from any other source without prior written approval of the Department to ensure a uniform quality of water throughout the area; (v) municipal acceptance of the Department’s standards for construction of distribution mains and Department approval of

construction plans therefor to ensure a uniform standard throughout the area; (vi) Department commitments regarding notification of rate changes; (vii) payment and late payment terms; (viii) delineation of maintenance responsibilities; (ix) specific water pressure commitments by the Department; and (x) maximum day, peak hour and annual volume commitments by the wholesale customer.

To date, new model contracts for 76 of the 86 wholesale customers have been negotiated, approved, and are in effect. These 76 contracts comprise 89% of total billed revenues from wholesale customers. Negotiations with the few remaining wholesale customers are ongoing. The TAC has made significant progress in creating greater understanding of the Department's water rate methodology and of issues impacting rates and rate levels. It has proved to be an excellent forum for communicating rate methodologies, exploring alternative approaches to allocating costs to customers, and building consensus regarding the development of water rates. The TAC is currently developing potential modifications to the water rate model that would be designed to utilize the best available technical information to improve the understanding of water rates, and the perceived equitability.

Representatives of the wholesale customers have expressed appreciation of the Department's willingness to sponsor these partnering programs and the opportunity to be involved in the process. The partnering groups have authored letters to Department management requesting that the partnering effort continue in its current form.

Retail Service

The Department has been the sole provider of all water services in the City. Retail service includes all water service customers of the City, including residential, commercial, industrial and municipal, among others. The Water Supply System also provides retail services on a very limited basis to certain customers outside the City. The Department has full responsibility for billing and collection of charges for approximately 322,000 retail customer accounts. The Department proposes retail rate schedules for these customers for consideration by the City Council, which has ultimate responsibility for setting the retail rates. These customers are billed on a monthly basis and water and sewerage charges are included on the same bill. The Department also bills various governmental agencies, including the City, for service. Rate changes, once established, generally become effective the following July 1. For information regarding current billing and collection activities, see "FINANCIAL PROCEDURES—Collections and Delinquencies." See "FINANCIAL PROCEDURES—Collections and Delinquencies."

Physical Facilities

Intake Facilities

The Water Supply System's three intake facilities are listed below and, in the opinion of the Department, are generally in adequate to good working order and repair.

- The Lake Huron intake, located in Lake Huron, approximately 5 miles north of Port Huron and 5 miles into the lake, was placed in operation in 1974. This intake supplies raw water through a tunnel to the Lake Huron water treatment plant.
- The Belle Isle intake, located at the eastern end of Belle Isle where Lake St. Clair flows into the Detroit River, was placed in operation in 1931. This intake supplies raw water to the Water Works Park, Springwells and Northeast water treatment plants.
- The Fighting Island intake and tunnel, located under the Detroit River on the Canadian side just west of the northern end of Fighting Island, was placed in operation in 1964. This intake supplies raw water to the Southwest water treatment plant.

Water Treatment Plants

Raw water from the intake facilities is treated at the Water Supply System's water treatment plants, which includes screening, filtering, bacteria control, and taste and odor control. Each of the five water treatment plants in the Water Supply System was constructed with the capability to treat the water in accordance with federal requirements under the Safe Drinking Water Act. In the opinion of the Department, based upon physical evaluations conducted by its consultants, no significant improvements to the treatment plants are presently required to meet such requirements. See "—Environmental Matters" below. In addition, each treatment plant is equipped with its own laboratory facilities for the examination of drinking water which are recertified periodically (every three years) by the Michigan Department of Public Health. The treatment plants are more particularly described in the following table. For capital improvements planned for each plant, see "THE CAPITAL IMPROVEMENT PROGRAM."

Water Treatment Plants

<u>Plant</u>	<u>Placed in Operation</u>	<u>Rated Capacity (Mgd)</u>
Lake Huron	1974	400
Southwest	1964	240
Northeast	1956	300
Springwells ⁽¹⁾	1931/1958	540
Water Works Park	2003	240

⁽¹⁾ A major addition was completed in 1959, doubling the capacity of such water treatment plant by adding a new reservoir, sedimentation basin and filtration facility. Filter upgrades at Springwells limit plant capacity to 300 mgd until construction is complete.

SOURCE: The Department

Transmission and Distribution System

The Department owns and maintains all distribution mains (less than 24 inches in diameter) and transmission mains (24 inches to 120 inches in diameter) within the City limits and certain transmission mains throughout the wholesale service area. The Water Supply System

connects throughout the wholesale service area with the transmission and distribution mains owned and operated by the wholesale municipal customers.

The transmission system is laid out in an organized grid pattern to provide adequate pressures that are reinforced by use of booster stations and reservoirs as necessary. The transmission system is interconnected and flow of water can be controlled, particularly in emergency conditions, to flow in either direction by opening or closing valves. Water pressures can be boosted to overcome any losses due to an emergency situation.

There is an ongoing program of replacement of distribution mains in the City, especially with respect to certain mains installed during the period 1923 to 1929. Because of certain pipe design and manufacturing deficiencies, these mains are coming to the end of their useful lives. This program of renovation and replacement was started in 1972 and is an ongoing, annual improvement program. In certain other areas within the City, distribution mains are being replaced with larger mains. With respect to the transmission system that serves the wholesale customers, the Capital Improvement Program includes a number of projects designed to improve service and reliability in areas outside the City.

Monitoring Facilities

The Water Supply System Control Center located in the Department's Central Services Facility controls and monitors the transmission and distribution of water throughout the Water Supply System. Operators in the Control Center can remotely control the pump stations at the treatment plants and the 19 booster stations to adjust flow and pressure requirements to meet the changing demands of customers. Recent improvements to the Control Center have been undertaken by the Department as part of a Department-wide instrumentation and computerization project included in the CIP.

Environmental Matters

The operation of the Water Supply System is subject to extensive regulation pursuant to the federal Clean Water Act, the Clean Air Act, the Safe Drinking Water Act, the Michigan Natural Resources and Environmental Protection Act, and the administrative rules and regulations that have been promulgated pursuant to these statutes. These programs affect many facets of the Water Supply System.

DEPARTMENT FINANCIAL PROCEDURES

Budget and Accounting Matters

Pursuant to authority granted by the November 4, 2011 Order, the Board of Water Commissioners adopted a budget policy for the Department on September 26, 2012 which is independent of the City's budget policy. The Department's budget policy, which has been in place beginning with Fiscal Year 2014, is designed to be in alignment with the Department's rate setting cycle.

The budget cycle begins with a Board of Water Commissioners meeting on or before November 1 each year to review programs, services, and activities to be included in the

upcoming budget and to receive public comment. Before the December meeting of the Board of Water Commissioners, the Director submits a proposed budget for presentation at the regularly scheduled December meeting. Prior to adoption of the budget, the Board of Water Commissioners conducts a public hearing on the proposed budget which may be conducted at the same meeting in which the Board of Water Commissioners adopts the budget. The Board of Water Commissioners adopts the budget as proposed or with modifications at a meeting on or before January 31 occurring prior to the Fiscal Year of the budget. If the Board of Water Commissioners fails to adopt a budget prior to that date, the proposed budget shall be deemed the adopted budget for the Department. If necessary, an amendment to the adopted budget shall be adopted by the Board of Water Commissioners in a manner permitted by governing law as presented by the Director. If the Board of Water Commissioners fails to act upon a proposed budget amendment within 30 days following submission by the Director to the Board of Water Commissioners, then that amendment shall be deemed a part of the adopted budget. See “THE DEPARTMENT—Court Mandated Changes” and “—Management Initiatives.” The Fiscal Year 2015 budget has been developed and approved by the Board of Water Commissioners under the new structure. See “DEPARTMENT FINANCIAL OPERATIONS—Fiscal Year 2015 Budget.”

The basis for preparation of the budget differs from preparation of the financial statements for a given period. The financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Accordingly, the Department’s financial statements reflect the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation) of providing services to the public are accrued when incurred. The Department’s budget basis of accounting recognizes revenues in a manner consistent with accrual basis of accounting. Certain expenses accrued under GAAP are not recognized or treated in the same manner on a budgetary basis. For example, depreciation of plant and equipment over the useful life of such capital asset is not recognized in the budget; instead, amounts which might be spent in the fiscal year are treated as an expense and the budget records equipment and other long-term purchases against the current period.

Generally, the Department pays for certain personnel costs, supplies and equipment that are shared between the Water Supply System and the Sewage Disposal System from Water Supply System operations. The Sewage Disposal System is then billed monthly based on actual operations, including the allocation of personnel costs and equipment usage.

Because the Water Supply System is generally self-insured, the Department includes in its annual budget amounts estimated to be sufficient to pay various liability and workers’ compensation claims. The financial statements record the expense for such claims in the period when the occurrence of the liability is probable and the amount can be reasonably estimated. In addition, the budget includes amounts necessary to establish and maintain an account designated the “Extraordinary Repair and Replacement Reserve Fund,” which has been created for the purpose of providing funds for paying the costs of major unanticipated repairs and replacements to the Water Supply System. See “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Flow of Funds.”

The Department uses the City’s Oracle financial management system that includes general ledger, purchasing, accounts payable, accounts receivables, project accounting and fixed

asset applications. These Oracle core financial applications are integrated with third party Oracle-approved software providers for budget preparation, time and attendance management, work order and inventory applications.

Despite the independence of financial operations granted by the District Court Orders, the Department continues to be a department of the City for financial reporting purposes. Due to the nature of this relationship, the Department is not eligible to issue audited financial reports or reports of internal control independent from the City. This impacted the Department's ability to release audited June 30, 2013 financial statements. The City's audit report was delayed for a number of reasons, including the resolution of technical auditing and accounting matters related to the City's Chapter 9 proceeding. Ultimately, the City's auditor, KPMG LLP, issued an audit report for the City, including the Department on July 25, 2014.

The City's audited financial statements as of and for the year ended June 30, 2013, are available on the City's website, and include an unmodified independent auditors' report, with emphasis of matter paragraphs which state:

- the City has filed a voluntary petition under Chapter 9 of the Bankruptcy Code, which raises substantial doubt about the City's ability to continue as a going concern. The City's financial statements do not include any adjustments that might result from the outcome of that uncertainty;
- the City and the GRS and the Police and Fire Retirement Systems ("PFRS" and, together with GRS, the "Retirement Systems") included investments valued at \$702,000,000 and \$722,000,000, respectively, as of June 30, 2013, whose fair values have been estimated by management in the absence of readily determined fair values. Management's estimates are based on various methods, which may include information provided by investment managers, general partners, real estate advisors and other means; and
- the Retirement Systems utilized different actuarial assumptions in calculating the unfunded actuarial accrued liability.

The independent auditors' opinion was not modified with respect to these matters.

The auditors will subsequently provide the City with a letter that highlights certain internal control material weaknesses and related recommended improvements to the City's internal control environment. The City and the Department take such recommendations seriously. In particular, the Department's financial transformation process is designed to address internal control matters noted by the auditors in the prior Fiscal Year.

Independent Auditors

The basic financial statements of the Water Fund, an enterprise fund of the City as of and for the year ended June 30, 2013, included in APPENDIX II-D of this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report therein, which includes emphasis of matter paragraphs that state:

- the City, including the Water Fund, has filed a voluntary petition under Chapter 9 of the Bankruptcy Code, which raises substantial doubt about the City and the Water Fund's ability to continue as a going concern. The Water Fund's basic financial statements do not include any adjustments that might arise from that uncertainty;
- the City and the GRS utilized different actuarial assumptions in calculating the unfunded actuarial accrued liability; and
- the basic financial statements present only the Water Fund; the statements of the Fund do not purport to, and accordingly do not, present fairly the financial position of the City as a whole as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The independent auditors' opinion was not modified with respect to these matters.

Collections and Delinquencies

The Department accounts for its retail and wholesale customer account balances separately. As of July 1, 2014, active retail customer accounts receivable are approximately \$127 million, for water and sewer services combined. Of that amount, approximately \$89 million is 60 days past due from 46% of the approximately 200,000 total active retail customer accounts. As of July 1, 2014, there were three wholesale water customer out of a total of 86 with past due balances of approximately \$1.7 million.

The collection methods for retail customers differ substantially from wholesale customers. The Department's effort to address delinquent accounts receivable are described below. It should be noted that the majority of the past due water wholesale receivable is due to one entity, the City of Highland Park. That customer has a past due balance of approximately \$1.2 million out of a total water account balance of \$1.4 million as of July 1, 2014. Collection efforts for that account have resulted in legal action. See "—Wholesale Customers" below.

Despite the level of delinquencies, as of July 1, 2014, the Department has not experienced cash flow problems, as sufficient operating capital has been available to the Water Supply System. The Department has been able to meet its obligations as they come due. Since the commencement of the City's Bankruptcy Case, the Department has been managing certain cash expenditures and has delayed certain non-critical capital outlays. Upon conclusion of the Bankruptcy Case and completion of the proposed financing, the Department expects to address capital needs in accordance with the CIP adopted by the Board of Water Commissioners, as described in greater detail under "THE CAPITAL IMPROVEMENT PROGRAM."

Retail Customers

The Department operates a computerized billing system which accounts for a total of approximately 322,000 retail customer accounts, of which approximately 200,000 are active accounts. Inactive accounts remain in the billing system while the Department pursues

collection. Retail customer account categories include residential, commercial, industrial and municipal. Based on the approved Fiscal Year 2015 retail rates, the typical monthly bill is approximately \$71 for combined water and sewer service charges based on 600 cubic feet of water consumed per month. All retail customers are billed monthly and are allowed 20 days to pay, after which a one-time 5% late payment charge is applied.

In accordance with State law, the Department has a right to discontinue the supply of water to any premises for non-payment of water or sewer bills when due. It is the Department's policy that retail customers may have their service shut off for non-payment if the account is more than sixty days in arrears with a past due balance of \$150 or more. Residential customers are notified of payment plan options and financial assistance programs if they indicate that their account is delinquent due to financial hardship. Residential customers may be subject to constitutional safeguards regarding due process, including notice and hearing requirements in the event of discontinuation of services.

The Department's collection efforts in the past, including shut-off for non-payment, had not kept pace with an increasing level of delinquency since 2007. This resulted in a significant number of accounts with past due balances. As of July 1, 2014, the average active residential account delinquency, which includes water and sewer charges, is \$541, based on approximately 80,000 of 177,000 accounts with past due balances of 60 days or more. As of the same date, active commercial accounts, the next largest retail customer category, present approximately 10,000 of 18,000 accounts with a past due balance of 60 days or more with an average past due amount of \$2,071, which includes water and sewer charges.

To address the growing delinquency issue, the Department initiated a program utilizing an outside contractor to expand the shut-off program to increase collections beginning in July 2013. The first three months of that program revealed a significant number of service connections that were shut-off where there was no request to restore service. From July through September 2013, 7,478 retail accounts were shut off, but only 2,366 customers contacted the Department for service to be restored. The Department believes this is due to: (i) abandoned properties where there was no contact with the Department to terminate service, and (ii) illegal turn-ons. To address the abandoned property concern, the Department is cross-referencing its customer database with recently released data from the Detroit Blight Removal Task Force which has gathered property condition data for all 380,000 parcels in the City. To address illegal turn-ons, the Department has instituted a follow-up mechanism to detect illegal turn-ons and is working with law enforcement to curb this activity.

The shut-off program activity was reduced for most of the period from December 2013 through March 2014 to prevent frozen service lines. The program resumed in April 2014, and 14,766 retail accounts were shut-off during the period from April through June 2014. The Department collected approximately \$1,200,000 during that time period, compared with approximately \$492,000 for that same time period in the prior year for combined retail water and sewer account balances. In addition, the shut-off program has generated active engagement with customers whose service is preserved by participation in a payment plan program, as well as payment assistance programs for those who meet certain eligibility criteria. A three-week pause was placed on residential retail collections through August 25, 2014. During this pause for residential retail service shut-offs, the City announced a ten-point plan to encourage retail

customers to enroll in payment plans and apply to expanded payment assistance programs from new non-profit organization partnerships. The City also expanded customer service hours. However, beginning on August 26, 2014, retail accounts that are not in current status and do not have payment plans will return to shut-off status. Shut-offs continue on commercial customers with significant arrearages. During this moratorium on residential retail shut-offs, additional funding commitments for the payment assistance programs have been provided by external sources.

An additional barrier to active customer engagement has been the absence of customer names associated with residential retail accounts. Presently, most residential retail customer accounts are addressed to “Resident.” This presents an impediment to other methods of delinquent account collection efforts. The Department has recently initiated a program to attach customer names to accounts to support more effective collection efforts.

In the event that an account remains delinquent for more than six months, the Municipal Water Lien Act, MCL 123.161 et seq., provides that the charges for water and sewage service furnished to a premises may become a lien on such premises when the service is provided, and the lien may be placed on the property tax roll. The lien may then be enforced in the same manner as the collection of property taxes and enforcement of a lien for property taxes (assuming proper statutory notice to the party responsible for the payment of the charges). The Department transmits delinquent accounts to the City Treasurer who places the delinquent amount on the winter tax bill. If the delinquent amounts are not collected by the City Treasurer by March 1 each year, the City transfers unpaid real property tax bills to Wayne County for collection in accordance with State law. The City receives payment for such taxes from Wayne County’s delinquent tax revolving fund as of March 1 each year, which is funded by the issuance of Delinquent Taxes Anticipation Notes. If the delinquent real property taxes remain uncollected after three years, the County charges the respective amount of such taxes back to the City. Chargebacks in Fiscal Year 2013 totaled approximately \$22 million. See “—Fiscal Year 2009-2013 Operations” below. In Fiscal Year 2013, the City Treasurer’s Office collected \$7.4 million on behalf of the Department for water and sewer charges combined. The Wayne County Treasurer collected \$9.1 million.

Wholesale Customers

Wholesale customers maintain their own retail billing systems. Wholesale customers are billed monthly. The late payment charge for wholesale customers under the model contract is 1.5% per month for each month that a bill remains unpaid, and for the remaining contracts it varies by individual contract, but generally is 5%. In the event of a wholesale customer delinquency, the Department has options available to it under the relevant contractual agreement with such wholesale customer, including the right to early termination costs and to obtain a judgment against the wholesale customer. If a non-municipal wholesale customer does not pay the judgment amount, such amount may be collected by placing a lien on the property tax roll of that wholesale customer.

Historically, the Water Supply System has not experienced significant problems with wholesale delinquencies. Wholesale delinquencies typically arise from disputed billings, which often can be resolved through negotiation. However, as of the date of this Official Statement, the

City of Highland Park had a delinquent balance of approximately \$20 million for sewer and water charges combined. Highland Park is experiencing financial difficulties and since Fiscal Year 2008 has been unable to currently satisfy amounts due to the Department. The State has declared a fiscal emergency in Highland Park pursuant to Act 436 and, as a result, the Department and other creditors are currently participating in Act 436's Neutral Evaluation Process. The City and the Department have filed suit against Highland Park in Wayne County Circuit Court. Both the City and Highland Park have filed and argued Motions for Summary Judgment in the case. The Circuit Court took the matter under advisement and a decision was issued on July 31, 2014 awarding judgment to the Department. The City of Inkster has recently defaulted on a payment agreement with the Department. If this default cannot be cured by Inkster, the Department will institute legal proceedings for collection of this debt. As of July 1, 2014, the total amount owed by the City of Inkster is approximately \$836,000, of which \$464,000 is past due.

Accounting

The allowance for doubtful accounts reflected in the audited financial statements as of June 30, 2013 represents the Department's estimate of the amount of potential uncollectible accounts receivable. Increases in the reserve are netted against revenues reported on the financial statements. The amount reserved is determined based on a formula that takes into account the total amount of accounts receivable as well as specific items within the category, including reserves for disputed billings. Approximately \$27 million was reserved as an allowance for doubtful accounts as of June 30, 2013, against a total accounts receivable of approximately \$111 million. Estimates are not available as of June 30, 2014 due to the timing of the billing cycle and accounts receivable analysis. Annual increases in the allowance for doubtful accounts result in bad debt expense for that year, and are reflected as a reduction in revenue for the customer class associated with the reserve. See "DEPARTMENT FINANCIAL OPERATIONS—Fiscal Year 2009-2013 Operations." The Settlement Agreements stipulate that bad debt expense associated with a suburban wholesale customer is chargeable to the suburban wholesale class at large, and that bad debt expense associated with a City retail customer is chargeable to the City retail customers only. The Board of Water Commissioners currently practices a "bad debt" policy which requires a write off of any doubtful accounts older than three years.

Cash Management

In accordance with the City Charter, all funds and accounts of the Water Supply System are separate and distinct from all other City funds. No Water Supply System monies are commingled with general fund or other monies of the City.

All Revenues of the Water Supply System are deposited upon receipt or, if applicable, upon completion of credit card processing activities, in either the "Revenue Receipts Fund" or the "Receiving Fund" established under the DWSD Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Flow of Funds" for information on these Funds and the flow of funds under the DWSD Indenture. The Operation and Maintenance Fund is a custodial account that is controlled by the Department. It is not part of the Trust Estate under the DWSD Indenture.

The Department maintains a budget system that monitors and controls funding in accordance with actual funds available. This budget system includes annual budgeting and project specific budgeting and payables management activities designed to ensure that retainage, progress payments and final contract payments are properly aligned with funds on hand and investment activities.

Investment Policy

The Department's investment policy was adopted on January 21, 2014. Funds in excess of current Water Supply System requirements are invested by the Department in accordance with State law. The Department may invest in direct obligations of the United States, obligations of an agency or instrumentality of the United States, repurchase agreements, mutual funds that invest solely in such government obligations and repurchase agreements, certain grades of commercial paper, bankers acceptances of United States banks, and certificates of deposit, savings accounts or depository receipts of savings and loan associations or member banks of the Federal Deposit Insurance Corporation.

The investment policy purpose is to endeavor to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligations to support near-term and long-term needs of the Department. The investment policy attempts to maintain and protect investment principal while striving to maximize total return on the portfolio consistent with risk limitations, pursuant to guidelines set forth in Act 20, Public Acts of Michigan, 1943, as amended. The Department has not experienced material investment-related losses in any Department managed funds. As of June 30, 2014, the Water Fund held investments with a total market value of approximately \$415,551,782, the longest investment had a maturity date of December 27, 2018.

Rates

Under the District Court Orders, the Board of Water Commissioners has the authority to establish rates for wholesale water supply service. In accordance with Act 94 and the November 4, 2011 Order, the retail rates charged to customers in the City are subject to review by and concurrence of City Council. The Board of Water Commissioners has the sole authority to establish rates for the wholesale suburban customers. In accordance with the February 11, 2011 Order, a super majority of at least five Board of Water Commissioners member votes is required to approve the wholesale customer rates and recommend to the City Council the retail rates to be charged to the City retail customers. Certain of the wholesale contracts have specific notice requirements relating to rate changes, generally 90 or 120 days. At least one public hearing is required to be held prior to action on rate changes. No other statutory procedures are required as a condition precedent to a rate change. Rates, once established, generally become effective the July 1 following their establishment.

Under the Bond Ordinance, the City covenants that the rates shall be fixed and revised from time to time as may be expected to be necessary to produce the greater of (1) the sum of (a) administrative and operation and maintenance expenses of the Water Supply System, (b) debt service on Senior Lien DWSD Bonds, (c) creation and maintenance of a debt service reserve for Senior Lien DWSD Bonds, (d) debt service on Junior Lien DWSD Bonds, if any, including

maintenance of a reserve therefor to the extent required by the Bond Ordinance, (e) creation and maintenance of an extraordinary repair and replacement reserve fund; and (f) to provide for such other expenditures and funds for the Water Supply System as the Bond Ordinance and Act 94 require, and (2) an amount equal to the Required Combined Coverage where the numerator is the Net Revenues projected for the Fiscal Year of calculation and the denominator is the Indebtedness coming for such Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE DWSD OBLIGATIONS—Rate Covenant.” The City has covenanted at all times to fix and maintain such rates for services furnished by the Water Supply System as shall be sufficient to provide for the foregoing. As a matter of operating policy, the Department has established a debt service coverage policy of fixing rates so that net revenues exceed the debt service coverage requirements of the Bond Ordinance by at least 15 percentage points. This policy may be changed from time to time by the Board of Water Commissioners without approval of Bondholders or any other party.

In connection with the issuance of the Series 2014D Bonds, the City has requested that the Bankruptcy Court approve agreements between the City and the Department, on the one hand, and holders and insurers of DWSD Bonds, on the other hand, with respect to the Department’s contributions to the GRS pension plan: (i) the Department shall pay as operation and maintenance expenses, to be allocated between the Sewage Disposal System and the Water Supply System, no more than the sum of (a) \$24 million per annum; and (b) the Department’s allocable share of its annual “defined contribution” payments related to the Department employees; and (ii) the Department shall pay the difference between the annual allocation of the GRS pension plan contributions provided in the Plan of Adjustment and \$24 million from a “pension liability payment fund” that is funded after payments required to be made into the SRF Junior Lien Bond and Interest Redemption Fund established and defined in the DWSD Authorizing Documents and on a subordinated basis to the DWSD Obligations and all other existing bond debt.

Under Act 94, rates must be fixed and revised as necessary to comply with the Bond Ordinance. The contracts with wholesale customers typically provide that rates be reasonable in relation to the costs incurred. The Department maintains a small staff to review and make recommendations on rates for water and sewage service. The Department routinely retains outside consultants to supplement the efforts of its staff. Act 94 also provides that the rates charged by the Water Supply System should not be subject to supervision or regulation by any State bureau, board, commission or like agency or instrumentality of the State. In addition, the November 4, 2011 Order specifies that the City Council, which previously approved all rates, has the authority to approve only rates charged to retail customers in the City, but has no authority to review or approve rates charged to wholesale suburban customers. See “THE DEPARTMENT—Organization.”

Currently, rates are adjusted annually and are determined by the “utility basis” method, which is recommended by the American Water Works Association for municipally-owned utilities providing services to metropolitan areas and which the Water Supply System is required to use under Michigan law. Under this method, the revenue requirement is comprised of three elements of cost: operation and maintenance expenses, depreciation expense and a return on the rate base. The rate base reflects the value of property on which the Department is entitled to earn a return. In formulating rates, the Department recognizes the distinctions between retail

customers and the various wholesale municipal customers based on the differences in the cost of serving each class of customer. The “utility basis” method has been upheld in litigation involving the Department’s water rates.

The rate schedule for each of the 86 suburban wholesale customers served via contract consists of a fixed monthly charge and a commodity charge applied to monthly metered water sales. While the overall methodology used to determine rates for each customer is uniform, the rate schedule for each customer is unique, reflecting the specific volumes, peak demands, and other demographic information in their individual contracts. The current wholesale water rates continue to collect approximately 40% of the revenue requirement via fixed monthly charges, with the other 60% generated by commodity charges. In recent years, the structure of the wholesale rates has been modified to recover more costs through a fixed component of the rate structure. The Department believes that further increasing the portion recovered through fixed monthly charges will further improve the alignment between cost of service allocation and cost recovery, and has initiated conversations with representatives of the customer communities (through the TAC process) to explore this issue.

The rate schedule for retail customers in the City consists of fixed monthly charges that vary by the connection size to the Water Supply System, and a uniform commodity rate applied to all water sales. Prior to the current rates, the commodity rates reflected a declining block approach.

The current water supply rates became effective July 1, 2014, and were set at levels expected to generate 4% more revenue than the previous year’s rates. As noted in the table below, the impact of the new rates on different customers and customer classes does not directly align with the overall 4% impact on the System. Specific customer and customer class rate impacts are based on additional factors, including cost allocation results, changes in sales and revenue bases, and expected collection rates.

See “DEPARTMENT FINANCIAL OPERATIONS—Projected Operations for Fiscal Year 2015 through 2019.” The following table presents a summary of the annual changes in the effective average retail and wholesale water rates charged by the Department for the last ten years.

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Change in Effective Water Supply Rates

<u>Date of Implementation</u>	<u>City of Detroit Retail</u>	<u>Average Suburban Wholesale</u>
7/1/2003	8.9%	9.1%
7/1/2004	8.0%	10.3%
7/1/2005	0.4%	4.0%
7/1/2006	0.5%	5.9%
7/11/2007	6.8%	5.1%
9/3/2008	6.3%	8.9%
7/1/2009	5.2%	6.4%
7/1/2010	9.3%	5.5%
7/1/2011	9.0%	9.1%
7/1/2012	10.3%	7.9%
7/1/2013	4.4%	3.9%
7/1/2014	13.8%	3.9%

Note: Reflects change in effective average unit cost of service for each customer class at large.

SOURCE: The Department

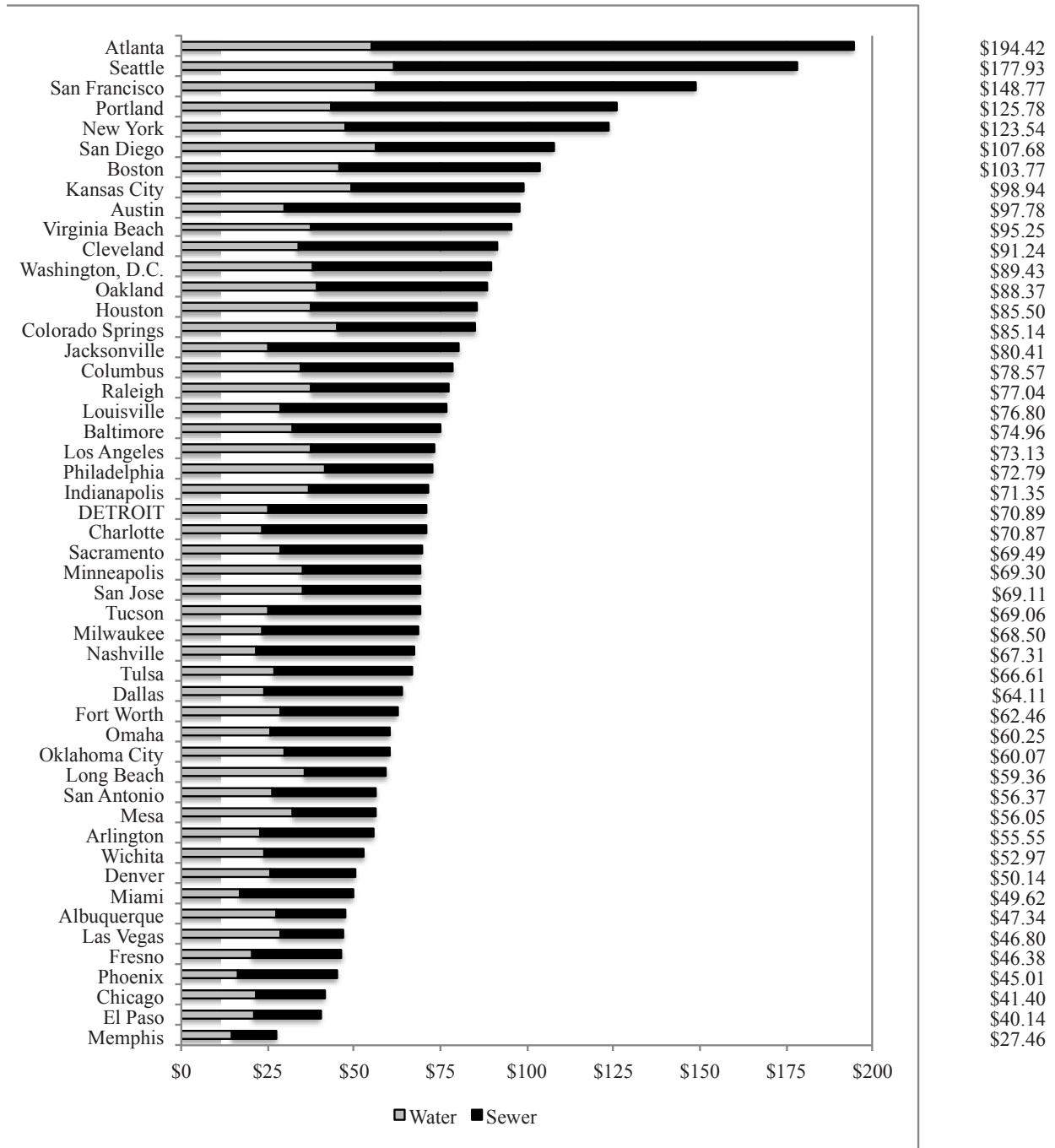
Water Rate Comparison

The following chart presents a comparison of the current charges for residential water supply and sewage disposal services in the 50 largest U.S. cities. Note that such comparisons are not always comparable as the elements included in charges for these services are often inconsistent amongst communities. For instance, several of these communities listed below may recover costs associated with certain environmental program through water rates that are funded through other means in most cities. In addition, several of these communities may recover costs associated with water infrastructure through property taxes rather than water rates. Readers are encouraged to review these survey reports in their entirety to fully understand the context of the comparisons. The average increase in charges for these communities since 2005 has been almost 6% annually (or more than twice the rate of inflation) illustrating the trend in the industry necessary to address increased environmental and infrastructure challenges.

The Department anticipates increasing rates consistent with the overall financial planning philosophy, and as necessary to continue the funding of the CIP. Such increases are not anticipated to differ significantly from what will be experienced in other areas of the country having water systems of comparable age and facing infrastructure challenges similar to the Water Supply System. The Department believes the price and availability of water in the area should continue to be a positive factor in the attraction of industry to the area.

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Comparison of Annual Residential Water and Sewage Charges in the 50 Largest U.S. Cities



Assumes 7,500 gallons (or 1,000 cubic feet) monthly usage and a 5/8" (or nearest equivalent) meter size. Actual average use will vary by utility. Rates effective April 2, 2013

Source: 50 LARGEST CITIES WATER/WASTEWATER RATE SURVEY, A Black & Veatch 2012/2013 Report

DEPARTMENT FINANCIAL OPERATIONS

Summary of Historical Revenues and Expenses

The table below shows historical revenue and expenses of the Water Supply System for each of the five Fiscal Years ended June 30, 2009 through June 30, 2013. Although Fiscal Year 2014 has been completed, actual financial data are not yet available. Estimated results for Fiscal Year 2014 are discussed below and included as the first year of the projection period. See “—Projected Operations for Fiscal Year 2014 through 2019” below. Net Revenues are derived from audited financial statements of the Water Fund for Fiscal Years ended June 30, 2009 through June 30, 2013. Financial statements and notes thereto for the Fiscal Year ended June 30, 2013, together with the auditors’ report thereon, are included in APPENDIX II-D.

Act 94 defines “net revenues” as the revenues of a public improvement remaining after deducting the reasonable expenses of administration, operation, and maintenance of the public improvement. The Department’s financial statements are prepared on an accrual basis in accordance with its financial reporting obligations. Accordingly, the results summarized in the following table follow a “modified cash” approach of depiction, designed to adjust financial statement based accrual accounting figures to more closely depict net revenues as defined under Act 94.

The results summarized in the following table follow a “modified cash” approach of evaluating revenues and revenue requirements. This approach attempts to align recognition of performance on a common service period basis. For instance, revenues for June 2013 generally reflect bills issued in July 2013, under the assumption that meters are read at the end of the month and billed early in the subsequent month. Operating expenses are reflected as incurred, but include accrual of amounts not yet paid. The “modified cash” approach does not include the accrual of longer term elements that are contained in the Department’s accrual basis financial statements; nor does it generally reflect recognition of activity that was related to cash receipts or disbursements in prior years. Because many of these individual elements are derived from the accrual basis financial statements, the summary below will not present a precise cash basis statement.

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**Summary of Historical Revenues and Expenses
Fiscal Years 2009-2013 (Unaudited)**

		Fiscal Year Ending June 30,				
		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
		\$	\$	\$	\$	\$
Operating Revenues						
1	Wholesale Service Revenue (a)	206,282,285	210,662,057	237,099,865	258,587,439	275,185,240
2	Retail Service Revenue (a)	65,360,449	65,580,546	74,810,362	71,540,060	75,653,762
4	Subtotal Service Revenue	271,642,734	276,242,603	311,910,227	330,127,499	350,839,002
5	Miscellaneous Revenue	2,452,729	9,227,823	4,091,974	6,002,446	4,688,757
6	Non-Operating Revenue (b)	13,810,360	6,992,496	4,063,773	7,792,561	5,563,781
7	Total Revenue	287,905,823	292,462,922	320,065,974	343,922,506	361,091,540
8	Operation and Maintenance Expenses (c)	158,856,470	138,458,592	146,880,420	165,080,448	151,204,343
9	Net Operating Revenues	129,049,353	154,004,330	173,185,555	178,842,058	209,887,197
Debt Service Requirements						
10	Senior Lien Bonds	110,137,200	109,843,700	116,175,200	114,986,700	130,181,500
11	Senior and Second Lien Bonds	155,033,200	155,729,800	162,292,600	151,398,200	170,616,600
12	All Bonds, Including SRF Junior Lien	156,775,100	157,590,500	164,435,900	153,524,200	172,458,800
13	Net Revenues After Debt Service	(27,725,747)	(3,586,170)	8,749,655	25,317,858	37,428,397
14	Pension Obligation Certificates	4,579,800	4,837,300	5,203,400	5,499,700	5,796,300
15	Net Available for Other Purposes	(32,305,547)	(8,423,470)	3,546,255	19,818,158	31,632,097
Debt Service Coverage (d)						
16	Senior Lien Bonds	1.17	1.40	1.49	1.56	1.61
17	Senior and Second Lien Bonds	0.83	0.99	1.07	1.18	1.23
18	All Bonds, Including SRF Junior Lien	0.82	0.98	1.05	1.16	1.22

(a) Net of bad debt expense

(b) Excludes non-cash items such as changes in derivative values and capital contributions.

(c) Excludes Net OPEB obligation and other elements that do not impact net revenues as defined by the Ordinance. See below.

Operation and Maintenance Expense

19	Normal annual "cash" operations	158,856,470	138,458,592	146,880,420	165,080,448	151,204,343
20	Net OPEB obligation	8,997,599	11,332,667	12,634,493	12,724,239	17,248,909
21	Nonrecurring capital asset adjustments	6,887,463	8,141,706	2,003,857	2,400,000	18,735,709
22	Total F/S Operating Expense	174,741,532	157,932,965	161,518,770	180,204,687	187,188,961

(d) Computed consistent with Rate Covenant basis for rate determination purposes. Not applicable for purposes of Additional Bonds Test calculations.

SOURCE: The Department

Fiscal Year 2009-2013 Operations

The following information summarizes the financial operations of the Water Supply System in Fiscal Years 2009 through 2013.

Revenues

As indicated in the above table, Water Supply System service revenues from rates and charges, net of bad debt expense, have increased approximately \$79 million, or 29%, since Fiscal Year 2009. This increase is primarily attributable to rate increases during that period, as well as the varying levels of bad debt expense throughout the period. Bad debt expense is recognized in

the Department's financial statements based on an analysis of the size and age of accounts receivable and the expected ability of the Department to collect those receivables. Bad debt expense had the effect of decreasing revenues by \$16 million in Fiscal Year 2013. A portion of this amount, \$4 million, is due to an increase in estimated chargebacks from Wayne County for uncollectible liens on property taxes from prior years, for which the City was given an advance. See "DEPARTMENT FINANCIAL PROCEDURES—Collections and Delinquencies." The corresponding bad debt expense figures for Fiscal Years 2009, 2010, 2011 and 2012 were approximately \$8 million, \$4 million, \$9 million and \$13 million, respectively.

Non-operating revenues experienced a significant decline during the same period, principally due to lower earnings rates on investments.

Operation and Maintenance Expenses

Total operation and maintenance expenses in the table do not include expenses associated with accruing liabilities for OPEB, which reflect future cash outlays, nor write-offs of amounts for capital assets that were originally capitalized in prior years (prior cash outlays). Rather these figures are intended to represent actual annual transfers to the Operation and Maintenance Fund to fund the costs of operating the Water Supply System. These expenses have been stable throughout this period, and were \$7.6 million (5%) lower in Fiscal Year 2013 than in Fiscal Year 2009, and the estimates for Fiscal Year 2014 are significantly lower than Fiscal Year 2013. The recent decline in operating expenses primarily reflects the initial impacts of the Department's optimization program. Footnote (c) to the table above reconciles the depiction of operating expenses for purposes of determining Net Revenues with the operating expenses reflected in the audited financial statements. For Fiscal Year 2013, the large "nonrecurring capital asset adjustment" is principally related to the cancellation in initial work on a project to extend a "second feed" to the City of Flint. Significant progress on study and design of that project was made prior to 2011. The unsuccessful negotiations to maintain Flint as a wholesale customer led to termination of the project, and to capital write-offs of expenditures related to the original work, with the final adjustments being reflected in Fiscal Year 2013.

Personnel expenses experienced by the Department have declined significantly, consistent with the attrition-based decline in overall staffing levels. See "THE DEPARTMENT—Management Initiatives."

A portion of the annual variation in operation and maintenance expenses is associated with the allocation of costs for functions that provide service to both the water and sewer systems. These costs are assigned to the Water Supply System and Sewage Disposal System based on detailed labor distribution systems and overall management policy, and will naturally fluctuate based on where maintenance and related activities are focused. The Department has made and continues to make significant efforts to ensure that financial plans accurately accommodate this issue and that its financial accounting systems accurately report activity for this matter. See "DEPARTMENT FINANCIAL PROCEDURES—Budget and Accounting Matters."

Non-Operating Revenue

The category “Non-Operating Revenues (Expenses)” reflected in the financial statements is a “net” amount and has historically represented relatively small amounts of non-operating income or certain non-cash write offs. In 2009, this category also included “contributions” of assets (including principal forgiveness on SRF Bonds augmented with ARRA funds) and other non-monetary amounts. This category also includes certain amounts related to changes in the net valuation of swap agreements from year to year. These amounts are not included in the analysis of current revenues and expenses (particularly for purposes of calculating coverage levels) as they generally do not have an effect on the amount of cash available for Water Supply System operations or debt service. The presentation in the preceding table is intended to reflect cash elements only and does not reflect any non-cash Non-Operating Revenues (Expenses) elements.

Debt Service Coverage

Debt service coverage levels have been lower than planned in recent years, but have improved in Fiscal Years 2012 and 2013. Debt service coverage in Fiscal Years 2009 and 2010 was below 1.1 for Second Lien DWSD Obligations and below 1.0 for SRF Junior Lien DWSD Obligations. The lower than planned debt service coverage levels in such years were primarily attributable to higher than planned debt service interest as a result of the credit market crisis of 2008, which required adjustments to the Department’s debt portfolio that increased the interest expense. In addition, revenues were lower than planned levels. The Department’s revenue goals are tied to the sales volumes reflected in wholesale customer contracts, which were overly optimistic in those years. Recent renegotiations of contract volumes have resulted in more realistic expectations, and recent revenue performance has been closer to targets, despite continued low peak demand periods. Despite coverage levels of less than 1.0 in Fiscal Years 2009 and 2010, the Department made timely debt service payments by utilizing operating reserve funds.

Debt service coverage ratios have shown steady improvement in Fiscal Years 2011, 2012 and 2013. Debt service coverage for 2014 is expected to decline moderately from Fiscal Year 2013 levels, primarily due to a very low demand period in the summer of 2013. See “—Fiscal Year 2014 Estimate” and “—Projected Operations for Fiscal Year 2014 through 2019.”

Performance Summary

The Department has made adjustments to its financial planning approaches and assumptions to avoid future poor performance. As noted above, many of the of the originally established annual volumes in the wholesale customer contracts were based on pre-recession expectations and proved to be overly optimistic, resulting in revenue shortfalls. Recent negotiations with wholesale customers to reevaluate contract volumes have resulted in much more realistic expectations and revenue goals. Additionally, the Department is working with its suburban wholesale customers to further evaluate rate structure modifications to further align cost collection and cost recovery strategies and assure stable revenue performance. These strategies are expected to result in a larger portion of the revenue requirement being recovered through fixed monthly charges, and a commodity charge structure that is based on low demand expectations. These initiatives remain under review and development, and are anticipated to result in changes starting in Fiscal Year 2017.

For retail customers in the City of Detroit, projected sales volumes and bad debt expenses reflect more conservative assumptions. The Department continues to provide monthly financial summary reports to the Board of Water Commissioners. Beginning in April 2013, the Board of Water Commissioners Finance Committee (the “Finance Committee”) began receiving an expanded monthly agenda binder with supporting financial and operational reports. The Finance Committee binder is distributed publicly through the wholesale customer outreach portal. Beginning in May 2013, the Finance Committee began presenting a written synopsis of the monthly Finance Committee meetings held during the regular Board of Water Commissioners meetings. Those reports are attached to the Director’s compliance report, available on the Department’s website. Such reports are not incorporated in, and shall not be incorporated in, and shall not be deemed a part of, this Official Statement. The Board of Water Commissioners actively reviews these materials to monitor the Department’s performance. The management team utilizes this information to make any necessary changes during the year.

Fiscal Year 2014 Estimate

The Department has developed a forecast of estimated results for Fiscal Year 2014, which concluded on June 30, 2014 (the “Fiscal Year 2014 Estimate”). The forecast is based on a review of actual reported information regarding revenues, expenditures, and cash receipts and disbursements during the first ten months of the Fiscal Year. It also reflects estimated activity during the final two months of the Fiscal Year, derived from review of preliminary data and discussions with Department managers. The Fiscal Year 2014 Estimate follows the “modified cash” basis. See “—Summary of Historical Revenues and Expenses” above. The Department has analyzed actual cash receipts and disbursements in developing the Fiscal Year 2014 Estimate.

Actual Fiscal Year 2014 revenues are estimated to be significantly below budgeted levels, due in part to lower than expected water sales volumes and in part to higher than expected levels of bad debt expense. The Department estimates a negative revenue variance (compared to budget levels) of \$42 million for Fiscal Year 2014.

The Fiscal Year 2014 actual operating expenses include a contingency allowance of \$7 million for unidentified amounts. Even after including this contingency, operating expenses are estimated to be over \$9 million under budget. Other specifics regarding the Fiscal Year 2014 Estimate are discussed in the projected operations summary and related exhibits. See “—Projected Operations for Fiscal Year 2014 through 2019.”

Fiscal Year 2015 Budget

The Board of Water Commissioners adopted the Fiscal Year 2015 budget for the Water Supply System on January 21, 2014, and it has been forwarded to the City to be included in the City’s budget. The Fiscal Year 2015 budget contains expenditures or revenue requirements totaling \$405.4 million, an increase of approximately \$9 million compared to the Fiscal Year 2014 budget. The budgeted operation and maintenance expenses for Fiscal Year 2015 actually reflect an increase of approximately \$1.3 million when compared with the Fiscal Year 2014 budget. This increase is principally related to increased budgets for contractual services and related activities to support continued implementation of the Department’s optimization program

as it establishes systems to perform independently from the City. These increases are somewhat offset by lower personnel costs resulting from attrition related to the optimization program.

The Fiscal Year 2015 budget also reflects revenues from water supply services are expected to be lower in Fiscal Year 2015 than those included in the Fiscal Year 2014 budget, due to more conservative estimates of sales to customers. The Fiscal Year 2015 budgeted revenues match the overall revenue requirements of \$405.4 million. The Fiscal Year 2015 budget also reflects a decrease in miscellaneous and non-operating revenue. As a result, the Fiscal Year 2015 rates were designed to achieve an increase in revenue of 4% in Fiscal Year 2015 compared to the rates developed to support the Fiscal Year 2014 budget.

Projected Operations for Fiscal Year 2014 through 2019

The projected financial operations of the Water Supply System shown in the table titled “Summary of Projected Revenues and Additional Revenue Requirements For Fiscal Years 2014-2019” below, include assumptions relating to inflation and to costs associated with the CIP, including debt service on additional bonds and additional needs for power and chemical purchases, all assuming application of current federal pollution control standards and regulations not yet developed pursuant to the 1996 amendments to the Safe Drinking Water Act and compliance schedules and requirements under the Safe Drinking Water Act. The projections in the accompanying table follow the “modified cash” basis, consistent with the manner in which the historical revenues and expenses were presented. See “—Summary of Historical Revenues and Expenses” above. The Department has analyzed actual cash receipts and disbursements in developing these projections.

Subsequent to preparation and adoption by the Board of Water Commissioners of the Fiscal Year 2015 Budget, significant developments have occurred that will impact the Department’s financial planning and results. These developments create the need to revisit the assumptions included in the Fiscal Year 2015 Budget to establish a more appropriate baseline to project future operations.

The projected revenues shown in the table anticipate normal weather conditions and are based on an analysis of recent historical trends. As mentioned above, expected revenues from suburban wholesale customers are directly related to projected water purchases set forth in the model service contracts, which have been reevaluated in recent years.

Projected revenues for retail customers reflect more conservative assumptions regarding water sales and the collectability of those sales. A significant portion of the revenues billed to retail water customers are related to commodity charges. From February through April 2014, the Department continued a detailed review of billed volumes for the retail class, and determined that originally projected Fiscal Year 2015 sales levels were not likely to be achieved. As a result, the revised Fiscal Year 2015 retail sales volumes in the accompanying projections were reduced by over 5%. This figure establishes a baseline for future projections, which then assume an annual decline of 2.5% for the balance of the five-year projection period. The Department reviewed additional data regarding receivable collections from the retail class and modified assumptions on this element. The accompanying projections of revenue assume a bad debt expense equivalent to 17% of billed revenues throughout the five-year projection period.

The projected revenue required reflects the minimum additional amounts that are needed to meet the requirements of the Bond Ordinance and the policies enacted by the Board of Water Commissioners, given the various assumptions. The financial plan summarized by these projections is designed to enhance the Water Supply System's balance sheet, reverse the erosion in net assets that has occurred in recent years, and improve the Water Supply System's liquidity position. The Department has embraced this planning strategy, which will result in higher debt service coverage ratios, as indicated in the following table.

The operation and maintenance expense projection for Fiscal Year 2014 reflects the Fiscal Year 2014 estimate. Even after considering the \$7 million forecast contingency amount, the Department estimates that operation and maintenance expenses will reflect approximately 95% of the original budget. The Fiscal Year 2015 operation and maintenance expense estimate in the accompanying projections is based in part on the Fiscal Year 2015 Budget, but also reflects significant modifications in assumptions, many of which emerged in the development of the City's Plan of Adjustment.

The Fiscal Year 2015 estimated operation and maintenance expenses serve as a base for the remaining years. The projections include continued recognition of savings resulting from implementation of the Department's optimization program, including personnel cost savings through attrition and initial efficiencies. The projected operation and maintenance expenses reflect the modified treatment of pension contributions and reimbursement from the Water Supply System to the City for certain other fringe benefits envisioned by the Plan of Adjustment. Specifically, the projected personnel operating expenses for the Water Supply System do not reflect the amortized repayment of pension reimbursement obligations, and also reflect a reduction to the budgeted fringe benefit rates. The pension contributions to the GRS pension plan that are amortized over nine years are, pursuant to a settlement reached with the DWSD Settlement Parties, accounted for as follows: \$24 million is included in operating expenses and the remainder falls immediately below funding of debt service and debt service reserve accounts on DWSD Bonds of each priority. See APPENDIX II-A—FEASIBILITY CONSULTANT'S REPORT.

The total debt service recognizes the effect of the DWSD Obligations transaction. As such, it reflects the existing debt service schedules as of July 1, 2014, less the debt service on the Tendered and Refunded Bonds, plus the debt service on the DWSD Obligations. As a result of the DWSD Obligations transaction, annual debt service in the five-year study period is approximately \$6 million lower than the prior existing debt service. The debt service also includes estimated amounts on the projected annual bond sales starting in Fiscal Year 2016 to fund expenditures in the remaining years of the CIP. The projected Net Revenues are divided by the applicable debt service to show estimated coverage. The available balance is applied to payment of the Water Supply System's amortized contribution to the GRS pension system provided for in the Plan of Adjustment, and then to other non-operating expenditures, including payments related to the Water Supply System's share of the City's POCs (in Fiscal Year 2014), and thereafter, the Department's allocable share of amounts due on the New B Notes as described in the Plan of Adjustment, payment of the System's allocated share of professional service fees related to the City's Bankruptcy Case (in Fiscal Year 2015), renewals and replacements, any required deposits to operating reserves and the Extraordinary Repair and

Replacement Reserve Fund, and finally to the portion of the CIP funded with revenue financed capital. See “RISK FACTORS—Financial Impacts of the Plan of Adjustment.”

The projections set forth in the following table are intended as “forward-looking statements.” The Department cautions that these projections may and often do differ materially from actual results. Some of the factors that could cause actual results to differ materially from those projected are the Department’s ability to execute the CIP as scheduled and within budget, regional climate and weather conditions, and adverse legislative, regulatory or legal decisions (including environmental laws, regulations and the confirmation of the City’s Plan of Adjustment) affecting the Department’s ability to manage the Water Supply System.

As noted previously, the projections summarized in the following table follow a “modified cash” approach of evaluating revenues and revenue requirements. In past years, at times significant variances between “modified cash” representations and actual cash flows for certain periods could occur, depending on seasonal patterns of billed revenues and cash receipts.

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Summary of Projected Revenues and Additional Revenue Requirements For Fiscal Years 2014-2019

	Fiscal Year Ending June 30,					
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	\$	\$	\$	\$	\$	\$
<i>unaudited estimate</i>						
Operating Revenue Under Existing Rates(a)	347,835,900	379,855,700	377,359,700	374,921,600	359,854,100	357,587,300
<u>Projected Revenue from Rate Increases(b)</u>						
FY 2016: 4.0%			15,094,400	14,996,900	14,394,200	14,303,500
FY 2017: 4.0%				15,596,700	14,969,900	14,875,600
FY 2018: 4.0%					15,568,700	15,470,600
FY 2019: 4.0%						<u>16,089,500</u>
Total Projected Revenue from Water Rates	347,835,900	379,855,700	392,454,100	405,515,200	404,786,900	418,326,500
Miscellaneous Operating Revenue	3,835,100	4,750,000	4,750,000	4,750,000	4,750,000	4,750,000
Projected Non-Operating Revenue	<u>2,302,600</u>	<u>3,663,000</u>	<u>3,516,800</u>	<u>3,949,700</u>	<u>3,774,200</u>	<u>3,950,200</u>
Total Projected Revenue	353,973,600	388,268,700	400,720,900	414,214,900	413,311,100	427,026,700
Operation and Maintenance Expense(c)	<u>140,500,000</u>	<u>157,779,300</u>	<u>162,139,900</u>	<u>163,539,900</u>	<u>165,128,100</u>	<u>163,125,200</u>
Projected Net Operating Revenues	213,473,600	230,489,400	238,581,000	250,675,000	248,183,000	263,901,500
Senior Lien Debt Service (d)	140,204,600	134,820,900	143,296,200	149,782,800	149,188,100	146,765,200
Second Lien Debt Service (d)	40,450,000	42,314,200	42,185,200	42,200,300	42,754,300	51,194,400
SRF Debt Service (d)	<u>1,789,000</u>	<u>1,788,800</u>	<u>1,777,900</u>	<u>1,777,900</u>	<u>1,774,800</u>	<u>1,772,300</u>
Total Debt Service (d)	182,443,600	178,923,900	187,259,300	193,761,000	193,717,200	199,731,900
Projected Senior Lien Debt Service Coverage (e)	152%	171%	166%	167%	166%	180%
Projected Second Lien Debt Service Coverage (e)	118%	130%	129%	131%	129%	133%
Projected Total Debt Service Coverage (e)	117%	129%	127%	129%	128%	132%
Unrestricted Balance for CIP and Other Purposes	31,030,000	51,565,500	51,321,700	56,914,000	54,465,800	64,169,600
<u>Projected Application of Balance</u>						
Non-Operating Portion of Pension Reimbursement	NA	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000
POC / B Note Non-Operating Payments	6,094,100	3,049,100	1,097,200	1,097,200	1,097,200	1,097,200
Allocated Professional Service Fees from BK	NA	7,500,000	NA	NA	NA	NA
Deposits to Unrestricted Reserves	2,913,000	4,339,200	4,433,800	3,740,000	3,852,900	3,028,100
Available for Capital Improvements	28,117,000	30,526,300	37,687,900	43,974,000	41,412,900	51,941,500

- (a) Revenues for 2014 reflect rates in effect during 2014. Revenues for 2015 - 2019 reflect rates in effect as of July 1, 2015.
- (b) Projected additional revenue is developed based upon both projected increases in operation and maintenance expense and debt service coverage and certain other requirements which must be met in order to issue bonds to finance the CIP.
- (c) Assumes general inflation rate of 2.5% annually after Fiscal Year 2015.
- (d) Reflects the effect of the DWSD Obligations. Assumes bond sales in subsequent years at an annual interest rate of 5.5%. See "THE CAPITAL IMPROVEMENT PROGRAM: The CIP Funding". Although the Department may issue Additional Water System Bonds as Senior Lien or Second Lien Bonds, for purposes of this table future debt is assumed to be issued as Senior Lien Bonds.
- (e) Computed consistent with Rate Covenant basis for rate determination purposes. Not applicable for purposes of Additional Bonds Test calculations.

SOURCE: THE FOSTER GROUP, LLC.

Future Issuance of DWSD Obligations

After the issuance of the DWSD Obligations, the Department expects to issue DWSD Additional Bonds in remaining years of the CIP period to finance additional expenditures in the CIP. See "THE CAPITAL IMPROVEMENT PROGRAM." The Department intends to adjust rates, as appropriate and consistent with the Bond Ordinance and the Board of Water Commissioners rate covenant policy. The Department continues to pursue plans to issue SRF

Junior Lien DWSD Bonds to finance other CIP expenditures. To the extent such funding is not approved or secured, additional debt issuance may be required in Fiscal Year 2016.

PENSION PLAN CONTRIBUTIONS

Introduction

As employees and retirees of a City department, Department employees and retirees participate in GRS with other non-uniformed City employees and retirees. The Department's historical financial information presented through June 30, 2013 includes the plan provisions and financial commitments of the Department under GRS. GRS consists of two components: (i) the benefits accrued under GRS in effect as of June 30, 2014 ("Prior GRS"), which benefits are substantially modified in the Plan of Adjustment, and (ii) the benefits accrued on and after July 1, 2014 ("New GRS"). Under New GRS, the rate of future benefit accruals is reduced from the rates under Prior GRS, Department employees are required to contribute toward the cost of their pension benefits, certain safeguards to prevent future underfunding of New GRS are put into place, and new governance provisions designed to protect the integrity of GRS going forward are adopted.

Treatment of Prior GRS under the Plan of Adjustment

The Plan of Adjustment provides that, on the effective date of the Plan of Adjustment, the City will assume the obligations related to the already accrued benefits under GRS as those benefits will have been modified in the Plan of Adjustment (as described below). This means that the City will not seek to terminate GRS, although Prior GRS was closed to new participants effective June 30, 2014 and vested active employees will not continue to accrue additional pension benefits under the terms and conditions of the benefit formula in effect on that date (*i.e.*, Prior GRS was "frozen" effective June 30, 2014). It is contemplated that the City, including the Department, will make contributions to Prior GRS through June 30, 2023 to fund the payment of benefits accrued prior to July 1, 2014, as modified. The Department will continue to make contributions designed to fund its allocable share of the UAAL of Prior GRS through the period ending June 30, 2023 as described in more detail below. After June 30, 2023, the City and the Department will be required to contribute all amounts necessary to fund the modified accrued pensions of members regardless of the actual investment performance of the assets of GRS. The City will make the contributions from its available cash and, during the ten-year period from July 1, 2023 through June 30, 2033, from approximately \$188 million in funding received from outside sources in settlement of certain issues affecting the City and its retirees (the "Outside Funding"). The City estimates that it will be required to contribute approximately \$442 million from its available cash during this 10-year period.

The benefits accrued under Prior GRS are significantly underfunded. In particular, as of June 30, 2013, the GRS reported that it was 70.0% funded with a UAAL of \$1.084 billion out of \$3.609 billion in accrued liabilities based upon an assumed rate of return of 7.9% and the actuarial value of assets held by GRS smoothed over a seven year period. The City believes that the 7.9% investment return rate assumption utilized by GRS was too high and the seven-year smoothing period was too long, thus, that GRS' actual funding is significantly less than the 70% reported by GRS. As part of the Plan of Adjustment, the City has developed the following

approach to restructuring Prior GRS: (a) the City has set a goal of achieving by June 30, 2023 a 70% funded status for the benefits accrued under Prior GRS, based upon an assumed investment rate of return (net of expenses) of 6.75% (rather than 7.9%) and the actual market value of assets (rather than a smoothed actuarial value of assets); and (b) the City has determined that it is necessary to cut pension benefits under Prior GRS.

The Plan of Adjustment contemplates that, during the period beginning July 1, 2014 and ending June 30, 2023, contributions of over \$700 million will be made to GRS. These contributions include the Department contributions and a portion of \$816 million in Outside Funding. Because GRS participants accepted the Plan of Adjustment and on the assumption that all of the Outside Funding is made available, the cuts in pension benefits under Prior GRS are anticipated to include (a) a 4.5% reduction in current and future monthly pension payments, (b) the elimination of all cost-of-living adjustments (“COLAs”), and (c) recoupment of excess earnings allocated to members’ annuity savings fund accounts between 2003 and 2013.

The pension benefit reductions discussed in the preceding paragraph may be restored, in whole or in part, if the funding level of Prior GRS significantly improves (that is, Prior GRS achieves a funding level of 75% or more). This restoration may occur if (a) the investment returns on Prior GRS assets are greater than certain specified thresholds or (b) other actuarially-determined factors contribute to improve the funding level of Prior GRS.

Implications of the Changes to Prior GRS for the Department

The provisions of the Plan of Adjustment relating to GRS contemplate that the Department (including the Water Supply System and Sewage Disposal System) will contribute the currently-calculated full amount of its allocated UAAL on a market value of assets basis over a nine year period, plus \$2.5 million per year in administrative expenses. That is, the total accrued liabilities of Prior GRS, as modified by the Plan of Adjustment, was determined, then the amount of such reduced, accrued liabilities allocable to the Department were calculated, and the Department will pay this amount to Prior GRS over the nine-year period ending June 30, 2023. The amount to be paid by the Department is the amount determined to be necessary to fully fund, by June 30, 2023, all unfunded Prior GRS liabilities allocable to the Department that accrued through June 30, 2014, based on current actuarial calculations. The calculation of the Department’s allocated UAAL is based on the June 30, 2013 GRS census data, which reported the following GRS members allocated to the Department: 1,567 active members, 454 terminated vested members, and 2,568 retired members, surviving spouses and dependents in pay status. The amount to be paid by the Department was calculated based on an assumed investment rate of return of 6.75% and takes into account the freeze of accrued benefits under the Prior GRS pension formula as of June 30, 2014.

Based upon level annual payments for the nine Fiscal Years beginning on July 1, 2014 and ending on June 30, 2023, the annual Department contributions to Prior GRS are \$42.9 million per year. With the addition of the \$2.5 million per year in administrative expenses, the resulting Prior GRS contribution is a total of \$408.6 million for the entire nine year period for both the Water Supply System and Sewage Disposal System. The Department will allocate these costs on a pro-rata basis between the Water Supply System and Sewage Disposal System. The

Department historically has been expected to account for approximately 30 to 33% of the City's total contributions to GRS. The required Department funding for Prior GRS under the Plan of Adjustment represents a substantial reduction in the Department's funding contribution. Although the Department will fund its allocable share of this accrued liability over nine years instead of a longer period, it will not pay any more than its actual, full, allocable share of the UAAL of Prior GRS. The contributions by the Department to Prior GRS contemplated by the Plan of Adjustment will be paid from rates that the Department will charge users of its Water Supply System and Sewage Disposal System during the period through June 30, 2023. After the initial nine-year period through June 30, 2023 is completed and certain Outside Funding is received by GRS, the Department will remain responsible for its allocable share of UAAL of GRS but is expected to make very small contributions, if any, to the Prior GRS on account of this liability.

In connection with the issuance of the Series 2014D Bonds, the City has requested that the Bankruptcy Court approve in the Bankruptcy Order a settlement with the DWSD Settlement Parties providing that: (i) the Department shall pay as operation and maintenance expenses, to be allocated between the Sewage Disposal System and the Water Supply System, no more than the sum of (a) \$24 million per annum; and (b) the Department's allocable share of its annual "defined contribution" payments related to the Department employees; and (ii) the Department shall pay the difference between the annual allocation of the Plan GRS pension contributions provided in the Plan of Adjustment and \$24 million from a "pension liability payment fund" that is funded after payments required to be made into the SRF Junior Lien Bond and Interest Redemption Fund established and defined in the DWSD Authorizing Documents and on a subordinated basis to the DWSD Obligations and all other existing bond debt. The Department expects to make the full pension payment required in the Plan of Adjustment, regardless of the foregoing accounting treatment.

Relevant Terms of Prior GRS

Prior GRS is a defined benefit retirement plan with a defined contribution plan feature. Prior GRS provides retirement, disability and survivor benefits to Department employees or former employees and their beneficiaries. As noted above, Prior GRS was closed to employees hired or rehired on or after July 1, 2014. In addition, no employees will earn any benefits under Prior GRS for services performed or compensation earned after June 30, 2014. Prior to July 1, 2014, active members earned benefits under a formula based on final average compensation, service credit and a benefit multiplier. Prior to July 1, 2014, pension benefits for all members of Prior GRS were increased annually by a COLA or "escalator" equal to 2.25% of the original pension amount. Members may retire with full benefits after attaining 30 years of service (25 years for EMS members); age 55 with 30 years of service (if hired after January 1, 1996); age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service (and attainment of age 55 for employees hired after 1995) and collect an actuarially reduced retirement benefit.

Prior GRS provides for City and Department contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay accrued benefits under Prior GRS when due. The recommended City and Department contribution rates are determined annually by

GRS' consulting actuary using the entry age normal actuarial cost funding method. Significant actuarial assumptions used to compute the City and Department contribution requirements are the same as those used to compute the UAAL. City employees were not required to make contributions to Prior GRS to help pay for their pensions.

In addition, City employees could elect to contribute (a) 0%, (b) 3% of annual compensation up to the Social Security wage base and 5% of any excess over the wage base, (c) 5%, or (d) 7% of their after-tax compensation to an annuity savings fund account ("ASF Account"). Contributions were voluntary for all union and nonunion employees. Effective as of July 1, 2014, ASF Accounts are credited with earnings at the rate of return earned on assets held in GRS; however, the earnings rate credited to a member's ASF Account for any year will not be less than 0% nor greater than 5.25%.

Prior GRS is a mature plan in that there are more members who are retired and receiving benefits than active employee members. As of June 30, 2013, there were approximately 5,364 active GRS members, 12,089 retired GRS members receiving benefits, and 2,395 terminated GRS members entitled to, but not yet receiving, benefits.

Relevant Terms of New GRS in Effect on and after July 1, 2014

New GRS is a defined benefit pension plan. New GRS provides retirement and survivor benefits to Department employees or former employees and their beneficiaries. Active members of New GRS earn benefits under a formula based on final average base compensation, service credit for employment on and after July 1, 2014 and a benefit multiplier of 1.5%. Members are vested upon completion of 10 years of service (service with the City prior to July 1, 2014 is taken into account for this purpose). Vested members may retire with full benefits upon attainment of age 62 (with a limited transition period for employees who were age 53 or older as of June 30, 2014). Employees may retire at age 55 with 30 years of service and collect an actuarially reduced retirement benefit. No disability benefits are provided to employees under New GRS. Survivor benefits are payable to a member's spouse or other beneficiary. For each Fiscal Year beginning July 1, 2018 and later, the New GRS pension benefits of retirees who are at least 62 years old and have been receiving benefits for at least 12 months may be increased by a 2% COLA on the original pension amount, provided that the funding level of New GRS projected over a five year period is 100% or greater.

For the nine-year period ending June 30, 2023, the Department will be required to contribute an amount equal to 5% of its employees' base pay to New GRS. Based upon the Fiscal Year 2014 base pay of Department employees, the Department's annual contribution is anticipated to be approximately \$3.2 million. A portion of each Department contribution will be credited to a rate stabilization fund established under New GRS which is designed to be used in the event the projected funding level of New GRS falls below 100%. Employees are required to contribute 4% of their base pay on a pre-tax basis to New GRS to fund the cost of their pension benefits.

Employees also may elect to make after-tax voluntary employee contributions of (a) 0%, (b) 3%, (c) 5%, or (d) 7% of their total pay to New GRS. Those contributions will be credited with earnings at the rate of return earned on assets held in GRS; however, the earnings rate

credited to a member's voluntary employee contribution account for any year will not be less than 0% nor greater than 5.25%.

The funding objective of New GRS is to establish and receive employer and employee contributions during each Fiscal Year that are sufficient to fully cover the actuarial cost of benefits anticipated to be paid on account of credited service rendered by employees during the year (the normal cost requirements), and to amortize the unfunded actuarial costs of benefits under New GRS likely to be paid on account of credited service rendered on or after July 1, 2014 and before the first day of the Fiscal Year (the UAAL). In the event the funding level of New GRS projected over a five year period falls below 100%, the following steps will be taken in the order presented until the new funding level is projected to be 100%: (a) the 2% COLA described above will not be provided to retirees, (b) the amounts credited to the rate stabilization fund will be used to increase the funding level of New GRS, and (c) employee mandatory contributions will be increased from 4% of base pay to 5% of base pay. Additional actions designed to improve the funding status of New GRS are required if the projected funding level of New GRS falls below 80%. None of those steps would require the Department to make additional contributions to New GRS during the nine-year period ending June 30, 2023.

New GRS may not be amended by the City prior to July 1, 2023, other than as required to comply with (i) applicable federal law, or (ii) the Plan of Adjustment.

PENSION-RELATED CERTIFICATES OF PARTICIPATION

The City funded certain UAAL of Prior GRS through creation of the Detroit General Retirement System Service Corporation (the "Service Corporation"). The City is a party to two Service Contracts, dated May 25, 2005 (the "2005 Service Contract") and June 7, 2006 (the "2006 Service Contract" and together with the 2005 Service Contract, the "Service Contracts"), with the Service Corporation. GRS is not a party to any of the Service Contracts.

In 2005, the Service Corporation created a funding trust, which issued Certificates of Participation (the "2005 COPs") evidencing undivided proportionate interests in the rights to receive certain payments to be made by the City under the 2005 Service Contract. A portion of the proceeds of the 2005 COPs was irrevocably paid to GRS, fully funding its UAAL at that time. In 2006, the Service Corporation created a new funding trust, which issued Certificates of Participation (the "2006 COPs" and, together with the 2005 COPs, the "COPs") evidencing undivided proportionate interests in the rights to receive certain payments to be made by the City under the 2006 Service Contract. A portion of the proceeds of the 2006 COPs was used to redeem certain outstanding 2005 COPs and to extend the amortization schedule for repayment of the UAAL obligations. The City also entered into certain interest rate exchange agreements (the "COP Swap Agreements") in conjunction with the issuance of the COPs.

Pursuant to the Service Contracts and the COP Swap Agreements, the City paid certain payments, service charges and other payments, excluding principal (collectively, the "Service Payments") to the Service Corporation. The Service Payments were calculated to be sufficient to allow the Service Corporation to make payments on the COPs. A proportionate share of the Service Payments, including those related to the COP Swap Agreements, was allocated to the

Department. For Fiscal Years 2013 and 2014, the Department's share of the Service Payments was \$6,945,171 and \$5,321,518, respectively.

The Plan of Adjustment provides for the satisfaction in full of claims relating to the COPs in exchange for the receipt of notes denominated as the New B Notes. The definitive documentation governing the New B Notes will provide generally for the following terms:

- *Obligation:* The City's obligations with respect to the New B Notes will be a general and unsecured obligation of the City.
- *Initial Principal Amount:* \$632.0 million.
- *Interest Rate:* 4.0% for the first 20 years; 6.0% for years 21-30.
- *Maturity:* 30 years.
- *Amortization:* Interest only for 10 years; amortization in 20 equal annual installments beginning on the interest payment date nearest to the 11th anniversary from issuance.
- *Disclosure:* The City will provide a continuing disclosure undertaking under 17 C.F.R. § 240.15c2-12 in connection with the delivery of the New B Notes.

The Department will be responsible for its allocable share of the New B Notes consistent with prior years' formulas for allocation of COP liabilities. These amounts will be payable after and subordinate to the payment of debt service on all bonded indebtedness of the Water Supply System and replenishment of the debt service reserve funds relating to that indebtedness.

OTHER POST-EMPLOYMENT BENEFITS

Introduction

The City provides post-retirement health and death benefits – also known as OPEB benefits – to current and future retirees and their dependents. The City provides OPEB benefits under two umbrella plans – the Health and Life Insurance Benefit Plan (the "Health/Life Benefit Plan") and the City of Detroit Employee Benefit Plan, which operates and administers the Employee Supplemental Death Benefit Plan (the "Supplemental Plan" and, together with the Health/Life Benefit Plan, the "OPEB Plans").

The City's estimated aggregate liability relating to UAAL associated with the OPEB Plans is approximately \$5.718 billion. This amount includes the present value of OPEB liabilities for active employees of the City not yet retired. The City and the Retiree Committee appointed by the Bankruptcy Court ("Retiree Committee") agreed that the allowed claim for the OPEB liability amount for former employees retired from the City and continuing to obtain retiree health and life insurance is approximately \$4.303 billion. In the aggregate, 99.6% of the City's OPEB liabilities were unfunded as of the date its Bankruptcy Case was filed. As of June 30, 2011 (the date of the actuarial valuations used in the Fiscal Year 2012 and 2013 financial statements and for purposes of estimating OPEB), there were 19,389 retirees eligible to

receive benefits under the City's OPEB Plans. The number of retirees receiving benefits from the City is expected to increase over time.

The City's OPEB liabilities are significant due to, among other things: (i) the fact that, prior to March 1, 2014, retirees could choose from 22 different plan options with varying structures and terms, which created a high level of complexity and cost in benefit administration; (ii) the extremely generous benefit features of the programs, especially for dependent coverage, which create high costs to the City on a per retiree basis; (iii) the fact that health care plans have no age restrictions and early vesting ages; and (iv) increases in health care costs, particularly hospitalization costs.

Health/Life Benefit Plan

The Health/Life Benefit Plan is a single-employer defined benefit plan that provides hospitalization, dental care, vision care and life insurance to all officers and employees of the City who were employed on the day preceding the effective date of the Health/Life Benefit Plan and who continue in the employ of the City on and after the effective date of the Health/Life Benefit Plan. Prior to the modification of retiree benefits effective March 1, 2014, retirees were allowed to enroll in any of the group plans offered by the City to active employees. The City provided health care coverage for substantially all retirees in accordance with terms set forth in union contracts.

General City employees hired before 1995 were eligible for health care benefits if they satisfied any of the following criteria for an unreduced normal retirement benefit: (i) 30 years of creditable service (or 25 years of creditable service for an EMS member), (ii) 10 years of creditable service and attainment of age 60 or (iii) 8 years of creditable service and attainment of age 65. The health care benefit eligibility conditions for general City employees hired on or after 1995 were: (i) 30 years of creditable service and attainment of age 55, 60 or 65, as applicable, (ii) 10 years of creditable service and attainment of age 55, 60 or 65, as applicable or (iii) 8 years of creditable service and attainment of age 55, 60 or 65, as applicable. The City provided full health care coverage to general City employees who retired prior to January 1, 1984 (except for a "Master Medical" benefit that was added on to the coverage after that date). The City paid up to 90% of health care coverage for employees who retired after January 1, 1984; however, for employees who retired between January 1, 1984 and June 30, 1994, the retiree share had been reduced by 50% by appropriations from City Council. The City also paid health coverage for an eligible retiree's spouse that was married to the retiree as of the date of retirement, under the same formulas noted above, as long as the retiree continued to receive a pension, and for dependents. Dental and vision coverage also were provided for retirees, spouses and dependents.

The City also provided health care coverage to general City employees that opted for early retirement. For general City employees hired before 1995, the health care benefit eligibility conditions were 25 years of creditable service; for employees hired after 1995, the health care benefit eligibility conditions were 25 years of creditable service and attainment of age 55. The coverage began when the retiree would have been eligible for normal retirement. The City paid up to 90% of health care coverage for the retiree and any eligible spouse. Dental and vision coverage were also provided for these retirees, their spouses and dependents.

The City also provided health care coverage at reduced rates to general City employees who met certain health care benefit eligibility conditions and retired under the “Deferred Retirement Benefits (Vested),” the “Death-in-Service Retirement Benefits Duty and Non-Duty Related” and the “Disability Retirement Benefits Duty and Non-Duty Related” programs. In addition, health care coverage was provided by the City for those retirees that were Medicare eligible. Retirees who opted out of the retiree health care coverage could obtain coverage at a later date.

In addition to health care coverage, the City allowed its retirees to continue life insurance coverage under the “Group Insurance Protection Plan” offered to active employees. The basic life insurance coverage for general City employees was based on the employee’s basic annual earnings rounded to the next higher thousand dollars. The life insurance benefit amounts ranged from \$3,750 to \$12,500.

The Health/Life Benefit Plan was financed entirely on a “pay-as-you-go” basis and is 0% funded. As of June 30, 2011, the City had \$5,718,286,228 in actuarial liabilities under the Health/Life Benefit Plan. The cost to the City on account of retiree benefits provided under the Health/Life Benefit Plan in Fiscal Year 2012 was \$177,460,627. This contribution by the City was in addition to \$23,516,879 contributed by retirees during Fiscal Year 2012.

Supplemental Plan

The Supplemental Plan is a pre-funded single-employer defined benefit plan providing death benefits based upon the retiree’s years of City service ranging from \$1,860 (for 8 to 10 years of service) to \$3,720 (for 30 years of service, with \$93.00 per year added for each additional year of service beyond the 30th year). As of June 30, 2011, the City had \$34,564,960 in actuarially accrued liabilities under the Supplemental Plan. As of July 18, 2013, the Supplemental Plan was 74.3% funded, with approximately \$8.9 million in UAAL. In Fiscal Year 2012, the cost to the City on account of benefits provided under the Supplemental Plan was \$131,116. This contribution by the City was in addition to \$15,944 contributed by retirees during Fiscal Year 2012.

Modification of Retiree Benefits

Effective March 1, 2014, the City changed the health insurance coverage offered to retirees. As described in more detail below, the health benefits a retiree receives from the City effective March 1, 2014 depend upon whether the retiree is “Medicare eligible.” Generally, a retiree is Medicare eligible if he or she is age 65 or older and has worked to earn Medicare coverage or has eligibility through a spouse. In addition, the City provided certain other benefits, effective as of March 1, 2014 through the remainder of the 2014 calendar year pursuant to the Retiree Health Care Settlement Agreement effective as of February 14, 2014 (the “Retiree Settlement Agreement”) between the City, the Retiree Committee, the Detroit Retired City Employees Association, the Retired Detroit Police and Fire Fighters Association, and AFSCME Sub-Chapter 98, City of Detroit Retirees.

For coverage from March 1, 2014 through December 31, 2014, Medicare eligible retirees were able to select one of three Medicare Advantage insurance plans that included health and

drug benefits for which the City pays most or all of the premium. Except for one of the Medicare Advantage Plan options (BCBSM Medicare Plus Blue PPO), the monthly premium cost to the Medicare eligible retiree was zero. These new options were available to all City retirees who were Medicare eligible. Pursuant to the Retiree Settlement Agreement, Medicare-eligible retirees who opted out of a City-sponsored Medicare Advantage Plan on or prior to February 7, 2014 were automatically enrolled in a City-sponsored Health Reimbursement Arrangement (“HRA”). The City provided each enrolled retiree with a vested \$115 monthly contribution credit to his or her HRA during the remainder of 2014, which will carry forward until used by the retiree or otherwise forfeited under terms to be negotiated by the parties to the Retiree Settlement Agreement. In addition, retirees were provided an additional opportunity to opt out of a City-sponsored Medicare Advantage Plan after February 7, 2014 and before by June 20, 2014 and receive an HRA with credits for the months they were not covered under the City-sponsored Medicare Advantage Plan. If an individual was a Medicare eligible retiree, these were the only choices that the City offered for health coverage for 2014.

Effective March 1, 2014, non-Medicare eligible retirees were required to obtain their own health insurance coverage (for themselves, their spouses or their dependent family members). Under the Patient Protection and Affordable Care Act (the “Affordable Care Act”), Health Insurance Marketplaces – also known as “exchanges” – were to be made available in every state, including Michigan. Non-Medicare eligible retirees were permitted to enroll in and obtain an individual insurance policy to cover the retiree and his or her family from the Health Insurance Marketplace that served the state where the retiree lived. A non-Medicare eligible retiree also may have been eligible to enroll in coverage offered by their current employer or their spouse’s employer. For most non-Medicare eligible retirees, effective March 1, 2014, the City agreed to provide a stipend of \$125 per month (\$300 or \$400 per month for duty disabled non-Medicare retirees, depending upon whether the disabled person was a uniformed retiree). Eligible retirees were permitted to use this stipend for any purpose, including to defray the cost of premiums for health insurance coverage acquired through a Health Insurance Marketplace, through the retiree’s or the retiree’s spouse’s employer or through other available health insurance programs.

Pursuant to the Retiree Settlement Agreement, the City agreed to (a) increase the \$125 stipend by \$50 (capped in the aggregate at \$3,000,000) for certain eligible retirees who purchased coverage through a Health Insurance Marketplace and whose household income was \$75,000 or less; (b) pay an additional \$125 stipend (capped in the aggregate at \$2,500,000) for certain eligible retirees whose spouse purchased coverage through a Health Insurance Marketplace and whose household income was \$75,000 or less; (c) increase the stipend to \$300 per month for non-Medicare eligible retirees age 65 or older; and (d) provide an increased stipend for retirees living in states that did not expand Medicaid whose household income is less than 100% of the federal poverty level. Under the Retiree Settlement Agreement, the City also agreed to make a Blue Cross Blue Shield of Michigan fully-insured group health plan available to Non-Medicare eligible retirees in 2014. The City agreed to provide a monthly stipend of \$100 to each Retiree who enrolled in the City group plan, beginning with the May 1, 2014 payment. No other City subsidy or payment was available to a retiree enrolled in the City group plan unless either (a) the retiree qualified for a duty-disability stipend in which case he or she received the stipend available for duty-disabled retirees or (b) the retiree qualified for the \$300 per month stipend available to non-Medicare eligible retirees who are age 65 and older, in which case he or she received the stipend available for such retirees.

The City no longer subsidizes dental and vision coverage, effective March 1, 2014, for any retirees. All retirees, regardless of age or Medicare eligibility, who wanted dental and vision coverage were required to pay the full cost of such coverage. The City offered Blue Cross Blue Shield of Michigan dental, Golden Dental, Inc. and two different Heritage Vision plan options. All other plan options were eliminated.

The revised coverages provided by the City will be in effect until December 31, 2014. The coverages added pursuant to the Retiree Settlement Agreement will be in effect through mid-2015.

Citywide OPEB Settlement Under the Plan of Adjustment

The Plan of Adjustment would settle all citywide OPEB claims. Under the Plan of Adjustment, from and after January 1, 2015, the City would no longer sponsor and maintain retiree health or death benefits programs (“Retiree Welfare Benefits”) for existing retirees (meaning individuals who retired on or before December 31, 2014) and their surviving beneficiaries, spouses and dependents. Instead, for these individuals who are GRS retirees (“VEBA Beneficiaries”), the City would establish a voluntary employees’ beneficiary association (“Detroit General VEBA”). The City will establish a separate VEBA for PFRS retirees, with a separate funding source, which is not an obligation of the Department. The Detroit General VEBA would be a trust under the governance of a board of trustees that will be responsible for providing retiree health benefits beginning January 1, 2015 to VEBA Beneficiaries. On the effective date of the Plan of Adjustment, the City would provide the Detroit General VEBA with a portion of the New B Notes in the principal amount of \$218 million. The Detroit General VEBA may also receive additional contributions from sources other than the City or the Department, including contingent additional distributions from the Disputed COP Claims Reserve, described in the Plan of Adjustment.

The Detroit General VEBA board of trustees would be responsible for, among other things, determining the level of and distributing Retiree Welfare Benefits to VEBA Beneficiaries. It is not anticipated that the funding will be sufficient to provide benefits at the same level of Retiree Welfare Benefits provided to GRS retirees and their beneficiaries during the period beginning March 2014.

Implications of the Citywide OPEB Settlement for the Department

The Department will be responsible for its allocable share of the portion of the New B Notes relating to settlement of OPEB claims, consistent with prior years’ formulas for allocation of OPEB contributions on a pay-as-you-go basis. Projections indicate that the Department’s total OPEB settlement payments, in the form of New B Notes, will be equal to \$105 million. This represents a pro-rata share of the citywide settlement. If the City does not make the payments under the New B Notes, the Detroit General VEBA board of trustees will have the right to sue the City for payment.

Other OPEB Liabilities

As described above, under the Plan of Adjustment and effective as of January 1, 2015, the Detroit General VEBA is the sole source of Retiree Welfare Benefits for the VEBA Beneficiaries. Employees of the City and the Department who retire on or after January 1, 2015 may be eligible for Retiree Welfare Benefits, which benefits will be an obligation of the City and the Department. The terms of these benefits are the subject of ongoing negotiations between the City and various unions that represent City and Department employees.

FEASIBILITY CONSULTANT'S REPORT

The Department has engaged The Foster Group, LLC to conduct an evaluation of the Water Supply System, including information about the financial feasibility of completing the CIP. A copy of the report (the "Feasibility Consultant's Report") summarizing the findings of the Feasibility Consultant's evaluation is included as APPENDIX II-A. Set forth below are the Feasibility Consultant's findings and conclusions with respect to the financial feasibility of the DWSD Obligations. The Feasibility Consultant's Report should be read in its entirety for a complete understanding of the assumptions, considerations, estimates and calculations upon which these conclusions are based.

- The Department's current water rates are below the average of those in effect in comparably sized cities. While faced with additional capital expenditures to ensure reliability of service, the projected increases in the Department's water rates through 2019 are expected to be comparable to what will be experienced in other large metropolitan areas.
- In addition to the relatively low water rates, the Department's current wastewater rates are competitive with those in effect in comparably sized cities. The availability and price of wastewater treatment, coupled with the supply and price of water, should continue to be a positive factor in attracting and maintaining industry to the Water Supply System's service area.
- The Department's financial plan is sound, supported by gradual rate increases, and is expected to be sufficient to adequately fund the CIP and other programs necessary to meet Water Supply System obligations.
- The Department's current fiscal policies and plans are designed to result in continued improvements in the current financial position of the Water Supply System, including reported debt service coverage and changes in net assets. Continued implementation of the optimization program, assisted by further implementation of the District Court Orders, should further enhance these policies.
- The revenues pledged as security for the DWSD Obligations are projected to be sufficient to comply with rate covenants required by the Bond Ordinance and the targets established by Board of Water Commissioners policy.

- The requirements contained in the Bond Ordinance authorizing the issuance of the DWSD Obligations have been met, as the Feasibility Consultant has concluded that (compared with the debt service schedules in existence prior to the issuance of the DWSD Obligations) after the issuance of the DWSD Obligations, savings will result in each Fiscal Year thereafter until maturity.

SYSTEM EVALUATION REPORT

The Department has engaged Orchard, Hiltz & McCliment, Inc. (the “Engineering Advisor”) to conduct an evaluation of the physical condition of the Water Supply System, determine whether the Water Supply System is being operated and maintained in a manner to achieve their operating goals, and determine if the CIP appropriately addresses identified rehabilitation and repair needs. A copy of the report (the “System Evaluation Report”) summarizing the findings of the Engineering Advisor’s evaluation is included as APPENDIX II-B. Set forth below are the Engineering Advisor’s opinions with respect to the evaluation. The System Evaluation Report should be read in its entirety for a complete understanding of the assumptions, considerations, estimates and calculations upon which these opinions are based.

- The Department has been providing potable water of excellent quality to Southeast Michigan for many years. The observed quality by its customers is confirmed in the Annual Water Quality Report test data that shows all regulated contaminants are well below the maximum levels allowed. Most are at least one order of magnitude less than allowed.
- The current five-year CIP addresses the most critical needs in the Water Supply System observed during site visits.
- The conditions at the facilities were generally rated as good based on the site visits. This reflects significant investment at the facilities over the last 10-15 years.
- The Water Supply System has more capacity than required. The Master Plan Update has looked at a variety of alternatives to more effectively match the system resources to the needs. Based on the preliminary analyses, the Northeast Water Treatment Plant will be repurposed so that it remains as a booster pumping station and reservoir, but not as a water treatment plant. This will minimize the need for significant capital investment in rehabilitation or replacement of equipment that otherwise would have been necessary at the Northeast Water Treatment Plant.
- A number of capital improvement projects had been put on hold due to the available excess capacity, pending the evaluation of the alternatives in the Master Plan Update. With completion of the Phase 1 Interim Report, a number of projects are being proposed to move forward. The projects are generally smaller than past projections, and more focused on specific equipment replacement needs.
- The drop in usage was also observed on the site visits. Despite high temperatures, the percentage of pumps operating was low. This indicates that extra redundancy is available in the pump units than would typically be expected.

- The Department made significant improvements in making power supply reliable to water facilities, first during the Y2K event and then after the 2003 power blackout. It appears the Department is now better prepared for any power supply emergency supply scenarios.
- Due to a continuous reservoir rehabilitation program in place, the Department reservoir appears to be well maintained.
- The Department is invested in automation. All the booster stations and reservoirs are being operated remotely in an effective manner.

LITIGATION

The Authority has not been served with any litigation, and to the best of the Authority's knowledge, there is no threatened litigation against the Authority seeking to restrain or enjoin the sale of the Series 2014D Bonds, affecting the security pledged therefor or questioning or affecting the validity of the proceedings or authority under which the Series 2014D Bonds were issued. Neither the creation, organization or existence of the Authority, nor the title of any of the present members or other officers of the Authority to their respective offices, is being contested. The Authority has not been served with any litigation and, to the best of the Authority's knowledge, there is no litigation threatened which in any manner questions the right of the Authority to adopt the General Resolution or the Supplemental Resolution or to secure the Series 2014D Bonds in the manner provided in the General Resolution, the Supplemental Resolution and the Act.

DWSD Litigation

The Department has not been served with any litigation, and to the best of the Department's knowledge, there is no threatened litigation against the Department seeking to restrain or enjoin the sale of the Series 2014D Bonds, affecting the security pledged therefor or questioning or affecting the validity of the proceedings or authority under which the Series 2014D Bonds were issued. Neither the creation, organization or existence of the Department, nor the title of any of the present members or other officers of the Department to their respective offices, is being contested. The Department has not been served with any litigation and, to the best of the Department's knowledge, there is no litigation threatened which in any manner questions the right of the Board of Water Commissioners to adopt the DWSD Resolution or any supplemental resolution or to secure the Series 2014D Bonds in the manner provided in the DWSD Resolution and Act 94.

Except as noted in this section, the Department has not been served with any litigation which is expected to have a material impact on the Department's operations or revenues and, to the best of the Department's knowledge, there is no threatened litigation against the Department which is expected to have a material impact on the Department's operations or revenues. The Macomb Interceptor Drain Drainage District ("MIDDD") filed a lawsuit against the Department alleging breach of contract related to the Department's transfer of the Macomb Interceptor to MIDDD. After the City filed its Chapter 9 Bankruptcy Case, MIDDD filed a claim in the Bankruptcy Case, and has placed a value on this claim of \$26 million. The Bankruptcy Court has determined that the claim shall be valued at \$26 million for purposes of voting on the Plan of

Adjustment only. [Docket No. 6162.] The City has objected to the allowance of this claim, and a hearing on such objection is scheduled for October 1, 2014. Prior to the filing of the Bankruptcy Case, the Department successfully defended a tort action by MIDDD based on similar facts.

Multiple appeals have been filed in *United States v. City of Detroit*. Most recently, the City filed a Notice of Appeal on May 22, 2013, challenging the District Court Orders and the Order of Dismissal (Appeal No. 13-1708). On July 30, 2013, the Court of Appeals for the Sixth Circuit issued an order holding the case in abeyance pending the City's Bankruptcy Case.

As of March 28, 2014, U.S. Bank National Association, as the DWSD Trustee, had deducted a total of \$2,300,000 from DWSD accounts in compensations for its and its counsel and advisor's fees and expenses as extraordinary expenses related to the City's Chapter 9 proceeding. On April 4, 2014, the Department filed a Motion for Order, Pursuant to 11 U.S.C. § 105, Amending and Clarifying Fee Review Order Dated September 11, 2013 (the "Fee Review Order"), requesting that the Fee Review Order be amended to require that the fees and expenses of the DWSD Trustee, and its retained professionals be reviewed by the Fee Examiner and subject to the Fee Review Order. On May 29, 2014, the Bankruptcy Court entered its Order Amending and Clarifying Fee Review Order of September 11, 2013, declaring that the DWSD Trustee's fees and expenses are subject to the Fee Review Order. On August 11, 2014, the City filed a Motion of the Debtor for a Final Order Pursuant to (I) 11 U.S.C. §§ 105, 364(c), 364(d)(1), 364(e), 902, 904, 921, 922 and 928 (A) Approving Postpetition Financing and (B) Granting Liens and (II) Bankruptcy Rule 9019 Approving Settlement of Confirmation Objections and to resolve certain claims. The DWSD Trustee's claim was addressed as part of this Motion, which was granted by the Bankruptcy Court on August 25, 2014 as part of the Bankruptcy Order. The Department and the DWSD Trustee have agreed to resolve their dispute through a binding arbitration process.

On July 20, 2014, a group of Detroit residents, along with several non-profit organizations, filed a complaint in the Bankruptcy Court seeking declaratory and injunctive relief with respect to the billing and collection policies of the Department. The plaintiffs contend the policies relating to notice of bills, the manner in which payments may be made and remedies for collection of accounts, including termination of services, violate various provisions of the United States and State Constitutions and provisions of the Bankruptcy Code. The plaintiffs seek, among other things, an injunction preventing further termination of service until new constitutional policies are in place and a water affordability plan, under which charges for Department services would be based on the income of the resident, is implemented. On July 30, 2014, an amended complaint was filed seeking essentially the same relief. The City strongly believes its policies are both legal and appropriate and intends to vigorously defend this lawsuit, and has filed a response in opposition to the relief requested.

LEGALITY OF SERIES 2014D BONDS FOR INVESTMENT AND DEPOSIT

Under the Act, the State, a public officer, a Governmental Unit and agencies of the State or Governmental Units, a bank, trust company, savings bank or institution, savings and loan association, investment company or other person carrying on a banking business, an insurance company, insurance association, or other person carrying on an insurance business and an executor, administrator, guardian, trustee or other fiduciary may legally invest a sinking fund,

money, or other funds belonging to them or within their control in bonds or notes of the Authority issued under the Act. The Act also provides that the Authority's bonds and notes shall be authorized security for public deposits.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the interest on the Series 2014D Bonds other than the Series 2014D-5 Bonds (the "Tax-Exempt Bonds") (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Their opinions in (a) above are subject to the condition that the Authority and the Department comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Tax-Exempt Bonds to be included in gross income retroactive to the date of issuance of the Tax-Exempt Bonds. The Authority and the City have covenanted to comply with all such requirements to the extent permitted by law.

The Attorney General and Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Bonds and the interest thereon.

Prospective purchasers of the Tax-Exempt Bonds should be aware that (i) interest on the Tax-Exempt Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch profits tax imposed by Section 884 of the Code, (ii) interest on the Tax-Exempt Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Tax-Exempt Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Tax-Exempt Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Tax-Exempt Bonds, (vi) registered owners acquiring the Tax-Exempt Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Tax-Exempt Bonds may cause disallowance of the earned income credit under Section 32 of the Code, (viii) interest on the Tax-Exempt Bonds is subject to backup withholding under Section 3406 of the Code in the case of registered owners that have not reported a taxpayer identification number and are not otherwise exempt from backup withholding, and (ix) registered owners of the Tax-Exempt Bonds may not deduct interest on indebtedness incurred or continued

to purchase or carry the Tax-Exempt Bonds, and financial institutions may not deduct that portion of their interest expense allocated to interest on the Tax-Exempt Bonds.

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the Tax-Exempt Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Tax-Exempt Bonds.

Series 2014D-5 Bonds – Federally Taxable

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the interest on the Series 2014D-5 Bonds is included in gross income for federal income tax purposes.

The Attorney General and Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2014D-5 Bonds and the interest thereon.

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the Series 2014D-5 Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate tax and taxes on gains realized from the sale, payment or other disposition of the Series 2014D-5 Bonds.

Tax Treatment of Accruals on Original Issue Discount

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series 2014D Bonds initially sold at a discount as shown on the inside cover page hereof (the “Series OID Bonds”) is sold and the amount payable at the stated redemption price at maturity thereof constitutes “original issue discount.” Such discount on the Series OID Bonds is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such Series OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such Series OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Series OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of registered owners of the Series OID Bonds who purchase such bonds after the initial offering of a substantial amount thereof. Registered owners who do not purchase such Series OID Bonds in the initial offering at the initial offering and purchase prices should consult their own tax advisors with respect to the tax consequences of ownership of such Series OID Bonds.

Amortizable Bond Premium

For federal income tax purposes, the difference between an original registered owner's cost basis of the Series 2014D Bonds initially sold at a premium as shown on the inside cover page hereof (the "Series Original Premium Bonds") and the amounts payable on the Series Original Premium Bonds other than stated interest constitutes an amortizable bond premium. The same applies with respect to any Series 2014D Bond, if a registered owner's cost basis exceeds the amounts payable thereon other than stated interest (collectively with the Series Original Premium Bonds held by the original registered owners, "Series Premium Bonds"). Such amortizable bond premium on the Series Premium Bonds is not deductible from gross income, but is treated for federal income tax purposes as an offset to the amount of stated tax-exempt interest paid on the Series Premium Bonds, which may affect liability for the branch profits tax imposed by Section 884 of the Code. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the registered owner's yield to maturity determined by using the registered owner's basis (for purposes of determining loss on sale or exchange) of such Series Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the registered owner's adjusted basis of such Series Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Series Premium Bonds.

Future Developments

Bond Counsel's engagement with respect to the Series 2014D Bonds ends with the issuance of the Series 2014D Bonds and, unless separately engaged, bond counsel is not obligated to defend the Authority in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2014D Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2014D Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit.

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS WHICH COULD CAUSE THE INTEREST ON THE SERIES 2014D BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE SERIES 2014D BONDS, OR OTHERWISE PREVENT THE REGISTERED OWNERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON. FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FUTURE LEGISLATION, OR ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING BUT NOT LIMITED TO, SELECTION OF THE SERIES 2014D BONDS FOR AUDIT EXAMINATION, OR THE AUDIT PROCESS OR RESULT OF ANY EXAMINATION OF THE SERIES 2014D BONDS OR OTHER BONDS THAT PRESENT SIMILAR TAX ISSUES, WILL NOT ADVERSELY AFFECT THE MARKET PRICE OF THE SERIES 2014C BONDS. BOND COUNSEL AND THE ATTORNEY

GENERAL EXPRESS NO OPINION REGARDING ANY PENDING OR PROPOSED FEDERAL OR STATE OF MICHIGAN TAX LEGISLATION.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE SERIES 2014D BONDS AND THE TAX CONSEQUENCES OF THE ORIGINAL ISSUE DISCOUNT OR PREMIUM THEREOF, IF ANY.

STATE NOT LIABLE ON SERIES 2014D BONDS

The Series 2014D Bonds are limited obligations of the Authority payable solely from the sources described herein and neither the faith and credit nor the taxing power of the State, any political subdivision thereof or the Authority is pledged to the payment of the principal or redemption price of, interest on, or the purchase price of the Series 2014D Bonds.

The sources of payment for the Series 2014D Bonds are limited to those provided by the Act, and the issuance of the Series 2014D Bonds is not directly or indirectly or contingently an obligation, moral or other, of the State, any political subdivision thereof or the Authority to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

CERTAIN LEGAL MATTERS

The legality of the authorization, sale and delivery of the Series 2014D Bonds is subject to the approval of the Attorney General of the State and of Bond Counsel, whose approving opinions, substantially in the form attached as APPENDIX III to this Official Statement, will be delivered upon the issuance of the Series 2014D Bonds. The fees to be received by the Bond Counsel in connection with the issuance of the Series 2014D Bonds will be paid from the proceeds of the Series 2014D Bonds and from investment earnings thereon.

Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Washington, D.C. Certain legal matters will be passed upon for the Department by its counsel, Dykema Gossett, PLLC, Lansing, Michigan.

RATINGS

Standard and Poor's Ratings Services ("S&P"), Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's"), have assigned the Series 2014D-1 Bonds, Series 2014D-2 Bonds, Series 2014D-3 Bonds, Series 2014D-4 Bonds and Series 2014D-5 Bonds unenhanced ratings of "BBB+," "BBB-" and "Ba2" respectively. S&P, Fitch and Moody's have assigned the Series 2014D-6 Bonds and Series 2014D-7 Bonds unenhanced ratings of "BBB+" "BB+" and "Ba3" respectively. S&P and Moody's are expected to assign ratings of "AA" (stable outlook) and "A2" (stable outlook) to the AGM insured Series 2014D-1 Bonds and Series 2014D-2 Bonds based upon delivery of a municipal bond insurance policy issued by AGM. Such ratings reflect only the views of S&P, Fitch and Moody's and an explanation of the significance of such ratings may be obtained from S&P, Fitch and Moody's. S&P, Kroll Bond Rating Agency ("KBRA") and Moody's are expected to assign ratings of "AA-," "AA+" and "A3," respectively, to the

National insured Series 2014D-3 Bonds and Series 2014D-6 Bonds based upon delivery of a financial guaranty insurance policy issued by National. Such ratings reflect only the views of S&P, KBRA and Moody's and an explanation of the significance of such ratings may be obtained from S&P, KBRA and Moody's. The Authority has furnished to S&P, Fitch and Moody's certain information and materials with respect to the Series 2014D Bonds. There is no assurance that the ratings which have been assigned to the Series 2014D Bonds will continue for any given period of time or that either of them will not be revised or withdrawn entirely by S&P, Fitch or Moody's, if in the judgment of S&P, Fitch or Moody's circumstances so warrant. A downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2014D Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

UNDERWRITING

The Underwriters have agreed, subject to the terms of a bond purchase agreement (the "Bond Purchase Agreement") with the Authority and the Department dated August 27, 2014, to purchase the Series 2014D Bonds from the Authority. The Bond Purchase Agreement provides, in part, that the Underwriters, subject to certain conditions, will purchase from the Authority all the Series 2014D Bonds for a purchase price of \$919,203,659.51, which purchase price is equal to the par amount of the Series 2014D Bonds, plus original issue premium of \$68,374,999.15, and less Underwriters' discount of \$4,021,339.64. The initial public offering prices of the Series 2014D Bonds may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

Citigroup Global Markets Inc., an Underwriter of the Series 2014D Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic

platform member firms) and UBSFS for their selling efforts with respect to the Series 2014D Bonds.²

One or more affiliates of Citigroup Global Markets Inc. currently own \$3,550,000 of the Outstanding DWSD Bonds which may be offered and purchased pursuant to the Invitation. Citigroup Global Markets Inc. also owns a portion of Outstanding DWSD Bonds which are currently callable that may be redeemed with the proceeds of the DWSD Obligations.

J.P. Morgan Securities LLC, one of the Underwriters of the Series 2014D Bonds, or an affiliate thereof, currently owns DWSD Bonds as of the date of this Official Statement, including, but not limited to, certain Senior Lien DWSD Bonds and certain Senior Lien DWSD Sewer Bonds.

BMO Capital Markets, an Underwriter of the Series 2014D Bonds, is the trade name for certain capital markets and investment banking services of Bank of Montreal and its subsidiaries, including BMO Capital Markets GKST Inc. which is a direct, wholly-owned subsidiary of BMO Financial Corp. which is itself a wholly-owned subsidiary of Bank of Montreal. BMO Global Asset Management, an affiliate of BMO Capital Markets, owns and/or actively manages \$17,780,000 of Outstanding DWSD Bonds and Sewage Disposal System bonds.

Loop Capital Markets LLC (“LCM”), one of the Underwriters of the Series 2014D Bonds, has entered into a distribution agreement with Deutsche Bank Securities Inc. (“DBS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the distribution agreement, DBS will purchase Series 2014D Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Series 2014D Bonds that DBS sells.

It is a condition to the Underwriters purchasing and accepting delivery of the Series 2014D Bonds that the Bankruptcy Order has been issued by the Bankruptcy Court and has not been stayed pending appeal. It is not a condition, however, to such purchase and acceptance that there be no appeal pending at the time of settlement and delivery of the Series 2014D Bonds.

FINANCIAL ADVISOR

First Southwest Company is acting as Financial Advisor (the “Financial Advisor”) to the Authority in connection with the issuance of the Series 2014D Bonds and to the Department in connection with the issuance of the DWSD Obligations. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2014D Bonds and the DWSD Obligations is contingent upon the issuance and delivery of the Series 2014D Bonds and the DWSD Obligations. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2014D Bonds or the

² Paragraph language provided by Citigroup Global Markets Inc.

DWSD Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following for inclusion in this Official Statement: The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Authority and the Department and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

FINANCIAL CONSULTANT TO THE BOARD OF WATER COMMISSIONERS

Ramirez & Co., Inc. is acting as the Financial Consultant to the Board of Water Commissioners in connection with the Issuance of the DWSD Obligations (“Board Financial Consultant”). The Board Financial Consultant’s fee for services rendered with respect to the sale of the DWSD Obligations is not contingent upon the issuance and delivery of the DWSD Obligations. Ramirez & Co., Inc., in its capacity as Board Financial Consultant, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the DWSD Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Board Financial Consultant has provided the following for inclusion in this Official Statement: The Board Financial Consultant has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Department, but the Board Financial Consultant does not guarantee the accuracy or completeness of such information.

CONTINUING DISCLOSURE UNDERTAKING

The Authority’s Continuing Disclosure Undertaking

The Authority will covenant for the benefit of the Holders and the Beneficial Owners of the Series 2014D Bonds (as such terms are defined in the Continuing Disclosure Undertaking which the Authority expects to execute on or before the date of delivery of the Series 2014D Bonds (the “Continuing Disclosure Undertaking”), to cause any “Material Obligated Persons” (as defined in the Continuing Disclosure Undertaking) to enter into an undertaking to disclose certain financial information and operating data relating to that Material Obligated Person, by not later than nine months following the end of the applicable fiscal year, commencing with the report for fiscal years ending on or after June 30, 2014 (the “Annual Financial Information”) and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Undertaking requires that the Annual Financial Information be filed with the Municipal Securities Rulemaking Board (“MSRB”) by electronic transmission through the EMMA Dataport of the MSRB. The Continuing Disclosure Undertaking also requires that notices of material events be filed by the Authority with the MSRB by electronic transmission through the EMMA Dataport. The specific nature of the information to be contained in the Annual Financial Information or the notices of material events is set forth in APPENDIX IV—FORMS OF CONTINUING DISCLOSURE UNDERTAKING. These covenants have been made in order to assist the Underwriters named on the cover page of this Official Statement to

comply with paragraph (b)(5) of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission.

Except as described in the Continuing Disclosure Undertaking the provisions of the Continuing Disclosure Undertaking will create no rights in any other person or entity. The obligation of the Authority to comply with the provisions of the Continuing Disclosure Undertaking is enforceable by any Beneficial Owner of outstanding bonds issued under the Resolution (all as defined in the Continuing Disclosure Undertaking). The right to enforce the provisions of the Continuing Disclosure Undertaking is limited to a right, by action in mandamus or for specific performance, to compel performance of the Authority’s obligations under the Continuing Disclosure Undertaking. Any failure by the Authority to perform in accordance with the Continuing Disclosure Undertaking will not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default will not apply to any such failure.

The Authority is in compliance in all material respects with all previous undertakings with regard to the Rule to provide annual financial information or notices of material events pursuant to the Rule.

A failure by the Authority to comply with the undertaking must be reported by the Authority in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2014D Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the Series 2014D Bonds and the market price thereof.

City of Detroit Continuing Disclosure Undertaking

The City, which is the only Material Obligated Person (as such term is defined in the Continuing Disclosure Undertaking which the City expects to execute on or before the date of delivery of the Series 2014D Bonds (the “City Continuing Disclosure Undertaking”)) with respect to the Series 2014D Bonds, will covenant for the benefit of the Bondholders of the Series 2014D Bonds (as such term is defined in the City Continuing Disclosure Undertaking) to disclose certain financial information and operating data relating to the City, by not later than nine months following the end of the applicable fiscal year, commencing with the report for fiscal years ending on or after June 30, 2014 (the “Annual Financial Information”) and to provide notices of the occurrence of certain enumerated events. The City Continuing Disclosure Undertaking requires that the Annual Financial Information be filed with the MSRB by electronic transmission through the EMMA Dataport of the MSRB. The City Continuing Disclosure Undertaking also requires that required notices of events be filed by the City with the MSRB by electronic transmission through the EMMA Dataport. The specific nature of the information to be contained in the Annual Financial Information or the notices of material events is set forth in APPENDIX IV—FORMS OF CONTINUING DISCLOSURE UNDERTAKING. These covenants have been made in order to assist the Underwriters named on the cover page of this Official Statement to comply with paragraph (b)(5) of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission.

In order to provide continuing disclosure with respect to its obligations in accordance with the Rule, the City has entered into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) with Digital Assurance Certification, L.L.C. (“DAC”), under which the City has designated DAC as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent’s obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the City has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Financial Information, Audited Financial Statements, notice of the occurrence of reportable events or voluntary disclosures, or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bondholders or any other party. The Disclosure Dissemination Agent has no responsibility for the City’s failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the City has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

Except as described in the Continuing Disclosure Undertaking the provisions of the City Continuing Disclosure Undertaking will create no rights in any other person or entity. The obligation of the City to comply with the provisions of the City Continuing Disclosure Undertaking is enforceable by any Bondholder of any bond issued by the Authority which is secured in whole or in part by payments to be received on the DWSD Obligations. The right to enforce the provisions of the City Continuing Disclosure Undertaking is limited to a right, by action for specific performance, to compel performance of the City’s obligations under the City Continuing Disclosure Undertaking. Any failure by the City to perform in accordance with the City Continuing Disclosure Undertaking will not constitute a default or an event of default with respect to the Series 2014D Bonds, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default will not apply to any such failure.

Prior Continuing Disclosure Non-Compliance by the City

The City has entered into a number of continuing disclosure undertakings required by Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission in connection with bonds previously issued by the City to finance improvements to the Water Supply System. During the past five years, the City has not complied in all material respects with its obligations under such continuing disclosure undertakings, including filings of its annual financial information and updates to certain financial and operating data.

Specifically, from Fiscal Years 1996 through 2013, the City was unable to provide annual financial information within the time periods specified in the applicable agreements. The

continuing disclosure undertakings entered into by the City in connection with its prior bond issuances to finance improvements to the Water Supply System required filing of annual financial information within a specified time period ranging from 180 to 360 days of the City's Fiscal Year end. The audited financial statement for Fiscal Year 2009 was filed on June 4, 2010. The audited financial statement for Fiscal Year 2010 was filed on December 28, 2010. The audited financial statement for Fiscal Year 2011 was filed on January 30, 2013. The audited financial statement for Fiscal Year 2012 was filed on January 27, 2013. The audited financial statement for Fiscal Year 2013 was filed on July 29, 2014.

From Fiscal Years 1996 through 2013, the City failed to file required updates to the financial and operating data in connection with its prior bond issuances to finance improvements to the Water Supply System. On July 29, 2014 the City filed updates to such financial and operating data, but such filing was incomplete in certain respects. The City has taken steps to improve its compliance with its continuing disclosure undertakings. The City's inability to file its annual continuing disclosure update on a timely basis for 2013 was largely attributable to its having filed a petition for relief under Chapter 9 of the Bankruptcy Code in July 2013, which delayed the completion of its 2013 comprehensive annual financial report by over six months. Once the City exits Chapter 9, it fully expects to be in a position to file its annual updates on a timely basis.

A failure by the City to comply with the undertakings must be reported by the City in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale in the secondary market of bonds issued by the City. Consequently, such failure may adversely affect the marketability and liquidity of bonds issued by the City and the market price thereof.

The Department's Disclosure Dissemination Agent

In order to provide continuing disclosure with respect to the DWSD Obligations in accordance with the Rule, the Department has entered into a Disclosure Dissemination Agent Agreement ("Disclosure Dissemination Agreement") with DAC, under which the Department has designated DAC as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the Department has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Financial Information, Audited Financial Statements, notice of the occurrence of reportable events or voluntary disclosures, or any other information, disclosures or notices provided to it by the Department and shall not be deemed to be acting in any fiduciary capacity for the Department, the Bondholders or any other party. The Disclosure Dissemination Agent has no responsibility for the Department's failure to report to the Disclosure Dissemination

Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the Department has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Department at all times.

OTHER MATTERS

The summaries and explanations herein of provisions of the Act, the General Resolution, the Supplemental Resolution, Act 94, other public acts of Michigan, and other materials are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such instruments, documents and other materials for full and complete statements of the provisions thereof.

The information contained in this Official Statement has been compiled or prepared from sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The attached Appendices are an integral part of this Official Statement and must be read in their entirety together with all of the foregoing information.

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The execution and delivery of this Official Statement have been duly authorized by the Authority.

MICHIGAN FINANCE AUTHORITY

By: /s/ Joseph L. Fielek
Authorized Officer

CITY OF DETROIT, MICHIGAN

By: /s/ Kevyn D. Orr
Emergency Manager

DETROIT WATER AND SEWERAGE
DEPARTMENT

By: /s/ Sue F. McCormick
Director

SCHEDULE I
TENDERED AND REFUNDED BONDS

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Water System Senior Lien Bonds

Series	CUSIP	Refunded	Tendered
		Par	Par
Total		\$160,165,000	\$672,410,000
1993	251255TP0	-	\$2,195,000
1997A	251255XN0	-	5,510,000
2001A	251255A21	\$56,290,000	17,500,000
2003A	251255D77	400,000	100,000
2003A	251255D93	210,000	40,000
2003A	251255E27	2,560,000	990,000
2003A	251255F8	8,890,000	1,080,000
2003A	251255K20	16,855,000	4,100,000
2003A	251255K38	4,090,000	17,810,000
2003A	251255E68	61,590,000	35,070,000
2003C	251255J22	205,000	1,915,000
2003C	251255J30	800,000	1,820,000
2003C	251255J48	200,000	2,455,000
2003C	251255J55	2,030,000	900,000
2003C	251255J63	-	2,790,000
2003C	251255J71	1,405,000	1,560,000
2003C	251255J89	-	4,580,000
2003C	251255J97	4,640,000	25,000
2003D	251255U8	-	140,000
2003D	251255V6	-	115,000
2003D	251255W4	-	135,000
2003D	251255X2	-	230,000
2003D	251255Y0	-	1,085,000
2003D	251255Z7	-	18,715,000
2003D	251255A1	-	530,000
2003D	251255B9	-	2,235,000
2004B	2512554B8	-	90,000
2004B	2512554D4	-	2,445,000
2004B	2512554C6	-	5,995,000
2004B	2512554F9	-	205,000
2004B	2512554E2	-	13,145,000
2004B	2512554G7	-	8,885,000
2004B	2512554H5	-	10,250,000
2004B	2512554J1	-	16,665,000

Series	CUSIP	Refunded	Tendered
		Par	Par
2004B	2512554K8	-	16,085,000
2004B	2512554L6	-	16,030,000
2004B	2512554M4	-	4,000,000
2005A	251255M93	-	-
2005A	251255Q99	-	2,145,000
2005A	251255N27	-	50,000
2005A	251255R23	-	1,085,000
2005A	251255N35	-	35,000
2005A	251255R31	-	630,000
2005A	251255N43	-	5,000
2005A	251255R49	-	845,000
2005A	251255N50	-	1,000,000
2005A	251255N68	-	2,955,000
2005A	251255N76	-	-
2005A	251255N84	-	3,225,000
2005A	251255N92	-	3,430,000
2005A	251255P25	-	3,650,000
2005A	251255P33	-	3,020,000
2005A	251255P41	-	2,080,000
2005A	251255P58	-	915,000
2005A	251255P66	-	940,000
2005A	251255P74	-	415,000
2005A	251255P82	-	495,000
2005A	251255P90	-	235,000
2005A	251255Q24	-	260,000
2005A	251255Q32	-	885,000
2005B	2512557S8	-	765,000
2005B	2512557T6	-	1,235,000
2005B	2512557U3	-	970,000
2005B	2512557V1	-	695,000
2005B	2512557W9	-	265,000
2005B	2512557X7	-	1,010,000
2005B	2512557Y5	-	25,000
2005B	2512557Z2	-	800,000
2005B	2512558A6	-	20,000
2005B	2512558B4	-	420,000
2005B	2512558C2	-	-
2005B	2512558D0	-	215,000

Series	CUSIP	Refunded	Tendered
		Par	Par
2005B	2512558E8	-	50,000
2005B	2512558F5	-	490,000
2005B	2512558G3	-	545,000
2005B	2512558J7	-	230,000
2005B	2512558H1	-	23,675,000
2005C	251255S71	-	9,735,000
2005C	251255S89	-	14,500,000
2005C	251255S97	-	18,425,000
2005C	251255T21	-	17,760,000
2005C	251255T39	-	5,365,000
2005C	251255T47	-	6,650,000
2005C	251255T54	-	5,000,000
2005C	251255T62	-	3,615,000
2006A	251255V44	-	5,960,000
2006A	251255V51	-	6,420,000
2006A	251255V69	-	7,000,000
2006A	251255V77	-	7,705,000
2006A	251255V85	-	9,295,000
2006A	251255V93	-	8,635,000
2006A	251255W27	-	10,070,000
2006A	251255W35	-	6,475,000
2006A	251255W43	-	3,015,000
2006A	251255W50	-	11,865,000
2006A	251255W68	-	1,280,000
2006A	251255W76	-	7,500,000
2006A	251255W84	-	44,920,000
2006D	251255Z99	-	5,000
2006D	2512552A2	-	-
2006D	2512552B0	-	-
2006D	2512552C8	-	-
2006D	2512552D6	-	1,250,000
2006D	2512552E4	-	965,000
2006D	2512552F1	-	11,835,000
2006D	2512552G9	-	27,170,000
2006D	2512552H7	-	5,825,000
2006D	2512552J3	-	980,000
2006D	2512552K0	-	34,320,000
2011A	251256BB8	-	1,000,000

Series	CUSIP	Refunded	Tendered
		Par	Par
2011A	251256BC6	-	1,500,000
2011A	251256BD4	-	-
2011A	251256BE2	-	4,000,000
2011A	251256BF9	-	1,750,000
2011A	251256BG7	-	270,000
2011A	251256BH5	-	4,215,000
2011A	251256BJ1	-	4,195,000
2011A	251256BK8	-	4,170,000
2011A	251256BL6	-	4,140,000
2011A	251256BM4	-	4,085,000
2011A	251256BN2	-	4,020,000
2011A	251256BP7	-	-
2011A	251256BQ5	-	125,000
2011A	251256BR3	-	1,035,000
2011A	251256BT9	-	28,470,000
2011A	251256BS1	-	1,865,000
2011B	251256AV5	-	805,000
2011B	251256AW3	-	1,130,000
2011B	251256AX1	-	7,445,000
2011C	251256BV4	-	1,680,000
2011C	251256BW2	-	7,965,000
2011C	251256BX0	-	-
2011C	251256BY8	-	1,390,000
2011C	251256BZ5	-	11,615,000
2011C	251256CC5	-	2,645,000
2011C	251256CA9	-	-
2011C	251256CB7	-	2,225,000

Water System Second Lien Bonds

Series	CUSIP	Refunded	Tendered
		Par	Par
Total		-	\$80,040,000
2001C	2512556V2	-	\$30,000
2001C	2512556W0	-	50,000
2001C	2512556X8	-	100,000
2001C	2512556Y6	-	-
2001C	2512556Z3	-	-
2001C	2512557A7	-	-
2001C	2512557B5	-	40,000
2001C	2512557C3	-	75,000
2001C	2512557D1	-	1,240,000
2001C	2512557E9	-	1,030,000
2001C	2512557F6	-	1,720,000
2001C	2512557G4	-	825,000
2001C	2512557H2	-	1,860,000
2001C	2512557J8	-	50,000
2001C	2512557L3	-	415,000
2001C	2512557K5	-	360,000
2003B	2512555H4	-	1,270,000
2004A	2512553H6	-	590,000
2004A	2512553J2	-	-
2004A	2512553K9	-	1,505,000
2004A	2512553L7	-	4,515,000
2004A	2512553M5	-	2,580,000
2004A	2512553N3	-	4,420,000
2004A	2512553P8	-	6,035,000
2004A	2512553Q6	-	1,735,000
2004A	2512553R4	-	2,200,000
2004A	2512553S2	-	1,840,000
2006B	251256AH6	-	60,000
2006B	251256AJ2	-	50,000
2006B	251256AK9	-	50,000
2006B	251256AL7	-	-
2006B	251256AM5	-	-
2006B	251256AN3	-	185,000

Series	CUSIP	Refunded	Tendered
		Par	Par
2006B	251256AQ6	-	4,745,000
2006B	251256AP8	-	28,820,000
2006C	251255X91	-	1,695,000
2006C	251255Y25	-	590,000
2006C	251255Y33	-	935,000
2006C	251255Y41	-	3,750,000
2006C	251255Y58	-	850,000
2006C	251255Y66	-	1,660,000
2006C	251255Y74	-	275,000
2006C	251255Y82	-	1,890,000

APPENDIX I

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

General Resolution and Supplemental Resolution

The following is a brief summary of certain provisions of the General Resolution, as amended and restated, and the Supplemental Resolution and does not purport to be complete. Reference is made to the General Resolution and the Supplemental Resolution, copies of which are available from the Authority.

Definitions

The following are definitions of certain of the terms used in the General Resolution, the Supplemental Resolution and this Official Statement. Capitalized terms appearing in this Official Statement and not specifically defined herein have the meaning given to such terms in the Resolution (as defined herein).

“Act” means the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as from time to time amended.

“Act 140” means the State Revenue Sharing Act of 1971, Act No. 140 of the Public Acts of 1971 of the State, as from time to time amended.

“AMBAC Assurance” means AMBAC Assurance Corporation, a Wisconsin domiciled stock insurance company.

“AMBAC Insurance Policy” means a municipal bond insurance policy issued by AMBAC Assurance insuring the payment when due of the principal of and interest on any Bonds as provided therein.

“AMBAC Insurance Program Municipal Obligations” means Municipal Obligations purchased with the proceeds of AMBAC Insured Bonds.

“AMBAC Insured Bonds” means Bonds so designated by an Authorized Officer of the Authority, secured by a pledge of the Authority’s interest in AMBAC Insurance Program Municipal Obligations and with respect to which an AMBAC Insurance Policy has been issued.

“Authority” means the Michigan Finance Authority, as successor to Michigan Municipal Bond Authority, created by the Act and the Executive Order, or any board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Authority by the Act and the Executive Order shall be given by law.

“Authorized Denomination” means \$5,000, and integral multiples thereof or such other denominations which shall be specified in a Supplemental Resolution.

“Authorized Officer” means with respect to the Authority, any person who is an “Authorized Officer” as defined in the Authority’s Resolution No. 2013-36 or other resolution of the Authority.

“Available Amount” means for Mandatory Purchase Bonds the amount on deposit in the Revenue Sharing Bond Account of the Revenue Fund not required to pay interest on or to pay the principal at maturity or the Redemption Price of Bonds, and which an Authorized Officer of the Authority directs to be used for the payment of the principal portion of the purchase price of Mandatory Purchase Bonds on any Mandatory Purchase Date, notice of which shall have been given to the Remarketing Agent by the Authority.

“Bond Counsel” means bond counsel as designated by the Authority in a Supplemental Resolution.

“Bondholder” or **“Owner”** or **“Holder”** or **“Holder of Bonds”** or **“Owner of Bonds”** means the registered owner of any Bond.

“Bonds” means the Authority’s Local Government Loan Program Revenue Bonds issued pursuant to the Resolution and Supplemental Resolutions.

“Bond Registrar and Paying Agent” means with respect to any Bond the Bond Registrar and Paying Agent appointed as such by a Supplemental Resolution and any successor thereto, and the Co-Paying Agent to the extent that the Bond Registrar and Paying Agent has delegated responsibilities under the Bond Resolution to the Co-Paying Agent.

“Business Day” means each weekday on which commercial banking institutions in the State and in the State of New York are not required or authorized by law or executive order to remain closed, and on which the New York Stock Exchange, Inc. is not closed.

“Capital Appreciation Bonds” means the Bonds so designated by an Authorized Officer of the Authority which bear interest from their date of issuance and delivery, which interest is compounded semi-annually on each June 1 and December 1 or such other dates as may be specified by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bonds, until paid at the maturity thereof.

“Code” means the Internal Revenue Code of 1986, as amended from time to time and any successor provision, act or statute, and the regulations from time to time promulgated or proposed thereunder.

“Collateral Documents” means such documents as may be required, and so designated by the Authority in a Supplemental Resolution, from a Governmental Unit, its incorporating or establishing municipality or other entity designated in a Supplemental Resolution, including without limitation if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, or a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as

amended, the incorporating or establishing municipality in connection with the purchase by the Authority of Municipal Obligations, including with respect to Revenue Sharing Municipal Obligations and MBIA Insured Revenue Sharing Municipal Obligations, without limitation, the Revenue Sharing Pledge Agreement. Collateral Documents with respect to Municipal Obligations issued pursuant to the Municipal Lighting Authority Act, Act No. 392, Michigan Public Acts of 2012, may include a trust indenture that provides for the deposit of the proceeds of a city's utility users tax to secure such Municipal Obligations.

“Commencement Date” means the date when the term of the Municipal Obligation begins and the obligation of the Governmental Unit to make Loan Repayments accrues.

“Compound Accreted Value” means with respect to each Capital Appreciation Bond, as of the date of computation an amount equal to the principal amount of each Capital Appreciation Bond plus interest accrued and compounded on such Capital Appreciation Bond from its dated date to the June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond) immediately preceding the date of computation or to the date of computation if a June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond), as set forth in schedules of the Compound Accreted Value per \$1,000 (or \$5,000) maturity amount of each Capital Appreciation Bond on each June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond) prepared by an Authorized Officer of the Authority.

“Co-Paying Agent” means with respect to any Bond the Co-Paying Agent, if any, appointed as such by a Supplemental Resolution and any successor thereto.

“Costs of Issuance” means any administrative costs of the Authority or items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale, and issuance of the Bonds, which items of expense shall include, but not be limited to, underwriter's fees, printing costs, cost of reproducing documents, filing and recording fees, initial fees and charges of a Trustee, the initial fees of any liquidity facility issuer, if any, and fees or premiums of any credit facility issuer, if any, costs and expenses of verification agents, the Bond Registrar and Paying Agent, the Co-Paying Agent, the Depository, and the Authority, legal fees and charges, professional consultants' fees, financial advisors' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, the cost of any Reserve Account Security Instrument and other costs, charges and fees in connection with the foregoing, or designated as such in a Supplemental Resolution, and any other items of expense authorized by the Act.

“Cost of Issuance Agreement” means the agreements, if any, between the Authority and the Governmental Units regarding the payment or reimbursement of the Authority's Costs of Issuance.

“Costs of Issuance Fund” means the Costs of Issuance Fund established and so designated by the Resolution.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state.

“Current Interest Bonds” means the Bonds so designated by an Authorized Officer of the Authority which bear interest from their date of issuance and delivery payable semi-annually on such dates as may be specified by an Authorized Officer of the Authority prior to the issuance of such Current Interest Bonds.

“Depository” means with respect to any Bond the Trustee or such other Depository (including without limitation the State Treasurer) appointed as such by a Supplemental Resolution.

“Distributable Aid” means the payments that a Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive from the State under Act 140 or a successor thereto serving the same purpose and which may otherwise be lawfully pledged as security for Municipal Obligations.

“Distributable Aid Ratio” means, with respect to any Governmental Unit and annual distribution period under Act 140, the ratio of the amount of all payments of Distributable Aid that the Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive in such annual period, to the estimated maximum annual principal and interest requirements for the Municipal Obligation, expressed as a decimal equivalent.

“Distributable Sales Tax Ratio” means, with respect to any Governmental Unit and annual distribution period under Act 140, the ratio of the amount of all payments of state sales tax revenues that the Governmental Unit or, if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive under Act 140 in such annual period to the estimated maximum annual principal and interest requirements for the Municipal Obligation expressed as a decimal equivalent.

“Eligible Investment” means, except as otherwise provided in a Supplemental Resolution, such of the following as shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended: (i) Governmental Obligations, (ii) certificates of deposit issued by any bank or trust company whose deposits are insured by the Federal Deposit Insurance Corporation, provided that such certificates of deposit shall be secured by Governmental Obligations with a market value equal to the principal amount thereof over the amount guaranteed by the Federal Deposit Insurance Corporation, (iii) debentures or notes issued by any of the following Federal agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Loan Banks, Export-Import Bank of the United States, Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or, Federal Home Loan Banks, Federal Land Banks (including participation certificates issued by such agencies) and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (iv) an Investment Agreement, (v) obligations the interest on which is excluded from gross income for purposes of federal income tax under the Code and, which have received from all Rating Agencies rating the Bonds, a rating in a Rating Category at least as high as the rating on any Bonds secured by such investment, (vi) commercial paper that has received from all Rating Agencies rating the Bonds, a rating at least as high as the rating on any Bonds secured by such investment, (vii) any other investment permitted by Act and approved by resolution of the Authority which has received from all Rating Agencies rating the Bonds a rating in a Rating Category at least as high as the rating on any Bonds secured by such investment, and (viii) with respect to the AMBAC Insured Bond Account within the Revenue Fund, any investment which is legal for the Authority and which has been approved in writing by AMBAC Assurance.

“Event of Default” means an Event of Default specified under the Resolution.

“Excess Funds” means with respect to the Revenue Account for each Type of Bonds the amount by which the funds on deposit therein exceeds the amount required for the purposes of the Resolution (including future payments of principal and interest on the Bonds of such Type), as certified by an Authorized Officer of the Authority.

“Executive Order” means Executive Order No. 2010-2 issued by the Governor of the State on March 4, 2010 and effective by its terms on May 30, 2010.

“Fees and Charges” means all fees and charges collected by the Authority in connection with Municipal Obligations purchased pursuant to the Resolution.

“Fully Marketable Form” shall have the same meaning under the Resolution as in the Act.

“Government Obligations” means, except as otherwise provided in a Supplemental Resolution, direct general obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Governmental Unit” means a “governmental unit” as defined in the Act which qualifies as “a governmental unit within the meaning of Section 103(b)(3)(a) of the Internal Revenue Code of 1954, as amended, and Sections 141(b)(6)(A) and 141(c)(1) of the Code and, if the context so requires, which has been received a Loan from the Authority from the proceeds of the Bonds.

“Group” shall have the meaning, if any, given in a Supplemental Resolution.

“Interest Payment Date” means, except to the extent otherwise provided in any Supplemental Resolution, (in which case such provision shall govern): (i) with respect to the Transportation Fund Bonds the first February 1 or August 1 which occurs at least 3 months after the original issue date of such Bond, and each February 1 and August 1 thereafter, and (ii) with respect to all other Bonds the first May 1 or November 1 which occurs at least 3 months after the original issue date of such Bond and each May 1 and November 1 thereafter.

“Interest Period” means except as otherwise provided in any Supplemental Resolution, with respect to any Mandatory Purchase Bond, each period during which the interest rate on such Bond is not subject to change in accordance with the provisions of the Resolution, which shall be determined as provided in the Resolution.

“Investment Agreement” means any agreement for the investment of funds held under the terms of the Resolution which will not result in a reduction or withdrawal of any existing rating on any of the Bonds.

“Liquidation Proceeds” means amounts received by the Authority in connection with enforcement of any of the remedies under a Municipal Obligation or Collateral Document after the occurrence of a default which has not been waived or cured.

“Loan” means a loan made by the Authority to a Governmental Unit pursuant to the provisions of the Resolution or a Supplemental Resolution.

“Loan Account” means with respect to each Type of Bonds the Loan Account, for such Type of Bonds within the Loan Fund established and so designated by the Resolution or a Supplemental Resolution.

“Loan Fund” means the Loan Fund established and so designated by the Resolution.

“Loan Repayments” means the payments of principal of and interest on a Municipal Obligation and any other amounts payable by a Governmental Unit pursuant to its Municipal Obligation.

“Local Project Bonds” means Bonds so designated from time to time by an Authorized Officer of the Authority of one or more Types (each Local Project Bond to be of a Type so designated by such Authorized Officer), the Bonds of each such Type being secured by a pledge of the Authority’s interest in one or more Local Project Municipal Obligations.

“Local Project Municipal Obligations” means Municipal Obligations so designated from time to time by an Authorized Officer of the Authority.

“Local Project Bond Reserve Account” means with respect to each Type of Local Project Bonds the account or accounts within the Reserve Fund established and so designated by the Resolution, by a Supplemental Resolution or by an Authorized Officer for each Type of Local Project Bond, if any.

“MBIA” means the Municipal Bond Investors Assurance Corporation and its successors.

“MBIA Insurance Program Revenue Sharing Municipal Obligations” means Municipal Obligations purchased with the proceeds of MBIA Insured Revenue Sharing Bonds.

“MBIA Insured Revenue Sharing Bonds” means Bonds so designated from time to time by an Authorized Officer of the Authority, secured by a pledge of the Authority’s interest in MBIA Insurance Program Revenue Sharing Municipal Obligations, and with respect to which a Municipal Bond Guaranty Insurance Policy has been issued.

“MBIA Insured Revenue Sharing Bond Reserve Account” means the account within the Reserve Fund established and so designated by the Resolution, if any.

“Mandatory Purchase Bonds” means Revenue Sharing Bonds so designated by an Authorized Officer of the Authority.

“Mandatory Purchase Date” means, except to the extent otherwise provided in any Supplemental Resolution, (in which case such provision shall govern), and exclusive of the maturity date, the last day of any Interest Period.

“Mandatory Purchase Notice” means the notice of any Mandatory Purchase Date required to be given by the Bond Registrar and Paying Agent pursuant to the Resolution.

“Mandatory Redemption” shall mean any mandatory redemption made pursuant to the Resolution.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“Municipal Obligation” means an obligation of a Governmental Unit purchased by the Authority with proceeds of the Bonds.

“Municipal Obligation Closing Date” means, with respect to any Municipal Obligation, the date on which such Municipal Obligation is purchased by the Authority, which date shall be specified in writing by an Authorized Officer of the Authority.

“Non-Arbitrage And Tax Compliance Certificate” means a Non-Arbitrage And Tax Compliance Certificate executed by an Authorized Officer of the Authority relating to the use of the proceeds of the Bonds and compliance with the applicable provisions of the Code and regulations promulgated thereunder. It is anticipated that a separate Non-Arbitrage And Tax Compliance Certificate may be executed with respect to each Group or Series of Bonds. All Non-Arbitrage And Tax Compliance Certificates executed by an Authorized Officer of the Authority with respect to any Bond, as such certificates may be amended or supplemented from time to time are collectively referred to as the “Non-Arbitrage And Tax Compliance Certificate”.

“Notice of Election to Retain” means a notice of election to retain Mandatory Purchase Bonds given by the Owner thereof prior to a Mandatory Purchase Date pursuant to the Resolution.

“Notice Parties” means the Authority, the Trustee, the Bond Registrar and Paying Agent, the Co-Paying Agent, the Depository, MBIA with respect to MBIA Insured Revenue Sharing Bonds and any other party so designated by a Supplemental Resolution.

“Original Issue Date” means with respect to each Bond the date on which the Bond is delivered to the original purchasers thereof or other date specified in a Supplemental Resolution.

“Outstanding Bonds” or **“Bonds Outstanding”** means all Bonds which have been authenticated and delivered by the Bond Registrar and Paying Agent under the Resolution or a Supplemental Resolution, except:

- (a) Bonds canceled after purchase in the open market because of payment;
- (b) Bonds deemed paid under the Resolution; and
- (c) Bonds in lieu of which other Bonds have been authenticated under the Resolution.

“Pledge Agreement” or **“School Aid Pledge Agreement”** means a pledge agreement between a Governmental Unit and the Authority regarding the pledge and payment of a Governmental Unit’s school aid pursuant to section 17a of Act 94 of the Public Acts of Michigan of 1979, as amended.

“Pledged Funds” means and includes with respect to each Type of Bond, the appropriate accounts within the Loan Fund, the Reserve Fund, the Revenue Fund, and all moneys, instruments and investments from time to time therein. Pledged Funds does not include the Rebate Fund or the Cost of Issuance Fund.

“Preliminary Rate Determination Date” means the Business Day selected by the Remarketing Agent which is at least three Business Days prior to any Mandatory Purchase Date.

“Purchase Amount” means with respect to any Mandatory Purchase Date the aggregate principal amount of Mandatory Purchase Bonds subject to mandatory purchase on such date and for which no Notice of Election to Retain has been given.

“Qualified School Bonds” means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority’s interest in the Qualified School Municipal Obligations.

“Qualified School Municipal Obligations” means Municipal Obligations fully qualified for participation in the State School Bond Loan Fund pursuant to the provisions of Article IX, Section 16 of the State Constitution and Act No. 108 of the Public Acts of 1961 of the State, as from time to time amended.

“Rate Determination Date” means, with respect to any Interest Period for any Bond the Business Day selected by the Remarketing Agent and acceptable to the Authority, that is not fewer than one nor more than 20 Business Days prior to the first day of such Interest Period and at least one Business Day after the last day on which a Notice of Election to Retain may be given by any Owner of a Bond to which such Interest Period applies.

“Rate Indication” shall have the meaning given to such term in the Resolution.

“Rating Agency” means Moody’s or S&P or such other Rating Agency so designated in a Supplemental Resolution.

“Rating Category” means one of the generic rating categories of Moody’s or S&P or other Rating Agency without regard to any refinement or graduation of such rating category by a numerical modifier or otherwise.

“Rebate Fund” means the special fund so designated and established by the Resolution.

“Rebate Payments” means the payments required to be deposited to the credit of the Rebate Fund pursuant to the Non-Arbitrage and Tax Compliance Certificate.

“Record Date” means the 15th day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in a Supplemental Resolution.

“Redemption Price” means, with respect to any Bond or any portion thereof, the principal amount of such Bond or such portion thereof and any premium thereon payable upon redemption thereof pursuant to the Resolution or a Supplemental Resolution.

“Remarketing Agent” means the remarketing agent or agents for any Bonds appointed by the Supplemental Resolution authorizing such Bonds and any replacement, successor or additional remarketing agent or agents appointed from time to time by the Authority.

“Remarketing Agreement” means any Remarketing Agreement for the bonds entered into by the Authority and a Remarketing Agent as amended, modified or supplemented from time to time.

“Remarketing Amount” means with respect to any Mandatory Purchase Date, the Purchase Amount minus the Available Amount.

“Reserve Account” means, with respect to each Type of Bonds, the Reserve Account, if any, for such Type of Bonds, within the Reserve Fund, established and so designated by the Resolution or a Supplemental Resolution. No Reserve Account has been established for Transportation Fund Bonds, Qualified School Bonds or AMBAC Insured Bonds unless otherwise provided for in a Supplemental Resolution.

“Reserve Account Requirement” means (unless a different Reserve Account Requirement is established with respect to such Type of Bonds by a Supplemental Resolution) with respect to each Type of Bonds for which a reserve account is established, the maximum annual principal and interest requirement (for the then current or any subsequent year) on all Bonds of such Type from time to time Outstanding; provided, that such Requirement shall not exceed the lower of 125% of the average annual principal and interest requirements on such Bonds or 10% of the net proceeds of such Bonds; and provided further, that for Bonds other than Bonds bearing interest at rates fixed until their maturity or mandatory redemption dates, annual interest requirements shall be estimated by using the weighted average of the interest rates for Bonds of such Type for which the interest rates are so fixed, if any, or by such other method as shall be provided in a Supplemental Resolution. The Reserve Account Requirement for any Reserve Account may be satisfied by delivery to the Trustee of a Reserve Account Security Instrument. Notwithstanding the foregoing, the Authority in a Supplemental Resolution may reduce or eliminate the Reserve Account Requirement with respect to any Type or Types of Bond at any time if such reduction or elimination would not result in the reduction or withdrawal of any rating applicable to such Bonds, and in such event such Reserve Account Requirement shall be deemed to be so reduced or eliminated.

“Reserve Account Security Instrument” means a letter of credit, line of credit, policy of insurance, surety bond or similar instrument which will provide for the payment of all or part of the amounts required to be disbursed from a Reserve Account; provided that the Reserve Account Security Instrument shall not result in a reduction of any rating on the Bonds and provided further that with respect to the MBIA Insured Revenue Sharing Bond Reserve Account, the Reserve Account Security Instrument shall be approved in writing by MBIA.

“Reserve Fund” means the Reserve Fund (including therein the Revenue Sharing Bond Reserve Account, the Local Project Bond Reserve Accounts, and the MBIA Insured Revenue Sharing Bond Reserve Account and any other Reserve Accounts established by a Supplemental Resolution) and so designated by the Resolution.

“Resolution” means the Bond Resolution of the Authority adopted and so designated by the Authority, as the same may be supplemented or amended pursuant to the terms thereof.

“Revenue Fund” means the fund established and so designated by the Resolution.

“Revenue Sharing Bonds” means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by the pledge of the Authority’s interest in the Revenue Sharing Municipal Obligations. Revenue Sharing Bonds does not include MBIA Insured Revenue Sharing Bonds.

“Revenue Sharing Bonds Reserve Account” means the account established and so designated by the Resolution.

“Revenue Sharing Municipal Obligations” means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit’s Distributable Aid, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, a pledge of the incorporating municipality’s Distributable Aid, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, a pledge of the establishing municipality’s Distributable Aid. Revenue Sharing Municipal Obligations does not include MBIA Insurance Program Revenue Sharing Municipal Obligations.

“Revenue Sharing Pledge Agreement” means the Revenue Sharing Pledge Agreement between a Governmental Unit, or if such Governmental Unit is a building authority Incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality, and the Authority regarding the pledge and payment of a Governmental Unit’s, or Incorporating municipality’s or establishing municipality’s, Distributable Aid.

“Revenues” means all income derived for the period for which the calculation is being made by or for the account of the Authority from the Municipal Obligations or under the Resolution, including (i) Loan Repayments, (ii) Liquidation Proceeds, and (iii) income from the investment of all funds and accounts created by or pursuant to the Resolution.

“S&P” means Standard & Poor’s Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

“School Aid” means the payments that a Governmental Unit is eligible to receive from the State under the School Aid Act.

“School Aid Act” means the State School Aid Act of 1979, Act 94 of the Public Acts of 1979 of the State, as from time to time amended.

“School Program Bonds” means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority’s interest in School Program Municipal Obligations.

“School Program Municipal Obligations” means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit’s school aid pursuant to a School Aid Pledge Agreement.

“Security” means the Pledged Funds, and other funds, properties and rights of the Authority described in the Resolution as security for the payment of the Bonds.

“Serial Bonds” means Bonds so designated in or pursuant to a Supplemental Resolution authorizing their issuance.

“Series of Bonds” or **“Bonds of a Series”** means a Series of Bonds, if any, authorized and so designated by or pursuant to a Supplemental Resolution.

“State” means the State of Michigan.

“State Qualified School Bonds” means Bonds so designated by an Authorized Officer of the Authority secured by a pledge of the Authority’s interest in the State Qualified School Municipal Obligations.

“State Qualified School Municipal Obligations” means Municipal Obligations fully qualified for participation in the State School Bond Loan Fund pursuant to the provisions of Article IX, Section 16 of the State Constitution and Act No. 92 of the Public Acts of 2005 of the State, as from time to time amended, or under former Act No. 108 of the Public Acts of 1961 of the State, and which are purchased with proceeds of State Qualified School Bonds.

“State Treasurer” means the Treasurer of the State.

“Supplemental Indenture” means an indenture supplemental to or amendatory to the Resolution authorized by resolution of the Authority and entered into by the Authority and a Trustee in accordance with the Resolution. Except as otherwise expressly provided in the Resolution, all provisions of the Resolution applicable to Supplemental Resolutions also apply to Supplemental Indentures.

“Supplemental Resolution” means a resolution supplemental to or amendatory to the Resolution, adopted by the Authority in accordance with the Resolution. The term Supplemental Resolution shall also mean and include a Supplemental Indenture.

“Term Bonds” means Bonds so designated in or pursuant to a Supplemental Resolution authorizing their issuance.

“Transportation Fund Bonds” means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority’s interest in the Transportation Fund Municipal Obligations.

“Transportation Fund Municipal Obligations” means Municipal Obligations secured in part by a pledge of a Governmental Unit’s State Transportation Fund or Motor Vehicle Highway Fund revenues and issued pursuant to Act 143 of the Public Acts of Michigan of 1943, Act 51 of the Public Acts of Michigan of 1951, Act 175 of the Public Acts of Michigan of 1952, or Act 283 of the Public Acts of Michigan of 1909, all as from time to time amended.

“Trustee” shall mean, with respect to each Type of Bond, the Trustee appointed in a Supplemental Resolution, and its respective successor.

“Type” means, with respect to any Bond, the category of Bonds including such Bond that is equally and ratably secured with each other under the Resolution. The Types of Bonds authorized to be issued under the Resolution are AMBAC Insured Bonds, MBIA Insured Revenue Sharing Bonds, Qualified School Bonds, Revenue Sharing Bonds, School Program Bonds, State Qualified School Bonds, Transportation Fund Bonds, and separately designated Types of Local Project Bonds, each such separately designated Type of Local Project Bonds to constitute a Type. Serial or Group designations for Bonds may be made in the Supplemental Resolution authorizing the issuance of the Bonds. Additional Types of Bonds may be authorized to be issued by a Supplemental Resolution. “Type” means with respect to any Municipal Obligation the Type designated of the corresponding Bonds.

Pledge and Establishment of Funds and Accounts

Pledge

The Pledged Funds with respect to each Type of Bonds under the Resolution, including the moneys deposited therein, investments thereof and the proceeds of such investments, if any, are pledged to the Trustee for such Type of Bonds for the payment of the principal of, and interest on, each Type of Bonds in accordance with the terms and provisions of the Resolution. This pledge shall be valid and binding from and after the date of adoption of the Resolution and the Pledged Funds shall immediately be subject to the lien of such pledge without any physical delivery thereof, recordation of the Resolution, or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Any amounts deposited into the Costs of Issuance Fund and the Rebate Fund, are not Pledged Funds and the Holders of Bonds shall not have any lien thereon.

Establishment of Funds

The following special funds and accounts shall be established maintained and held by the Trustee, the Authority or the Depository pursuant to the provisions of the Resolution.

(1) Revenue Fund — Michigan Finance Authority, Local Government Loan Program; and within the Revenue Fund separate accounts designated as the Qualified School Bond Account, the Transportation Fund Bond Account, the Revenue Sharing Bond Account, one or more Local Project Bond Accounts (each to be separately designated by an Authorized Officer of the Authority from time to time for each separately designated Type of Local Project Bonds), the MBIA Insured Revenue Sharing Bond Account, and such additional accounts as shall be created by Supplemental Resolution. The Revenue Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of an Authorized Officer of the Authority, by the Depository.

(2) Loan Fund — Michigan Finance Authority, Local Government Loan Program; and within the Loan Fund separate accounts designated as the Qualified School Bond Loan Account, the Revenue Sharing Bond Loan Account, the Transportation Fund Bond Loan Account, the MBIA Insured Revenue Sharing Bond Loan Account, the School Program Bond Loan Account, the AMBAC Insured Bond Loan Account, the State Qualified School Bond Loan Account, and one or more Local Project Bond Accounts (each to be separately designated by an Authorized Officer of the Authority from time to time for each separately designated Type of Local Project Bonds), and such additional accounts as shall be created by Supplemental Resolution. The Loan Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of the Authority, by the Depository.

(3) Costs of Issuance Fund — Michigan Finance Authority, Local Government Loan Program. The Costs of Issuance Fund shall be held by the Authority, or at the written direction of the Authority, by the Depository, or the Trustee.

(4) Reserve Fund — Michigan Finance Authority Local Government Loan Program; and within the Reserve Fund separate accounts designated as the Revenue Sharing Bond Reserve Account, the MBIA Insured Revenue Sharing Bond Reserve Account, and one or more Local Project Bond Reserve Accounts (to be separately designated by an Authorized Officer of the Authority from time to time for each Type of Local Project Bonds). The Reserve Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of the Authority, by the Depository.

(5) Rebate Fund — Michigan Finance Authority, Local Government Loan Program; and within the Rebate Fund separate accounts designated by a Supplemental Resolution or by a Non-Arbitrage and Tax Compliance Certificate. The Rebate Fund and all accounts therein shall be held by the Authority or at the written direction of the Authority, by the Depository, or the Trustee.

An Authorized Officer of the Authority is authorized by the Resolution to establish and maintain such other accounts and subaccounts in the aforesaid funds and accounts as may be necessary, convenient or required to provide for the Authority's compliance with the covenants of the Authority described below under "Covenants of the Authority."

An Authorized Officer is authorized to direct the Trustee or the Depository in writing to close any fund, account or subaccount established by or pursuant to the Resolution to the extent

such fund, account or subaccount is determined by an Authorized Officer to be unnecessary and thereafter to reopen and reclose such fund, account or subaccount as an Authorized Officer shall determine.

Application of Bond Proceeds

The net proceeds of each Series of Bonds shall be deposited by the Authority as follows:

- (a) In the Costs of Issuance Fund, the sum specified by an Authorized Officer of the Authority; and
- (b) In the Revenue Fund, to the credit of the appropriate account, amounts received as accrued interest, if any, on the corresponding Type of Bonds and amounts specified by an Authorized Officer of the Authority to provide for payment of capitalized interest on Bonds; and
- (c) In the Reserve Fund, to the credit of the appropriate account, amounts equal to the Reserve Account Requirement or sufficient to purchase a Reserve Account Security Instrument; and
- (d) In the Loan Fund, to the credit of the appropriate account, the balance of the proceeds received from the sale of such Series of Bonds.

Loan Fund

- (a) Moneys in each Loan Account of the Loan Fund shall be transferred to the corresponding Reserve Account, if any, to the extent required by the Resolution and shall be disbursed to Governmental Units upon the purchase by the Authority of Municipal Obligations from Governmental Units. Such transfers and disbursements shall be made by the Authority, or by the Trustee or the Depository only upon the written direction of an Authorized Officer of the Authority; and
- (b) All earnings on moneys in any Loan Account of the Loan Fund shall be transferred, as received, to the Revenue Fund, the Costs of Issuance Fund or remain in the Loan Fund as directed in writing by the Authority as received.

Costs of Issuance Fund

Bond proceeds including moneys in the Costs of Issuance Fund, shall be used to pay the Costs of Issuance or to the extent not needed for such purpose transferred to the Revenue Fund pursuant to the written direction of an Authorized Officer of the Authority.

Revenue Fund

All Loan Repayments, moneys transferred from the Loan Fund to provide for payment of capitalized interest on Bonds, Fees and Charges and Liquidation Proceeds held or collected by or on behalf of the Authority shall be deposited upon receipt in the appropriate account of the

Revenue Fund as directed in writing by an Authorized Officer of the Authority. There shall also be deposited in the appropriate account of the Revenue Fund any other moneys made available by the Authority for the purposes of such account from any other source. Moneys (including the proceeds of sale of Investments) from time to time in the Revenue Fund shall be paid out and applied in the following order of priority; provided, however that in each case only amounts on deposit in the account established for a particular Type of Bond shall be used to make payments with respect to such Type of Bonds or transfers to the Reserve Account established for such Type of Bond, and only moneys on deposit in the account corresponding to Bonds of each Type shall be used to make payments with respect to such Bonds or transfers to the Reserve Account of the Reserve Fund corresponding to such Type of Bonds:

(1) At such times as are necessary, to pay the principal of and interest and redemption premium, if any, on any Bonds when due, whether at maturity or upon redemption, redeemed pursuant to the Resolution;

(2) At such times as are necessary to: (i) pay the fees and expenses of the Trustee, the Authority (including costs of issuing Bonds if insufficient amounts are on hand in the Costs of Issuance Fund), the Bond Registrar and Paying Agent, the Co-Paying Agent, the issuer of any Reserve Account Security Instrument, the financial advisors to the Authority and any transfer agent, co-paying agent or independent accountants employed to provide or verify cash flow projections and (ii) any rebate required under the Resolution; provided that an Authorized Officer may authorize the payment of any such fees or expenses prior to the payment of principal or interest on the Bonds;

(3) At such times as are necessary, to reimburse the Reserve Accounts in amounts sufficient to maintain the Reserve Account Requirements or reimburse the issuers of Reserve Account Security Instruments;

(4) Not more often than semiannually, to the extent certified by an Authorized Officer of the Authority as Excess Funds, to the Authority free and clear of the lien of the Resolution, provided however that notwithstanding the foregoing or any other provision of the Bond Resolution Excess Funds may be paid out and applied as otherwise provided in a Supplemental Resolution and provided further, however, that notwithstanding the foregoing or any other provision of the Resolution, Excess Funds in accounts for Bonds with respect to which MBIA has issued a Reserve Account Security Instrument or a Municipal Bond Guaranty Insurance Policy shall first be paid to MBIA to the extent of any reimbursement obligation owing to MBIA thereunder, and Excess Funds in accounts for Bonds with respect to which AMBAC Assurance has issued an AMBAC Insurance Policy shall first be paid to AMBAC Assurance to the extent of any reimbursement obligation owing to AMBAC Assurance thereunder.

Notwithstanding the foregoing, moneys and investments in the Revenue Fund which have been allocated to the redemption of Bonds as to which notice of redemption has been given in accordance with the requirement of the Resolution shall be applied only to such redemption in accordance with the requirements of the Resolution.

In the event a payment on a Municipal Obligation is received and deposited into the Revenue Fund and due to the untimeliness of its tendering, moneys have previously been transferred from a Reserve Account to account for such untimely payment, such payment on a Municipal Obligation up to the amount so transferred shall be deposited in the appropriate Reserve Account to the extent necessary to increase the amount on deposit in such Reserve Account to the Reserve Account Requirement for such Reserve Account, and provided further that notwithstanding any provision of the Resolution in the event a payment on a Municipal Obligation is received and deposited into the Revenue Fund and due to the untimeliness of its tendering, moneys have previously been paid from a Reserve Account Security Instrument to account for such untimely payment, such payment on a Municipal Obligation shall immediately be deposited directly in any account for which a Reserve Account Security Instrument has been issued, as applicable, to the extent necessary to fully reimburse the issuer of the applicable Reserve Account Security Instrument in accordance with its terms and with the terms of any financial guaranty agreement or reimbursement agreement delivered in connection therewith.

Reserve Fund

There shall be deposited in and credited to the Reserve Accounts all moneys transferred from the Revenue Fund as described above under “Revenue Fund.”

Amounts in the Reserve Fund shall be paid out and applied by the Authority, the Trustee or the Depository solely to pay the items enumerated in paragraphs (1), (2), (but only to the extent of any rebate required by the Resolution), and (4) above under “The Revenue Fund” in that order of priority, to the extent insufficient amounts are available to pay such items in the Revenue Fund, provided that the Trustee shall pay, and is authorized to pay, to the extent of any reimbursement obligation owing to the issuer of any Reserve Account Security Instrument securing any Bonds, all moneys in the Reserve Account for such Bonds directly to the issuer of the applicable Reserve Account Security Instrument. Any earnings on moneys deposited in the Reserve Fund shall, to the extent such earnings cause the amount credited to the Reserve Fund to exceed the applicable Reserve Account Requirement, be transferred as received to the Revenue Fund; provided, however, that amounts on deposit in each Reserve Account shall be transferred and applied only with respect to the corresponding Type of Bonds, and amounts on deposit in the MBIA Insured Revenue Sharing Bond Reserve Account shall be transferred and applied for the purposes enumerated in paragraph 2 above under “Revenue Fund” only with the consent of MBIA. Notwithstanding any other provision of the Resolution, the delivery of a Reserve Account Security Instrument as replacement for an existing cash deposit in any Reserve Account is authorized. The Trustee is hereby authorized and directed (i) to deliver a demand for payment under any Reserve Account Security Instrument issued by MBIA in accordance with the terms of such Reserve Account Security Instrument at least one day prior to the date on which funds are required to be paid under such Reserve Account Security Instrument, and (ii) to maintain adequate records (such records to be verified to the Trustee by MBIA) as to the amount available to be drawn at any given time under each Reserve Account Security Instrument issued by MBIA and held by the Trustee, and as to the amounts of any reimbursement obligation thereunder, or under the financial guaranty insurance agreement between MBIA and the Authority, paid and owing to MBIA.

Revenue Sharing Pledge Agreements or Pledge Agreements

The Authority shall cause the State Treasurer to agree, pursuant to the applicable Revenue Sharing Pledge Agreement or Pledge Agreement, to immediately transfer to the appropriate Bond Account of the Revenue Fund, available Distributable Aid (including in the case of a Governmental Unit which is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, available Distributable Aid of the incorporating municipality, and in the case of a Governmental Unit which is a tax increment finance authority established under Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority established under Act 281, Michigan Public Acts of 1986, as amended, available Distributable Aid of the establishing municipality) or state school aid, respectively, with respect to a Governmental Unit which has failed to pay any Loan Repayment when due under the applicable Municipal Obligation, and thereafter to continue to make such transfers to the extent provided by such Revenue Sharing Pledge Agreement or Pledge Agreement. The Authority, the Depository, or the Trustee, as the case may be, shall notify the State Treasurer in each case if a Governmental Unit (a) fails to pay at least five Business Days prior to the date when due any payments required to be made pursuant to any MBIA Insurance Program Revenue Sharing Municipal Obligation; (b) fails to pay at least two days prior to the date when due, any payments required to be made pursuant to any Revenue Sharing Municipal Obligation or (c) fails to pay at least five Business Days prior to the date when due any payments required to be made pursuant to any School Program Municipal Obligation. Such notice shall contain a request that the State Treasurer immediately transfer payments pursuant to the applicable Revenue Sharing Pledge Agreement or Pledge Agreement.

Rebate Fund

All Rebate Payments shall be deposited into the Rebate Fund. The Amounts in the Rebate Fund shall be held in trust and applied as provided in the Resolution and in the Non-Arbitrage and Tax Compliance Certificate.

Amounts Remaining in Funds and Accounts

Any amounts remaining in any Fund or account after full payment of the Bonds secured by such Fund or account or provision for payment thereof and all fees, charges and expenses have been paid shall be distributed by the Depository or the Trustee to the Authority, or as otherwise provided in a Supplemental Resolution; provided, however, that any amounts owing to MBIA and payable from such Fund or account shall first be paid to MBIA and any amounts owing to AMBAC Assurance and payable from such Fund or account shall be first paid to AMBAC Assurance.

Investment of Funds

Investment of Funds and Accounts Held

Unless otherwise provided in a Supplemental Resolution, moneys in the Loan Fund, the Costs of Issuance Fund, the Reserve Fund, the Rebate Fund and the Revenue Fund shall be

invested by the Authority, or at the direction of the Authority by the Trustee or the Depository in Eligible Investments, the maturity, redemption date or purchase date at the option of the holder of which shall coincide as nearly as practicable with the times at which moneys are received by the Authority for the purposes of such fund. Notwithstanding the foregoing, moneys in the MBIA Insured Revenue Sharing Bond Account of the Revenue Fund, the MBIA Insured Revenue Sharing Bond Loan Account of the Loan Fund or the MBIA Insured Revenue Sharing Bond Reserve Account of the Reserve Fund shall be invested only in those Eligible Investments which are designated to the Trustee in writing by an Authorized Officer of the Authority and approved in writing by MBIA; provided that such designation may be changed from time to time by an Authorized Officer of the Authority with the written approval of MBIA.

Obligations purchased as an investment of moneys in any fund or account held by the Authority, the Depository or the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account; provided that the income or interest earned by, or increment to, any fund or account shall be transferred as provided in the Resolution.

In computing the amount in any fund or account held by the Authority, the Depository or the Trustee under the provisions of the Resolution, obligations purchased as an investment of moneys therein shall be valued at the lower of market or cost as adjusted by amortization of the discount or premium paid upon purchase of such obligations ratably to their respective maturities.

The Authority, the Depository or the Trustee shall sell at the best price obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account for which such investment was made. The Depository and the Trustee shall advise the Authority in writing, on or before the 15th day of each calendar month, of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month or such other interval as directed in writing by an Authorized Officer of the Authority.

Liability of Trustee, Depository and Authority for Investments

Neither the Depository, the Trustee nor the Authority shall be liable or responsible for the making of any investment authorized by the provisions of the Resolution, in the manner therein provided, or for any loss resulting from any such investment so made.

The Trustee and the Depository

The Trustee and the Depository with respect to the Series 2014D Bonds shall file with the Authority its acceptance of the trusts and obligations imposed upon it by the Resolution and agrees to perform such trusts and obligations, but only upon and subject to, among others, the following express terms and conditions:

(1) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such

duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by the Resolution (and, with respect to the MBIA Insured Revenue Sharing Bonds only, use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use in the circumstances in the conduct of that corporate trustee's own affairs).

(2) The Trustee may execute any of the trusts or powers of the Resolution and perform any of its duties by or through attorneys, agents, receivers or employees, and shall be entitled to act upon the opinion or advice of its counsel concerning all matters thereof, and may in all cases be reimbursed under the Resolution for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust thereof. The Trustee may act upon an opinion of counsel and shall not be responsible for any loss or damage resulting from any action or nonaction by it taken or omitted to be taken in good faith in reliance upon such opinion of Counsel.

(3) The permissive right of the Trustee to do things enumerated in the Resolution shall not be construed as a duty and the Trustee shall not be answerable for other than its gross negligence or willful default. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(4) Before taking any action under the Resolution, whether permissive or mandatory, the Trustee may require that reasonable security and/or a reasonably satisfactory indemnification be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its gross negligence or willful misconduct.

Covenants of the Authority

Under the Resolution, the Authority covenants and agrees with the Bondholders as follows:

(1) The Authority shall duly and punctually pay or cause to be paid the principal or Redemption Price of every Bond and the interest, if any, thereon, at the dates and places and in the manner provided in the Bond, according to the true intent and meaning thereof.

(2) The Authority is duly authorized pursuant to law to issue the Bonds and to adopt the Resolution and to pledge the Pledged Funds, and other moneys, securities, funds and property pledged by the Resolution in the manner and to the extent provided by the Resolution or a Supplemental Resolution. The Pledged Funds, Security, and other moneys, securities, funds and property so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution except as otherwise provided in the Resolution or a Supplemental Resolution, and all action on the part of the Authority to that end will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolutions providing for the issuance of Bonds. The Authority shall at all times, to the extent

permitted by law, defend, preserve and protect the pledge of the Pledged Funds, Security, and other moneys, securities, funds and property pledged under the Resolution and all the rights of the Bondholders and the Trustee under the Resolution against all claims and demands of all persons whomsoever.

(3) The Authority shall keep proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Municipal Obligations, payments thereof and all funds and accounts established by the Resolution, which shall, except as otherwise provided by law, at all reasonable times be subject to the inspection by the Trustee, MBIA and the owners of an aggregate of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding or their representatives duly authorized in writing.

(4) The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution, or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority.

(5) The Authority shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness, other than the Bonds, secured by a charge and lien on the Pledged Funds, and other moneys, securities, funds and property pledged by the Resolution except as provided in the Resolution or Supplemental Resolution.

(6) The Authority shall diligently take all reasonable steps, actions and proceedings necessary for the enforcement of all terms covenants and conditions of purchases made by the Authority which shall affect the prompt collection of payments under the Municipal Obligations including the enforcement of the Municipal Obligations. Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Municipal Obligation and to protect and enforce the rights and interests of Bondholders under the Resolution the Authority shall commence proceedings against the Governmental Unit in default under the provisions of Municipal Obligations in protection and enforcement of its rights under such Municipal Obligations and bring appropriate action to collect any unpaid balance due on the Municipal Obligations.

(7) Notwithstanding any other provision of the Resolution, the Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly to acquire any investment property, the acquisition of which would cause any of the Bonds to be an "arbitrage bond" as defined in Section 148(a) of the Code. The Authority covenants and agrees that to the extent permitted by law, it shall take all actions within its control necessary to maintain and shall not take any actions the taking of which would adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Bond proceeds and money deemed to be Bond proceeds, all as more fully set forth in the Non-Arbitrage and Tax Compliance Certificate. Amounts required to be deposited in the Rebate Fund shall be determined by or at the direction of the Authority at such times as are required by the Non-Arbitrage And Tax Compliance Certificate. To the extent

the Authority determines that there are excess moneys in the Rebate Fund, such excess moneys shall be paid to the Authority.

Without limitation to the foregoing, the Authority covenants and agrees to pay to the United States (but only to the extent of moneys available therefor under the Resolution) any amount required to be paid by the Authority to the United States pursuant to Section 148(f) of the Code, at the times, in the amounts and at the places required thereby in order to maintain the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation.

(8) The Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly in a manner which would result in the exclusion of the Bonds from the treatment afforded by Section 103(a) of the Code for any reason including without limitation by reason of the classification of such Bonds as “private activity bonds” within the meaning of Section 141(a) of the Code, or as federally guaranteed bonds as provided in Section 149(b) of the Code.

Supplemental Resolutions

Supplemental Resolutions Not Requiring Consent of Bondholders

The Authority may, without the consent of or notice to any of the Bondholders and for any one or more of the following purposes, adopt at any time any Supplemental Indenture or Indentures, which shall be effective in accordance with its terms upon execution and delivery by the Trustee and the Authority, or any Resolution or Supplemental Resolution, which shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof, certified by an Authorized Officer of the Authority:

- (a) to cure any ambiguity or formal defect or omission in the Resolution;
- (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to subject to the Resolution additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Resolution or any resolution supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Resolution or any resolution supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(e) to evidence the appointment of a separate or the succession of a new Trustee, Bond Registrar and Paying Agent, Co-Paying Agent or Depository under the Resolution;

(f) to satisfy the requirements of Moody's or S&P or other national rating agencies rating the Bonds in order to obtain, maintain or improve the rating on any of the Bonds;

(g) to provide for the orderly sale of Bonds or purchase of Municipal Obligations;

(h) to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes, to prevent interest on the Bonds from being subject to any alternative minimum tax (other than an alternative minimum tax which applies to all tax-exempt bonds generally) and to maintain the exemption of the Bonds and the interest thereon from State taxation;

(i) to provide for additional or different Types of Bonds;

(j) to issue refunding bonds pursuant to the Resolution;

(k) to reduce or eliminate the Reserve Account Requirement with respect to any Type of Bonds if such reduction or elimination is otherwise permitted under the Resolution;

(l) to provide for the issuance of any Series or Group of Bonds and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(m) to provide for the issuance of Bonds of any Type bearing interest at variable interest rates, or with variable interest periods or subject to mandatory purchase at the option of the Owner thereof;

(n) to provide for the purchase of bond insurance or other credit or liquidity support for any Bond;

(o) to provide for the purchase or acquisition of one or more Reserve Account Security Instruments;

(p) to effect any other changes in the Resolution which, in the judgment of the Trustee, are not to the prejudice of the Trustee or the Bondholders; and

(q) to accomplish, implement, or give effect to any other action which is authorized or required by the Resolution.

Supplemental Resolutions Requiring Consent of Bondholders

The owners of not less than two-thirds in aggregate principal amount of the Bonds Outstanding which are affected shall have the right, from time to time, anything contained in the Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority and the acceptance by the Trustee of such other supplemental resolution or resolutions and Supplemental Indentures as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions affecting or relating to such Type of Bonds contained in the Resolution or in any Supplemental Resolution; provided, however, that there shall not be permitted, other than in accordance with the Resolution and the terms of the Bonds with respect to each Type of Bonds (1) without the consent of the owners of all then Outstanding Bonds of such type, (a) an extension of the maturity date of the principal of or the interest Payment Date for interest on any Bond of such type, or (b) a reduction in the principal amount of any Bond of such type or the rate of interest thereon, or (c) a privilege or priority of any Bond or Bonds of a Type over any other Bond or Bonds of the same Type, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Resolution, or (e) the creation of any lien other than a lien ratably securing all of the Bonds of the same Type at any time Outstanding under the Resolution, or (2) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee or Depository without the written consent of the Trustee or the Depository, respectively.

If at any time the Authority shall request the Trustee to accept any such Supplemental Resolution, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed Supplemental Resolution to be mailed by registered or certified mail to MBIA and each owner of a Bond at the address shown on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Resolution and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days, or such longer period as shall be prescribed by the Authority, following the mailing of such notice, the owners of not less than two-thirds in aggregate principal amount of the Bonds of each Type affected by such Supplemental Resolution Outstanding at the time of the execution of any such Supplemental Resolution shall have consented to and approved the adoption thereof as provided in the Resolution, no owner of any Bond shall have any right to object to any of the terms and provisions contained in such proposed Supplemental Resolution, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the adoption of any such Supplemental Resolution, the Resolution shall be and be deemed to be modified, supplemented and amended in accordance therewith.

Notice of Amendments

Promptly after the adoption by the Authority of any Supplemental Resolution, the Trustee shall mail a notice, setting forth in general terms the substance thereof, to any Bondholder requesting the same in writing and each Rating Agency then rating the affected Bonds. Any

failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

Supplemental Non-Arbitrage and Tax Compliance Certificates

The Authority may, from time to time and at any time, amend, supplement or modify the Non-Arbitrage and Tax Compliance Certificate, to the extent permitted by law, to maintain the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation under the Code; provided however the Authority shall receive the opinion of Bond Counsel stating that such amendment, supplement or modification is necessary or desirable to maintain such exclusion of the interest on the Bonds (or the exclusion of the interest on the Municipal Obligations) prior to amending, supplementing or modifying the Non-Arbitrage and Tax Compliance Certificate.

Consent of MBIA

Notwithstanding any other provision of the Resolution, for so long as any Reserve Account is funded in whole or in part by a Reserve Account Security Instrument issued by MBIA or a Municipal Bond Guaranty Insurance Policy is in effect and MBIA is not in default of payment obligations thereunder, the Authority shall not amend or approve the amendment of (i) any provision of the Resolution relating to the Bonds secured thereby, (ii) any corresponding Municipal Obligation, (iii) any Collateral Document relating to a corresponding Municipal Obligation, or (iv) any Revenue Sharing Pledge Agreement or Pledge Agreement relating to a corresponding Municipal Obligation, without the prior written consent of MBIA.

Defaults and Remedies

Events of Default

Each of the following events is an “Event of Default” under the Resolution:

(a) Default in the payment of the principal of or interest on any Bond after the same shall become due, whether at maturity, stated date of payment or upon call for redemption, provided that an Event of Default shall be deemed to exist only with respect to those Bonds of the same Type as the Bond with respect to which such failure occurred and provided further that for purposes of determining whether an Event of Default has occurred or is continuing under this paragraph (a), payments by AMBAC Assurance under any AMBAC Insurance Policy shall not be taken into account; or

(b) With respect to each Type of Bonds, the Authority shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, or in the Bonds of such Type contained and continuance of such default for a period of ninety (90) days after written notice thereof by the Trustee or the owners of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds of such Type, or in the case of MBIA Insured Revenue Sharing Bonds, MBIA, or in the case of AMBAC Insured Bonds, AMBAC Assurance, provided, however, that an Event of Default shall not be deemed to

exist under the provisions of this clause (b) so long as the Authority shall be provided with or have moneys sufficient in amount to pay the principal of and interest on all Bonds of such Type and expenses authorized to be paid under the Resolution as the same shall become due.

Remedies

With respect to each Type of Bonds:

(a) Upon the happening and continuance of any Event of Default, then, and in each such case the Trustee may (and in the case of MBIA Insured Revenue Sharing Bonds, with the written consent of MBIA) (and in the case of AMBAC Insured Bonds, with the prior written consent of AMBAC Assurance) proceed, and upon the written request of the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds, or, in the case of MBIA Insured Revenue Sharing Bonds, MBIA (provided that if both MBIA and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds shall control), or, in the case of AMBAC Insured Bonds, AMBAC Assurance (provided that if both AMBAC Assurance and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds shall control), shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights at the direction and with the consent of MBIA (in the case of MBIA Insured Revenue Bonds) and at the direction and with the consent of AMBAC Assurance (in the case of AMBAC Insured Bonds):

(1) by mandamus or other suit, action or proceedings at law or in equity, to enforce the rights of the Bondholders; and to require the Authority to carry out any other agreement with Bondholders and to perform its duties under the Act and the Executive Order;

(2) by bringing suit upon the Bonds;

(3) by action or suit, requiring the Authority to account as if it were the trustee of an express trust for the Holders of Bonds;

(4) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of Bonds;

(5) by requiring the Authority to enforce the rights of the Authority under Municipal Obligations or, if not prohibited by Supplemental Resolution, to sell the Municipal Obligations;

(6) by bringing an action or suit to obtain any other remedy available at law or equity;

(7) if not prohibited by Supplemental Resolutions, by declaring all Bonds, of the Type or Types with respect to which an Event of Default is deemed to exist, due and payable; and if all defaults shall have been cured, then, with the written consent of the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds of such Type (and in the case of AMBAC Insured Bonds, the prior written consent of AMBAC Assurance) to annul such declaration and its consequences; and provided that in the case of MBIA Insured Revenue Sharing Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of MBIA, and provided further that in the case of AMBAC Insured Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of AMBAC Assurance.

(b) The Trustee shall give notice of any Event of Default to the Authority and MBIA with respect to MBIA Insured Revenue Sharing Bonds and AMBAC Assurance with respect to AMBAC Insured Bonds, in the event of default as promptly as practicable after the occurrence of an Event of Default becomes known to the Trustee, and shall give notice in writing to the Governor of the State, the State Treasurer, the Attorney General of the State and the Authority not less than thirty days prior to declaring the principal of the Bonds due and payable after an Event of Default.

(c) In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, interest or otherwise, under any provision of the Resolution or of the Bonds, and unpaid, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from Pledged Funds, in any manner provided by law, the moneys adjudged or decreed to be payable.

Application of Moneys

(a) With respect to Bonds of each Type all moneys received by the Trustee pursuant to any right given or action taken upon an Event of Default, including by virtue of action taken under provisions of any Bond or Municipal Obligation, shall, after payment of the reasonable costs and expenses of the proceedings resulting in the collection of such moneys and of the reasonable expenses, liabilities and advances incurred or made by the Trustee, be applied, along with any other moneys available for such purposes, unless the principal of all the Bonds of such Type shall have become due and payable:

FIRST—To the payment to the persons entitled thereto of installments of interest in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment to the persons entitled thereto, without any discrimination or privilege;

SECOND—To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due at stated maturity or pursuant to a call for redemption (other than Bonds called for redemption for the payment of which moneys are held pursuant to the other provisions of the Resolution), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

THIRD—To be held as provided under the heading “Pledge and Establishment of Funds and Accounts” above for the payment to the persons entitled thereto as the same shall become due of the amounts payable pursuant to the Resolution; provided, that payments made under a Municipal Bond Guaranty Insurance Policy shall only be used for payments of principal of and interest on the MBIA Insured Revenue Sharing Bonds in accordance with the terms of the Municipal Bond Guaranty Insurance Policy; and provided further that payments made under an AMBAC Insurance Policy issued with respect to the AMBAC Insured Bonds shall only be used for payments of principal and interest on the AMBAC Insured Bonds in accordance with the terms of the AMBAC Insurance Policy.

(b) If the principal of all the Bonds of any Type shall have become due, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds and amounts payable as described in paragraphs (2) through (4) under “Revenue Fund” under this caption, with principal and interest to be paid first without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege, and then amounts payable as described in paragraphs (2) through (4) under “Revenue Fund” under this caption to be paid second.

Whenever moneys are to be applied by the Trustee pursuant to the provisions described above, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine (provided, however, that in the case of AMBAC Insured Bonds such determination shall only be made with the prior written consent of AMBAC Assurance), having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future; the deposit or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The

Trustee shall not be required to make payment of principal to any Bondholders unless such Bond shall be presented to the Trustee.

Termination of Proceedings

In case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason or determined adversely to the Trustee, then in every such case the Authority, the Trustee, MBIA, AMBAC Assurance, and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee, the Authority, MBIA, AMBAC Assurance, and the Bondholders shall continue as though no such proceeding had been taken.

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of fifty-one percent (51%) in principal amount of the Bonds Outstanding of any Type, and, in the case of MBIA Insured Revenue Sharing Bonds (but only if no inconsistent direction is given by the Owners of not less than fifty-one percent (51%) in principal amount of MBIA Insured Revenue Sharing Bonds), MBIA, and, in the case of AMBAC Insured Bonds (but only if no inconsistent direction is given by owners of not less than fifty-one percent (51%) in principal amount of AMBAC Insured Bonds), AMBAC Assurance, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings with respect to Bonds of such Type to be taken by the Trustee under the Resolution, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Resolution and any applicable Supplemental Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Rights of Bondholders

With respect to Bonds of any Type, no Holder of any Bond shall have any right to institute any suit, action or other proceeding under the Resolution, or for the protection or enforcement of any right thereunder or any right under law unless such Bondholder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding of such Type, with the consent of MBIA with respect to the MBIA Insured Revenue Sharing Bonds, and with the consent of AMBAC Assurance with respect to AMBAC Insured Bonds, shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Resolution or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are thereby

declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolution or for any other remedy thereunder or under law. It is understood and intended that no one or more Bondholders thereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution, or to enforce any right thereunder or under law with respect to the Bonds or the Resolution, except in the manner therein provided, and all proceedings shall be instituted, had and maintained in the manner therein provided and for the benefit of all Holders of the Outstanding Bonds of each Type. Notwithstanding the foregoing provisions, the obligation of the Authority shall be absolute and unconditional to pay the principal of and interest on the Bonds to the respective Holders thereof at the respective due dates thereof and nothing in the Resolution shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least fifty-one percent (51%) in principal amount of the Bonds Outstanding of the Type to which such suit relates, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or interest on any Bond on or after the respective due date thereof expressed in such Bond.

Possession of Bonds by Trustee Not Required

All rights of action under the Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds, subject to the provisions of the Resolution.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or to the Holders of the Bonds or MBIA with respect to MBIA Insured Revenue Sharing Bonds, or AMBAC Assurance with respect to AMBAC Insured Bonds, is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Resolution or thereafter existing at law or in equity or by statute.

No Waiver of Default

No delay or omission of the Trustee or of any Holder of the Bonds or MBIA with respect to MBIA Insured Revenue Sharing Bonds, or AMBAC Assurance with respect to AMBAC Insured Bonds, to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Resolution to the Trustee, and the Holders of the Bonds, MBIA, or AMBAC, respectively, may be exercised from time to time and as often as may be deemed expedient.

Notice of Event of Default

With respect to the Bonds of each Type, the Trustee shall give to the Owners of such Bonds notice of each Event of Default respecting such Bonds known to the Trustee as soon as reasonably practicable after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof by first class mail to all registered owners of such Bonds, as the names and addresses of such owners appear upon the books for registration and transfer of Bonds as kept by the Bond Registrar and Paying Agent.

Defeasance

Any Bond will be deemed to be paid within the meaning of the Resolution when (a) payment of the principal of such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption), either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Depository or the Trustee in trust and irrevocably setting aside exclusively for such payment sufficient moneys to make such payment and/or Government Obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and (b) all necessary and proper fees, premiums, compensation and expenses of the Trustee, the Depository, Bond Registrar and Paying Agent, Co-Paying Agent, the Authority, and any co-registrar or transfer agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond is deemed to be paid under the Resolution, as aforesaid, such Bond will no longer be secured by or entitled to the benefits of the Resolution, except with respect to provisions relating to the payment of the principal of and interest on such Bond from such moneys or Government Obligations and the related duties of the Depository, Bond Registrar and Paying Agent or the Trustee.

Notwithstanding the foregoing paragraph, no deposit described under clause (a) (ii) of such paragraph will be deemed a payment of such Bonds (1) until the Authority has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions: (i) stating the date when the principal or each such Bonds is to be paid, whether at maturity or on a redemption date, (ii) to call for redemption pursuant to the Resolution any Bonds to be redeemed prior to maturity and (iii) if all the Bonds to be redeemed are not to be redeemed within 30 days, to mail, as soon as practicable, in the manner prescribed by the Resolution for notices of redemption, a notice to the

owners of such Bonds that the deposit required by (a)(ii) has been made with the Depository or the Trustee and that said Bonds are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds; and (2) if any Bonds are to be redeemed within the next 30 days, until proper notice of redemption of those Bonds shall have been given.

Notwithstanding any other provision described under this subheading, in the event that the principal and/or interest due on any MBIA Insured Revenue Sharing Bonds shall be paid by MBIA pursuant to a Municipal Bond Guaranty Insurance Policy, such Bonds shall continue to exist and MBIA shall be subrogated to the rights of such registered owners.

Notwithstanding any other provision under this subheading, in the event that the principal and/or interest due on any AMBAC Insured Bonds shall be paid by AMBAC Assurance pursuant to an AMBAC Insurance Policy, such AMBAC Insured Bonds, shall remain Outstanding, not by reason of such payment be considered defeased or paid by the Authority and the assignment and pledge of the Security and all covenants, agreements and other obligations of the Authority to the registered owners of such AMBAC Insured Bonds shall continue to exist and AMBAC Assurance shall be subrogated to the rights of such registered owners.

Notwithstanding the foregoing paragraph, (a), no deposit under (ii) of clause (a) above will be deemed a payment of AMBAC Insured Bonds unless (A) the sufficiency of the escrowed cash and non-callable Government Obligations to provide for the payment of debt service on such AMBAC Insured Bonds has been verified in full (the "Verification") by an independent nationally recognized certified public accountant and (B) AMBAC Assurance has been provided a copy of the Verification, an executed copy of the escrow agreement and an opinion of Bond Counsel to the effect that such Bonds are no longer "Outstanding" under the Bond Resolution, each of which shall be in form and substance acceptable to AMBAC Assurance.

Provisions Relating to AMBAC Insured Bonds

Any provision of the Bond Resolution expressly recognizing or granting rights in or to AMBAC Assurance may not be amended in any manner which affects the rights of AMBAC Assurance hereunder without the prior written consent of AMBAC Assurance.

Unless otherwise provided in this Section, AMBAC Assurance's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution or any amendment, supplement or change to or modification of the Bond Resolution affecting the AMBAC Insured Bonds; (ii) removal of the Trustee or paying Agent for the AMBAC Insured Bonds and selection and appointment of any successor trustee or paying agent for the AMBAC Insured Bonds; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

To the extent permitted by law, anything in the Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein with respect to the AMBAC Insured Bonds, AMBAC Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for

the benefit of the Bondholders under the Bond Resolution, including, without limitation: (i) the right to accelerate the principal of the AMBAC Insured Bonds as described in the Bond Resolution and (ii) the right to annul any declaration of acceleration with respect to the AMBAC Insured Bonds, and AMBAC Assurance shall also be entitled to approve all waivers of events of default with respect to the AMBAC Insured Bonds.

Upon the occurrence of an event of default, the Trustee may, with the consent of AMBAC Assurance, and shall, at the direction of AMBAC Assurance or 51% of the Bondholders with the consent of AMBAC Assurance, by written notice to the Authority and AMBAC Assurance, declare the principal of the AMBAC Insured Bonds to be immediately due and payable, whereupon that portion of the principal of the AMBAC Insured Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond Resolution or in the AMBAC Insured Bonds to the contrary notwithstanding.

While the AMBAC Insurance Policy is in effect, the Authority or the Trustee [as appropriate] shall furnish to AMBAC Assurance:

- (a) as soon as practicable after the filing thereof, a copy of any financial statement of the Authority and a copy of any audit and annual report of the Authority;
- (b) a copy of any notice to be given to the registered owners of the AMBAC Insured Bonds, including, without limitation, notice of any redemption or defeasance of AMBAC Insured Bonds, and any certificate rendered pursuant to the Bond Resolution relating to the security for the AMBAC Insured Bonds; and
- (c) such additional information it may reasonably request.

The Trustee or Authority [as appropriate] shall notify AMBAC Assurance of any failure of the Authority to provide relevant notices, certificates, etc.

The Authority will permit AMBAC Assurance to discuss the affairs, finances and accounts of the Authority or any information AMBAC Assurance may reasonably request regarding the security for the AMBAC Insured Bonds with appropriate officers of the Authority. The Trustee or Authority [as appropriate] will permit AMBAC Assurance to have access to and to make copies of all books and records relating to the AMBAC Insured Bonds at any reasonable time except as otherwise provided by law.

AMBAC Assurance shall have the right to direct an accounting at the Authority's expense, and the Authority's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from AMBAC Assurance shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long a compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the AMBAC Insured Bonds.

Notwithstanding any other provision of the Bond Resolution, the Trustee or Authority [as appropriate] shall immediately notify AMBAC Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest at required and immediately upon the occurrence of any event of default hereunder.

As long as the AMBAC Insurance Policy shall be in full force and effect, the Authority, the Trustee and any Paying Agent agree to comply with the following provisions:

(a) At least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the AMBAC Insured Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Trustee or Paying Agent, if any, shall so notify AMBAC Assurance. Such notice shall specify the amount of the anticipated deficiency, the AMBAC Insured Bonds to which such deficiency is applicable and whether such AMBAC Insured Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, has not so notified AMBAC Assurance at least one (1) day prior to an Interest Payment Date, AMBAC Assurance will make payments of principal or interest due on the AMBAC Insured Bonds on or before the first (1st) day next following the date on which AMBAC Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

(b) The Trustee or Paying Agent, if any, shall, after giving notice to AMBAC Assurance as provided in (a) above, make available to AMBAC Assurance and, at AMBAC Assurance's direction, to the United States Trust Company of New York, as insurance trustee for AMBAC Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts for the AMBAC Insured Bonds maintained under the Bond Resolution.

(c) The Trustee or Paying Agent, if any, shall provide AMBAC Assurance and the Insurance Trustee with a list of registered owners of AMBAC Insured Bonds entitled to receive principal or interest payments from AMBAC Assurance under the terms of the AMBAC Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of AMBAC Insured Bonds entitled to receive full or partial interest payments from AMBAC Assurance and (ii) to pay principal upon AMBAC Insured Bonds surrendered to the Insurance Trustee by the registered owners of AMBAC Insured Bonds entitled to receive full or partial principal payments from AMBAC Assurance.

(d) The Trustee or Paying Agent, if any, shall, at the time it provides notice to AMBAC Assurance pursuant to (a) above, notify registered owners of

AMBAC Insured Bonds entitled to receive the payment of principal or interest thereon from AMBAC Assurance (i) as to the fact of such entitlement, (ii) that AMBAC Assurance will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from AMBAC Assurance, they must surrender their AMBAC Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such AMBAC Insured Bonds to be registered in the name of AMBAC Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from AMBAC Assurance, they must surrender their AMBAC Insured Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such AMBAC Insured Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee or Paying Agent, if any, has noticed that any payment of principal of or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time AMBAC Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from AMBAC Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to AMBAC Assurance its records evidencing the payments of principal of and interest on the AMBAC Insured Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted AMBAC Assurance under the Bond Resolution, AMBAC Assurance shall, to the extent it makes payment of principal of or interest on AMBAC Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the AMBAC Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note AMBAC Assurance's rights as subrogee on the registration books of the Authority maintained by the Trustee or Paying Agent, if any, upon receipt from AMBAC Assurance of proof of the payment of interest thereon to the registered owners of the AMBAC Insured Bonds, and (ii) in the case of

subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note AMBAC Assurance's rights as subrogee on the registration books of the Authority maintained by the Trustee or Paying Agent, if any, upon surrender of the AMBAC Insured Bonds by the registered owners thereof together with proof of the payment of principal thereof.

1. The Trustee (or Paying Agent) may be removed at any time at the request of AMBAC Assurance, for any breach of the trust set forth herein.

2. AMBAC Assurance shall receive prior written notice of any Trustee (or Paying Agent) resignation.

3. Every successor Trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital or surplus of not less than \$75,000,000 and acceptable to AMBAC Assurance. Any successor Paying Agent, if applicable, shall not be appointed unless AMBAC Assurance approves such successor in writing.

4. Notwithstanding any other provision of the Bond Resolution in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Bond Resolution, the Trustee (or Paying Agent) shall consider the effect on the Bondholders as if there were no AMBAC Insurance Policy.

5. Notwithstanding any other provision of the Bond Resolution, no removal, resignation or termination of the Trustee (or Paying Agent) shall take effect until a successor, acceptable to AMBAC Assurance, shall be appointed.

Nothing in the Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Authority, the Trustee, AMBAC Assurance, the Paying Agent, if any, and the registered owners of the AMBAC Insured Bonds any right, remedy or claim with respect to the AMBAC Insured Bonds under or by reason of the Bond Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Bond Resolution contained with respect to the AMBAC Insured Bonds by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, AMBAC Assurance, the Paying Agent, if any, and the registered owners of the AMBAC Insured Bonds.

Provisions Relating to Mandatory Purchase Bonds

Except as otherwise provided, each Mandatory Purchase Bond is subject to mandatory purchase, and the Authority shall purchase or cause to be purchased each Mandatory Purchase Bond, on each Mandatory Purchase Date applicable to such Mandatory Purchase Bond at a price equal to the principal amount thereof plus accrued interest, if any, thereon.

The Bond Registrar and Paying Agent shall mail to each holder of a Mandatory Purchase Bond notice of each Mandatory Purchase Date applicable to Mandatory Purchase Bonds at least 30 days or if 30 days is not practicable on the earliest practicable date before any Mandatory Purchase Date applicable to such Bonds, such notice to include the Mandatory Purchase Price and any Bonds which have been designated for Mandatory Purchase.

The registered owner of any Mandatory Purchase Bond may irrevocably elect to retain such Bond or any portion thereof on any Mandatory Purchase Date if such Bond or portion thereof is in a denomination authorized to be outstanding after such Mandatory Purchase Date by providing written notice to the Bond Registrar and Paying Agent or the Co-Paying Agent of such election. Such Notice of Election to Retain shall be irrevocable and, shall affirmatively acknowledge such matters as shall be specified in the applicable Mandatory Purchase Notice and shall contain the irrevocable agreement by the registered owner of the Bond with respect to which, or a portion of which, such Notice of Election to Retain is given not to tender such Bond, or such portion thereof for purchase pursuant to the provisions of this Resolution on or before the applicable Mandatory Purchase Date except as provided in the following paragraph.

Each Mandatory Purchase Bond (other than a Bond with respect to which a Notice of Election to Retain has been properly given) shall be tendered for purchase on each Mandatory Purchase Date applicable to such Bond at the time referred to in the applicable Mandatory Purchase Notice on the Mandatory Purchase Date, to the Bond Registrar and Paying Agent with an instrument of transfer satisfactory to the Bond Registrar and Paying Agent executed in blank by the registered owner or his attorney or legal representative with the signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

Determination of Interest Rates and Interest Periods for Mandatory Purchase Bonds. (a) Except as otherwise provided, each Mandatory Purchase Bond shall bear interest during each Interest Period applicable to such Mandatory Purchase Bond at the rate determined by the Remarketing Agent on the Rate Determination Date for such Interest Period to be the minimum rate that, in the judgment of the Remarketing Agent, would enable such Remarketing Agent to sell each of the Mandatory Purchase Bonds to which such Rate Determination Date applies, on the first day of such Interest Period, at a price equal to the principal amount thereof plus accrued interest, if any, thereon. Different interest rates may be determined for Mandatory Purchase Bonds having identical or different Interest Periods, and the interest rates may be determined separately for each Series of Bonds. Notwithstanding the foregoing provisions of this paragraph or anything to the contrary in the Resolution:

(A) the interest rate borne by Mandatory Purchase Bonds may not exceed the maximum rate permitted by law;

(B) if any payment of the principal or Redemption Price of or interest on, or the purchase price of, any Mandatory Purchase Bond shall not be made when due, such Mandatory Purchase Bond and all other Mandatory Purchase Bonds with the same Mandatory Purchase Date shall bear interest at the last interest rate borne by such Mandatory Purchase Bonds until such payment is made as provided in the Resolution, and in such Mandatory Purchase Bonds and the interest rate will not be adjusted as provided in this Section; and

(C) if on any Rate Determination Date for the Mandatory Purchase Bonds the Remarketing Agent does not determine the interest rate for any Interest Period applicable to a Mandatory Purchase Bond as provided in this Section, the interest rate for such Rate Determination Date shall be equal to the interest rate determined on the immediately preceding Rate Determination Date applicable to such Mandatory Purchase Bond for the Interest Period determined on such Rate Determination Date; and

(D) on each Preliminary Rate Determination Date the Remarketing Agent shall determine the rate or rates or range of rates (the “Rate Indication”) which in its judgment would be the rate determined by the Remarketing Agent under this subsection, if such date were the next Rate Determination Date. The Remarketing Agent shall give notice of each Rate Indication for any Bond to the Authority and the Bond Registrar and Paying Agent, on each Preliminary Rate Determination Date. The Bond Registrar and Paying Agent shall give each registered owner of a Mandatory Purchase Bond written notice of each Rate Indication affecting such registered owner no later than three Business Days prior to each Rate Determination Date.

(b) The Remarketing Agent shall give notice of each interest rate determined for any Mandatory Purchase Bond in accordance with subsection (a) of this Section to the Authority, the Bond Registrar and Paying Agent and the Co-Paying Agent. The Bond Registrar and Paying Agent shall give written notice of each such interest rate to the Trustee and the holders of the Mandatory Purchase Bonds (other than Mandatory Purchase Bonds which, due to the failure to deliver a Notice of Election to Retain, are required to be tendered to the Bond Registrar and Paying Agent or the Co-Paying Agent on the first day of the Interest Period to which such interest rate applies) to which such interest rate will be applicable.

(c) The determination of the interest rates on the Mandatory Purchase Bonds by the Remarketing Agent as provided in this Section shall be conclusive and binding on the Holders of such Bonds, the Authority, the Trustee, the Co-Paying Agent and the Bond Registrar and Paying Agent.

(d) Interest on the Mandatory Purchase Bonds shall be calculated on the basis of a year consisting of 360 days divided into twelve 30-day months.

(e) The Interest Periods for Mandatory Purchase Bonds shall begin on the original issuance date of the Bonds or on the day after the last day of the preceding Interest Period, and each Interest Period shall end on the last calendar day of a month.

Remarketing of Mandatory Purchase Bonds. The Bond Registrar and Paying Agent shall notify the Remarketing Agent of the Remarketing Amount on the Business Day after the last day on which a Notice of Election to Retain may be given with respect to any Mandatory Purchase Date.

Unless the Authority otherwise directs, the Remarketing Agent shall offer for sale, and use its best efforts to sell for delivery, on each Mandatory Purchase Date at a price equal to the principal amount thereof plus accrued interest, if any, thereon to such Mandatory Purchase Date,

Mandatory Purchase Bonds in an aggregate principal amount equal to the Remarketing Amount. The Remarketing Agent shall notify the Bond Registrar and Paying Agent of the aggregate principal amount of Bonds expected to be sold by the Remarketing Agent on such Mandatory Purchase Date. The Bond Registrar and Paying Agent shall calculate the amount of Bonds not remarketed and notify the Authority and the Trustee, of the aggregate principal amount of Bonds expected to be purchased on such Mandatory Purchase Date by the Bond Registrar and Paying Agent which shall be equal to the Purchase Amount less the sum of (i) any Available Amount and (ii) the aggregate principal amount of Bonds that will be remarketed by the Remarketing Agent on such Mandatory Purchase Date.

On each Mandatory Purchase Date the Remarketing Agent shall (i) pay to the Bond Registrar and Paying Agent proceeds from the remarketing of Bonds and all other amounts required to be so transferred by any supplemental remarketing agreement, and (ii) give notice to the Bond Registrar and Paying Agent of the purchasers of the Bonds to be purchased on such date and the denominations of Bonds to be delivered to each such purchaser. In the event that the Remarketing Agent does not provide such information or pay for the Remarketed Bonds at such time, the Bond Registrar and Paying Agent shall notify the Trustee of the portion of the Remarketing Amount not remarketed and request such funds.

Procedure for Purchase of Mandatory Purchase Bonds. The Mandatory Purchase Bonds to be purchased on each Mandatory Purchase Date shall be purchased by the Bond Registrar and Paying Agent at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to such Mandatory Purchase Date, from the following sources and in the following order of priority:

- (i) Bonds resold by the Remarketing Agent shall be purchased from remarketing proceeds made available to the Bond Registrar and Paying Agent; and
- (ii) any Available Amount in the Revenue Sharing Bond Account of the Revenue Fund; and
- (iii) to the extent moneys are not made available to purchase Mandatory Purchase Bonds on a Mandatory Purchase Date from the sources immediately preceding, from amounts on deposit in the Revenue Sharing Bond Account of the Revenue Fund.

Notwithstanding anything to the contrary contained herein, if there shall be on deposit in the appropriate accounts of the Revenue Fund, or if there shall be made available to the Bond Registrar and Paying Agent by the Remarketing Agent funds in an amount sufficient to pay the purchase price of Mandatory Purchase Bonds on any Mandatory Purchase Date applicable to such Bonds, such Bonds shall be deemed purchased with such moneys on such Mandatory Purchase Date, shall cease to bear interest as of such Mandatory Purchase Date whether or not such Bonds are tendered to the Bond Registrar and Paying Agent on such date, and the registered owners of such Mandatory Purchase Bonds shall have no rights with respect thereto or under the Bond Resolution except to receive the purchase price of such Bonds and when received by the Bond Registrar and Paying Agent such Bonds shall be canceled.

If the funds available for purchase of Mandatory Purchase Bonds are inadequate for the purchase of all Mandatory Purchase Bonds tendered on any Mandatory Purchase Date, all Bonds subject to such purchase shall continue to bear interest until paid at the interest rate last determined for such Bonds. In such event, the Bond Registrar and Paying Agent shall immediately: (i) return all tendered Bonds to the holders thereof, (ii) return all moneys received for the purchase of such Bonds to the persons providing such moneys, and (iii) notify all Bondholders in writing (A) as to whether an event has occurred which is or may become an Event of Default, and (B) of the rate of interest on such Bonds.

Disposition of Purchased Bonds. Mandatory Purchase Bonds tendered to the Bond Registrar and Paying Agent on any Mandatory Purchase Date in accordance with the provisions of this Section shall be delivered by the Bond Registrar and Paying Agent as follows:

- (i) Bonds resold by the Remarketing Agent shall be exchanged for other Bonds, as necessary to correspond to the denominations, and Types in which such Bonds have been sold by the Remarketing Agent, shall be registered in the names of the purchasers thereof and shall be delivered to such purchasers in accordance with the directions of the Remarketing Agent; and
- (ii) Bonds the principal amount of which shall have been paid by the Bond Registrar and Paying Agent from amounts on deposit in any Fund or Account in accordance with clauses (ii) or (iii) under Procedure for Purchase of Mandatory Purchase Bonds above (other than amounts needed to compensate for original issue discount) shall be canceled by the Bond Registrar and Paying Agent.

If any Mandatory Purchase Bond (other than a Bond with respect to which a Notice of Election to Retain has been properly given) is not delivered to the Bond Registrar and Paying Agent on any Mandatory Purchase Date applicable to such Bond and such Bond was resold by the Remarketing Agent on such date, the Bond Registrar and Paying Agent shall register the transfer of such Bond to the purchaser thereof and the Authority shall execute and the Bond Registrar and Paying Agent shall authenticate and deliver a new Bond or Bonds and deliver the same in accordance with the provisions of the first paragraph of this Section, notwithstanding such non-delivery.

Resolution Constitutes Contract of Authority; No Recourse Against Members, Officers or Employees

In consideration of the purchase and acceptance by any and all of the Bonds issued under the Resolution, the Resolution shall be deemed to be and shall constitute a contract between the Authority and the Bondholders and the pledges made in the Resolution and the covenants and agreements therein set forth to be performed by the Authority shall be for the benefit, protection and security of (i) the Owners of any and all of each Type of the Bonds all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds of any Type over any other Bonds of the same Type, except as expressly provided in or permitted by the Resolution, (ii) on a subordinate basis in connection with the MBIA Insured Revenue Sharing Bonds, of MBIA, and (iii) on a subordinate basis in connection with the AMBAC Insured Bonds, of AMBAC Assurance.

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse shall be had for the payment of the principal or interest on the Bonds or for any claim based thereon or on the Resolution against any member, officer or employee of the Authority or any person executing the Bonds.

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(AGM)

FOURTH SUPPLEMENTAL INDENTURE

BETWEEN

MICHIGAN FINANCE AUTHORITY

AND

WILMINGTON TRUST, NATIONAL ASSOCIATION
as Trustee

RELATING TO:

MICHIGAN FINANCE AUTHORITY
LOCAL GOVERNMENT LOAN PROGRAM REVENUE BONDS

Dated as of September 1, 2014

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FOURTH SUPPLEMENTAL INDENTURE

THIS FOURTH SUPPLEMENTAL INDENTURE (“Indenture”) dated as of the first day of September, 2014, between the **MICHIGAN FINANCE AUTHORITY**, a public body corporate and politic existing under the laws of the State of Michigan (the “**Authority**”), and **WILMINGTON TRUST, NATIONAL ASSOCIATION**, as trustee, and its successor in trust and its assignees (the “**Trustee**”).

WHEREAS, pursuant to the provisions of an Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Loan Program Revenue Bonds, as supplemented, (the “**Bond Resolution**”) the Michigan Finance Authority established a Local Government Loan Program for the purpose of making loans to Governmental Units (as defined in the Bond Resolution); and

WHEREAS, the Authority has agreed to issue its Local Government Loan Program Revenue Bonds, Series 2014C-3 (AGM Insured) (Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Senior Lien Local Project Bonds) (the “**Series 2014C-3 Bonds**”) in the aggregate principal amount of \$446,170,000, Local Government Loan Program Revenue Bonds, Series 2014D-1 (AGM Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds) (the “**Series 2014D-1 Bonds**”) in the aggregate principal amount of \$206,540,000, and Local Government Loan Program Revenue Bonds, Series 2014D-2 (AGM Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds) (the “**Series 2014D-2 Bonds**”) in the aggregate principal amount of \$188,455,000 (the Series 2014D-2 Bonds, the Series 2014C-3 Bonds and the Series 2014D-1 Bonds, collectively, the “**Insured Bonds**”).

WHEREAS, Assured Guaranty Municipal Corp. (“**Insurer**”) is providing municipal bond insurance policies for the Insured Bonds; and

WHEREAS, this Fourth Supplemental Indenture supplements the Bond Resolution, which is hereby incorporated herein, and this Fourth Supplemental Indenture shall be deemed to be incorporated in the Bond Resolution.

NOW, THEREFORE, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

SECTION 1.01. Definitions. All terms used herein which are not defined herein but are defined in Article I of the Bond Resolution identified below shall have the meanings therein set forth, which definitions are by this reference incorporated herein and made a part hereof. In addition to terms elsewhere defined in this Indenture, the following words and terms as used in this Indenture and the preambles hereto shall have the following meanings herein unless the context or use clearly indicates another or different meaning or intent and such definitions shall be equally applicable to both the singular and plural forms of the terms and words herein defined:

“Accountants” shall have the meaning set forth in Section 2.01(f).

“Bond Resolution” means the Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Loan Program Revenue Bonds, adopted by the Michigan Finance Authority on May 15, 2014, as supplemented through the date hereof including by this Fourth Supplemental Indenture.

“Claim” shall have the meaning set forth in Section 2.01(a).

“Indenture” or **“Fourth Supplemental Indenture”** means this Fourth Supplemental Indenture.

“Insolvency Proceeding” shall have the meaning set forth in Section 2.01(n)(iv).

“Insurance Policy” means the insurance policy or policies issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Insured Bonds when due.

“Insured Bondholder” means the registered holder of any Insured Bond.

“Insured Bonds” or **“Obligations”** means the Bonds insured by an Insurance Policy purchased by the Authority, as described in the WHEREAS clauses to this Indenture.

“Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Insurer Advances” shall have the meaning set forth in Section 2.01(h).

“Insurer Reimbursement Amounts” shall have the meaning set forth in Section 2.01(h).

“Insurer’s Fiscal Agent” shall have the meaning set forth in Section 2.01(h).

“Late Payment Rate” shall have the meaning set forth in Section 2.01(h).

“Obligor” shall have the meaning set forth in Section 2.01(a).

“Payment Date” shall have the meaning set forth in Section 2.01(h).

“Policy Payment Account” shall have the meaning set forth in Section 2.01(h).

“Related Documents” shall have the meaning set forth in Section 2.01(d).

“Refunded Bonds” shall have the meaning set forth in Section 2.01(t).

“Treasuries” shall have the meaning set forth in Section 2.01(f).

“underlying obligor” shall have the meaning set forth in Section 2.01(g).

“Verification” shall have the meaning set forth in Section 2.01(f).

SECTION 2.01 Provisions Relating To The Insured Bonds Insured By Insurer.

So long as an Insurance Policy issued by the Insurer is in full force and effect, and the Insurer is not insolvent and not in default of its payment obligation under the Insurance Policy, the following provisions shall apply to the Insured Bonds:

- (a) The Insurer shall be deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that Insured Bondholders are entitled to take pursuant to the Bond Resolution (including rights to and under the Municipal Obligation) pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In furtherance thereof and as a term of the Bond Resolution and each Bond, the Trustee and each Bondholder appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the Authority or the City of Detroit (the “Obligor”) under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”) direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a “Claim”), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment in a Chapter 9 bankruptcy proceeding of either the Authority or the Obligor to the extent that such plan, as proposed to become effective in accordance with its terms, would result in a default or breach of the terms of a Related Document (as defined below). In addition, the Trustee and each holder of an Insured Bond delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Trustee and each holder of an Insured Bond in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.
- (b) The Insurer shall be deemed to be a third party beneficiary to the Bond Resolution to the extent it applies to the Insured Bonds.
- (c) The exercise of a provision of the Bond Resolution, if any, which permits the purchase of the Insured Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Insured Bond so purchased is not cancelled upon purchase.
- (d) Any amendment, supplement, modification to, or waiver of, the Bond Resolution or any other transaction document (each a “Related Document”), that requires the consent of an

Insured Bondholder or adversely affects the rights and interests of the Insurer (as determined in good faith by the Insurer) shall be subject to the prior written consent of the Insurer.

- (e) The rights granted to the Insurer under the Bond Resolution or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Insured Bondholders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Insured Bondholders or any other person is required in addition to the consent of the Insurer.
- (f) Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for "AAA" defeasance under then existing criteria of S & P or any combination thereof, shall be used to effect defeasance of the Insured Bonds unless the Insurer otherwise approves.

To accomplish defeasance, the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Bonds are no longer "Outstanding" under the Bond Resolution and (iv) a certificate of discharge of the Trustee with respect to the Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, Trustee and Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days (unless a shorter time is agreed to by the Insurer) prior to the funding of the escrow.

Insured Bonds shall be deemed "Outstanding" under the Bond Resolution unless and until they are in fact paid and retired or the above criteria are met.

- (g) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Bond Resolution and the Insured Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority or the Detroit Water and Sewerage Department (the "underlying obligor") in accordance with the Bond Resolution.
- (h) Claims Upon the Insurance Policy and Payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (“Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under the Bond Resolution, moneys sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the “Insurer’s Fiscal Agent”) by telephone or e-mail of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing via e-mail in PDF to the Insurer and the Insurer’s Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee shall designate any portion of payment of principal of any Insured Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Insured Bondholder, whether DTC or its nominee or otherwise, and the Issuer issue a replacement Insured Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Issuer’s failure to so designate any payment or issue any replacement Insured Bond shall have no effect on the amount of principal or interest payable by the Authority on any Insured Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Insured Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of the Insured Bondholders referred to herein as the “Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Insured Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent to Insured Bondholders in the same manner as principal and interest payments are to be made with respect to the Insured Bonds under the sections of the Resolution regarding payment of the Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Authority agrees to pay to the Insurer but only from amounts available under

the Bond Resolution or provided by the underlying obligor (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the “Insurer Advances”); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the “Insurer Reimbursement Amounts”). “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Insured Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Authority hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the security and payable from such security on a parity with debt service due on the Insured Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Payment Date shall promptly be remitted to the Insurer.

- (i) The Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the Authority to the Insurer under the Related Documents shall survive discharge or termination of such Related Documents.
- (j) The Authority shall, but only from amounts available, under the Bond Resolution or provided by the underlying obligor, pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Bond Resolution or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Bond Resolution or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Bond Resolution or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Bond Resolution or any other Related Document.
- (k) After payment of the costs and expenses of the Trustee reasonably incurred by the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Authority or rebate only after the payment of past due and current debt service on the Insured Bonds.

- (l) The Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Insurance Policy) and any amounts due on the Insured Bonds as a result of acceleration of the maturity thereof in accordance with the Bond Resolution, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.
- (m) The notice address of the Insurer is: Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director — Surveillance, Re: Policy Nos.: 216248-N, 216250-N, and 216252-N, Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”
- (n) The Insurer shall be provided with the following information by the Authority or Trustee, as the case may be:
 - (i) Notice of any default known to a responsible officer of the Trustee or Authority within five Business Days after knowledge thereof;
 - (ii) Prior notice of the advance refunding or redemption of any of the Insured Bonds, including the principal amount, maturities and CUSIP numbers thereof;
 - (iii) Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;
 - (iv) Notice of the commencement of any proceeding by or against the Authority or the Obligor commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”);
 - (v) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Insured Bonds;
 - (vi) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and
 - (vii) All reports, notices and correspondence to be delivered to Bondholders under the terms of the Related Documents.

In addition, to the extent that the Authority has entered into a continuing disclosure agreement, covenant or undertaking with respect to the Insured Bonds, all information furnished pursuant to such agreements shall also be provided to the Insurer, simultaneously with the furnishing of such information.

- (o) The Insurer shall have the right to receive such additional information as it may reasonably request.
- (p) The Authority will permit the Insurer to discuss the affairs, finances and accounts of the Authority or any information the Insurer may reasonably request regarding the security for the Insured Bonds with appropriate officers of the Authority and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Authority on any Business Day upon reasonable prior notice.
- (q) The Trustee shall notify the Insurer of any failure of the Authority to provide notices, certificates and other information to the Trustee under the Bond Resolution .
- (r) Notwithstanding satisfaction of the other conditions to the issuance of Additional Bonds set forth in the Bond Resolution of the same Type as the Insured Bonds, no such issuance may occur (1) if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon such issuance and (2) unless the Debt Service Reserve Fund, if any, held with respect to the bonds issued by underlying obligor in connection with the Insured Bonds is fully funded at the Debt Service Reserve Requirement (including the proposed issue) upon the issuance of such Additional Bonds, in either case unless otherwise consented to by the Insurer.
- (s) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Bond Resolution would adversely affect the security for the Insured Bonds or the rights of the Bondholders, the Authority shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.
- (t) If the Insured Bonds are issued for refunding purposes, there shall be delivered an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto), or a certificate of discharge of the trustee for the bonds that are being refunded (“Refunded Bonds”), to the effect that, upon the making of the required deposit to the escrow, the legal defeasance of the Refunded Bonds shall have occurred. If the Refunded Bonds are insured by Assured Guaranty Municipal Corp., at least three Business Days prior to the proposed date for delivery of the Insurance Policy with respect to the Refunding Bonds, the Insurer shall also receive (i) the verification letter, of which the Insurer shall be an addressee, by an independent firm of certified public accountants which is either nationally recognized or otherwise acceptable to the Insurer, of the adequacy of the escrow established to provide for the payment of the Refunded Bonds in accordance with the terms and provisions of the Escrow Deposit Agreement, and (ii) the form of an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto) to the effect that the Escrow Deposit Agreement is a valid and binding obligation of the parties thereto, enforceable in accordance with its terms (such Escrow Deposit Agreement shall provide that no amendments are permitted without the prior written consent of the Insurer). An executed copy of each of such opinion and reliance letter, if applicable, or Trustee’s discharge certificate, as the case may be, shall be forwarded to the Insurer prior to delivery of the Insured Bonds.

- (u) All references in the Bond Resolution to FSA shall be deemed to be referenced to Assured Guaranty Municipal Corp.
- (v) Any provision limiting the rights of FSA under Bond Resolution to a specific bond issue shall be deemed to be amended to also include the Insured Bonds and related Municipal Obligations, as appropriate.
- (w) The Insured Bonds and related Municipal Obligations are not subject to acceleration.
- (x) Upon any redemption of the related Municipal Obligations, the Insured Bonds shall be simultaneously redeemed in a like par amount.

SECTION 3.01. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon the Authority and the Trustee and their respective successors and assigns, subject, however, to the limitations contained in this Indenture. The Bond Resolution, as supplemented and amended by this Indenture, is in all respects ratified and confirmed, and the Bond Resolution, this Indenture and all indentures supplemental and supplemental resolutions thereto shall be read, taken and construed as one and the same instrument.

SECTION 3.02. Captions. The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

SECTION 3.03. Governing Law. This Indenture shall be governed by and interpreted in accordance with the laws of the State.

SECTION 3.04. Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. The exchange of copies of this Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

SECTION 3.05. Concerning the Trustee. In carrying out the Trustee's responsibilities hereunder, the Trustee shall have all of the rights, protections and immunities which it possesses under the Bond Resolution. The Trustee assumes no responsibility for the correctness of the recitals contained herein. The Trustee makes no representations as to the validity or sufficiency of this Indenture.

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THE SIGNATURE PAGE TO FOLLOW]

Fourth Supplemental Indenture
Signature Page

IN WITNESS WHEREOF, the Authority has executed this Indenture by an Authorized Officer and the Trustee has caused this Indenture to be executed in its name by its duly authorized officer, all as of the day and year first above written.

MICHIGAN FINANCE AUTHORITY

By: _____

Its: Authorized Officer

WILMINGTON TRUST, NATIONAL
ASSOCIATION, as Trustee

By: _____

Its: _____

LANSING 40432-39 495399v10

(National)

FIFTH SUPPLEMENTAL INDENTURE

BETWEEN

MICHIGAN FINANCE AUTHORITY

AND

WILMINGTON TRUST, NATIONAL ASSOCIATION
as Trustee

RELATING TO:

MICHIGAN FINANCE AUTHORITY
LOCAL GOVERNMENT LOAN PROGRAM REVENUE BONDS

Dated as of September 1, 2014

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FIFTH SUPPLEMENTAL INDENTURE

THIS FIFTH SUPPLEMENTAL INDENTURE (“Indenture”) dated as of the first day of September, 2014, between the **MICHIGAN FINANCE AUTHORITY**, a public body corporate and politic existing under the laws of the State of Michigan (the “**Authority**”), and **WILMINGTON TRUST, NATIONAL ASSOCIATION**, as trustee, and its successor in trust and its assignees (the “**Trustee**”).

WHEREAS, pursuant to the provisions of an Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Loan Program Revenue Bonds, as supplemented, (the “**Bond Resolution**”) the Michigan Finance Authority established a Local Government Loan Program for the purpose of making loans to Governmental Units (as defined in the Bond Resolution); and

WHEREAS, the Authority has agreed to issue its Local Government Loan Program Revenue Bonds, Series 2014C-5 (National Insured) (Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Senior Lien Local Project Bonds) (the “**Series 2014C-5 Bonds**”) in the aggregate principal amount of \$95,165,000, Local Government Loan Program Revenue Bonds, Series 2014C-7 (National Insured) (Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Second Lien Local Project Bonds) (the “**Series 2014C-7 Bonds**”), in the aggregate principal amount of \$76,715,000, Local Government Loan Program Revenue Bonds, Series 2014D-3 (National Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Local Project Bonds) (the “**Series 2014D-3 Bonds**”) in the aggregate principal amount of \$62,700,000, and Local Government Loan Program Revenue Bonds, Series 2014D-6 (National Insured) (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Local Project Bonds) (the “**Series 2014D-6 Bonds**”) in the aggregate principal amount of \$65,425,000 (the Series 2014C-5 Bonds, the Series 2014C-7 Bonds, the Series 2014D-3 Bonds and the Series 2014D-6 Bonds, collectively, the “**Insured Bonds**”).

WHEREAS, National Public Finance Guarantee Corporation is providing municipal bond insurance policies for the Insured Bonds; and

WHEREAS, this Fifth Supplemental Indenture supplements the Bond Resolution, which is hereby incorporated herein, and this Fifth Supplemental Indenture shall be deemed to be incorporated in the Bond Resolution.

NOW, THEREFORE, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

SECTION 1.01. Definitions. All terms used herein which are not defined herein but are defined in Article I of the Bond Resolution identified below shall have the meanings therein set forth, which definitions are by this reference incorporated herein and made a part

hereof. In addition to terms elsewhere defined in this Indenture, the following words and terms as used in this Indenture and the preambles hereto shall have the following meanings herein unless the context or use clearly indicates another or different meaning or intent and such definitions shall be equally applicable to both the singular and plural forms of the terms and words herein defined:

“Bond Resolution” means the Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Loan Program Revenue Bonds, adopted by the Michigan Finance Authority on May 15, 2014, as supplemented through the date hereof including by this Fifth Supplemental Indenture.

“Bondholder” means the holder of any Insured Bond.

“Claim” shall have the meaning set forth in Section 2.01(h).

“Indenture” or **“Fifth Supplemental Indenture”** means this Fifth Supplemental Indenture.

“Insolvency Proceeding” shall have the meaning set forth in Section 2.01(h).

“Insurance Paying Agent/Trustee” shall have the meaning set forth in Section 2.01(k)(iv)1.

“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“Insured Bonds” means the Bonds insured by an Insurance Policy purchased by the Authority as described in the WHEREAS clauses to this Indenture.

“Insurer” or **“National”** means National Public Finance Guarantee Corporation, a stock insurance company incorporated under the laws of the State of New York, or any successor thereto or assignee thereof.

“Obligor” shall have the meaning set forth in Section 2.01(h).

“Related Document” shall have the meaning set forth in Section 2.01(a)

SECTION 2.01 Provisions Relating To The Bonds Insured By Insurer. So long as an Insurance Policy issued by the Insurer is in full force and effect, and the Insurer is not insolvent and not in default of its payment obligation under the Insurance Policy, the following provisions shall apply to the Bonds:

(a) Amendments, Modifications and Consents - National shall be given notice by the Authority of any amendments to the Bond Resolution made pursuant to Section 1101 of the Bond Resolution and National shall be deemed to be the Bondholder of the Insured Bonds for purposes of amendments made to the Bond Resolution under Section 1102 of the Bond Resolution. Any amendment, supplement, modification to, or waiver of, the Bond Resolution or any other document executed in connection with the issuance of the Insured Bonds (each a “Related Document”), that requires the consent of an Insured Bondholder or adversely affects the rights and interests of the Insurer (as determined in good faith by Insurer) shall be subject to the prior written consent of the Insurer. The exercise of a provision of the Bond Resolution, if any, which permits the purchase of the Insured Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Insured Bond so purchased is not cancelled upon purchase.

(b) Current Refundings - The period between closing on the refunding bonds and redemption of the refunded bonds shall not exceed 90 days. Should the funds available to refund or redeem all or part of the Insured Bonds need to be invested, such investment(s) must mature in an amount and at such time so that sufficient cash will be available to affect the redemption, or refunding. An approved verification agent acceptable to National, must verify and confirm the sufficiency of such investments in writing to National. Investments, to be held in a fiduciary account, must be limited to: (i) cash; or (ii) direct obligations of the U.S. Treasury.

(c) Advance Refunding or Redemption - National shall receive from the Authority (i) notice 15 days prior to any advance refunding and notice 5 days prior to any other redemption of the Insured Bonds and (ii) verification by an independent firm acceptable to National of the sufficiency of the escrow to timely retire the refunded bonds or redeemed Insured Bonds. Such independent firm must be nationally recognized and such verification must be provided by an independent licensed CPA. The verification report cannot be prepared by the underwriter, bond counsel or financial advisor for the refunding issue.

(d) Legal Defeasance - With respect to any advance refunding of Insured Bonds intended to discharge or defease the Authority’s obligations under the Bond Resolution with respect to the Insured Bonds, National and the Trustee shall be provided with an opinion of counsel, acceptable to National, stating that the Insured Bonds have been legally defeased and that the escrow agreement establishing such defeasance operates to legally defease the Insured Bonds within the meaning of the Bond Resolution.

(e) Defeasance Obligations - Defeasance obligations are limited to the following permissible investments for escrowed funds to the extent they qualify as Eligible Investments under the Bond Resolution:

- 1) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGS”).
- 2) Direct obligations of the Treasury that have been stripped by the Treasury itself.

- 3) Resolution Funding Corp. (REFCORP) obligations. Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
- 4) Pre-refunded municipal bonds rated Aaa by both Moody's and AAA by S&P.
- 5) Obligations issued by the following agencies that are backed by the full faith and credit of the United States:
 - 1) U.S. Export-Import Bank (Eximbank)
 - i) Direct obligations or fully guaranteed certificates of beneficial ownership
 - 2) Federal Financing Bank
 - 3) General Services Administration
 - i) Participation certificates
 - 4) U.S. Department of Housing and Urban Development (HUD)
 - i) Project Notes
 - ii) Local Authority Bonds
 - iii) New Communities Debentures - U.S. government guaranteed debentures
 - iv) U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(f) National as Third Party Beneficiary - National shall be deemed to be a third party beneficiary under the Bond Resolution.

(g) Subrogation - If the principal and/or interest due on the Insured Bonds shall be paid by National, the Insured Bonds shall remain outstanding under the Bond Resolution and shall not be deemed defeased or otherwise satisfied or paid by the Authority and the assignment and pledge of the security and all covenants agreements and other obligations of the Authority to the owners shall continue to exist and shall run to the benefit of National and National shall be subrogated to the rights of such owners.

(h) Defaults -The Insurer shall be deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that Insured Bondholders are entitled to take pursuant to the Bond Resolution (including rights to and under the Municipal Obligation) pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In furtherance thereof and as a term of the Bond Resolution and each Bond, the Trustee and each Bondholder appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the Authority or the City of Detroit (the "Obligor") under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or

enforcement proceeding in connection with an Insolvency Proceeding (a “Claim”), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment in a Chapter 9 bankruptcy proceeding of either the Authority or the Obligor to the extent that such plan, as proposed to become effective in accordance with its terms, would result in a default or breach of the terms of a Related Document (as defined below). In addition, with respect to the Insured Bonds the Trustee and each holder of an Insured Bond delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Trustee and each holder of an Insured Bond in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

To that end, National, acting on its own and without any consent of the Bondholders of the Insured Bonds, shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an Insured Bondholder in accordance with applicable provisions of the Bond Resolution. Other than mandatory sinking fund redemption provisions, any acceleration of principal (and interest) payments must be subject to the Insurer’s prior written consent.¹ The rights granted to the Insurer under the Bond Resolution or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Insured Bondholders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Insured Bondholders or any other person is required in addition to the consent of the Insurer.

(i) Insurer Name - The Authority agrees not to use the Insurer’s name in any public document including, without limitation, a press release or presentation, announcement or forum without the Insurer’s prior consent; provided however, such prohibition on the use of the Insurer’s name shall not relate to the use of the Insurer’s standard approved form of disclosure in public documents issued in connection with the current Insured Bonds to be issued in accordance with the terms of the Commitment; and provided further such prohibition shall not apply to the use of the Insurer’s name in order to comply with public notice, public meeting or public reporting requirements.

(j) Amounts Due Insurer - To the extent such amounts are not paid by the City to the Insurer, the Authority, but solely from moneys provided by the City and held under the Bond Resolution and not needed to pay debt service on the Insured Bonds, agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys’ fees and expenses, incurred by the Insurer in connection with (i) the enforcement by the Insurer of the Authority’s and/or the City’s obligations under the Bond

¹ Per Section 6905 of New York Insurance Law, “Every [financial guaranty insurance] policy shall provide that, in the event of a payment default by or insolvency of the obligor, there shall be no acceleration of the payment required to be made under such policy unless such acceleration is at the sole option of the [financial guaranty insurance company].”

Resolution or any Related Documents, or the preservation or defense of any rights of the Insurer, under the Bond Resolution or any Related Document, and (ii) any consent, amendment, waiver or other action with respect to the Bond Resolution or any Related Document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Insurer reserves the right to charge a reasonable fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

(k) Payment Under the Insurance Policy -

(i) In the event that on the second Business Day prior to the payment date on the Insured Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Insured Bonds due on the second following Business Day, the Trustee shall notify National or its designee on the same Business Day by telephone and email by 12:00 noon, New York City time, confirmed in writing by PDF transmission or mail, of the amount of the deficiency.

(ii) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Insurer or its designee by telephone or e-mail.

(iii) In addition, if a Trust Officer of the Trustee has notice that any Insured Bondholder has been required to disgorge payments of principal or interest on the Insured Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Insurer or its designee of such fact by telephone, confirmed in writing by mail or e-mail.

(iv) The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Insured Bondholders as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Insured Bonds, the Trustee shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the Insurance Policy (the "Insurance Paying Agent/Trustee"), in form satisfactory to the Insurance Paying Agent/Trustee, an instrument appointing the Insurer as agent for such Insured Bondholders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective holders of the Insured Bonds (and not as Trustee) in accordance with the tenor of the Insurance Policy payment from the Insurance Paying Agent/Trustee with respect to the claims for interest so assigned, and (c) disburse the same to such respective holders of the Insured Bonds and

2. If and to the extent of a deficiency in amounts required to pay principal of the Insured Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent/Trustee in form satisfactory to the Insurance Paying Agent/Trustee an instrument appointing the Insurer as agent for such Insured Bondholders in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Insured Bonds surrendered to the Insurance Paying Agent/Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent/Trustee is received), (b) receive as designee of the respective holders of the Insured Bonds (and not as trustee) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent/Trustee, and (c) disburse the same to such holders of the Insured Bonds.

(v) Payments with respect to claims for interest on and principal of Insured Bonds disbursed by the Trustee from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Insured Bonds, and the Insurer shall become the owner of such unpaid Insured Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(vi) Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee hereby agree for the benefit of the Insurer that:

A. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Insured Bonds, the Insurer will be subrogated to the rights of such holders of the Insured Bonds to take all actions and enforce all rights of such holders of the Insured Bonds and to receive the amount of such principal and interest from the Authority, with interest thereon as provided and solely from the sources stated in the Bond Resolution and the Insured Bonds; and

B. They will accordingly pay to the Insurer but only from the security the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Bond Resolution and the Insured Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Insured Bonds to holders of the Insured Bonds, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

(l) Notice to National Regarding Continuing Disclosure -Any notices of Material Events, as defined by SEC Rule 15c2-12, as amended, must be provided to National as provided in paragraph (o) below at the time of any filing of such notice with EMMA or other public dissemination. . In addition, all other information furnished pursuant to a continuing disclosure

agreement shall also be provided to the Insurer, simultaneously with the public filing or dissemination of such information.

(m) Additional Obligations - In connection with the issuance of additional obligations of the same Type, the Authority shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such additional obligations.

(n) Notice Regarding Successor Trustee - The Insurer shall receive prompt notice of the resignation or removal of the Trustee and the appointment of a successor thereto.

(o) Notices: General

(i) Any notice that is required to be given to a Bondholder or to the Trustee pursuant to the Bond Resolution or any Related Document shall also be provided to the Insurer. All notices required to be given to the Insurer under the Related Document shall be in writing and shall be sent by registered or certified mail addressed to National Public Finance Guarantee Corporation, 113 King Street, Armonk, New York 10504 Attention: Portfolio Surveillance Policy Nos. NP1400961 and NP1400971, or electronically to NationalPortfolioSurveillance@Nationalpfq.com- referencing Policy Nos. NP1400961 and NP1400971.

(ii) In addition to the notices otherwise provided herein, the Insurer shall be provided with the following information by the Authority or Trustee, as the case may be:

(A) Notice of the commencement of any proceeding by or against the Authority or the Obligor commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(B) Notice of any default known to a Trust Officer of the Trustee or Authority within five Business Days after knowledge thereof;

(C) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(iii) In addition, the Insurer shall have the right to receive such additional information as it may reasonably request from the Authority or the Trustee.

(p) Agreement and Arrangements - The Authority shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Insured Bonds or the Municipal Obligations are tendered or purchased for any purpose (other than the redemption and cancellation or legal defeasance of such Insured Bonds or the Municipal Obligations) without the prior written consent of the Insurer.

(q) References to National - All references in the Bond Resolution or any Related Document to FGIC or MBIA shall be deemed to be referenced to National.

(r) Deemed Included - Any provision limiting the rights of FGIC or MBIA under Bond Resolution or any Related Document to a specific bond issue shall be deemed to be amended to also include the Insured Bonds and related Municipal Obligations, as appropriate.

(s) Municipal Obligation - The Insured Bonds and related Municipal Obligations are not subject to acceleration.

(t) Redemption - Upon any redemption of the related Municipal Obligations, the Insured Bonds shall be simultaneously redeemed in a like par amount.

(u) SECTION 3.01. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon the Authority, Insured Bondholders (by their acceptance of the Insured Bonds) and the Trustee and their respective successors and assigns, subject, however, to the limitations contained in this Indenture. The Bond Resolution, as supplemented and amended by this Indenture, is in all respects ratified and confirmed, and the Bond Resolution, this Indenture and all indentures supplemental and bond resolutions thereto shall be read, taken and construed as one and the same instrument.

SECTION 3.02. Captions. The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

SECTION 3.03. Governing Law. This Indenture shall be governed by and interpreted in accordance with the laws of the State.

SECTION 3.04. Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. The exchange of copies of this Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

SECTION 3.05. Concerning the Trustee. In carrying out the Trustee's responsibilities hereunder, the Trustee shall have all of the rights, protections and immunities which it possesses under the Bond Resolution. The Trustee assumes no responsibility for the correctness of the recitals contained herein. The Trustee makes no representations as to the validity or sufficiency of this Indenture.

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THE SIGNATURE PAGE TO FOLLOW]

Fifth Supplemental Indenture
Signature Page

IN WITNESS WHEREOF, the Authority has executed this Indenture by an Authorized Officer and the Trustee has caused this Indenture to be executed in its name by its duly authorized officer, all as of the day and year first above written.

MICHIGAN FINANCE AUTHORITY

By: _____

Its: Authorized Officer

WILMINGTON TRUST, NATIONAL
ASSOCIATION, as Trustee

By: _____

Its: _____

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APPENDIX II

DOCUMENTS RELATING TO THE DEPARTMENT

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APPENDIX II-A
FEASIBILITY CONSULTANT'S REPORT

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T F G

THE FOSTER GROUP

P.O. BOX 26282
LEAWOOD, KS 66225
TEL: (913) 345-1410
FAX: (913) 345-1640

THE FOSTER GROUP, LLC
BART FOSTER, PRESIDENT
CELL: (913) 530-6240
BFOSTER@FOSTERGROUPLLC.COM

September 2, 2014

Ms. Sue McCormick, Director
Detroit Water and Sewerage Department
Water Board Building
735 Randolph Street
Detroit, Michigan 48226

Dear Ms. McCormick:

In accordance with our agreement with the Detroit Water and Sewerage Department (the "Department"), we submit herewith our Financial Feasibility report to be included as an appendix to the official statement (the "Official Statement") prepared by the Department in connection with its issuance of \$854,850,000 Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A and Water Supply System Revenue Refunding Second Lien Bonds, Series 2014B (collectively, the "DWSD Obligations") for the purposes of refinancing tendered Bonds and refunding certain other outstanding Bonds of the Department. The purpose of this report is to set forth information concerning financial factors relating to the Preliminary Official Statement and the DWSD Obligations.

The report contains financial feasibility information including analyses of water supply rates and rate methodology, projections of revenues under existing rates, projection of future operation and maintenance expenses, a summary of the Capital Improvement Program (the "CIP") for fiscal years 2014 through 2019, CIP financing, the impact of projected revenue requirements on future revenues and sewage disposal rates for a five-year study period¹, and the ability of the Department to meet the "Additional Securities Test" as defined in the City ordinance authorizing the issuance of the DWSD Obligations and other bonds of the System (the "Bond Ordinance.") A listing of our major opinions developed as a result of our studies is presented at the end of the report.

THE FOSTER GROUP offers financial and engineering management consulting services to a broad customer base, specializing in services for municipal utility clients in the United States. Our principal experience includes: managing financial planning, cost of service, and rate

¹ Projections contained in this report actually encompass a six-year period, as estimates for the just completed Fiscal Year 2014 are also included.

design studies for water and wastewater utilities; preparation of Feasibility Reports in conjunction with issuance of municipal water and sewer revenue bonds; development of other feasibility reports; design of financial management information systems; consulting assistance regarding contractual and other relationships amongst municipalities, and expert witness services in utility litigation matters.

Principals of THE FOSTER GROUP have prepared every financial feasibility report issued in conjunction with the Department's issuance of revenue bonds since 1989. Various reports have been issued in connection with work for the Department on these matters and related matters, and are available for public inspection at the offices of the Department.

It has been a pleasure to be of service to the Department on this matter.

Very truly yours,

THE FOSTER GROUP

A handwritten signature in black ink, appearing to read 'Bart Foster', with a stylized flourish at the end.

Bart Foster
President

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Introduction

This report is based on our analysis of the records and capital improvement programs of the Department, discussions with key Department personnel, and such other investigations as we have found necessary.

In this report, where standards or requirements are indicated as being applicable, being fulfilled, or to be attained, such standards or requirements are those promulgated by the United States Environmental Protection Agency (the "EPA") and the Michigan Department of Environmental Quality (the "MDEQ") in accordance with the provisions of Federal laws and the laws of the State of Michigan governing the supply of drinking water. Capitalized terms not otherwise defined herein shall have the same meaning as ascribed to them in the Official Statement. References made herein to specific years are for the fiscal years ending June 30, unless otherwise noted.

The proceeds from the DWSD Obligations will be utilized to refinance bonds tendered pursuant to the Department's Invitation to Tender and to refund certain other outstanding bonds of the Department.

In conducting our studies and formulating our projections and opinions contained herein, we reviewed the books, records, agreements, capital improvement programs and other information produced by the Department as we deemed necessary. While we consider such books, records, and other documents to be reliable, we have not verified the accuracy of these documents.

The projections set forth in this report below are intended as "forward-looking statements". In formulating these projections, we have made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodology we utilized in performing these analyses follows generally accepted practices for such projections. Such assumptions and methodologies are summarized in this report and are reasonable and appropriate for the purpose for which they are used. While we believe the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur. Such factors may include, among other things, the Department's ability to execute the CIP as scheduled and within budget, regional climate and weather conditions affecting the demand for water, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting the Department's ability to manage the System and maintain water quality.

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Water Supply System Summary

Introduction

The water treatment and distribution system (the “System”) consists of three major intake facilities, five water treatment plants, a conveyance system that consists of over 3,400 miles of transmission and distribution mains throughout the system, 20 booster pumping stations, and 15 water storage reservoirs. The Systems Control Center located in the Water Board Building monitors and controls the water flow and pressure throughout the system.

Service Area

The System is one of the largest in the nation in terms of water produced and population served, as the Department is responsible for treatment and distribution of water to most of southeast Michigan. The System presently serves an area of 981 square miles in Wayne, Oakland, Macomb, Lapeer, Genesee, Washtenaw, St. Clair, and Monroe Counties. *See map, inside back cover.* The Department currently serves an estimated population of 3.8 million, with suburban wholesale customers comprising approximately 80 percent of the total. The System is the sole provider of all water service in the City on a retail basis.

Population in the service area has declined in recent years, after remaining relatively stable in the prior 20 years. This decline is largely attributable to the recent recession, which has hit the Southeastern Michigan region particularly hard.

The Department has traditionally experienced no material competition from other water supply systems in the Southeastern Michigan region. However, Genesee County and the City of Flint (through which Genesee County has traditionally purchased water from the System) have formed the Karegnondi Water Authority (the “KWA”). In 2013 and 2014, Genesee County and the KWA issued bonds to finance water intake structures, pipelines and pumping station capital investments needed by KWA to operate as a fully independent *raw* water supply system.

The City of Flint already has its own water treatment plant, which in past years was only utilized to provide standby service. Over the past several years, Flint has explored the possibility of expanding the capabilities of its plant to provide full service to its retail customers within its jurisdictional boundaries. The contract between the Department and Flint reached its original duration and the parties were unable to negotiate an extension. Flint opted to leave the System, and the Department terminated the existing contract in April 2013, providing a one-year termination notice as required in the contract. Flint ceased purchasing water from the System on May 1, 2014 and is currently using water from the Flint River as a source of supply to treat at its plant. Flint will eventually purchase raw KWA water and only use the Flint River as a back up supply.

Flint does not have the capacity to provide water to Genesee County. The Genesee County Drain Commission plans to construct new treatment facilities to purify raw KWA water and provide it to customers in the county. The KWA raw water facilities and Genesee County treatment facilities will take approximately three years to construct, and Genesee must continue

to rely on the Department for water in the interim. Genesee County continues to purchase water from the Department on a “non-contract” basis, and the parties have been engaged in negotiations to establish a formal agreement. The Department is structuring the agreement to be long term, serving Genesee County in a “full service” mode in the interim period, and in a “stand by” service mode thereafter. Negotiations on the agreement continue. Irrespective of the outcome of those discussions, Genesee County will continue to purchase water while the KWA and related facilities are constructed. The projections in this report assume the receipt of full service revenue from Genesee County through 2017. While the contract negotiations are designed to result in a moderate revenue stream for stand by service, no such revenue is included in the projections.

Taken together, the City of Flint and its Genesee County customers accounted for approximately six percent of the System’s water use and revenue, all of which was included in the original 2015 budget. Flint accounted for approximately three percent, and those volumes and revenues has been removed the projections in this report. Genesee County also accounts for approximately three percent of the System’s water use and revenue. Those revenues continue to be reflected in the projections through 2017.

Other small communities in the northern area of the System’s service area have expressed various levels of interest in joining the KWA. The Department continues to work with those communities to establish long-term agreements.

For more information on specific System facilities, please see “Appendix II-B – System Evaluation Report.”

Organization and Management

The Department, pursuant to the City Charter, is empowered through its Board of Water Commissioners (the "Board") to provide water and wastewater service within and outside the City. The seven member Board has the authority to execute contracts, set policy for the Department, and to establish rates for wholesale water and wastewater service, and to set a revenue requirement for the Detroit retail customers class. A series of recent developments ordered by the United States District Court (the “Court”) have redefined the Board structure and its responsibilities. While these developments were primarily designed to ensure long-term compliance with environmental regulations for the Department’s wastewater operations, both the Water and Sewer Systems share common management structures and administrative functions and the provisions in the Court orders are applicable to both systems.

Additional information regarding recent organizational and management initiatives is contained in “The Department” section of this Preliminary Official Statement.

Historical Water Sales and Non-Revenue Water

A summary of historical water sales, water production, and “non-revenue” water (reported in thousands of cubic feet – “Mcf”) is presented in Table 1. Water sales of the System declined significantly from 2000 to 2010, driven in part by the effects of the 2008 recession, before stabilizing in recent years. However, preliminary figures for 2014 indicate a significant decline for both suburban wholesale and Detroit retail customers, directly attributable to very mild conditions during the summer of calendar 2013. Additional variances over this period can be attributed to the impact of weather patterns on water demands.

Table 1
Water Supply System Water Sales and Non-Revenue Water

	Fiscal Year Ending June 30,				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water Sales Volumes - Mcf					<i>estimated</i>
Suburban Wholesale	15,676,300	16,094,700	16,280,300	15,687,900	14,778,500
Detroit Retail	3,924,000	4,176,600	3,903,100	3,660,300	3,418,900
Total	19,600,300	20,271,300	20,183,400	19,348,200	18,197,400
Total Water Production - Mcf	25,142,700	26,513,000	27,219,500	26,832,800	26,088,800
Non-Revenue Water - Mcf	5,542,400	6,241,700	7,036,100	7,484,600	7,891,400
Non-Revenue % of Production	22.0%	23.5%	25.8%	27.9%	30.2%

The System, as is common with all water systems, experiences a differential between the quantity of water produced by the treatment plants during the fiscal year and the quantity of water billed during that same period of time. The differential is referred to as "non-revenue water" and is the result of factors such as range of accuracy of production and retail meters, losses due to leaks or major breaks in the transmission and distribution system, unmetered water that is used for fire protection, and accuracy of estimates for unmetered water use.

The last row of Table 1 shows the non-revenue water as a percentage of total system production for the last five years. The Department believes that recent reported levels of non-revenue water may be misleading, partially attributable to a change in the manner by which production at the water plants is reported. This production is not metered, but is rather estimated based on pump curves. This data continues to be reviewed, and the Department has initiated efforts to measure production figures and refine production estimating techniques. Irrespective of the accuracy of the reported production levels, mitigating the reported level of non-revenue water is (and should be) a goal of the Department.

Total elimination of non-revenue water is not achievable. Realistically, only a moderate improvement should be expected. The most efficient water facilities (mostly in regions where raw water sources are scarce) still experience non-revenue water levels between 4 and 8 percent.

The only cost savings that can be achieved through reducing the level of non-revenue water are those associated with fixing leaks in the system. These cost savings would be further limited to only the variable costs of producing water, such as pumping and chemicals, which are generally less than 15 percent of the total cost structure of the water utility. If the Department were to reduce the level of non-revenue water by 50 percent, the true annual savings would be approximately \$4 million. Accomplishing this task would likely require a significant investment.

The Department continues its efforts to address the aging infrastructure serving its customers. As leaks are identified, repairs are scheduled and completed. The annual allotment of funding for replacement of distribution mains in the City of Detroit is approximately \$20 million.

In general, water meters tend to run “slow” as they age. In other words, they record less flow than is actually passing through the connection to the customer. This “meter slippage” is often a major contributor to unaccounted for water totals. The Department has rehabilitated 286 water meter pits, installing master water meters, and replacing master meter vaults. The new system utilizes digital automatic meter reading (AMR) equipment and radio based SCADA equipment. This allows real time water usage data to be gathered electronically, reduce the overall number of field visits, provide rapid notification of meter flow measuring problems to minimize estimated billings, and enables the Department to verify adequate flow and pressure readings by each customer on a continuous basis. It also allows the Department to remotely monitor peak flows in the system and manage the flow limitations in the new service agreements.

The Department recently reached substantial completion of a program to replace all retail billing meters in the System and install automatic meter reading devices. This program provides more accurate, timely water use information in an efficient manner. In addition, the new metering equipment better detects water losses, produces flow projections used in developing annual water rates, and helps provide necessary data to assess future water demand. There are still a significant number of retail customer accounts that have not had the new devices installed, primarily due to the challenges of accessing all accounts in an urban retail setting. To date the program has converted nearly all of the large, commercial and industrial accounts and approximately 75 percent of the residential accounts.

Capital Improvement Program

The Department’s Capital Management Group is responsible for coordinating the evaluation of capital needs and developing programs to meet those needs. This capital planning committee formally reviews the Capital Improvement Program and incorporates revisions into the five-year capital agenda on an annual basis.

In accordance with the terms of the February 11, 2011 Order, the CIP must now be formally approved by the Board via a super majority of at least five votes. The Fiscal Year 2015-2019 CIP was approved by the Board of Water Commissioners in December 2013. That document identified estimated capital expenditures for 2014, although such expenditures were not technically part of the five-year plan, and was based on estimates of future capital costs as of June 30, 2013.

The CIP is dynamic and requires continual review and modification during the course of each year. As additional cost information is developed from design work being performed on the various projects, cost estimates are adjusted accordingly. Recently, the Department has initiated efforts to prepare an updated planning document, based in large part on preliminary findings emerging from the updated Master Plan, and from other independent evaluations recently completed by the Department and representatives of its suburban wholesale customers. *See “Appendix II-B – System Evaluation Report.”* As part of the update efforts, the Department continues to evaluate the possibility of extending the formal CIP planning period from five years to ten years.

A summary of the 2014-2019 CIP is presented in Table 2. For each year, the CIP is divided into the major categories of Plant Replacement and Renovation, Metro Area Construction, Urban System Improvements, Maintenance and Repair, Mechanical Maintenance, and Computer Systems. In addition, the Plant Replacement and Renovation category is further identified by specific plant and by pumping stations and reservoirs.

Table 2
Water Supply System Capital Improvement Program
Projected Expenditure Schedule - Fiscal Years 2014 through 2019

<u>Category</u>	<u>Fiscal Year Ending June 30,</u>						<u>Total</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	
	\$	\$	\$	\$	\$	\$	\$
<i>unaudited estimate</i>							
Plant Replacement and Renovation							
General Plant	6,989,000	14,931,000	17,680,000	10,900,000	3,900,000	1,000,000	55,400,000
Water Works Park	0	5,000,000	12,075,000	17,900,000	9,300,000	0	44,275,000
Springwells	8,392,000	23,236,000	32,660,000	30,654,000	46,850,000	37,084,000	178,876,000
Northeast	0	0	3,631,000	5,615,000	1,381,000	650,000	11,277,000
Southwest	2,584,000	10,000	160,000	6,985,000	15,189,000	14,000,000	38,928,000
Lake Huron	129,000	2,500,000	2,995,000	17,265,000	20,531,000	6,000,000	49,420,000
Pumping Stations & Reservoirs	<u>2,114,000</u>	<u>1,385,000</u>	<u>6,547,000</u>	<u>8,770,000</u>	<u>5,257,000</u>	<u>3,105,000</u>	<u>27,178,000</u>
Subtotal - Plant	20,208,000	47,062,000	75,748,000	98,089,000	102,408,000	61,839,000	405,354,000
Metro Area Construction	6,615,000	40,705,000	50,300,000	45,850,000	34,700,000	29,100,000	207,270,000
Urban System Improvements	8,450,000	30,615,000	13,765,000	10,000,000	10,000,000	10,000,000	82,830,000
Mechanical Maintenance	0	0	0	0	0	0	0
Computer Systems	<u>4,727,000</u>	<u>6,831,000</u>	<u>2,293,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>18,351,000</u>
Subtotal	19,792,000	78,151,000	66,358,000	57,350,000	46,200,000	40,600,000	308,451,000
Total System	40,000,000	125,213,000	142,106,000	155,439,000	148,608,000	102,439,000	713,805,000

For purposes of the CIP presented in this evaluation, we have updated the 2014 estimate based on review of preliminary year-end data. The CIP requirements shown for 2015 are identical to those identified in the formally approved CIP from December 2013. The estimated expenditures for 2016 through 2019 represent preliminary estimates based on initial independent review referenced above. As a result of the dynamic nature of the plan and the continual review efforts it is possible that the CIP expenditures reflected in the table above will continue to change, particularly in the later years of the current five-year planning period.

Expenditures in the early part of the CIP are primarily focused on rehabilitating the Springwells Water Treatment Plant, which currently produces the most water of any of the five plants, on construction of new transmission mains (in the Metro Area Construction section) to

ensure reliable delivery of water in certain segments of the System, and on rehabilitation of water infrastructure in the City of Detroit (in the Urban System Improvements section).

A fundamental component of the Master Plan is an evaluation of the possibility of repurposing one or more water treatment plants to strategically align available capacity and service requirements. The General Plant category of the CIP contains investment allowances for short-term improvements at the Northeast and Southwest plants in order to allow them to provide reliable service while their ultimate operating scenario is determined through the Master Plan. Identification of the most appropriate capacity levels for each of the five water treatment plants is the principal goal of that study.

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Financial Feasibility for the DWSD Obligations

The financial data used in the analyses presented herein was obtained from the financial records of the Department. The Department's financial records are audited annually and maintained in conformity with generally accepted accounting principles for water and wastewater utilities.

The projections set forth herein are intended as “forward-looking statements”. In formulating these projections, The Foster Group has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodology utilized by The Foster Group in performing these analyses follows generally accepted practices for such projections. Such methodologies are summarized in this report and are reasonable and appropriate for the purpose for which they are used. While The Foster Group believes the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur. Such factors may include the Department’s ability to execute the CIP as scheduled and within budget, regional climate and weather conditions affecting the demand for water, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting the Department’s ability to manage the System and maintain water quality.

Rate Methodology and Existing Rates

The Department's water rates are developed to provide sufficient levels of revenue to meet all operation and maintenance expenses of the System, debt service requirements on obligations issued for the System, capital improvement expenditures to be funded from current revenues, and other specific bond ordinance and revenue requirements. Water rates are developed for retail and wholesale customers by determining the total costs of service and individual customer water service requirements.

Water rates for wholesale customers are developed on the “utility” basis, in conformance with State of Michigan statutes. Under the “utility” basis, wholesale customers are charged rates developed to recover cost of service as represented by operation and maintenance expense, depreciation expense, and a return on the investment the City has made in wholesale service facilities. The rate of return charged to wholesale customers has averaged between six and seven percent in recent years. Water rates for retail customers within the City of Detroit are determined in the same manner, except that the rate of return is calculated to meet the System's cash requirements. The rate of return charged to City of Detroit customers is generally lower than that charged to wholesale customers, reflecting the City's ownership of the System and the associated risks, rights, and responsibilities of investing in water service facilities. The rates charged to retail customers also include costs associated with the distribution system within the City of Detroit and bad debt expense for all customers of the System.

The current water rates became effective July 1, 2014 and were designed to generate an overall revenue increase of approximately four percent over revenues generated by the previous year’s rates. Rates for retail customers within the City of Detroit include a uniform commodity rate of \$21.71 per thousand cubic feet and a fixed monthly service charge which varies by the

size of the customer's water meter. As described below, the rate structure for suburban wholesale customers also consists of commodity and fixed portions, which are unique for each customer. The average unit cost of the rate structure charged to wholesale customers is \$18.50 per thousand cubic feet.

Service to customers outside the City is on a wholesale basis through contracts with various municipalities and governmental entities. Separate rates are developed for each wholesale customer recognizing the total revenue requirement of the System, and each customer's water usage, demands on the System, and the distance and elevation relative to the water treatment plants. The Department's water rate methodology is sound and strives to utilize the best available, verifiable information to allocate costs to individual customer communities in the most equitable fashion possible. Customers are allocated costs based, in large part, on the demands they place on the system, and those demands are set forth in each customer's contract.

In recent years the structure of the wholesale rates has been modified to recover more costs through a fixed component of the rate structure, and less through a commodity charge. This initiative is designed to more closely align the manner in which costs of service are allocated to customers and the manner in which such costs are recovered from customers, thereby further enhancing the water rate structure. In 2010 rates were designed to recover the entire wholesale revenue requirement through commodity charges. The 2011 rates reflected the first step in a phased approach and recovered approximately 10 percent of the revenue requirement through fixed charges. This portion was increased to approximately 27 percent in 2012 and to approximately 40 percent in 2013. In addition to enhanced cost allocation and cost recovery alignment, this initiative also dampens seasonal and annual fluctuations in System revenues.

The current wholesale water rates for 2015 continue to collect approximately 40 percent of the revenue requirement via fixed monthly charges, and 60 percent via commodity charges. The Department believes that further increasing the portion recovered through fixed monthly charges will further improve the alignment between cost of service allocation and cost recovery, and has initiated conversations with representatives of the customer communities (through the TAC process) to explore this issue. The Department does not endorse converting to a full fixed charge rate structure, as was implemented for the suburban wholesale sewer rates, but does believe that the majority of revenue requirements should be recovered through fixed monthly charges. While we are confident that future rates will reflect modifications to the current structure, the projections in this report do not assume so.

Projection of Revenues

Table 3 presents the estimated operating revenues for 2014 and projected operating revenues for 2015 through 2019. The 2015 through 2019 revenues reflect a baseline condition assuming that the existing 2015 rates remain in effect for the duration of the study period (i.e., no rate increases). Projected modifications to these rates and revenue levels will be discussed subsequently in Table 6. The Department's financial records account for revenue based on all volume billed at the appropriate fiscal year rate and as such approximately reflect treated water pumped during the fiscal year. The projections shown in Table 4 are developed on the same

basis. The total operating revenues of the System consist of several components that are individually derived from various elements of the rate structure. For instance, volume charge revenue refers to water sales revenue from individual customers. Meter charge revenue refers to “readiness to serve” charges to individual customers that are not a product of the amount of water consumed.

For Fiscal Year 2014 the estimated sales and revenues reflect a detailed review of actual reported preliminary information regarding billed revenue and cash receipts by customer class and specific wholesale customer for the entire fiscal year. The preliminary estimate of actual Fiscal Year 2014 revenues indicates that they will be significantly below budgeted levels, due in large part to water sales volumes in the first quarter of the fiscal year that were significantly below budgeted levels due to very mild conditions during the summer of calendar 2013. Higher than expected levels of estimated bad debt expense also contributed to the estimated revenue shortfall. The Department estimates a negative variance (compared to budget levels) of \$42 million.

Table 3
Projected Water System Sales and Revenues Under Existing Rates

	Fiscal Year Ending June 30,					
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	\$	\$	\$	\$	\$	\$
<i>unaudited estimate</i>						
Operating Revenue (a)						
Wholesale Customers	273,715,700	289,441,200	289,205,600	288,971,100	276,052,500	275,880,600
Retail Customers (b)	74,120,200	90,414,500	88,154,100	85,950,500	83,801,600	81,706,700
Miscellaneous Revenue	<u>3,835,100</u>	<u>4,750,000</u>	<u>4,750,000</u>	<u>4,750,000</u>	<u>4,750,000</u>	<u>4,750,000</u>
Total Operating Revenue	351,671,000	384,605,700	382,109,700	379,671,600	364,604,100	362,337,300
Revenues are based on projected water sales of:						
Wholesale (Mcf)	14,666,300	15,446,800	15,408,200	15,369,700	14,846,800	14,809,700
Retail (Mcf)	<u>3,400,000</u>	<u>3,500,000</u>	<u>3,412,500</u>	<u>3,327,200</u>	<u>3,244,000</u>	<u>3,162,900</u>
Total Sales (Mcf)	18,066,300	18,946,800	18,820,700	18,696,900	18,090,800	17,972,600

(a) Based on application of FY 2015 rates for 2015 through 2019. Net of projected bad debt expense.

(b) Retail revenues reflect declining block commodity charge for 2014 and uniform commodity charge for 2015 through 2019

The 2014 revenue estimate for the suburban wholesale class does not include any revenue from the City of Highland Park, a wholesale customer with a delinquent balance of close to \$1.5 million. Highland Park is being served on an “interim non-contract” basis and has never made a payment for water provided. Suburban wholesale revenues for 2015 and the remainder of the study period reflect application of the existing commodity rates to the projected sales volumes, and adding the revenue associated with the fixed monthly charges of the rate structure. The projected operating revenue from suburban wholesale customers assumes no collection from Highland Park, despite the fact that the Department has taken legal action to recover the delinquent balance and ongoing bills for service. The State has declared a fiscal emergency in

Highland Park pursuant to Michigan’s Public Act 436 of 2011 (“Act 436”) and, as a result, the Department and other creditors are currently participating in Act 436’s Neutral Evaluation Process.

The projected water sales to wholesale customers principally reflect the volumes contained within the “Exhibit B” to each contract. Projected volumes for wholesale customers that continue to be served under the old contract and are based on analyses of historical trends, discussion with the Department personnel, and analyses of specific information relating to individual customers. Water volume projections for 2015 through 2019 anticipate normal weather conditions and are based on an analysis of historical trends of ten years of actual data. The projected water sales for 2015 excludes any sales to the City of Flint, as service to Flint has been terminated, but continues to include sales to Genesee County, which has assumed Flint’s status as a “non-contract” customer. Projected sales for 2018 exclude sales to Genesee County, as they are expected to cease status as a full service customer at that time. *See “Service Area.”*

The 2014 revenue estimate for the retail class is reflected on a modified cash basis reflecting estimated billed revenues less an allowance for bad debt expense that was developed based on a review of recent collection results. Analysis of recent data indicates a collection rate of approximately 83 percent of all billed revenue to retail customers, and that metric has been used for both the 2014 estimate and the projections for 2015 through 2019. Recent developments regarding the Department’s aggressive pursuit of delinquent accounts has resulted in apparent improved collection rates and we believe that this trend will continue. However we also believe that efforts to improve the reliability of information provided by the retail billing system will require some time and effort and we are inclined to err on the conservative side on this assumption and project a status quo collection rate. The projected sales volumes for the retail class for 2015 reflect a five percent reduction from prior projections, and establish a baseline for future projections. Retail sales volumes in subsequent years of the study period reflect an annual decline of 2.5% for the balance of the five-year projection period. The projected operating revenues for the retail class are determined by applying the appropriate fixed charges and commodity rates to the projected billable water volumes, and reflect the water rate schedule currently in effect.

Miscellaneous Operating Revenue includes revenues generated through the sale of equipment, penalty charges, turn-on and shut-off fees, fire hydrant maintenance, and other operations.

Operation and Maintenance Expense Projections

Table 4 presents the estimated operation and maintenance expense for 2014 and projected operation and maintenance expense for 2015 through 2019. The 2014 estimate reflects the results of a detailed review of actual reported expenditure and cash disbursement information during the first 10 months of the fiscal year. It also reflects estimated activity during the final two months of the year, derived from review of preliminary data and discussions with Department managers. We have included a contingency allowance of \$7 million for amounts that the detailed review does not indicate will be necessary. Even after including this contingency, Fiscal Year 2014 operating expenses are estimated to be under budget by approximately \$9 million.

Table 4
Projected Operation and Maintenance Expense (and Selected Non-Operating Expenses)

	<i>Fiscal Year Ended June 30,</i>					
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	\$	\$	\$	\$	\$	\$
<i>unaudited estimate</i>						
Salaries/Wages	27,500,000	32,672,600	34,056,800	33,128,800	32,278,100	29,049,200
Pension & Fringes	21,000,000	22,175,000	22,578,000	22,268,400	22,003,900	20,458,800
SUBTOTAL PERSONNEL	48,500,000	54,847,600	56,634,800	55,397,200	54,282,000	49,508,000
Contractual/Purchased Services	26,150,000	46,469,600	47,631,400	48,822,200	50,042,700	51,293,600
Utilities	32,800,000	32,876,500	33,698,500	34,540,900	35,404,400	36,289,600
Chemicals	7,700,000	7,463,700	7,650,300	7,841,500	8,037,500	8,238,500
Supplies & Other	18,350,000	16,121,900	16,524,900	16,938,100	17,361,500	17,795,500
SUBTOTAL NON-PERSONNEL	85,000,000	102,931,700	105,505,100	108,142,700	110,846,100	113,617,200
TOTAL	133,500,000	157,779,300	162,139,900	163,539,900	165,128,100	163,125,200
Forecast Contingency	7,000,000					
TOTAL O&M EXPENSE	140,500,000	157,779,300	162,139,900	163,539,900	165,128,100	163,125,200
<u>Non-Operating Expense</u>						
Non-Operating Pension Reimb Exp	NA	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000
Pension Obligation Certificate Pmts	6,094,100	NA	NA	NA	NA	NA
B Note Reimbursements	NA	3,049,100	1,097,200	1,097,200	1,097,200	1,097,200
Professional Service BK Fees	NA	7,500,000	NA	NA	NA	NA
TOTAL	6,094,100	19,749,100	10,297,200	10,297,200	10,297,200	10,297,200

The Department's budgeted operation and maintenance expenses for Fiscal Year 2015 reflects an increase of approximately \$1.3 million when compared to the Fiscal Year 2014 budget. This minor increase is principally related to increased budgets for contractual services and related activities to support continued implementation of the Department's Optimization program as it establishes systems to perform independently from the City of Detroit. These increases are somewhat offset by lower personnel costs resulting from attrition related to the Optimization program. Subsequent to preparation and adoption by the Board of Water Commissioners of the Fiscal Year 2015 Budget, significant developments have occurred that will impact the Department's financial planning and results. These developments create the need to revisit the assumptions included in the 2015 Budget to establish a more appropriate baseline to project future operations. The Fiscal Year 2015 operating and maintenance expense estimate in the accompanying projections is based in part on the Fiscal Year 2015 Budget, but also reflects significant modifications in assumptions, many of which emerged in the development of the City's Plan of Adjustment ("POA") developed during bankruptcy proceedings.

For instance, the 2015 budget figures were developed based on assumptions provided by the City regarding estimated pension and fringe benefit costs that resulted in an effective “fringe rate” (defined as total pension and fringe benefit costs² divided by total salaries and wages) of 80%. The POA reduces the annual costs associated with retiree health care and other elements, including the prior payments on the System’s share of payments related to the City’s Pension Obligation Certificates (“POC”s). However it also reflects a significant increase in pension expenses in 2015, as the POA contemplates an amortized reimbursement from the Department to the City for its unfunded allocated pension obligation. While the POA results in a forecasted elimination of DWSD pension reimbursements to the City for unfunded amounts by 2024, in the short term it results in a significant increase. The pension reimbursements to the City set forth in the POA are effectively split into operating expense and non-operating expense components. The operating expense component (limited to \$24 million annually for the combined DWSD Water and Sewer Funds) is reflected in the “Pension & Fringes” line item in Table 4. The System’s share of the annual non-operating expense component reflects the portion of the pension reimbursement payments over and above \$24 million for the combined DWSD Water and Sewer Funds. This expenditure is the first element payable after debt service, and is shown as the first non-operating expense line item in Table 4. As a result of the POA modifications on these items, the “effective fringe rate” for 2015 in the projections in this report is 105%.

Other minor modifications to the 2015 budget have also been made based on additional review of actual expenses for 2014, and the actual attrition experience noted below.

The Fiscal Year 2015 estimated operation and maintenance expenses serve as a base for the remaining years. The projections include continued recognition of savings resulting from implementation of the ongoing Optimization program, including personnel cost savings through attrition and initial outsourcing efficiencies. The salaries and wages information presented in the table reflects continued implementation of strategic attrition from a current Department-wide workforce level of approximately 1,500 down to 1,000 by Fiscal Year 2019. It also includes a projected average salary and wage increase of 10 percent in Fiscal Year 2016. As noted above, with respect to pension and fringe benefit expenses, the projections reflect the assumptions set forth in the POA, which starting in 2015 includes an amortized repayment of pension reimbursement obligations, but also reflect a reduction to the budgeted fringe benefit rates for retiree health care and other elements.

The projected non-personnel operating expenses for 2015 reflect a review of actual expenses for 2012 and 2013 as well as budgeted and year-to-date actual expenses for 2014, and the budget request for 2015. The budgeted contractual services amount for 2015 reflects significant investments in systems necessary to continue implementation of the Optimization Program. Arguably these costs will not continue long-term, but for purposes of these projections we have accepted this level of expense as being reasonable. Based on our review of recent budgets and performance, we are projecting the 2015 non-personnel expenses will reflect a 2 percent savings from the budgeted amounts, and have used the resulting estimates as baseline for the remainder of the projection period.

² For purposes of this calculation the System’s allocated share of the POC payments and the non-operating expense portion of the pension reimbursement are included in the definition of fringe benefit costs.

The projections shown in Table 4 recognize the potential impact of anticipated escalation of costs due to inflation during the study period. While a detailed analysis of variable inflationary rates was conducted, in the final analysis all costs have been increased 2.5 percent annually, starting in 2016.

The non-operating expenses in this table include the System's allocated share of: the aforementioned non-operating expense component of the pension reimbursement payments; payments related to the POCs in 2014; "B Note" payments starting in 2015; and professional service fees associated with the City's bankruptcy proceedings, assumed to be paid in 2015.

Capital Improvement Program Financing

Table 5 presents a plan for financing the CIP (Line 1) for the study period. Traditionally, the Department's capital financing strategies followed a "maximum debt financing" strategy. In essence, within the constraints of the Additional Bonds Test and the Department's debt service coverage policies, the amount of bonds to be issued was designed to maximize the capital requirements financed with bond proceeds. Recently, Department management (with support of the Board) has modified the traditional strategy and established a long term goal of reducing the Department's significant reliance on debt for capital financing and has indicated management's intent to shift towards a more balanced debt/revenue financing approach. The capital financing plan presented herein is designed to continue implementation of that approach. Customer representatives have embraced this planning strategy as being essential to improving the financial position of the System.

Lines 2 through 11 outline the sources available to meet the CIP financing requirements. Line 2 shows the net balance in the Improvement and Extension ("I&E") Fund as of June 30, 2013, available to fund the CIP. Line 3 shows the amount projected to be transferred to the I&E Fund each year from current operating revenues. Total funds available from the I&E Fund are indicated on Line 4. For planning purposes, revenue transfers to the I&E Fund are not assumed to be eligible to finance capital improvements until at the year subsequent to their generation.

The capital financing available from the Construction Fund is indicated on Lines 5 through 10. Line 5 shows the net balance in the Construction Fund as of June 30, 2013³, which is available to fund the CIP. Existing balances in the Construction Fund and the I&E Fund are projected to be sufficient to finance the CIP through 2015. The capital financing plan presented in Table 5 envisions annual issuances of revenue bonds starting in Fiscal Year 2016 to finance additional expenditures in the CIP. For purposes of these projections, annual bond sales are calculated to fund annual requirements. Actual future issuances are likely to be sized to fund 18 to 24 months of capital requirements.

Line 9 presents the proceeds from State Revolving Fund Loans. As the Department incurs expenditures for SRF funded projects, invoices are transmitted to the state administrators of the

³ Due to the study period structure of this report, beginning fund balances reflect balances available at July 1, 2013. Reports summarizing preliminary information regarding July 1, 2014 balances have been reviewed to confirm the accuracy and reasonableness of the projections.

SRF for remittance. As such, the amounts shown on Line 9 reflect the projected expenditure schedule of SRF funded projects. The Department does not currently have any active SRF water projects but is in the process of exploring additional loans to potentially mitigate the need to issue additional senior lien revenue bonds during the study period.

Table 5
Capital Improvement Program Financing

Line No.	Item	Fiscal Year Ending June 30,						Total
		2014	2015	2016	2017	2018	2019	
		\$	\$	\$	\$	\$	\$	\$
		<i>unaudited estimate</i>						
	Financing Requirements							
1	Capital Improvement Program (a)	40,000,000	125,213,000	142,106,000	155,349,000	148,607,000	102,439,000	713,714,000
	Financing Sources							
	<u>Improvement and Extension Fund</u>							
2	Beginning Balance (b)	6,260,800	14,522,900	25,607,800	48,317,500	34,077,300	31,405,000	6,260,800
3	Revenue Financed Capital	<u>14,522,900</u>	<u>19,977,200</u>	<u>29,090,700</u>	<u>35,376,800</u>	<u>32,815,700</u>	<u>43,344,300</u>	<u>175,127,600</u>
4	Subtotal - Improvement & Extension Fund	20,783,700	34,500,100	54,698,500	83,694,300	66,893,000	74,749,300	181,388,400
	<u>Construction Bond Funds</u>							
5	Beginning Balance (b)	150,059,900	116,320,700	0	0	0	0	150,059,900
	Bond Proceeds							
6	Water System Revenue Bonds (c)	0	0	152,500,000	118,800,000	127,100,000	78,800,000	477,200,000
7	Less: Net Issuance Expenses (d)	<u>0</u>	<u>0</u>	<u>(16,775,000)</u>	<u>(13,068,000)</u>	<u>(13,981,000)</u>	<u>(8,668,000)</u>	<u>(52,492,000)</u>
8	Net Bond Proceeds Available	0	0	135,725,000	105,732,000	113,119,000	70,132,000	424,708,000
9	State Drinking Water Revolving Fund Loans	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
10	Subtotal - Construction Bond Funds	<u>150,059,900</u>	<u>116,320,700</u>	<u>135,725,000</u>	<u>105,732,000</u>	<u>113,119,000</u>	<u>70,132,000</u>	<u>574,767,900</u>
11	Total Financing Sources Available	170,843,600	150,820,800	190,423,500	189,426,300	180,012,000	144,881,300	756,156,300
	Application of Financing Sources							
12	Projects Funded with							
	Improvement and Extension Funds	6,260,800	8,892,300	6,381,000	49,617,000	35,488,000	32,307,000	138,946,100
13	Projects Funded with Construction Bond Funds	<u>33,739,200</u>	<u>116,320,700</u>	<u>135,725,000</u>	<u>105,732,000</u>	<u>113,119,000</u>	<u>70,132,000</u>	<u>574,767,900</u>
14	Total Financing Sources Applied	40,000,000	125,213,000	142,106,000	155,349,000	148,607,000	102,439,000	713,714,000
	Financing Sources Available for Future Requirements							
15	Improvement & Extension Fund (e)	14,522,900	25,607,800	48,317,500	34,077,300	31,405,000	42,442,300	42,442,300
16	Construction Bond Funds (f)	<u>116,320,700</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
17	Total Financing Sources Available for Future Requirements	130,843,600	25,607,800	48,317,500	34,077,300	31,405,000	42,442,300	42,442,300

(a) From Table 2.

(b) Balance available June 30, 2013 (applies only to fiscal year 2014).

(c) The 2014 DWSD Obligations are refunding bonds and are not reflected in this table.

(d) Includes net premium / original issue discount and other amounts and amount required from bond proceeds to fund maximum annual future debt service.

(e) Line 4 minus Line 12.

(f) Line 10 minus Line 13.

Lines 12 through 14 illustrate the projected application of financing sources to meet the CIP financing requirements stated on Line 1. The balance of funds available for subsequent years is shown on Lines 15 through 17 and is carried forward to Lines 2 and 5 in the next year.

Impact of Projected Revenue Requirements on Water Service Rates

Table 6 presents a pro forma statement developed from revenue and expense projections for 2014 through 2019. The table provides an indication of the adequacy of the Department's revenues and the feasibility of the future anticipated revenue bond sales and the associated

financing plan. This table is designed to indicate the approximate level of annual operating revenues that is projected to be necessary to finance the remaining years of the current CIP and ongoing operating requirements. The overall financial plan summarized by these projections is designed to embrace the Department's long-term financial stability strategy, which leverages optimization savings, coupled with annual four percent increases in revenues from rates, to produce increasing amounts of "unrestricted cash" that remains after providing for payment of operation and maintenance expenses, debt service payments, and non-operating expense reimbursements related to the POA.

Operating revenue projections, presented in Table 3, are based on the Department's current water rate schedule. Lines 2 through 5 indicate increases in water rates that are projected to be generated from the annual four percent increases. These projected increases in rates are believed to be comparable with those that should be experienced in other areas of the country having water systems of comparable age, and facing similar infrastructure challenges, as the System.

Projected non-operating revenues of the System include investment earnings from all System funds and have been projected based on an analysis of funds on hand, construction schedules, and average fund balances. An annual interest rate of 0.75 percent has been assumed in projecting interest income for all funds.

The projected operation and maintenance expenses shown on Line 11 reflect the impact of the continued implementation of the Optimization Program and related activities and also the anticipated escalation of costs and changes in operation as presented earlier in Table 4.

The Department's debt service is depicted on Lines 12 through 19, separated by priorities of lien. Debt service on senior lien bonds is summarized on Lines 12 through 15. Debt service for outstanding bonds is summarized on line 12. These figures recognize the effect of the DWSD Obligations transaction. As such, they reflect the existing debt service schedules as of July 1, 2014, less the debt service on the outstanding bonds that were tendered and/or refunded, plus the debt service on the DWSD Obligations. As a result of the DWSD Obligations transaction, annual debt service in the five-year study period is approximately \$6 million lower than the prior existing debt service. The debt service savings are principally reflected in the senior lien debt service shown on Line 12. Debt service on projected future bond issues is shown on Line 13. While no strategic designation as to the lien status of future bonds has been made nor contemplated, for purposes of these projections it is assumed that any additional bonds would be issued as senior lien. A similar presentation of debt service on second lien bonds is presented on Lines 15 and 16. Projected repayments of SRF Loans are stated on Line 18. These figures reflect repayments of existing loans.

The specific non-operating expenses from Table 4 are repeated on Lines 20 through 22 of Table 6. These items are presented in the priority of payment after debt service is paid. Renewals and Replacements shown on Line 23 represent capitalized expenditures budgeted by the Department, which are not included in the CIP. Line 24 presents the projected level of revenue financed major capital improvements presented earlier in Line 3 of Table 5. These

amounts are targeted to finance short-lived assets in concert with the Department's capitalization and debt service coverage policies, which are discussed below.

Table 6
Revenue Requirements Projections

Line No.	Item	Fiscal Year Ending June 30,					
		2014	2015	2016	2017	2018	2019
		\$	\$	\$	\$	\$	\$
		<i>unaudited estimate</i>					
	Revenue (a)						
1	Operating Revenue Under Existing Rates	347,835,900	379,855,700	377,359,700	374,921,600	359,854,100	357,587,300
	Projected Revenue from Rate Increases						
2	FY 2016: 4.0%			15,094,400	14,996,900	14,394,200	14,303,500
3	FY 2017: 4.0%				15,596,700	14,969,900	14,875,600
4	FY 2018: 4.0%					15,568,700	15,470,600
5	FY 2019: 4.0%						16,089,500
6	Total Projected Revenue from Water Rates	347,835,900	379,855,700	392,454,100	405,515,200	404,786,900	418,326,500
7	Miscellaneous Operating Revenue	<u>3,835,100</u>	<u>4,750,000</u>	<u>4,750,000</u>	<u>4,750,000</u>	<u>4,750,000</u>	<u>4,750,000</u>
8	Total Operating Revenue	351,671,000	384,605,700	397,204,100	410,265,200	409,536,900	423,076,500
9	Non-Operating Revenue	<u>2,302,600</u>	<u>3,663,000</u>	<u>3,516,800</u>	<u>3,949,700</u>	<u>3,774,200</u>	<u>3,950,200</u>
10	Total Revenue Available	353,973,600	388,268,700	400,720,900	414,214,900	413,311,100	427,026,700
	Revenue Requirements						
11	Operation and Maintenance Expense (b)	140,500,000	157,779,300	162,139,900	163,539,900	165,128,100	163,125,200
	Debt Service						
	Senior Lien Bonds						
12	Outstanding Bonds	140,204,600	134,820,900	134,908,700	134,861,300	134,266,600	124,781,800
13	Future Bonds (lien unspecified)	<u>0</u>	<u>0</u>	<u>8,387,500</u>	<u>14,921,500</u>	<u>14,921,500</u>	<u>21,983,400</u>
14	Total Senior Debt Service	140,204,600	134,820,900	143,296,200	149,782,800	149,188,100	146,765,200
	Second Lien Bonds						
15	Outstanding Bonds	40,450,000	42,314,200	42,185,200	42,200,300	42,754,300	51,194,400
16	Total Second Lien Bonds	<u>40,450,000</u>	<u>42,314,200</u>	<u>42,185,200</u>	<u>42,200,300</u>	<u>42,754,300</u>	<u>51,194,400</u>
17	Subtotal Debt Service	180,654,600	177,135,100	185,481,400	191,983,100	191,942,400	197,959,600
18	SRF Junior Lien Bonds	<u>1,789,000</u>	<u>1,788,800</u>	<u>1,777,900</u>	<u>1,777,900</u>	<u>1,774,800</u>	<u>1,772,300</u>
19	Total Debt Service	182,443,600	178,923,900	187,259,300	193,761,000	193,717,200	199,731,900
20	Non-Operating Portion of Pension Reimbursement	0	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000
21	POC / B Note Non-Operating Payments	6,094,100	3,049,100	1,097,200	1,097,200	1,097,200	1,097,200
22	Allocated Professional Service Fees from BK	0	7,500,000	0	0	0	0
23	Renewals and Replacements	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
24	Revenue Financed Major Capital Improvements	14,522,900	19,977,200	29,090,700	35,376,800	32,815,700	43,344,300
25	Extraordinary Repair and Replacement Fund	0	2,574,900	654,100	210,000	238,200	0
26	Operating Reserve Requirement	<u>2,913,000</u>	<u>1,764,300</u>	<u>3,779,700</u>	<u>3,530,000</u>	<u>3,614,700</u>	<u>3,028,100</u>
27	Total Revenue Requirements	353,973,600	388,268,700	400,720,900	414,214,900	413,311,100	427,026,700
28	Indicated Balance (Deficiency)	0	0	0	0	0	0
	Debt Service Coverages Under Required Rates						
29	Senior Lien for Rate Covenant Purposes	152%	171%	166%	167%	166%	180%
30	Second Lien for Rate Covenant Purposes	118%	130%	129%	131%	129%	133%
31	SRF Junior Lien for Rate Covenant Purposes	117%	129%	127%	129%	128%	132%
32	<i>Net Revenues (10) - (11)</i>	<i>213,473,600</i>	<i>230,489,400</i>	<i>238,581,000</i>	<i>250,675,000</i>	<i>248,183,000</i>	<i>263,901,500</i>
33	<i>Net Revenues after Debt Service (32) - (19)</i>	<i>31,030,000</i>	<i>51,565,500</i>	<i>51,321,700</i>	<i>56,914,000</i>	<i>54,465,800</i>	<i>64,169,600</i>
34	<i>"Unrestricted Cash" (33) - (20) - (21) - (22)</i>	<i>24,935,900</i>	<i>31,816,400</i>	<i>41,024,500</i>	<i>46,616,800</i>	<i>44,168,600</i>	<i>53,872,400</i>

(a) From Table 3. Based on application of FY 2015 rates for 2015 through 2019.

(b) From Table 4.

In accordance with the requirements of the Bond Ordinance, an annual deposit (Line 25) is made to the Extraordinary Repair and Replacement ("ER&R") Fund in an amount equal to the

lesser of three percent of that year's budgeted operation and maintenance expense or that which is necessary to enable the aggregate value of the fund to equal 15 percent of that year's budgeted operation and maintenance expense.

Line 26 of Table 6 presents a revenue requirement established to ensure adequate balances of operating reserves, or working capital. This reserve is established in a similar manner to the Extraordinary Repair and Replacement Reserve Fund and is summarized in detail in Table 7. Annual deposits are targeted to achieve a desired balance expressed in terms of a set amount of days of annual operation and maintenance expense. The June 30, 2013 balance of this reserve was established at the current minimum level of 30 days of annual operation and maintenance expense, and this financial plan is designed to gradually increase the balance in this reserve by approximately five additional days each year starting in 2013 – targeting a balance of approximately 60 days of annual operation and maintenance expense by the end of the study period.

The indicated annual balance or deficiency under existing rates, Line 28 of Table 6, is calculated by subtracting total revenue requirements from the total revenue available. As indicated in the table, the projected rate increases on Lines 2 through 5 are projected to be sufficient to meet projected revenue requirements throughout the study period.

The preceding projections of rate increases are intended to produce annual debt service coverage figures in accordance with the Board's policy on debt service coverage, which establishes a target range for debt service coverage for each lien of debt. It requires that water rates be set to generate projected debt service coverage ratios that are at least 15 percentage points higher than the rate covenant figures. Pursuant to the Rate Covenant of the Bond Ordinance, the minimum Board policy coverage targets are 135 percent for Senior Lien debt, 125 percent for Second Lien debt, and 115 percent for SRF Junior Lien debt. The current policy also requires that rates be set so that projected debt service coverage on the lowest lien of debt will not exceed 150 percent.

Projections of annual debt service coverage levels are summarized on Lines 29 through 31. These coverage levels are calculated on the same basis as required by the rate covenant. As indicated, annual coverage levels, assuming the revenue increases shown, are projected to be in excess of the amounts required by the Bond Ordinance and within the debt service coverage target range established by the Board.

Lines 32 through 34 are designed to summarize (respectively) projected net revenues available for debt service; projected net revenues after payment of debt service; and projected "unrestricted cash". The figures on the final line item are essentially available for any legal use of the System. For planning purposes these balances are applied in the manner illustrated on lines 23 through 26.

The financial plan presented herein is designed to enhance the System's balance sheet, reverse the erosion in net assets that has occurred in recent years, and improve the System's liquidity position. Department management has embraced this planning strategy, which results in increasing debt service coverage ratios, as indicated in the table.

Projected Revenue Generated Fund Balances

Table 7 presents a summary of the projected cash and investment balances in the System's Operating, ER&R, and I&E Funds. The figures in this table represent those funds that are entirely generated by revenues, and exclude any amounts funded by bond proceeds. The mechanics of the Operating Fund and the ER&R Fund have already been discussed.

For planning purposes, operating revenues generated to finance capital improvements are transferred to the I&E Fund and assumed to be entirely spent in the following year. These funds are technically available to be transferred to a Surplus Fund and to other System funds for any System use.

Table 7
Projected Revenue Generated Fund Balances

Line No.	Item	Fiscal Year Ending June 30,					
		2014	2015	2016	2017	2018	2019
		\$	\$	\$	\$	\$	\$
		<i>unaudited estimate</i>					
	<u>Operating Fund</u>						
1	Beginning Balance	12,484,500	15,397,500	17,161,800	20,941,500	24,471,500	28,086,200
2	Deposit from Operations	2,913,000	1,764,300	3,779,700	3,530,000	3,614,700	3,028,100
3	Ending Balance	15,397,500	17,161,800	20,941,500	24,471,500	28,086,200	31,114,300
	<u>ER&R Fund</u>						
4	Beginning Balance	22,472,000	22,472,000	25,046,900	25,701,000	25,911,000	26,149,200
5	Transfers In	0	2,574,900	654,100	210,000	238,200	(300,400)
6	Ending Balance	22,472,000	25,046,900	25,701,000	25,911,000	26,149,200	25,848,800
	<u>I&E Fund</u>						
7	Beginning Balance	6,260,800	14,522,900	25,607,800	48,317,500	34,077,300	31,405,000
8	Revenue Financed Capital	14,522,900	19,977,200	29,090,700	35,376,800	32,815,700	43,344,300
9	Capital Expenditures	(6,260,800)	(8,892,300)	(6,381,000)	(49,617,000)	(35,488,000)	(32,307,000)
10	Ending Balance	14,522,900	25,607,800	48,317,500	34,077,300	31,405,000	42,442,300
	<u>Total Revenue Generated Funds</u>						
11	Beginning Balance	41,217,300	52,392,400	67,816,500	94,960,000	84,459,800	85,640,400
12	Net Transfers	11,175,100	15,424,100	27,143,500	(10,500,200)	1,180,600	13,765,000
13	Ending Balance	52,392,400	67,816,500	94,960,000	84,459,800	85,640,400	99,405,400
	<u>Other Funds</u>						
14	Bond Reserve	78,467,600	78,467,600	86,855,100	101,776,600	116,698,100	138,681,500
15	Bond Redemption (Avg)	60,814,500	59,641,300	62,419,800	64,587,000	64,572,400	66,577,300
16	Construction Fund (Avg)	150,059,900	116,320,700	135,725,000	105,732,000	113,119,000	70,132,000
17	Total Funds	341,734,400	322,246,100	379,959,900	356,555,400	380,029,900	374,796,200

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Projected Statement of Changes in Net Assets

Table 8 presents a summary of the projected changes in net assets, or a pro-forma of what the System's "income statement" is anticipated to look like given the projections in this report.

The financial plan presented herein is designed to enhance the System's balance sheet, and reverse the erosion in net assets that has occurred in recent years. As earlier indicated in Table 6, enhanced debt service coverage ratios are also a by-product of this strategic plan.

Note – the beginning "Fund Net Assets" figure shown in Table 8 for 2014 reflects the fund net position reported on the Departments Fiscal Year 2013 financial statements. Recent GASB pronouncements and developments associated with the City's POA could have a material impact on this balance, outside the normal business results for 2014. The projections in Table 8 are NOT intended to reflect any such modifications.

Table 8
Projected Proforma Statement of Changes in Net Assets

Line No.	Item	Fiscal Year Ending June 30,					
		<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
		\$	\$	\$	\$	\$	\$
		<i>unaudited estimate</i>					
1	Net Revenues (a)	213,473,600	230,489,400	238,581,000	250,675,000	248,183,000	263,901,500
2	plus Contributions	100,000	100,000	100,000	100,000	100,000	100,000
3	less: OPEB & Other (b)	0	0	0	0	0	0
4	less: Depreciation Expense	(78,965,000)	(85,229,700)	(90,000,000)	(92,000,000)	(94,000,000)	(96,000,000)
5	less: Interest Expense (c)	(116,557,200)	(99,839,800)	(115,575,400)	(125,342,700)	(109,632,300)	(111,464,900)
6	Proxy for Change in Net Assets	18,051,400	45,519,900	33,105,600	33,432,300	44,650,700	56,536,600
7	Fund Net Assets - beginning	9,882,100	27,933,500	73,453,400	106,559,000	139,991,300	184,642,000
8	Fund Net Assets - ending	27,933,500	73,453,400	106,559,000	139,991,300	184,642,000	241,178,600

(a) From Table 6, Line (1) - Line (11)

(b) These "non-cash" items are excluded from coverage calculations and revenue requirements for rates

(c) Assumes 15% of interest expense will be capitalized; includes POC and B Note interest payments

Compliance with Additional Bonds Test

The "Additional Bonds Test" of the Bond Ordinance governing the DWSD Obligations actually provides two approaches for certifying eligibility to issue the bonds. For any bonds that are structured to provide new capital financing proceeds, the test requires a net revenues analysis to show coverage of maximum future debt service. An alternate test is available for bonds that are issued solely for refunding purposes.

Coverage Test

The coverage test portion of the Additional Bonds Test states that the Department may not issue additional securities to finance system improvements unless the applicable net revenues

of the System generate sufficient coverage of the maximum future annual principal and interest requirements on the outstanding bonds and on the additional bonds issued. The coverage requirement for each lien of priority includes debt service for the lien in question, plus debt service on all bonds (if any) of all higher lien priorities. Sufficient coverage is defined as being equal to or greater than 120 percent for Senior Lien Bonds, 110 percent for Second Lien Bonds, and 100 percent for SRF Junior Lien Bonds. For purposes of determining the “applicable” net revenues, the Department may utilize either (a) the historical net revenues for the most recently completed fiscal year for which there is an audit report (so long as the fiscal year has been completed within 16 months of the issuance date of the bonds in question); (b) the current fiscal year; or (c) the immediately succeeding fiscal year. To the extent that a historical year as chosen as the “applicable” year, and to the extent that any changes in rates, fees and charges has been authorized prior to the issuance of the bonds being evaluated, net revenues may be augmented by an amount reflecting the effect of such changes had the Water Supply System’s billings during such Fiscal Year been at the increased rates.

Table 9 presents the level of Additional Bonds Test coverage provided for the DWSD Obligations, *to the extent that the coverage test is deemed necessary*. For purposes of the test, we have prepared calculations of “Additional Bonds Test Net Revenues” for each of the three available years defined by the test and described above. We have also presented figures for Fiscal Year 2014 in Table 9, even though the net revenues for this year are not available for the DWSD Obligations until an audit for 2014 is complete and available. Finally, for 2013 and 2014 we have presented “Additional Bonds Test Net Revenues” under both a “modified cash” basis (derived from the Department’s accrual basis “Statement of Changes in Net Position” in the audited financial statements and an “unadjusted” cash basis, derived from detailed review of the cash receipts and disbursements of the System. While the Additional Bonds Test technically only requires compliance with ANY ONE of the applicable years, for purposes of certifying compliance on the DWSD Obligations our analysis is designed to illustrate compliance with ALL applicable years.

As illustrated in the table, the lowest “Additional Bonds Test Net Revenue” figure for any of the applicable data points is the \$230.5 million figure shown on Line 5 for Fiscal Year 2015. This level of net revenue provides Additional Bonds Test coverage capacities for each lien of debt shown on Lines 6 through 8, which reflect the coverage requirements of 120% for Senior Lien Bonds, 110% for the sum of Senior and Second Lien Bonds, and 100% for all Bonds, including SRF Junior Lien Bonds. The figures on these lines under the 2015 column indicate that the coverage requirements contained in the Ordinance authorizing the issuance of the any new money bonds issued by the System (during the eligibility period summarized in the table) will be met so long as after issuance of the such bonds, the maximum future debt service in any year will not exceed \$192,074,500 on Senior Lien Bonds, \$209,535,800 on the sum of Senior and Second Lien Bonds, and \$230,489,400 in total on all bonds, including SRF Junior Lien Bonds.

The existing maximum future debt service by lien is shown on Lines 9 through 11. Subtracting these amounts from those on Lines 6 through 8 indicates the effective capacity for the any new money bonds issued by the System to impact maximum future debt service.

Table 9
Ability of the System to Meet the Additional Bonds Test for Issuance of the Bonds

Line No.		(1)	(2)	(3)	(4)	(5)	(6)
		Historical Test - Effective		Historical Test - Not Available		Prospective Test	
		F/S Presentation <u>FY 2012-13</u>	Est Cashflow <u>FY 2012-13</u>	F/S Presentation <u>FY 2013-14</u>	Est Cashflow <u>FY 2013-14</u>	Current Year <u>FY 2014-15</u>	Succeeding Year <u>FY 2015-16</u>
		\$	\$	\$	\$	\$	\$
				<i>unaudited estimate</i>			
1	Revenues	361,091,500	350,700,000	353,973,800	358,509,900	388,268,700	400,720,900
2	Operating Expenses	(151,204,300)	(146,200,000)	(140,500,000)	(141,000,000)	(157,779,300)	(162,139,900)
3	Net Revenues	209,887,200	204,500,000	213,473,800	217,509,900	230,489,400	238,581,000
4	Augmentation	36,177,700	35,136,600	20,903,700	21,171,600	0	0
5	Augmented Net Revenues	246,064,900	239,636,600	234,377,500	238,681,500	230,489,400	238,581,000
	<u>Allowable Max Future Debt Service</u>						
6	Senior Lien Bonds 1.20	205,054,100	199,697,200	195,314,600	198,901,300	192,074,500	198,817,500
7	Senior and 2nd Lien Bonds 1.10	223,695,400	217,851,500	213,070,500	216,983,200	209,535,800	216,891,800
8	All Bonds, Including SRF Jr Lien 1.00	246,064,900	239,636,600	234,377,500	238,681,500	230,489,400	238,581,000
	<u>Existing Max Future Debt Service</u>						
9	Senior Lien Bonds 2033	144,606,000	144,606,000	144,606,000	144,606,000	144,606,000	144,606,000
10	Senior and 2nd Lien Bonds 2031	180,654,600	180,654,600	180,654,600	180,654,600	180,654,600	180,654,600
11	All Bonds, Including SRF Jr Lien 2031	182,443,600	182,443,600	182,443,600	182,443,600	182,443,600	182,443,600
	<u>Allowable Incremental Max Future Debt Service</u>						
12	Senior Lien Bonds	60,448,100	55,091,200	50,708,600	54,295,300	47,468,500	54,211,500
13	Senior and 2nd Lien Bonds	43,040,800	37,196,900	32,415,900	36,328,600	28,881,200	36,237,200
14	All Bonds, Including SRF Jr Lien	63,621,300	57,193,000	51,933,900	56,237,900	48,045,800	56,137,400
(a) Augmented Revenue Calculation		(1)	(2)	(3)	(4)	(5)	(6)
		Reported Revenue	Augmentation - % Rate Adjustment			Calculated Augmentation	Augmented Revenue
			FY 14 Rates	FY 15 Rates	Combined (2) & (3)	(1)*(4)	(1) + (5)
	<u>FY 2012-13</u>	unaudited					
15	Wholesale Service Revenue	275,185,200	3.9%	3.9%	8.0%	21,918,600	297,103,800
16	Retail Service Revenue	75,653,800	4.4%	13.8%	18.8%	14,259,100	89,912,900
17	Total Revenue from Rates & Charges	350,839,000			10.3%	36,177,700	387,016,700
	<u>FY 2013-14</u>	estimated					
18	Wholesale Service Revenue	273,715,800		3.9%	3.9%	10,654,200	284,370,000
19	Retail Service Revenue	74,120,300		13.8%	13.8%	10,249,500	84,369,800
20	Total Revenue from Rates & Charges	347,836,100			6.0%	20,903,700	368,739,800

In footnote (a) to the table, we have illustrated the calculation of the augmented revenues for the historical year(s) of the Additional Bonds Test. The augmentation calculation for the 2013 revenues simply applies the average class rate increases for the 2014 and 2015 rates to the audited 2013 revenues.

Alternate Test for Refundings

The alternate test simply requires that any bonds that are issued solely for refunding purposes may also be issued "without regard to" the coverage test summarized above, so long as debt service savings can be illustrated in all future years. Since the DWSD Obligations are being issued solely as refunding bonds, compliance with the "Additional Bonds Test" of the Bond

Ordinance can be achieved if such savings can be demonstrated. We have reviewed the debt service resulting from the DWSD Obligations and concluded that the transaction results in debt service savings in all future years.

Opinions

As a result of our investigations and analyses, we have formulated the following opinions:

1. The current water rates are well below the average of those in effect in comparably sized cities. While faced with additional capital expenditures to ensure reliability of service, the projected increases in the Department's water rates through 2019 are expected to be comparable to what will be experienced in other large metropolitan areas.
2. In addition to the relatively low water rates, the Department's current wastewater rates are competitive with those in effect in comparably sized cities. The availability and price of wastewater treatment coupled with the supply and price of water should continue to be a positive factor in attracting and maintaining industry to the System's service area.
3. The Department's financial plan is sound, supported by gradual rate increases, and is expected to be sufficient to adequately fund the CIP and other programs necessary to meet System obligations
4. The Department's current fiscal policies and plans are designed to result in continued improvements in the current financial position of the System, including reported debt service coverage and changes in net assets. Continued implementation of the Optimization Program, assisted by further implementation of the provisions of the Court's Order(s), should further enhance these policies.
5. The revenues pledged as security for the DWSD Obligations are projected to be sufficient to comply with rate covenants required by the Bond Ordinance and the targets established by Board of Water Commissioners policy.
6. The requirements contained in the Ordinance authorizing the issuance of the DWSD Obligations have been met, as we have concluded that (compared with the debt service schedules in existence prior to issuance of the DWSD Obligations) after the issuance of the DWSD Obligations savings will result in each fiscal year thereafter until maturity.

Assumptions

The following table summarized the major assumptions utilized in developing the projections in this report. We have not duplicated detailed descriptions of elements introduced in other documents (such as the POA) but encourage interested parties to review those documents.

General FY 2013-14 Forecast

Revenue	Review of preliminary data for the entirety of the year
Cash Receipts	Estimate based on billed revenue (with 2 month lag) and demonstrated recent collection rates for entire year.
Bad Debt Expense	Driven by collection rates by class; No collection from Highland Park
Operating Expense	10 months of actual data + 2 months estimate based on detailed review of individual categories.
Debt Service	Reflects accrual basis deposits to the Bond and Interest Redemption Fund(s).

Capital Improvement Program

Financing Requirements	Reflects estimated expenditures in 2014, and preliminary work on CIP update.
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Revenue Proforma (under existing rates)

Detroit Retail	Starting Figures = 3.5 million Mcf (<i>down from 3.775</i>); Annual decline of 2.5% through 2019,.
Suburban Wholesale	FY 2014-15 Budget; Annual decline of 0.25%. Flint exits FY 2014-15; Genesee County exits FY 2017-18.
Bad Debt Expense	Detroit retail @ 17% of billed revenue (<i>up from ~9%</i>); No recovery from Highland Park
Miscellaneous Operating	FY 2014-15 Budget
Non-Operating	FY 2014-15 Budget - then earnings on funds @ 0.75%

Operating Expense

Salaries and Wages	FY 2014-15 Budget; DWSD attrition schedule through FY 2018-19; 10% wage increase in FY 2015-16, then inflationary
Pension Assumptions	<i>POA Assumptions, modified water/sewer allocation to relative current levels; accelerated portion of pension reimbursement shown below the line as non-op expense</i>
Health Care	<i>POA Assumptions, modified water/sewer allocation to relative current levels;</i>
Retiree Health Care	<i>POA Assumptions, modified water/sewer allocation to relative current levels; B Note portion of legacy costs shown as below the line</i>
Other Benefits	<i>POA Assumptions, modified water/sewer allocation to relative current levels</i>
Purchased Svcs COD	FY 2014-15 Budget less 2%, then inflationary
Contractual Services	FY 2014-15 Budget less 2%, then inflationary
Utilities	FY 2014-15 Budget less 2%, then inflationary
Chemicals	FY 2014-15 Budget less 2%, then inflationary
Other	FY 2014-15 Budget less 2%, then inflationary

Debt Service

Existing Bonds	Existing Schedule - reflects accrual basis deposits to the Bond and Interest Redemption Fund(s).
Refunding Results	Incorportes results of DWSD Refunding Obligations transaction.
New Money Bonds	5.5% / 30 years; initial projected bond sale(s) structured; subsequent sales assume principal begins in year 3; then equal annual debt service

Other Revenue Req'ts

Pension Non-Op Expense	<i>POA Assumptions, modified water/sewer allocation to match relative current levels; below the line portion</i>
POC / B Note Payment	<i>POA Assumptions, modified water/sewer allocation to match relative current levels.</i>
Professional Fees - BK	<i>Allocated share of \$20 million figure provided by the City; Assumed paid in FY 2015.</i>
Revenue Financed Capital	"Unrestricted cash" amounts provided by 4% annual revenue increases, less reserve and RSSP requirements
Minor Budgeted Capital	FY 2014-15 Budget
Reserve Fund Deposits	FY 2014-15 Budget

General Financing Strategy

Rate Increases	<i>Initially establish @ 4% annually</i>
Financing Strategy	Check compliance with BOWC DS Covg Policy - 15% points above minimum Ordinance req'ts
Use of Monies	Remain in I&E Fund for future / unidentified capital improvements

APPENDIX II-B
SYSTEM EVALUATION REPORT

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The Detroit Water and Sewerage Department Water System Evaluation

August 5, 2014



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Abbreviations

BOWC: Board of Water Commissioners
CIP: Capital Improvement Program
CMMS: Computerized Maintenance Management Program
EMPAC: Enterprise Maintenance Planning and Control
MDEQ: Michigan Department of Environmental Quality
MGD: Millions Gallons per Day
O&M: Operation and Maintenance
WAM: Work and Asset Management
WTP: Wastewater Treatment Plant



1. Introduction

1.1 Purpose

The Detroit Water and Sewerage Department (DWSD) is pursuing changes to the financing package for the water system. Information in this study was developed as an appendix to the Official Statement.

The purpose of this study is to evaluate the physical condition of major system facilities, determine if they are being operated and maintained in a manner to achieve their operating goals, and determine if DWSD's capital improvement program (CIP) appropriately addresses identified rehabilitation and repair needs. Major facilities evaluated as part of this study include:

- Water Treatment Plants
- Booster Pumping Stations
- Reservoirs

No inspections were performed on DWSD's other assets, such as buried infrastructure, and other ancillary facilities.

Regulatory compliance was also addressed and projected future compliance issues were evaluated. The CIP was reviewed to determine if the proposed program seems reasonable and to address any significant deficiencies.

1.2 Background

The initial Detroit water system was started in the early 1800's by private enterprise. The initial system drew water directly from the river and distributed it through wooden water mains. Dissatisfaction with the available capacity, financial losses, and the need for significant upgrades led the City to purchase the existing facilities in 1835. By 1840, the area was booming with new development and a directive was issued to produce an accurate map of all the mains. The Board of Water Commissioners was created by the State in 1853 to provide the authority to deal with the appropriate issues in running a water utility. The first suburban wholesale customer was added in 1900 and the service area steadily increased through most of the 20th century.

Currently, DWSD provides water service to the entire City of Detroit and neighboring southeastern Michigan communities throughout Wayne, Oakland, Macomb, St. Clair, Lapeer, Genesee, Washtenaw, and Monroe counties. The 1,079 square-mile water service area, which includes Detroit and 127 suburban communities, makes up approximately 40% of the state's population.

DWSD's water supply system is one of the largest in the nation both in terms of water produced and population served. The water system draws fresh water from the Great Lakes System, with Lake Huron to the north and the Detroit River to the south. DWSD's water network consists of 3,438 miles of transmission and distribution mains within the City of Detroit, and 402 miles of transmission mains in the remaining service area. DWSD's five water treatment plants pump an average of 610 gallons of clean drinking water each day. A system of 19 booster pumping stations and 32 reservoirs are strategically located throughout the system to provide adequate flow and pressure to its customers.



1.3 Prior Studies

DWSD has undertaken numerous prior studies that have been utilized as background for this study. In particular, the following studies provide more detailed information to supplement this study:

- Phase 1 Water Master Plan Update Interim Report, Priorities for 2015 to 2020, March 3, 2014
- FY2015 Water Supply Capital Improvement Program, BOWC approved December 18, 2013
- DWSD 10-Year CIP, September 24, 2013
- Engineering Evaluation DWSD Water Supply System, 2011
- Detroit Water and Sewerage Department CIP Review, June 28, 2011
- DWSD Comprehensive Water Master Plan, June 2004
- Compliance Report (Wastewater) 2013

1.4 Water System Overview

The DWSD Water System service area is shown in Figure 4. DWSD owns and operates the following major drinking water facilities:

- A total of five water treatment plants (WTPs) having a combined rated treatment capacity of 1,720 million gallons per day (mgd),
- Three intakes for the WTPs from the Great Lakes System, one drawing from Lake Huron and two drawing from the Detroit River,
- Nineteen booster pumping stations,
- Thirty-two water storage reservoirs with a combined volume of 352 million gallons (mg) and,
- More than 3,800 miles of transmission and distribution mains ranging in size from 6-inch to 96-inch diameter.

Historically, DWSD has experienced increasing water system demands. A Comprehensive Water System Master Plan was completed in 2004. The Master Plan projected continuation of modest increases based on regional population growth projections and anticipated increases in service area. The Master Plan recommended improvements included a variety of projects to address existing problems, rehabilitation or replacement of existing facilities, implementation of high-ground storage to improve energy efficiency, and improvements to accommodate growth. Although an implementation schedule was provided, it was recognized that improvements would be implemented based on consideration of many factors such as the actual rate of growth and rate of affordability.

One of the outgrowths from the Master Plan was the need to update the customer contracts. There was a desire to standardize the contracts and to develop a stronger working relationship between DWSD and its customers. Working with the customers, a model contract was developed. One of the unique aspects of the contract was that the customers would specify the required flow capacities to serve the community, since they knew best their expectations for future growth needs. This would allow DWSD to do better planning for system improvements and to determine rates based on those needs. The community is then incentivized to ask for sufficient capacity to serve its needs, but to not be overly conservative so that the resultant rates charged to the community are reasonable. The cost factors in the financial rate model created incentives for communities to minimize their peak hour usage, based on the demand charges from



the electrical utility. Many communities used this opportunity to construct storage facilities or to implement demand management measures. The most common demand management strategy implemented was to limit automatic sprinkler usage for irrigation to low-demand periods during the night.

The economic downturn in the late 2000's hit Southeast Michigan particularly hard and actually started a bit earlier than in other regions of the country. Water usage is dependent upon climatological conditions so variations in billable volumes are not unusual. Therefore, it took several years before the drop in water usage was widely accepted as a new reality. Careful analyses showed that industrial customers had reduced usage (e.g. shifting to closed cooling systems) and the region lost significant population (approximately 150,000 people, according to SEMCOG) that it was not recovering for many years. Figures 1 and 2 show the historical change in water usage for wholesale (suburban) and retail (City of Detroit) customers, respectively. The wholesale sales appear to have decreased, but stabilized. The retail sales appear to be continuing a decline, although at a slower rate.

DWSD was significantly affected by the loss of revenue due to reduced usage. Rates were raised to partially compensate for the loss of revenue, but sales continued to decline. At the same time, delinquencies in payment also rose. The difficult economic conditions created significant pressure to minimize rate increases as much as possible. Rates were redesigned to create a fixed cost component to the rates to minimize the impact of the usage variations, but there was a strong request from customer communities to moderate the pace of change to allow retail customers time to assimilate the changes. The required changes in rates have now been implemented and the annual financial performance is reasonable.

The decrease in usage due to economic conditions and the change in usage patterns based on effective demand management caused the system to experience significant reduction in peak demand, as shown in Figure 3, which tracks the Maximum Day Usage over time. It became clear that a Master Plan Update was needed to quantify the changes in the system and develop a revised capital improvement plan. A temporary plan of action was created in June 2011 and the Water Master Plan Update was initiated in 2013. Phase 1 of the Plan was completed in March 2014 and the FY2016 Capital Improvement Plan is expected to address the high priority findings.

Over the past year, significant emphasis has been placed on improved management of the Detroit distribution system and the retail accounts. The most visible aspect has been the aggressive use of shut-offs for non-payment. Coupled with financial assistance programs where needed, this has significantly strengthened the financial performance. Less visible, but equally important, has been work to identify and address running water in vacant buildings and other sources of non-revenue water.



Figure 1

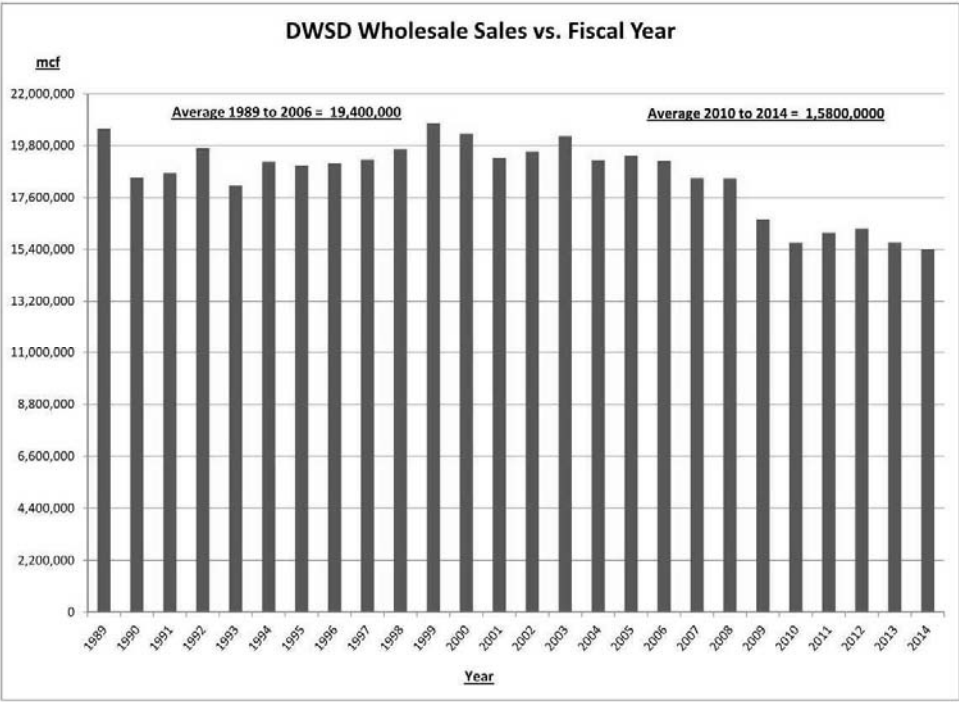


Figure 2

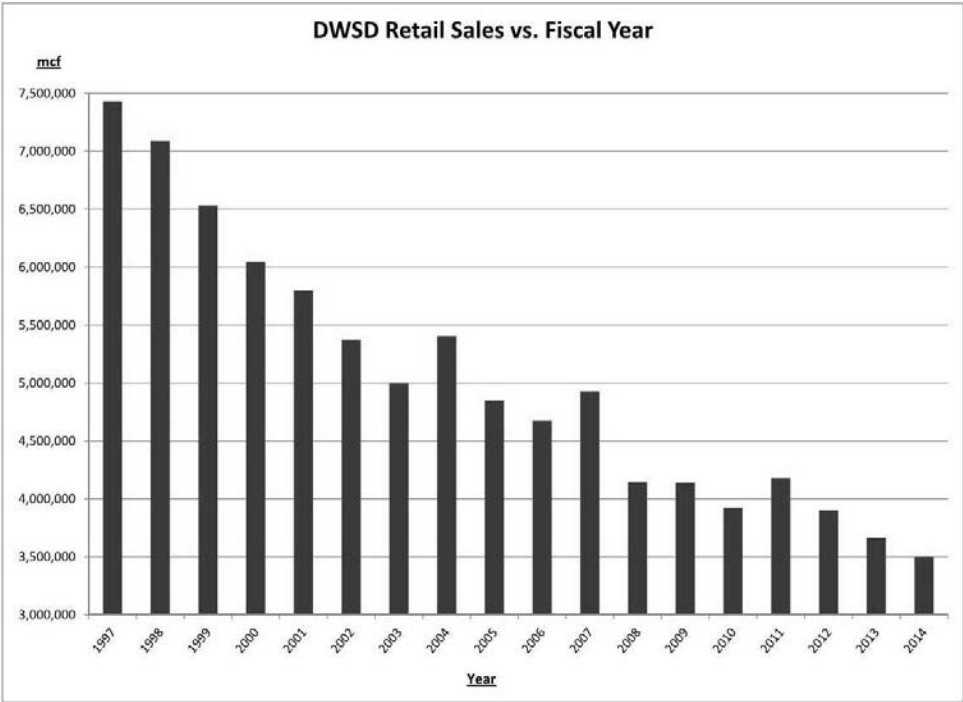
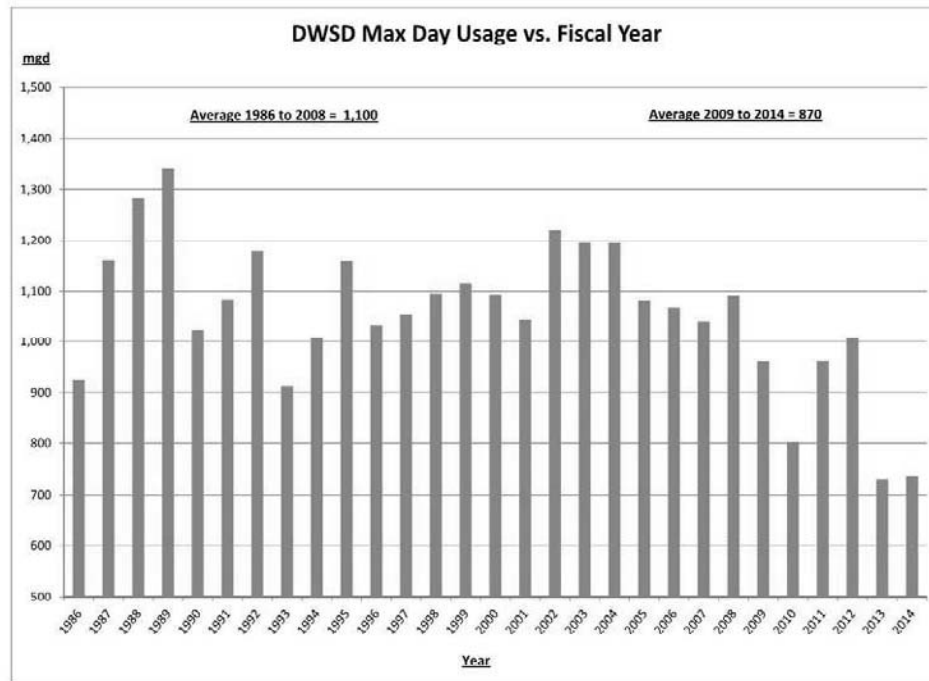




Figure 3



1.5 Organizational Optimization

DWSD is implementing a major change initiative that is affecting the entire organization. A summary description of the effort is provided below as an excerpt from the Director's Compliance Report, March 15, 2013. Although this report focused on the sewerage system, the same organizational optimization efforts being implemented throughout the organization and apply to the water system as well.

D. Job Re-Design Effort- EMA (Organizational Optimization)

As reported in the May 4, 2012 Director's Compliance Report, I commissioned EMA, Inc. to perform a 90 day operational assessment of DWSD to make recommendations that would provide for effective and efficient operation to assure regulatory compliance, protection of the environment and facilities, safety, security, improved service levels, sustainability, and Biosolids management. That 90 day assessment identified significant opportunity to consolidate job classifications, make business process and technology improvements, and markedly improve the consistency of operation as well as reduce the cost of operation.

In December of 2012, DWSD began next phase efforts with staff to advance the recommendations of the 90 day assessment. While there appeared to be widespread concern from the employees with respect to the implementation of the EMA recommendations, the reality is that DWSD's initial call for volunteers to populate the Job Design teams resulted in more than three times the required number of volunteers than spots available.



Utilizing teams of employee volunteers from across the organization the concentrated efforts of over 50 DWSD employees working with EMA facilitators focused first on understanding the way we work today. After the first four weeks of work, the teams identified a number of quick wins that would improve operations with minimal investment. Those quick wins have been approved and are moving forward. During the first week of March, the teams reported the results of an additional 4 weeks of team efforts focused on the "future DWSD". The teams have recommended the number of job classifications be reduced from over 250 to less than 40. Included in their recommendations are specific job descriptions, requirements for employees to progress through structured career paths within a classification by acquiring broader knowledge sets, licensing and certification where warranted and mandatory advancement timeframes to assure qualified staffing for DWSD operations.

The recommendations fulfill the requirements in the Court's November 4, 2011 order to assure a well-qualified and competent workforce as needed to support long term compliance for DWSD. Among those, include the order to "reduce the number of DWSD classifications to increase workforce flexibility" as well as provide defined progression which accomplishes the objective that "promotions in the DWSD shall be at the discretion of management and based upon skill, knowledge and ability."⁶ The team recommendations also identify those areas where employee training programs and apprenticeship programs should be developed and provided by DWSD. DWSD has made the commitment to support training and development for staff at all levels and to track employee development individually as one component of the employee assessment program. On a more personal note, I was both inspired and awed by the thoughtfulness of the team report-outs and the pride that team members took in making recommendations for how DWSD could operate more efficiently and effectively in the future.

Beginning in April and through November of 2013, the job designs will be piloted throughout the organization in all areas of the operation. Staged implementation will assure continuity in operations and provide for adjustments where needed. The teams have identified the initial pilot areas and a call for volunteers to test the job designs has been made. Again, as was the case with the call for volunteers on the job design teams, DWSD has again received far more volunteers than spaces available.

DWSD has committed to a market compensation study for determining the basis for compensation for the newly created jobs. A request for proposal for consulting services is in development. We anticipate completion of the study in the second quarter of 2013. The study will provide the basis for creation of the DWSD salary plan as the newly defined jobs are incorporated into our labor contracts.

As DWSD continues to address the capital improvements needed to assure effective operation, and in recognition of the current affordability of service in Detroit and customer communities, reducing the cost of operations is critical to make way for future capital investment. The changes recommended by the design teams reduce staffing levels over time, reduce contracted services costs by in-sourcing work that is core to DWSD daily operations currently performed under contract, and substantially reduces fleet costs. In addition, the consistency in effective operation is vastly improved



with the implementation and integration of technology and an approach to job design that develops and retains more highly skilled and qualified employees.

The history of DWSD's compliance issues have repeatedly pointed out the necessity for competent and qualified employees. One of the root causes of non-compliance has been associated with the inability of DWSD to attract, train and retain a qualified workforce. The changes planned raise the bar substantially for the knowledge, skill and abilities of DWSD employees supported through the job progressions that focus on the continuous development of employees to assure the qualified workforce needed to achieve long term compliance. While many organizations today define specific programs to address succession planning, the recommended job designs, which include job progression, inherently provide depth of coverage for all of the skills and competencies needed for successful operations.

While implementation of the recommendations will be an effort that spans several years, the vision associated with assuring a flexible, competent and well qualified workforce is shared by many and a path forward has been defined. Many employees have voluntarily begun their individual efforts to obtain credentials, including licensing. Employees have volunteered to work with management in numbers far exceeding our expectations to move the vision forward and DWSD's labor organizations have accommodated language to incorporate the results of job design changes in contracts adopted, to date.

IV. Additional Considerations / Recommendations for DWSD's Future

The current uncertainty associated with the City of Detroit's financial situation has had and continues to have dramatic impacts upon DWSD's daily operations. As previously noted within the May 4, 2012 Director's Compliance Report, DWSD has suffered bond downgrades as a result of our continued connection to the City of Detroit. A quick review of the rating reports demonstrates that the downgrades are unrelated to DWSD's financial or operating performance, but rather are tied directly to the City of Detroit.⁷ It is ironic that as DWSD's financial independence has resulted in improved financial performance, we are unable to see that reflected in the agency ratings or cost of capital. The inability to realize savings in capital borrowing has been one of the several factors impeding our ability to move forward with consideration of an 'efficient compliance payment.'

In addition, various DWSD vendors have raised concerns about DWSD's on-going ability to make payments for services rendered. Again, as is clear from the content of the communications, the concerns about our ability to pay are unrelated to DWSD's financial performance. Rather, the communications reference the appointment of an Emergency Manager for Detroit and/or the financial risk for DWSD associated with a City bankruptcy filing.⁸

⁶ November 4, 2011 Order, p.6.

⁷ See Monday's report, attached as exhibit 5.

⁸ A sampling of communications from vendors is attached as Exhibit 6.



2. Water Treatment Facilities

2.1 Overview

The existing water treatment facilities were summarized in the recent Phase 1 Interim Report for the Master Plan Update prepared by CDM Smith and is included on the following pages.



Treatment Facilities

5.1 Existing Water Treatment Facilities

DWSD owns and operates five water treatment facilities which provide water to nearly 3 million customers in Southeastern Michigan. The Northeast, Springwells, Southwest, Lake Huron, and Water Works Park Water Treatment Plants have a maximum rated treatment capacity of 1,720 million gallons per day and firm high service pumping capacity of 2,400 million gallons per day. The high service pumping capacity exceeds the rated treatment capacity to assist in meeting peak hourly demands from finished water storage. Applicable treatment and pumping capacities and other data for each plant are shown in **Table 5-1**.

Table 5-1: Water Treatment Plant Capacity, Finished Water Storage and Areas Served Summary

Facility	Year Placed in Service	Rated Treatment Capacity (MGD)	Firm High Service Pumping Capacity (MGD)	Finished Water Storage Volume (MG)	Areas Served
Northeast WTP	1956	300	400	30	Northeast Detroit/Wayne County, Southern Macomb County, Southeast Oakland County
Springwells WTP	1931 First Train; 1958 Second Train	540(1)	260 Intermediate Pressure District 450 High Pressure District	60	Detroit and Northern Wayne County, Eastern Washtenaw County, Oakland County, Southeastern Macomb County, Western Wayne County
Southwest WTP	1964	240	310	30	Southern Wayne County, Northern Monroe County, Eastern Washtenaw County
Lake Huron WTP	1974	400	420	44	Genesee County, Lapeer County, St. Clair County, Macomb County, Oakland County
Water Works Park WTP	2003	240	560	28	Eastside of Detroit, Eastern Wayne County
System Totals:		1,720	2,400	192	

1 - Filter upgrades at Springwells limit plant capacity to 350 MGD until construction is complete. Filter upgrade at Springwells limit plant capacity to 300 MGD until construction is complete.

Four of the five plants (NE, SP, SW, and WWP) are conventional treatment facilities with the following process trains: rapid mix, coagulation, flocculation, sedimentation, granular media filtration, and disinfection. Lake Huron is the only facility which is operated as a “modified direct filtration” plant, which means the sedimentation basins are used as contact basins and do not require a minimum detention time of 4 hours. In addition, Water Works Park is the only plant which employs intermediate ozonation for primary disinfection control. All five plants use the same chemical systems including alum for coagulation, chlorine for preoxidation and primary disinfection (excluding Water Works Park), powdered activated carbon (PAC) for taste and odor (T&O) control, phosphoric acid for corrosion control, and fluoride for dental health protection. Polymers are also added at several facilities to enhance coagulation and filtration as well as for thickening and dewatering of alum residuals.

wastewater, and disposed of at landfills. Lake Huron's basins are cleaned manually on an annual basis and the sludge is discharged to the sludge drying lagoons. The lagoons also receive thickened solids from the waste washwater treatment facility which processes filter backwash wastewater. The Springwells and Northeast plants do not have automated alum residuals collection in the sedimentation basins or a thickening treatment process on site for alum residuals or backwash wastewater. At both facilities, the basins are manually cleaned on an annual or biannual basis and the solids are discharged to the sewer; backwash wastewater is also discharged to the sewer. However, a pilot is currently underway at Northeast in which the mud valves in the sedimentation basins will be opened approximately every two months to discharge sedimentation basin solids to the sewer. This process will be adopted at Springwells if the pilot test at Northeast is successful.

A more complete description of treatment processes is provided in Technical Memorandum 13 in **Appendix G**. A general description of each plant is presented below.

5.1.1 Northeast Water Treatment Plant

The Northeast Water Treatment Plant was constructed in 1956 to serve growing suburban populations east and north of Detroit. The source of raw water is the Belle Isle intake, located in the Detroit River, which also serves Springwells and Water Works Park. The raw water is chlorinated, fluoridated, and screened at WWP before it flows to Northeast by gravity. Low lift pumps lift the raw water to the process trains, which operate in parallel. With a maximum rated capacity of 300 MGD, the plant process trains consist of rapid mix, flocculation, sedimentation, and dual-media gravity filtration. **Figure 5-1** shows a schematic diagram of the Northeast Water Treatment Plant.

5.1.2 Springwells Water Treatment Plant

The Springwells WTP is the oldest of the DWSD water treatment facilities. The first train was constructed in 1930 and has a maximum rated capacity of 340 MGD and the second train constructed in 1958 has a maximum rated capacity of 200 MGD. Like Northeast, the Springwells plant receives its raw water from the Belle Isle Intake. The raw water influent is screened, chlorinated and fluoridated at Water Works Park before it is conveyed to Springwells. The low lift pumps lift the raw water for treatment through the process trains, which operate independently. The 1930 train provides hydraulic mixing through a baffled chamber for rapid mixing while the 1958 train has mechanical rapid mixers. Both trains have flocculation, sedimentation and filtration treatment units. **Figure 5-2** shows a schematic diagram of the Springwells Water Treatment Plant.

5.1.3 Southwest Water Treatment Plant

The Southwest Water Treatment Plant was constructed in 1963 at which time it was owned and operated by Wayne County. DWSD purchased this plant several years later in an effort to consolidate water services in Southeast Michigan. Raw water for Southwest flows by gravity from the Detroit River through an intake at Fighting Island. The plant has a rated capacity of 240 MGD. The original plant was designed with the ability to be upgraded to 320 MGD via equipment replacement. There are also spare raw water conduits which can accommodate an expansion up to 480 MGD. The low lift pumps lift the raw water for treatment through the process trains which operate in parallel. **Figure 5-3** shows a schematic diagram of the Southwest Water Treatment Plant.

5.1.4 Lake Huron Water Treatment Plant

Lake Huron was constructed in 1974, initially designed as a conventional water treatment facility. In 2004, after completion of a pilot study along with various upgrades to the process trains, the MDEQ rated the maximum capacity of Lake Huron at 400 MGD. Lake Huron is the only DWSD facility which is operated in "modified" direct filtration mode. The sedimentation basins do not meet 10-State standards and thus are not considered to be true settling basins by the MDEQ. The raw water source for the plant is Lake

Huron. The raw water tunnel is designed for a maximum capacity of 1200 MGD and 800 MGD during cold weather. The plant was constructed with provisions to increase the capacity by adding additional process trains and pumping units to obtain the maximum production capacity of 1200 MGD.

In the early 2000's a variety of process treatment improvements were constructed at the Lake Huron WTP. These improvements included new high lift and backwash water pumps (including discharge piping and valves), rehabilitation of two clear wells and the high service suction well, filtration capacity improvements, pretreatment improvements and filter control modification, and a new treatment facility for filter backwash wastewater. **Figure 5-4** shows a schematic diagram of the Lake Huron Water Treatment Plant.

5.1.5 Water Works Park Water Treatment Plant

Water Works Park II began operating in 2003 as a conventional surface water treatment plant. The original facility was demolished and a new facility was constructed on the same site. The raw water source for the plant is the Belle Isle intake on the Detroit River. The plant has a maximum rated capacity of 240 MGD and is DWSD's first facility with ozone disinfection facilities as well as a Residuals Handling Facility to treat filter backwash wastewater and alum sludge residuals. The plant was designed to use independent process trains - a minimum of two process units are provided for each treatment process. In addition, all conveyance facilities such as pipelines, junction chambers, channels, and wet wells are configured to provide a minimum of two treatment pathways. **Figure 5-5** shows a schematic diagram of the Water Works Park Water Treatment Plant.

Figure 5-1: Northeast Water Treatment Plant

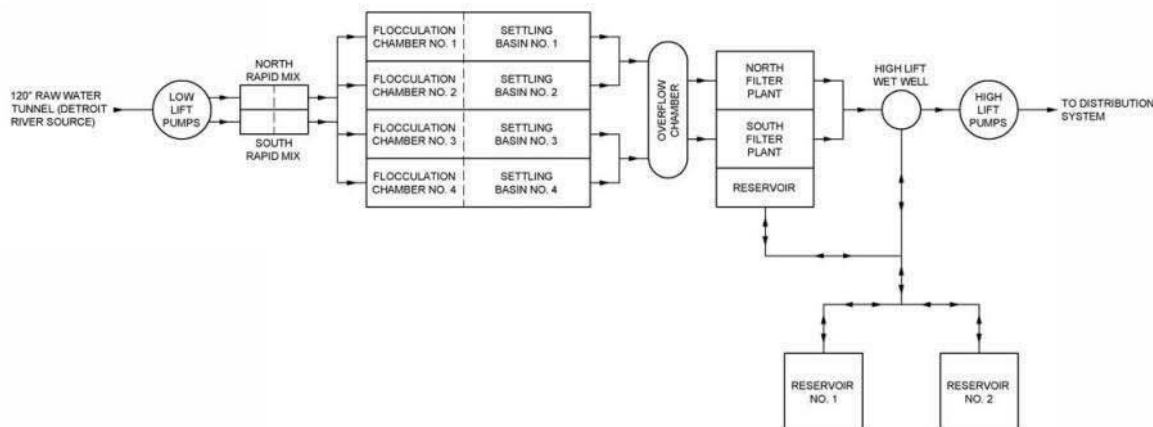




Figure 5-2: Springwells Water Treatment Plant

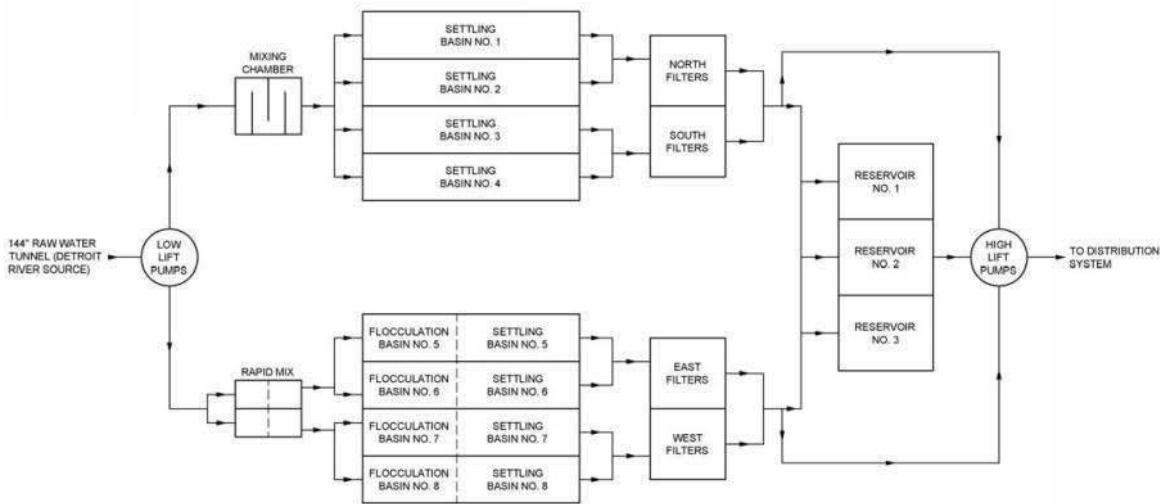


Figure 5-3: Southwest Water Treatment Plant

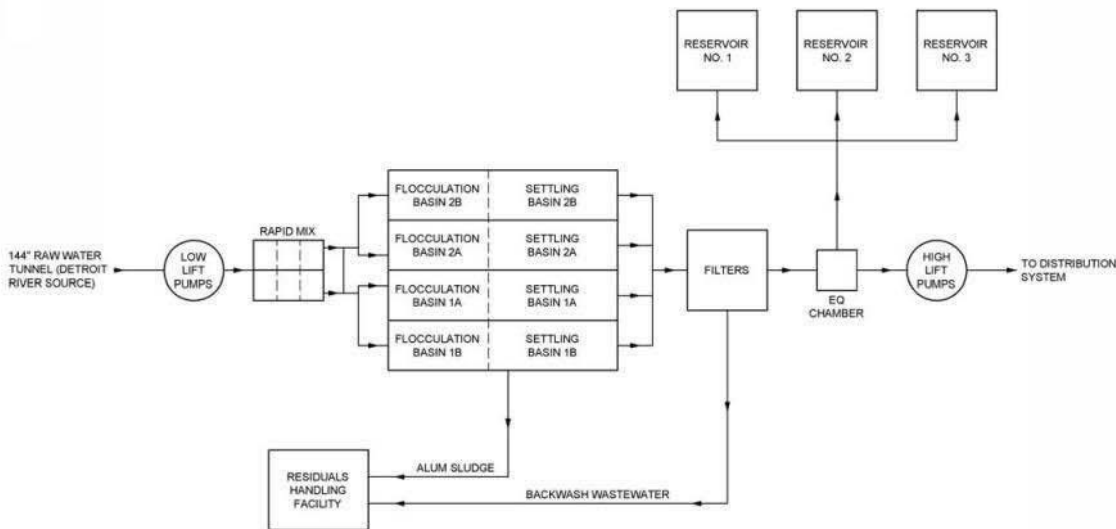




Figure 5-4: Lake Huron Water Treatment Plant

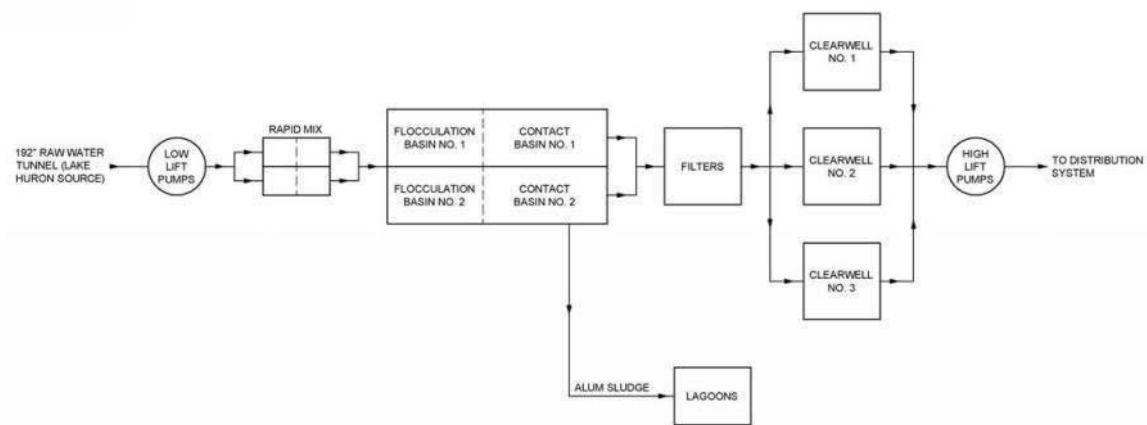
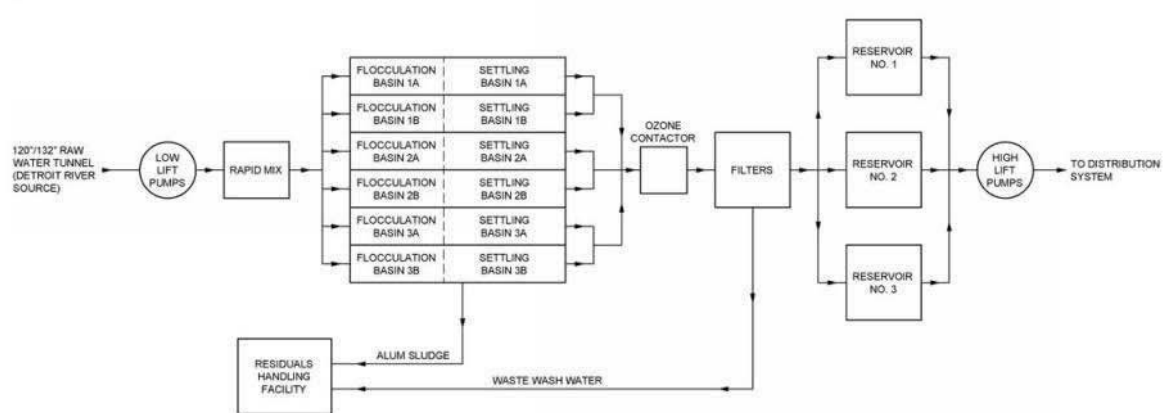


Figure 5-5: Water Works Park Water Treatment Plant





2.2 Regulatory Compliance

DWSD provides potable water of excellent quality to Southeast Michigan. The tables below were taken from the Water Quality Report published in 2014 that is based on testing date from 2013. It can be seen that all regulated detected contaminant levels were well below the allowable levels set by the regulatory agencies. DWSD is rightfully proud of its record in providing high quality water over its long history.

The Water Master Plan Update reviewed the current regulations as they apply to DWSD. It was found that DWSD is compliant with all regulations, as expected. Potential future regulatory actions were also identified along with potential implications for DWSD. Most future regulations are not expected to significantly impact DWSD, because of the excellent quality of DWSD's source water.

DWSD is continuing to proactively monitor system performance and potential changes in regulatory requirements.

City of Detroit Public Water System 2013 Regulated Detected Contaminants

REGULATED CONTAMINANT	TEST DATE	UNITS	HEALTH GOAL MCLG	ALLOWED LEVEL MCL	HIGHEST LEVEL DETECTED	RANGE OF DETECTION	VIOLATION	MAJOR SOURCES IN DRINKING WATER
INORGANIC CHEMICALS- ANNUAL MONITORING AT PLANT FINISHED TAP								
Fluoride	05/13/2013	ppm	4	4	0.71	0.58-0.71	no	Erosion of natural deposit; Water additive, which promotes strong teeth; Discharge from fertilizer and aluminum factories.
Nitrate	05/13/2013	ppm	10	10	0.69	0.38-0.69	no	Runoff from fertilizer use; Leaching from septic tanks, sewage; Erosion of natural deposits.
Barium	6/09/2008	ppm	2	2	0.01	n/a	no	Discharge of drilling wastes; Discharge from metal refineries; Erosion of natural deposits.
Selenium	6/09/2008	ppb	50	50	1.0	n/a	no	Discharge from petroleum and metal refineries; Erosion of natural deposits; Discharge from mines.
2013 DISINFECTION- BY- PRODUCTS MONITORING IN THE DISTRIBUTION SYSTEM								
REGULATED CONTAMINANT	TEST DATE	UNITS	HEALTH GOAL MCLG	ALLOWED LEVEL MCL	HIGHEST LEVEL LRAA	RANGE OF QUARTERLY RESULTS	VIOLATION	MAJOR SOURCES IN DRINKING WATER
Total Trihalomethanes (TTHM)	2013	ppb	N/A	80	33.4	2.2-39.9	no	By-product of drinking water chlorination
Haloacetic Acid (HAA5)	2013	ppb	N/A	60	14.2	2.0-20.5	no	By-product of drinking water chlorination
REGULATED CONTAMINANT	TEST DATE	UNITS	HEALTH GOAL MCLG	ALLOWED LEVEL MCL	HIGHEST LEVEL RAA	RANGE OF QUARTERLY RESULTS	VIOLATION	MAJOR SOURCES IN DRINKING WATER
Bromate	2013	ppb	0	10	0.7	ND-1.3	no	By-product of drinking water disinfection
2013 DISINFECTION RESIDUAL MONITORING IN THE DISTRIBUTION SYSTEM								
REGULATED CONTAMINANT	TEST DATE	UNITS	HEALTH GOAL MRDLG	ALLOWED LEVEL MRDL	HIGHEST LEVEL RAA	RANGE OF QUARTERLY RESULTS	VIOLATION	MAJOR SOURCES IN DRINKING WATER
Disinfectant Total Chlorine Residual	2013	ppm	4	4	0.83	0.47-0.99	no	Water additive used to control microbes
2013 VOLATILE ORGANIC CHEMICAL- MONITORING AT SPRINGWELLS PLANT FINISHED WATER TAP								
REGULATED CONTAMINANT	TEST DATE	UNITS	HEALTH GOAL MCLG	ALLOWED LEVEL MCL	HIGHEST LEVEL DETECTED	RANGE OF DETECTION	VIOLATION	MAJOR SOURCES IN DRINKING WATER
Xylene	11/12/2013	ppm	10	10	0.0009	ND-0.0009	no	Discharge from petroleum factories; Discharge from chemical factories
2013 TURBIDITY – MONITORED EVERY 4 HOURS AT PLANT FINISHED WATER TAP								
HIGHEST SINGLE MEASUREMENT CANNOT EXCEED 1 NTU		LOWEST MONTHLY % OF SAMPLES MEETING TURBIDITY LIMIT OF 0.3 NTU (MINIMUM 95%)				VIOLATION		MAJOR SOURCES IN DRINKING WATER
0.17 NTU		100%				no		Soil Runoff
Turbidity is a measure of the cloudiness of water. We monitor it because it is a good indicator of the effectiveness of our filtration system.								
2013 MICROBIAL CONTAMINANTS – MONTHLY MONITORING IN THE DISTRIBUTION SYSTEM								
REGULATED CONTAMINANT	MCLG	MCL			HIGHEST % DETECTED IN ONE MONTH	VIOLATION	MAJOR SOURCES IN DRINKING WATER	
Total Coliform Bacteria	0	Presence of coliform bacteria > 5% of monthly samples.			1.7	no	Naturally present in the environment.	
E. Coli or Fecal Coliform Bacteria	0	A routine sample and a repeat sample are total coliform positive, and one is also fecal or E. coli positive.			0	no	Human and animal fecal waste.	

City of Detroit Public Water System 2013 Regulated Detected Contaminants Continued

2011 LEAD AND COPPER MONITORING AT THE CUSTOMER'S TAP								
REGULATED CONTAMINANT	TEST DATE	UNITS	HEALTH GOAL MCLG	ACTION LEVEL AL	90 TH PERCENTILE VALUE*	NUMBER OF SAMPLES OVER AL	VIOLATION	MAJOR SOURCES IN DRINKING WATER
Lead	2011	ppb	0	15	3.4	0	no	Corrosion of household plumbing system; Erosion of natural deposits
Copper	2011	ppm	1.3	1.3	0.065	0	no	Corrosion of household plumbing system; Erosion of natural deposits; leaching from wood preservatives.
* The 90 th percentile value means 90 percent of the homes tested have lead and copper levels below the given 90 th percentile value. If the 90 th percentile value is above the AL additional requirements must be met.								
REGULATED CONTAMINANT	TREATMENT TECHNIQUE							TYPICAL SOURCE OF CONTAMINANT
Total Organic Carbon ppm	The Total Organic Carbon (TOC) removal ratio is calculated as the ratio between the actual TOC removal and the TOC removal requirements. The TOC is measured each quarter and because the level is low, there is no requirement for TOC removal.							Erosion of natural deposits.
2013 SPECIAL MONITORING								
CONTAMINANT	UNITS	MCLG	MCL	HIGHEST LEVEL DETECTED			SOURCE OF CONTAMINATION	
Sodium	ppm	N/A	N/A	5.93			Erosion of natural deposits	
These tables are based on tests conducted by DWSD in the year 2013 or the most recent testing done within the last five calendar years. DWSD conducts tests throughout the year only tests that show the presence of a substance or required special monitoring are presented in this table.								

Key to Detected Contaminants Tables

Symbol	Abbreviation	Definition/Explanation
MCLG	Maximum Contaminant Level Goal	The level of contaminant in drinking water below which there is no known or expected risk to health.
MCL	Maximum Contaminant Level	The highest level of a contaminant that is allowed in drinking water. MCLs are set as close to the MCLGs as feasible using the best available treatment technology.
MRDLG	Maximum Residual Disinfectant Level Goal	The level of a drinking water disinfectant below which there is no known or expected risk to health. MRLDG's do not reflect the benefits of the use of disinfectants to control microbial contaminants.
MRDL	Maximum Residual Disinfectant Level	The highest level of disinfectant allowed in drinking water. There is convincing evidence that addition of a disinfectant is necessary for control of microbial contaminants.
mg/L	Milligrams per liter	A milligram = 1/1000 gram 1 milligrams per liter is equal to 1 ppm
ppb	Parts Per Billion (one in one billion)	The ppb is equivalent to micrograms per liter. A microgram = 1/1000 milligram.
ppm	Parts Per Million (one in one million)	The ppm is equivalent to milligrams per liter. A milligram = 1/1000 gram.
NTU	Nephelometric Turbidity Units	Measures the cloudiness of water.
ND	Not Detected	
TT	Treatment Technique	A required process intended to reduce the level of a contaminant in drinking water.
AL	Action Level	The concentration of a contaminant, which, if exceeded, triggers treatment or other requirements which a water system must follow.
HAA5	Haloacetic Acids	HAA5 is the total of bromoacetic, chloroacetic, dibromoacetic, dichloroacetic, and trichloroacetic acids. Compliance is based on the total.
TTHM	Total Trihalomethanes	Total Trihalomethanes is the sum of chloroform, bromodichloromethane, dibromochloromethane and bromoform. Compliance is based on the total.
LRAA	Locational Running Annual Average	
RAA	Running Annual Average	
n/a	not applicable	
>	Greater than	



2.3 Site Visits

Three of the five water treatment plants (WTPs) were visited for this study. The two WTPs not visited are as follows: The Northeast WTP is planned to cease operations as a WTP in about five years, once the Springwells WTP improvements are completed and the required transmission main upgrades to effectuate the change are completed. The Water Works Park WTP is only 11 years old and is in very good condition. Both facilities were visited by at least one team member in the past several years as part of other work and no major concerns were noted.

The evaluation of the Plants included site walkthroughs, interviews with operators, supervisors or designated persons, review of major treatment processes, and review of the 2004 Master Plan. Using information collected from these various activities, the Plant was evaluated and a numerical rating assigned for each of the following four categories:

- Water Quality Compliance
- Operations/Process Control
- Equipment/Maintenance
- Staffing/Training
- Water Treatment Plant Facility
 - Power Supply
 - Raw Water System
 - Flocculation and Settling
 - Filtration
 - Chemical Feed System
 - Water Reservoirs
 - High and Low Lift Pumping

An overall rating for the Plant was then calculated by assigning each review category a weighting factor of 25 percent for Compliance, 15 percent for Operations/Process Control, 15 percent for Equipment/Maintenance, 5 percent for Staffing Training, and 40 percent for Water Treatment Plant Facility condition assessment. The Water Treatment Plant Facility category was further divided and evaluated based on sub-facilities with in the Water Treatment Plant.

2.4 Water Quality Compliance

The Safe Drinking Water Act (SDWA) is the main federal law that ensures the quality of Americans' drinking water. Under the SDWA, the EPA sets standards for drinking water quality and oversees the states, localities, water utilities and water suppliers. The SDWA was originally passed by Congress in 1974 and subsequently amended in 1986 and 1996. Water Quality Compliance, therefore, was weighted the most heavily because it is considered to be a measure of the plant's bottom line performance and control of facility operations. The compliance category rating for the treated water at the water treatment plants is based on established standards. Therefore, water quality standards of treated water were assessed in accordance with applicable SDWA for maximum allowable regulated limits in drinking water as follows:



- Good (2.5-3.0): Compliance with SDWA regulated category limits achieved consistently without any violations in the last five years.
- Adequate (1.5-2.4): Compliance with SDWA regulated category limits achieved consistently without any violations in the last two years.
- Poor (0.5-1.4): Compliance with SDWA regulated category limits generally achieved but with at least one violation in the last two years.
- Unacceptable (0-0.4): Violation of SDWA regulated category limits was greater than once in the last two years.

2.5 Operations/Process Control

The Operations/Process Control category provides a rating for the Plant based on the ability to monitor and adjust process strategies to reliably meet treatment demands. The rating system is as follows:

- Good (2.5-3.0): There are set process control strategies that are effectively communicated by the supervisors to the operators. Monitoring equipment is in good condition and calibrated. Backup power is available.
- Adequate (1.5-2.4): There are general procedures and strategies in place for process control. A sampling program is in place, even though it may need to be expanded. Most monitoring equipment is in good condition and calibrated.
- Poor (0.5-1.4): There is little or no attempt to control the process using existing procedures to meet effluent standards. Most monitoring equipment is functional and calibrated. Process sampling is inadequate to monitor process operations.
- Unacceptable (0.0-0.4): There is no reliability of the procedures used to meet process objectives. Process strategies are inadequate to address non-compliance issues. Process sampling is inadequate. On-site laboratory or facilities to conduct process control testing are likely inadequate. Monitoring equipment is missing, in poor condition or not calibrated.

The installation of a system-wide monitoring and control system under the PC-713 project has improved the overall process operations. Operators have real time data available at the Systems Control Center. The System also archives operational data for analysis to improve future operations.

The Organizational Improvement Program is leading to better use of available monitoring data and available reliance on automated control systems.

2.6 Equipment/Maintenance

The Equipment/Maintenance category provides a rating for the overall condition of the plant. If equipment was out of service, the evaluation considered if there is redundancy present and the duration of the outage. The evaluation of maintenance practices considers chemical handling and storage, maintenance systems, corrective maintenance, preventive maintenance, and overall appearance. The overall ratings for this criterion are:



- Good (2.5-3.0): Equipment is in top operating condition and there are no major units out of service. Monitoring instruments are all in service and have been properly calibrated. Preventive maintenance is evident. The plant is well maintained.
- Adequate (1.5-2.4): The majority of the equipment is in good operating condition. There may be a few major units out of service for short-term or scheduled maintenance. Maintenance is primarily corrective, but there may be some preventive maintenance. Plant facilities are relatively clean.
- Poor (0.9-1.4): Equipment shows signs of major deterioration with several major units out of service. Equipment is no longer adequate for process flow or conditions. Repair time is long term or undetermined. There is a significant backlog of corrective maintenance and preventative maintenance is not evident. There is little or no maintenance. Plant facilities are dirty and disorganized.
- Unacceptable (0.0-0.4): Equipment shows signs of major deterioration with several major units out of service. Equipment is being bypassed or is being routinely operated well beyond its design capacity. Repair time and approach is long-term or undetermined. A minimal amount of corrective maintenance is being performed. Unsafe conditions exist.

An excerpt from the April 2014 Quarterly Progress Report summarizes activities and progress as follows:

The Water Operations Group employs a Computerized Maintenance Management System (CMMS), the Enterprise Maintenance Planning and Control (EMPAC), to assist with asset registry, inventory, criticality, work order process, maintenance history, and overall support of asset management. The EMPAC application is outdated and no longer fully supported, and is in the process of being phased out and replaced with the Oracle Work and Asset Management (WAM) system. The go live date for transition to WAM is currently projected to be on or before June 30, 2014. In the meantime, the process area pilot groups, and the maintenance and planning resource personnel, have been collecting and reporting on key performance measures data such as CM and PM work orders scheduled and completed. (Note: As of the preparation of this report on July 29, 2014, the EMPAC has been replaced with the WAM system).

2.7 Staffing/Training

The Staffing/Training review category includes an evaluation of the adequacy of staff coverage, training of the staff, and apparent performance of any on-site staff. Descriptions of the ratings, including minimum requirements for this review category, are:

- Good (2.5-3.0): All budgeted positions are filled. There is sufficient coverage of all shifts, during weekdays as well as on weekends. Training programs are in place to educate staff on proper plant operations and necessary safety requirements. Most minor criteria are adequately addressed.
- Adequate (1.5-2.4): Most positions are filled with plans to fill vacant positions. There may be occasional gaps in shift and weekend coverage. A few minor criteria are not adequately addressed. There is a minimal level of training, including licensed operators with appropriate safety training.
- Poor (0.5-1.4): There are major gaps in staffing. There are no training programs in place. Safety training is inadequate.



- **Unacceptable (0.0-0.4):** There are major gaps in staffing. Plant operations staff does not include a properly licensed wastewater operator. There are no training programs in place.

Since the new Director, Ms. Sue McCormick, joined DWSD in January 2012, the initiative for organizational optimization has been a major focus of the Department. Although the most visible aspect of the program has been reductions in staffing levels, the program is a comprehensive addressal of the overall staffing and training needs.

The new job descriptions that were developed are much more flexible and emphasize working in self-directed teams to solve problems. As the organization learns the new methods and adapts to the changes, there will be significant discomfort. It is also made more difficult as the City of Detroit is going through the bankruptcy process. For example, concerns about upcoming changes to the pension program have led a number of experienced personnel decide to file for retirement. Despite these challenges, there are positive signs that the optimization program is working. DWSD has also been flexible in finding ways to fill personnel gaps using short-term measures, such as personal service contracts, to address staffing needs.

2.8 Water Treatment Facility

In order to complete an evaluation of water treatment facilities of the magnitude of the DWSD plants, it is necessary to review each major treatment process and sub-facilities in the plants. Major water treatment processes and sub-facilities at the DWSD Water Treatment Plants include:

- **Power Supply:** This was one of the heavily weighted categories during evaluation; most of the DWSD water facilities have two separate power feeds and back-up emergency generators.
- **Raw Water System:** This includes raw water intakes, screening facilities, tunnels and low lift pumps. The evaluation criteria included the age of infrastructure, regular inspection and timely rehabilitations as needs are identified. Low lift pump stations pump water from the deep tunnels to feed raw water to the treatment facilities.
- **Flocculation and Settling:** Raw water from the low lift pump station is chlorinated and diverted to rapid mix chambers for alum and coagulant mixing and flocculation, then water enters into settling basins. Alum sludge settles at the bottom of settling basins. DWSD have different methods of sludge removal and disposal at each water treatment facility. Evaluation of each sub-facility was based on the physical condition of the facility and the ability to reliably dispose of sludge.
- **Filtration:** The settled water is diverted to filter beds. Filter beds consists of underdrains, filter media, surface wash, troughs and filter backwash system. Evaluation of each sub-facility was based on the physical condition of filter beds, buildings, backwash pumps and motors; any rehabilitation was factored in during the scoring.
- **Chemical Feed System:** The typical chemicals used at DWSD WTPs include: Chlorine, fluoride, orthophosphate, alum, coagulant, and powdered activated carbon. DWSD pre-chlorinates raw water and post chlorinates finished water. Evaluation of each sub-facility was based on the physical condition of the chemical building, the safety program and available equipment to mitigate chemical leaks, building condition, chemical feed pumps and motors, and piping; any rehabilitation was also factored during scoring.



- **Water Reservoirs:** After post chlorination, filtered finished water is stored in reservoirs or directly pumped to customers. All the reservoirs at the WTPs are ground reservoirs originally built during the plant construction. DWSD has a reservoir rehabilitation program management contract in place to perform maintenance and rehabilitations. Evaluation of each sub-facility was based on physical condition of reservoirs; any rehabilitation was factored in during the scoring.
- **High and Low Lift Pumping Station:** All of the WTPs have low lift stations to pump raw water for treatment and the high lift pumps finished water to customer. Evaluation of each sub-facility was based on physical condition of the pumping station building, available line and reservoir pumps and motors. Variable Frequency Drives, Valves any rehabilitation was factored in during the scoring.

The overall ratings for this criterion are:

- Good (2.5-3.0): Building and equipment are in good condition and there are no physical signs of equipment or building degradations. Recent rehabilitation and regular maintenance is evident. The plant is well maintained.
- Adequate (1.5-2.4): The majority of the equipment and building is in good physical condition. There may be a few equipment or building components showing signs of physical deterioration. No recent rehabilitation and some maintenance needs are evident. Plant facilities are relatively clean.
- Poor (0.9-1.4): Equipment and building shows signs of major deterioration. Building or equipment is no longer adequate for process flow or conditions. Rehabilitation and maintenance have been ignored for a long time, immediate repairs are needed. Plant facilities are dirty and disorganized.
- Unacceptable (0.0-0.4): Building or equipment are in rundown condition. Building is structurally unsafe to support the equipment operation. Unsafe building or equipment conditions exist.

2.9 Evaluation Results

Table 1: Water Treatment Plant Evaluation Results

Plant Name	% Weight	Lake Huron	Springwells	Southwest
Water Quality Compliance Score	25	2.97	2.90	2.90
Operation/ Process Control Score	15	2.87	2.67	2.77
Equipment/ Maintenance Score	15	2.83	2.60	2.73
Staffing/Training Score	5	2.83	2.90	2.80
Power Supply Score	10	2.80	2.53	2.70
Raw Water System Score	5	2.67	2.70	2.73
Flocculation and Settling System Score	5	2.80	2.57	2.70
Filtration System Score	5	2.83	2.40	2.70
Chemical Feed System Score	5	2.83	2.60	2.73
Water Reservoir Score	5	2.87	2.63	2.77
High and Low Lift Pumping System Score	5	2.80	2.40	2.70
Overall Weighted Score	100	2.86	2.68	2.78
Facility Rating		Good	Good	Good



3. Water Transmission and Distribution System

3.1 Overview

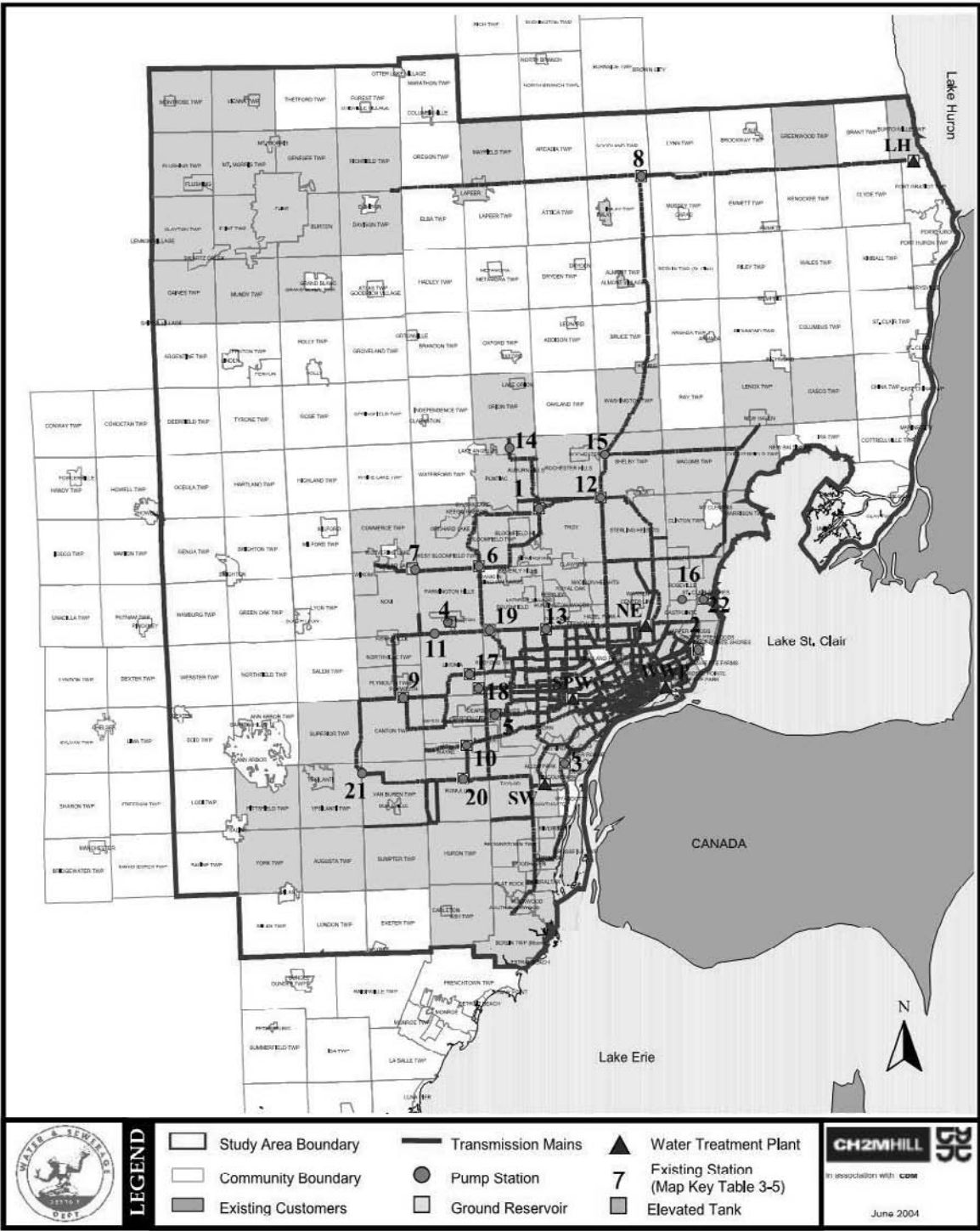
The DWSD water transmission system consists of a large number of pipes that convey the flow to its customers. The high-lift pumping stations and reservoirs at each of the five water treatment plants are used to supply flow to the transmission system. The system also has 19 booster pumping stations to assist in the conveyance of the flow and to provide sufficient pressure for areas of higher elevation. Most of the booster pumping stations also have ground-level storage reservoirs to provide adequate supply during peak demand conditions. At the connection to the wholesale customer communities (except Dearborn and Highland Park), DWSD has flow meters and pressure gauges that are used to monitor the system and provide data for billing. Within the City of Detroit, DWSD also has a network of pipes to deliver the flows to the individual retail customers.

The transmission and distribution of water throughout the system is monitored and controlled at the Systems Control Center. Changing demands are met by making adjustments at the pumping facilities, most of which are programmed to occur automatically. Operators continuously monitor the system to respond to unusual conditions.

3.2 Pumping Stations and Reservoirs

Figure 4, which is taken from the 2004 Master Plan, shows the location of the pumping stations and reservoirs. Table 2 provides a summary of the facilities. It is based on a similar table in the Master Plan but has been updated to delete three pumping stations/reservoirs that are no longer operated by DWSD and two additional reservoirs. The three facilities served single communities and through the implementation of the new model contracts, DWSD relinquished those facilities back to the individual communities they served. The two reservoirs required significant rehabilitation and were determined to no longer be needed.

Figure 4: Booster Pumping Station and Reservoir Locations



**Table 2: Summary of Existing Booster Pumping Stations Capacities and Reservoir Volumes**

Figure Key*	Pumping Station Name	Existing Rated Station Capacity ¹ (MGD)	Reservoir Volume (MG)
1	Adams Road	109	10
2	Eastside (Canyon)	30	10
3	Electric Avenue	24	6.6
5	Ford Road	90	10
6	Franklin	164	10
7	Haggerty	70	10
8	Imlay	575	20
9	Joy Road	94	10
10	Michigan Avenue	29	3.5
11	Newburgh	52	0
12	North Service Center	227	20
13	Northwest	50	10
14	Orion	14	0
15	Rochester	58	0
17	Schoolcraft	80	10
18	West Chicago	36	0
19	West Service Center	148	20
20	Wick Road	60	10
21	Ypsilanti	54	0

* Pumping stations 4 and 22 are no longer operated by DWSD. Station 16 is being decommissioned.

Fourteen of the pumping stations were visited for this evaluation, including each of the largest stations. Each visit consisted of a site walk through and an interview with the operator, supervisor or designated person.

Each facility was given an overall rating, based on an evaluation of each of the following three categories:

- Operations/Process Control
- Equipment/Maintenance
- Staffing/Training

These evaluation categories have been developed with an emphasis on criteria that impact the ability of the pumping station to provide safe and reliable pumping of water without interruption. Facilities were given a numerical rating for each of the evaluation categories. An overall facility rating was then calculated by assigning weighting factors of 20 percent for Operations/Process Control, 20 percent for Equipment/Maintenance, 10 percent for Staffing/Training, 25 percent for Power Supply and 25 percent for Reservoir Water Quality.

3.2.1 Operations/Process Control

The Operations/Process Control category includes an evaluation of the ability of the pumping station and reservoirs to reliably and safely pump drinking water without interruption. This category places emphasis on major criteria such as the presence of an auxiliary power source, in-service condition of major equipment, and adequacy of pumping station monitoring. Descriptions of the ratings, including minimum requirements for this evaluation category, are:



- Good (2.5-3.0): The pumping station is in condition to provide reliable operation and storage for to meet peak water demand conditions. The facility status is effectively monitored daily through on-site inspections and/or the use of remote monitoring telemetry. Alternate power supply is available and working. All major criteria and most minor criteria are adequately addressed.
- Adequate (1.5-2.4): No more than one major criteria needs to be addressed such as backup power, effective monitoring, having adequate pumps or backup pumping. The pump station is generally reliable. The facility adequately addresses many of the minor criteria.
- Poor (0.5-1.4): Multiple major criteria and minor criteria are not adequately addressed. The pump station reliability is compromised.
- Unacceptable (0-0.4): There have been bypasses at the pump station in the six to twelve months preceding the site visit due to power failure or non-availability of equipment. There is little or no attempt to monitor and control the operation of the pump station. Pump station operation and reliability are compromised by lack of security and adequate alternate power supply. Many of the major criteria and minor criteria are inadequately addressed.

The installation of a system-wide monitoring and control system under the PC-713 project has improved the overall process operations within the water systems. Operators have real-time data available at the Systems Controls Center depicting the main operational status of the equipment and facilities in the system. Alarm conditions and problematic operations are reported and investigated by maintenance staff to ensure that the demands on the system are met when needed. The system also archives operational data for future investigations and historical analyses to improve future operations.

3.2.2 Equipment/Maintenance

The Equipment/Maintenance category includes an evaluation of the condition of the pump station facility, reservoirs and equipment, with emphasis on major criteria such as the presence of at least two pumps, all major equipment is in service, and safe and adequate access to all portions of the pump station.

Descriptions of the ratings, including minimum requirements for this review category, are:

- Good (2.5-3.0): All major equipment is in service and in good condition. Most minor criteria are adequately addressed.
- Adequate (1.5-2.4): All major equipment is in service, or the out of service equipment is not adversely affecting the reliability of the pump station, or the location has adequate spare inventory. The pumping station adequately addresses many of the minor criteria.
- Poor (0.5-1.4): Equipment shows signs of deterioration with at least one piece of major equipment out of service. Multiple major criteria and minor criteria are not adequately addressed.
- Unacceptable (0-0.4): Equipment shows signs of major deterioration with multiple pieces of major equipment out of service. Many of the major criteria and minor criteria are inadequately addressed.

Field operators are responsible for scheduled inspection of equipment to ensure proper operation, to identify corrective maintenance requirements, and to initiate any necessary work orders. Maintenance is performed on an as-needed basis by the Mechanical Maintenance Division. This Division also performs some scheduled preventative maintenance. Maintenance of the pump stations is a top priority of this



Division. Significant upgrades to the pumping stations and reservoirs have been implemented in the past decade through the Capital Improvements Program.

3.2.3 Staffing/Training

The Staffing/Training category includes an evaluation of the adequacy of staff coverage, training of the staff, and apparent performance of any on-site staff, with emphasis on major criteria such as sufficient staff presence to provide full-time monitoring of the pump station through use of remote telemetry or on-site coverage, and adequate training of staff to provide safe and reliable operation and maintenance.

Descriptions of the ratings, including minimum requirements for this review category, are:

- Good (2.5-3.0): All positions are filled. There is sufficient staffing and frequency of visits to the pump station for proper operation of the station. Most minor criteria are adequately addressed.
- Adequate (1.5-2.4): The facility does not have remote monitoring, but does have regular staff visits. The facility adequately addresses many of the minor criteria.
- Poor (0.5-1.4): There is no remote monitoring. Facility has inadequate staffing and frequency of visits to provide proper operation and maintenance of the pump station. Multiple major criteria and minor criteria are not adequately addressed.
- Unacceptable (0-0.4): There is no significant presence of any qualified or trained staff at this facility. Most of the major criteria and minor criteria are inadequately addressed.

The staffing of the remote pump stations and reservoirs has been automated with system improvements and automation system installations. This allows the department the ability to reliably operate these systems remotely, to monitor and receive updated operational information from the stations, and receive alarms almost instantaneously as they occur. The operational staff has had advance training regarding the operation of control systems and how to respond to station alarms and alerts received from the control systems.

3.2.4 Power Supply

This was one of the heavily weighted categories during the evaluation of booster stations and reservoirs. DWSD Water System reliability is highly dependent on the power supply. Most of the DWSD booster station and reservoir facilities have two separate power feeds, some have back up emergency generators and a few have a single power feed. For an example, the Ford Road station has a single power feed, however, the Ford Road Station location in the DWSD transmission is unique. In case of power failure, other stations can support the Ford Road Service Area. DWSD made significant investments in back up power generation since 1999. Descriptions of the ratings, including minimum requirements for this review category, are:

- Good (2.5-3.0): The pumping station is in condition to provide reliable power to meet peak water demand conditions. The facility has two separate power feeds, as well as a backup power generation available and working for peak demand conditions.
- Adequate (1.5-2.4): The pumping station is in condition to provide reliable power to meet peak water demand conditions under most circumstances. The facility has two separate power feeds or backup power generation.



- Poor (0.5-1.4): The pumping station is in condition to provide reliable power to meet peak water demand conditions, but is highly dependent on one source of power. The facility has only a single power feed. No backup power generation is available.
- Unacceptable (0-0.4): The facility has only one single power feed. No backup power generation is available. This facility has a history of significant outages.

3.2.5 Reservoir Water Quality

Under the SDWA, the EPA sets standards for drinking water quality at the customer tap in addition to water quality production facilities. The drinking water age after production, to reach customers' taps, is very important and reservoirs play key roles in meeting water quality. If the water is not utilized on a regular basis from the reservoirs, and water remains for many days, then limits of certain regulated Disinfection Byproducts (DBP's) increase due to chlorination. DWSD has the operational protocol in place to eliminate water quality issues related to water age, and reservoir water is regularly used. DWSD, under Reservoir Program Management, has installed baffle walls to eliminate short circuiting of finished water to keep water age to a minimum. Reservoir water quality therefore, was weighted the most heavily because it is considered to be a measure of the booster station and reservoir performance and control of facility operations. Therefore, water quality standards of treated water were assessed in accordance with applicable SDWA for maximum allowable regulated limits in drinking water as follows:

- Good (2.5-3.0): Operational protocol is in place to minimize water age at the reservoirs and the DBP standards have been met for the last two years.
- Adequate (1.5-2.4): Operational protocol is in place to minimize water age at the reservoirs and the DBP standards have been met for the last year.
- Poor (0.5-1.4): Operational protocol is in place to minimize water age at the reservoirs and the DBP standards have been met for the last six months.
- Unacceptable (0-0.4): DBP standards have not been consistently met.

3.2.6 Evaluation Results

The condition of the Collection System Pumping Stations ranges from adequate to good as summarized in Table 3 below. This is expected, considering the control system upgrades and capital improvement renovations that have been recently completed at these facilities.

**Table 3: Booster Pumping Station and Reservoir Evaluation Results**

Booster Pumping Station and Reservoir	Operations /Process Control Score	Equipment/ Maintenance Score	Staffing/ Training Score	Power Supply Score	Reservoir Water Quality Score	Overall Weighted Score	Facility Rating
Imlay	2.63	2.43	2.93	2.47	2.90	2.65	Good
Rochester	2.87	2.80	2.80	2.60	2.90	2.79	Good
North Service Center	2.63	2.53	2.80	2.77	2.90	2.73	Good
West Service Center	2.70	2.63	2.80	2.80	2.90	2.77	Good
Franklin	2.90	2.73	2.80	2.80	2.90	2.83	Good
Haggerty	2.90	2.80	2.80	2.63	2.90	2.80	Good
Adam Road Station	2.73	2.70	2.80	2.80	2.90	2.79	Good
Wick Road	2.80	2.80	2.80	2.80	2.90	2.83	Good
Michigan Avenue	2.67	2.73	2.73	2.60	2.90	2.73	Good
Ford Road	2.67	2.33	2.80	1.93	2.90	2.49	Adequate
Schoolcraft	2.83	2.80	2.80	2.80	2.90	2.83	Good
West Chicago	2.73	2.70	2.80	2.73	2.90	2.78	Good
Joy Road	2.73	2.57	2.80	2.80	2.90	2.77	Good
Newburgh	2.60	2.53	2.80	2.43	2.90	2.64	Good
% Weight	20%	20%	10%	25%	25%	100%	

3.3 Piping Systems

DWSD owns, operates, and maintains a very large network of water pipes. The transmission and distribution systems each have their own unique set of challenges and strategies. The transmission mains are generally the larger pipes that transport the flows from the water plants to the community or neighborhood. Within the City of Detroit, all water mains 24-inch in diameter or larger, are considered transmission mains. The distribution mains are the smaller mains that take flow from a transmission main and deliver it to the individual customer. The only distribution mains owned and operated by DWSD are those within the City of Detroit. The goal for water system piping networks is to have a looped system, which allows for efficient delivery of water, and limits the impacted area when a pipe break occurs.

A variety of pipe materials has been used in the transmission system. DWSD has generally specified pipes that are expected to provide a long service life. However, problems have been found with pipes with certain characteristics, such as a specific pipe supplier that experienced problems or a period of time when appropriate raw materials were not readily available. These problems are not unique to DWSD, since the underlying conditions impacted many similar water utilities. As these issues have become known, DWSD has addressed them. For example, two current projects are addressing sections of pipeline that have experienced a much higher rate of pipe breaks than normally expected. Other sections of older transmission main are being replaced as opportunities (e.g. road replacement) are available. The most difficult sections to address are pipes that are of an age in which consideration should be given to rehabilitation or replacement, but have not yet exhibited a high rate of pipe breaks. DWSD recognizes the need to address these issues and expects to increase the annual effort, particularly as work in the problem areas is completed.



The distribution system is quite old and was built to serve a much larger base of usage than currently exists within the City of Detroit. However, since they only serve City of Detroit customers, affordability issues have limited the extent of the improvements undertaken. The large number of water main breaks experienced recently and the growing magnitude of non-revenue water have raised the priority for addressing these issues. A recent planning effort to define the Future City has helped to create strategies for concentrating rehabilitation/replacement efforts in higher density areas and reducing the amount of infrastructure to maintain in low density areas. An emphasis on more effective collection of water revenue is expected to positively impact the ability to increase the reinvestment effort.

The magnitude of non-revenue water has been increasing over time. The Water Master Plan Update is addressing this issue in the current phase of the work, which is anticipated to be completed by June, 2015. Preliminary thinking has identified use of a systematic program to quantify water loss by subarea with prioritized follow-up. In the meantime, DWSD has begun to address non-revenue water with several actions as follows:

- Creation of a mobile app so that citizens can report issues with running water in a vacant property or other observed problems,
- Aggressive program to address non-payment by customers has resulted in a side benefit of finding vacant properties that have not been properly disconnected from water service,
- Questions have been raised about the accuracy of the meters at the water treatment plants. A study has recently been completed to evaluate alternatives for meter upgrades. Rehabilitation was generally found to be effective and the least expensive alternative. That work is proposed for addition to the capital improvement program.

4. Capital Improvement Program

4.1 DWSD 5-Year CIP

The current DWSD 5-Year CIP is summarized in Table 4. The CIP was primarily based on an evaluation performed in 2011 by CH2MHill, the authors of the 2004 Comprehensive Water Master Plan, based on the actual system experience in recent years. In particular, the economic downturn and the demand management measure instituted by the customer communities were important factors that changed the system needs from the original Master Plan. The report recognized that a number of capital improvements could be delayed, but also indicated that further analyses would be required to determine refinements to the recommendations.

Further refinements to the CIP are being developed as part of the Master Plan Update, which is being prepared by CDM Smith. Although the draft Master Plan Update will not be completed until May 2015, initial analyses have been completed and preliminary conclusions are beginning to emerge. The Update has shown that the system has significantly greater treatment capacity than is needed to meet the current and projected needs. A number of alternatives were examined to determine the optimal method for achieving



the reduced capacity. The Northeast WTP would require significant rehabilitation to continue operating effectively in the future. Therefore, repurposing this WTP to only operate as a booster pumping station and reservoir appears to be the most cost-effective alternative. Some improvements will be needed in the transmission system to effectively feed the Northeast Pumping Station and Reservoir. These concepts were identified in a Phase 1 Interim Report, dated March 3, 2014. Further work has continued on the plan and it is expected that the recommended improvements will continue to evolve until the final report is released. Further work is being performed to address transmission and distribution system needs, including piping rehabilitation/replacement needs and energy management improvements.

Recognizing that better information is desirable as part of this financing, the key staff from DWSD, CDM Smith, and OHM met to create a revised financial projection of the CIP for the next five years. Although the process for creation of the projection did not allow for the detailed review by all stakeholders that occurs with the formal CIP adoption process, it is likely to be more accurate than the current 5-Year CIP and has been used for the financial projections, as shown in Table 5. Since it projects a higher level of spending than the current CIP, it is also financially more conservative.

Table 4: Ongoing Capital Improvement Projects

Item	Project Number	Project Name
1	SP-563	Springwells WTP-1958 Filter Rehabilitation
2	DWS-874	Booster Stations and Reservoirs Inspection and Rehabilitation Program
3	WS-622	24 Mile Road and Dequindre 96-inch Main Relocation
4	WS-681	Parallel 42-inch Main in 24 Mile Road
5	WW-536	Yard Piping, Valves and Metering at Water Works Park WTP
6	WS-674	Parallel 48-inch Main from Wick Station to Hannon Road
7	1230	Water Transmission Main Allowance
8	463	Water Distribution Main Allowance
9	1256	Water Treatment Plant Allowance
10	1071	Springwells WTP-Low and High Lift Pump Station Rehabilitation

Table 5: Near Future Capital Improvement Projects

Item	Project Name
1	Garland Transmission Main Condition Assessment, Design, Construction
2	Yard Piping and Site Improvements at Springwells WTP
3	Replace 54-inch Main on 8 Mile Road from Evergreen Road to St. Mary's Road to serve Northeast Pump Station
4	Replace 48-inch Main on 8 Mile Road from Mound Road to Nevada Road to serve Northeast Pump Station
5	Replacement of Filter Controls and Rehabilitation of WTP Venturi Meter at Lake Huron WTP
6	Electrical and Instrumentation/Controls Upgrades at Southwest WTP
7	Flocculation System Improvements at Lake Huron WTP
8	Replace Roofing Systems at WTPs and Booster Pump Station
9	Rechlorination Facilities to serve GLCUA without Flint/Genesee
10	High Lift Pumps Rehabilitation and related Mechanical Systems at Northwest WTP/Booster Pump Station



5. Opinions

1. DWSD has been providing potable water of an excellent quality to Southeast Michigan for many years. The observed quality by its customers is confirmed in the Annual Water Quality Report test data that shows all regulated contaminants are well below the maximum levels allowed. Many are at least one order of magnitude less than allowed.
2. The current 5-Year CIP addresses the most critical needs in the system observed during the site visits.
3. The conditions at the facilities were generally rated as good based on the site visits. This reflects significant investment at the facilities over the last 10-15 years.
4. The system has more capacity than required. The Water Master Plan Update has looked at a variety of alternatives to more effectively match the system resources to the needs. Based on the preliminary analyses, the Northeast Water Plant will be repurposed so that it remains as a booster pumping station and reservoir, but not as a water treatment plant. This will minimize the need for significant capital investment in rehabilitation or replacement of equipment that otherwise would have been necessary at the Northeast WTP.
5. A number of capital improvement projects had been put on hold due to the available excess capacity, pending the evaluation of the alternatives in the Water Master Plan Update. With completion of the Phase 1 report, a number of projects are being proposed to move forward. The projects are generally smaller than past projections, more focused on specific equipment replacement needs.
6. The drop in usage was also observed on the site visits. Despite high temperatures, the percentage of pumps operating was low. This indicates that extra redundancy is available in the pump units than would typically be expected.
7. It was evident that DWSD made significant improvements in making power supply reliable to water facilities, first during the Y2K event and then after the 2003 power blackout. It appears DWSD is now better prepared for any power supply emergency scenarios.
8. Due to a continuous reservoir rehabilitation program in place, DWSD reservoir appears to be well maintained.
9. It is apparent that DWSD invested in automation. All the booster stations and reservoirs are being operated remotely in an effective manner.

APPENDIX II-C
DWSD AUTHORIZING DOCUMENTS

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Bond Ordinance

ORDINANCE NO. ____

An Ordinance to Amend and Restate Ordinance No. 30-02 of the City of Detroit to Provide for the Issuance of SRF Junior Lien Bonds to Evidence Loans from the State Drinking Water Revolving Fund.

Whereas, Ordinance No. 30-02 provides for the financing and refinancing of capital improvements to the Water Supply System (the “System”) of the City of Detroit, Michigan (the “City”), by the issuance from time to time of Water Supply System Revenue Bonds and Revenue Refunding Bonds;

Whereas, the City Council of the City desires to amend and restate Ordinance No. 30-02 to provide for the issuance of SRF Junior Lien Bonds to enable the City to finance eligible improvements to the System with low-cost loans from the State Drinking Water Revolving Fund established pursuant to the federal Safe Drinking Water Act of 1974, as amended;

The City of Detroit Ordains:

Amendment to Amend and Restate Ordinance No. 30-02

Ordinance No. 30-02, as amended to the date hereof is hereby amended and restated in its entirety to read as set forth below. Such amendment and restatement to take effect as provided in Section 25 hereof.

SECTION 1. DEFINITIONS - GENERAL.

Whenever used in this Ordinance, except when otherwise indicated by the context, capitalized terms not defined herein and defined in the preamble hereto are used herein as defined in the preamble, and the following terms shall have the following meanings:

“Act 34” means Act 34, Public Acts of Michigan, 2001, as amended.

“Act 94” means Act 94, Public Acts of Michigan, 1933, as amended.

“Act of Council” means a resolution or ordinance of the Council, as required or permitted by law to authorize or otherwise give effect to the subject matter thereof.

“Additional Securities” has the meaning given that term in Section 20(C)(1).

“Ancillary Obligation” means any Reimbursement Obligation and any Hedge Obligation.

“Ancillary Obligation Fees and Expenses” means any fees and expenses in connection with any Hedge or Financial Facility in the ordinary course of the transaction.

“BMA Municipal Index” means the index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, Boston,

Massachusetts, a Thompson Financial Services Company (or its successor), which meet specific criteria established by The Bond Market Association.

“Bond Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the City.

“Bond Insurance” means any policy of insurance, contract of suretyship, guaranty or other agreement intended to protect Holders of particular Securities from loss arising from a failure of the City to timely pay principal (and premium, if any) of and interest on such Securities and pursuant to which the provider thereof is repaid solely as subrogee without creating any additional payment obligations (other than the payment of a premium or annual fee).

“Capital Appreciation Securities” means Securities that pay interest only at maturity.

“City” means the City of Detroit, County of Wayne, State of Michigan.

“Code” means the Internal Revenue Code of 1986, as it may be amended and the rules and regulations promulgated thereunder or applicable thereto.

“Commissioners” means the Board of Water Commissioners of the City created by Article 7, Section 7-1501, of the Charter of the City or any successor body.

“Construction Fund” means the fund established pursuant to Section 14.

“Council” means the City Council of the City.

“Counterpart Securities” means Securities that bear interest at rates which vary inversely to each other and that were issued contemporaneously with each other in order to produce a single fixed rate. In order to constitute “Counterpart Securities” both counterparts must be Outstanding at the same time and in such amounts and with such amortizations schedules as to maintain the fixed rate so utilized.

“Coverage Determination” means a determination of the ratio of Net Revenues to Indebtedness with respect to Securities for purposes of fixing or revising rates or issuing Additional Securities or incurring additional Secured Obligations.

“Credit Enhancement” means any Credit Facility and any Bond Insurance.

“Credit Facility” means any letter of credit, line of credit, purchase agreement, surety bond or other financial arrangement, other than Bond Insurance, intended to protect Holders of particular Securities from loss arising from a failure of the City to timely pay principal of and interest on such Securities or intended to secure an obligation to fund an account or fund, such as a Reserve Account.

“Debt Service Installment Requirement” means, as of the first day of each month with respect to a Priority of Outstanding Securities and Ancillary Obligations, if any, the total for such month of the (i) Interest Installment Requirement, (ii) Principal Installment Requirement and (iii) Sinking Fund Installment Requirement, if any.

“Excluded Tender Securities” means:

(i) Tender Securities that the City is not obligated to purchase under any circumstances upon the failure of the remarketing thereof and for which the City has not provided a Liquidity Facility; and

(ii) Tender Securities for which the City has provided a Liquidity Facility.

“Extraordinary Repair and Replacement Maximum Requirement” means, for any Fiscal Year, 15% of the budgeted operation and maintenance expense of the System for such Fiscal Year less in the Fiscal Year any amount that is withdrawn from the Extraordinary Repair and Replacement Reserve Fund for paying a major unanticipated repair or replacement to the System pursuant to Section 13D, but only in the Fiscal Year that such amount is withdrawn.

“Extraordinary Repair and Replacement Minimum Requirement” means, for any Fiscal Year, 1/12 of 3% of the budgeted operation and maintenance expense of the System for such Fiscal Year plus such amount as is necessary to restore to the Extraordinary Repair and Replacement Reserve Fund any amount credited to the Improvement and Extension Fund.

“Finance Director” means the Finance Director of the City or any successor officer of the City responsible for performing the duties of the Finance Director pursuant to the Charter of the City.

“Financial Facility” means any Credit Enhancement, Liquidity Facility or combined Credit and Liquidity Facility.

“Fiscal Year” means the fiscal year and operation year of the City which begins on July 1 and ends on the following June 30 as it may be modified.

“Fixed Rate Security” means a Security that bears interest at a rate that has been fixed for at least a five-year period that includes all of the Fiscal Year for which a calculation of Annual Debt Service is made or to its scheduled maturity, whichever is shorter; provided, however that:

(i) If the Fiscal Year for which a calculation of Annual Debt Service is made includes only a portion of such five year period, a Security is also a “Fixed Rate Security” but only for such portion;

(ii) A rate is fixed for purposes of determining whether a Security is a “Fixed Rate Security” if the economic effect of a Security bearing interest at a fixed rate is produced by a Qualified Hedge or by Counterpart Securities; and

(iii) A rate is variable for purposes of determining whether a Security is a “Fixed Rate Security” if the economic effect of a Security bearing interest at a variable rate is produced by a Qualified Hedge.

“Government Obligations” means direct obligations of the United States of America or obligations the principal of and interest on which is fully guaranteed by the United States of America, including U.S. Treasury Trust Receipts.

“Hedge” means any agreement by which the City is authorized or permitted by law to manage its debt service, either in connection with the proposed issuance or issuance of Securities or in connection with its then Outstanding Securities, including, but not limited to, interest rate exchanges or swaps, hedges and similar agreements.

“Hedge Obligations” means the City’s payment obligations under a Hedge other than the obligation to pay fees and expenses in the ordinary course of the transaction.

“Hedge Termination Payment” means an amount payable by the City under a Hedge by reason of the early termination thereof.

“Hedge Receivable” means any amount receivable by the City under a Hedge including any amount by reason of the early termination thereof.

“Holder” or “Securityholder” means the Person in whose name a Security is registered in the Registry.

“Indebtedness” has the meaning given that term in Section 2.

“Interest and Redemption Fund” means any Interest and Redemption Fund established for a Priority of Securities.

“Interest Installment Requirement” means, as of the first day of each month in a Fiscal Year, with respect to Securities and Ancillary Obligations of the same Priority of Lien, the amount of interest accrued and unpaid and to accrue to and including the last day of such month, on Outstanding Securities of such Priority of Lien and Parity Ancillary Obligations that constitute interest, if any, next coming due in such Fiscal Year.

“Junior Lien Bonds” means all Securities issued pursuant to this Ordinance other than Senior Lien Bonds.

“Junior Obligations” means all Junior Lien Bonds and all Ancillary Obligations that are not Senior Obligations.

“Legal Investment” means, with respect to any particular amounts, an investment that is authorized or permitted by law as an investment of such amounts, including Government Obligations.

“Liquidity Facility” means any letter of credit, line of credit, purchase agreement, or other financial arrangement intended to provide funds for the purchase of certain Securities in the event of a failure of the remarketing thereof but does not include any protection provided by a Credit Facility.

“Mandatory Redemption Date” means a date on which Term Securities in the principal amount of the applicable Mandatory Redemption Requirement are required to be redeemed under the Supplemental Action authorizing the sale of such Securities.

“Mandatory Redemption Requirements” means, with respect to any Term Securities, the principal amount of such Securities required to be called for redemption prior to their stated maturity as provided in the Supplemental Action authorizing the sale of such Term Securities.

“Net Revenues” means, for any period of time, all Revenues received during such period of time, except for those Revenues transferred to the Operation and Maintenance Fund.

“Operation and Maintenance Fund” means the fund established pursuant to Section 12(A)(1).

“Outstanding”, unless otherwise provided in a Supplemental Action for particular Securities, means, as of any date and with respect to Securities of a particular Priority of Lien,

all Securities of such Priority of Lien delivered under this Ordinance except:

(i) Securities of such Priority of Lien theretofore paid or redeemed or acquired by the City and surrendered to the Transfer Agent for cancellation;

(ii) Securities of such Priority of Lien that have matured or have been duly called for redemption and for the payment or redemption of which amounts, together with any unpaid interest, are held by the Trustee or the Paying Agent for the payment thereof;

(iii) Securities of such Priority of Lien that have been defeased in accordance with this Ordinance or a Supplemental Action; and

(iv) Securities of such Priority of Lien in exchange for or replacement of which other Securities of such Priority of Lien have been authenticated and delivered pursuant to this Ordinance or a Supplemental Action.

“Parity Ancillary Obligations” means, as to Securities, those Ancillary Obligations which have the same Priority of Lien, regardless of whether the Ancillary Obligations were entered into with respect to those Securities or Securities with a different Priority of Lien.

“Permitted Investment” means, with respect to any particular amounts, a Legal Investment subject to such limitations as may be imposed by this Ordinance or a Supplemental Action for the investment of such amounts.

“Person” means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

“Pledged Assets” means:

(i) Net Revenues;

(ii) the funds and accounts established by or pursuant to this Ordinance except for the Operation and Maintenance Fund and the Construction Fund and any account thereof;

(iii) investments of amounts credited to any fund, account or subaccount that is a Pledged Asset; and

(iv) any income or gain realized from investments that are Pledged Assets to the extent that such income or gain is not a Net Revenue.

“Principal Installment” means, with respect to Securities of the same Priority of Lien and related Ancillary Obligations, if any, the principal amount of such Securities that are not Term Securities and such of the Ancillary Obligations related to such Securities, if any, that constitute principal or other return of capital.

“Principal Installment Requirement” means, as of the first day of each month in a Fiscal Year, with respect to a Priority of Obligations, the amount of Principal Installments accrued and unpaid and to accrue to, and including, the last day of such month (assuming that principal accrues on the basis of 30-day months in a year of 360 days) on Outstanding Securities of such Priority of Lien and related Ancillary Obligations, if any, next coming due in such Fiscal Year.

“Priority of Lien” means, with respect to any particular Secured Obligation, all other Secured Obligations having a lien on Pledged Assets on a parity with such Obligation.

“Qualified Hedge” means a Hedge with a counterparty that is rated directly or indirectly by a Rating Agency in a rating category at least equal to the category in which the subject Securities are rated without benefit of Credit Enhancement and without reference to qualifications such as “plus” or “minus”. If the subject Securities are not rated without the benefit of Credit Enhancement, then the rating category of such Securities shall be the rating category with the benefit of Credit Enhancement.

“Rate Stabilization Fund” means the fund created under Section 13(G)(2).

“Rating Agency” means any nationally recognized statistical rating organization as defined in Rule 15c3-1 of the United States Securities and Exchange Commission.

“Receiving Fund” means the Water Supply Receiving Fund established under Section 12(A)(1).

“Refunding Securities” means Additional Securities issued for the purpose of refunding Outstanding Securities.

“Reimbursement Obligation” means the City’s repayment obligations under a Financial Facility, and does not include the obligation to pay fees and expenses in the ordinary course of the transaction.

“Registry” means the books for the registration and transfer of registration of securities as provided in Section 3G(1).

“Required Combined Coverage” means, for two or more Securities of a different Priority of Lien for which a Coverage Determination is to be made, the result produced by dividing the Net Revenues projected for the Fiscal Year of calculation by the prescribed related Indebtedness coming due during such Fiscal Year.

“Reserve Account” means a Reserve Account established in an Interest and Redemption Fund and may be restricted in meaning by referring to Securities of the same Priority of Lien for which such Reserve Account was established.

“Reserved Amount” means any amount on deposit in the Rate Stabilization Fund which is taken into account in connection with any Coverage Determination.

“Reserve Requirement” means, for Securities of the same Priority of Lien for which a Reserve Account has been established, the lesser of the amount of Annual Debt Service on all Securities of the same Priority of Lien then Outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code as provided below:

(i) for Senior Lien Bonds, the “amount of Annual Debt Service” shall be maximum Annual Debt Service;

(ii) for Second Lien Bonds, the “amount of Annual Debt Service” shall be maximum Annual Debt Service; and

(iii) for all other Junior Lien Bonds for which a Reserve Account is established, the “amount of Annual Debt Service” shall be the amount set forth in the Supplemental Action establishing such Reserve Account, and if no amount is set forth, the “amount of Annual Debt Service” shall be average Annual Debt Service.

“Revenues” means the revenues of the City from the System, which shall be construed as defined in Section 3 of Act 94, and shall also include:

(i) Hedge Receivables; and

(ii) income earned and gain realized from the investment of amounts in the various funds, accounts and subaccounts established by this Ordinance other than the Construction Fund for any

Fiscal Year earnings on the Construction Fund are not credited to the Receiving Fund.

“Second Lien Bonds” means the City’s outstanding Water Supply System Revenue Second Lien Bonds, Series 1995-A and any Additional Securities of equal Priority of Lien.

“Secured Obligations” means all Securities, Ancillary Obligations and Ancillary Obligation Fees and Expenses.

“Securities” means all Senior Lien Bonds and all Junior Lien Bonds.

“Securities to be Refunded” means the Particular Outstanding Securities to be refunded by Refunding Securities issued for such purpose.

“Senior Lien Bonds” means all Securities issued under this Ordinance that have a senior lien on Pledged Assets.

“Senior Obligations” means all Senior Lien Bonds and Ancillary Obligations in respect of Senior Lien Bonds and secured on parity therewith, and including all Junior Lien Bonds that have acceded to a parity status with Senior Lien Bonds pursuant to Section 5(F) hereof and Ancillary Obligations in respect thereof, secured on a parity therewith, if any.

“Sinking Fund Installment Requirement” means, with respect to Term Securities of the same Priority of Lien and as of the first day of each month in a Fiscal Year, the amount of any Mandatory Redemption Requirements next coming due in such Fiscal Year, including any Mandatory Redemption Requirement due at the maturity of such Term Security less the amounts credited to such Mandatory Redemption Requirements as the result of partial redemptions or purchase of such Term Securities, if any.

“State” means the State of Michigan.

“SRF Junior Lien Bonds” means all Junior Lien Bonds issued for the purpose of providing improvements to the System under the State’s Revolving Fund.

“Supplemental Action” means an Act of Council or a sale order or other document signed by the Finance Director pursuant to an Act of Council, which shall be this Ordinance if the action of the Finance Director is herein authorized.

“System” means the Water Supply System of the City including all plants, works, instrumentalities and properties, used or useful, in connection with obtaining a water supply, the treatment of water or the distribution of water, as the same now

exists, together with all additions, extensions, repairs and improvements thereto hereafter acquired.

“Tender Securities” means Securities that are subject to optional or mandatory tender for purchase.

“Term Securities” means, with respect to Securities of the same Priority of Lien, any maturity of such Securities that has Mandatory Redemption Requirements.

“Transfer Agent” means, as to any particular Securities, the bank or banks selected by the Finance Director to perform the duties provided for the Transfer Agent with respect to such Securities.

“Trustee” means U.S. Bank National Association or any successor Trustee selected by the Finance Director to perform the duties of trustee under Section 19 hereof.

“Variable Rate Security” means any Security that is not a Capital Appreciation Security or a Fixed Rate Security.

SECTION 2. DEFINITION OF ANNUAL DEBT SERVICE.

(A) *Definitions.*

(1) “Annual Debt Service” means, for any Fiscal Year and with respect to Indebtedness of any particular Priority, the amount of such Indebtedness due in such Fiscal Year in accordance with their respective terms.

(2) Unless limited by another Section of this Ordinance, “Indebtedness” means (without duplication):

- (i) Principal of and interest on Securities Outstanding in any Fiscal Year for which the calculation is made;
- (ii) Reimbursement Obligations; and
- (iii) Hedge Termination Payments.

(B) *Rules for Calculating Principal and Interest.*

(1) First Day of Fiscal Year. Principal of and interest on Securities coming due on the first day of a Fiscal Year shall be calculated as being due on the last day of the immediately preceding Fiscal Year.

(2) Assumed Paid. Principal of and interest on any Securities due in a Fiscal Year prior to the Fiscal Year for which the calculation is made shall be assumed to have been paid when due.

(3) Due Dates. The due dates for any principal, interest or Redemption Requirements are the stated dates for the payment thereof and not in advance of such stated dates by reason of acceleration.

(4) Term Securities.

- (i) Mandatory Redemption Requirements shall be treated as principal maturing on the respective dates that such Mandatory Redemption Requirements are due.
- (ii) The principal amount of a Term Security maturing in a Fiscal Year shall be reduced by the total of the Mandatory Redemption Requirements due in each Fiscal Year before the Fiscal Year of such maturity.

(5) Tender Securities. Except for Excluded Tender Securities, each date on which Holders of such Tender Securities may tender or may be mandated to tender such Tender Securities shall constitute a maturity of the principal amount of such Tender Securities that could be tendered on such date with the giving of notice or the passage of time, or both.

(6) Interest.

- (i) Interest due in any Fiscal Year shall be offset by the amount of capitalized interest or interest received by the City as “accrued interest” available for the payment thereof.
- (ii) Separate provision is made in this Section for determining the interest rate on:

(a) Variable Rate Securities as provided in subsection (C) below;
and

(b) Fixed Rate Securities converting to Variable Rate Securities as provided in subsection (D) below.

(C) ***Variable Rate Securities.***

(1) If Variable Rate Securities have been Outstanding for less than a full Fiscal Year on the date of calculation, then the interest rate on such Variable Rate Securities shall be calculated as 125% of the average of the BMA Municipal Index (as hereinafter defined) for the five year period ending not more than one week before the date of such calculation.

(2) If Variable Rate Securities have been Outstanding for one or more full Fiscal Years on the date of calculation, then the interest rate on such Variable Rate Securities shall be calculated as 125% of the annualized average daily rate

borne by such Variable Rate Securities for the 12 calendar month period ending immediately before the month of calculation.

(3) Notwithstanding paragraphs (1) and (2), for the purpose of determining the Reserve Requirement for Securities of the same Priority of Lien, the interest rate on Variable Rate Securities shall be not adjusted after the date of initial issuance.

(D) ***Fixed Rate Securities Convertible to Variable Rate Securities.***

If Securities are issued as Fixed Rate Securities but are intended to convert by their terms to Variable Rate Securities during a future Fiscal Year and a calculation is made for such future Fiscal Year or any Fiscal Year thereafter, then the Fiscal Year of conversion shall be the first Fiscal Year that such Securities are Outstanding for the purpose of calculating interest at a variable rate.

(E) ***Capital Appreciation Securities.***

For the Capital Appreciation Securities, the Accreted Value per \$5,000 due at maturity shall be as determined semiannually to maturity on such dates as specified in a Supplemental Action. For purposes of the rate covenants in Section 9, the Additional Securities requirements of Section 20, and for all other purposes of this Ordinance, the Accreted Value of Capital Appreciation Securities shall be deemed to be due and payable in the Fiscal Years in which such Accreted Value shall actually be due and payable by the City into the Senior Lien Bond and Interest Redemption Fund or the Second Lien Bond Interest and Redemption Fund, as applicable, or assumed paid under (B)(2) above, as applicable.

SECTION 3. AUTHORIZATION AND ISSUANCE OF SECURITIES; RELATED MATTERS.

(A) ***Authorization of Securities.*** Securities shall be authorized from time to time by Acts of Council and Supplemental Actions.

(B) ***Issuing Securities.*** The Finance Director may, by Supplemental Action, take such actions as are necessary or appropriate to give effect to the transactions contemplated by an Act of Council authorizing the issuance of Securities or as are incidental thereto.

(C) ***Liability Limited.*** All covenants, agreements and obligations of the City contained in this Ordinance or in any Secured Obligations are those of the City and not of any member, officer or employee of the City in his or her individual capacity, and no recourse shall be had for the payment of any Secured Obligations or for any claims based thereon or hereunder against any member, officer or employee of the City or any natural Person executing or attesting any Secured Obligations.

(D) ***Execution, Authentication and Delivery of Securities.***

(1) Securities shall be executed in the name of the City by the facsimile signatures of the Mayor and the Finance Director and shall have a facsimile of the City's seal impressed, imprinted or otherwise reproduced thereon.

(2) No Security shall be valid until authenticated by an authorized representative of the Transfer Agent. Securities shall be delivered by the City to the Transfer Agent for authentication and be delivered to the Transfer Agent by the Finance Director or designee for delivery to the purchaser(s) in accordance with instructions from the Finance Director upon payment of the purchase price therefor in accordance with the bid or purchase contract. Executed blank Securities for registration and issuance to transferees shall, from time to time as necessary, be delivered to the Transfer Agent for safekeeping.

(E) ***Reserve Account Requirement.*** Concurrently with the issuance of Securities of a Priority for which a Reserve Account has been or is being established, there shall be credited to such Reserve Account the amount that, added to the amount on deposit therein or credited thereto, equals the Reserve Requirement for Securities then to be issued and all Securities of such Priority then Outstanding. Such amount may be provided from any source or may be provided by a Financial Facility meeting the requirements of Section 4.

(F) ***Disposition of Proceeds.*** The proceeds of the sale of an issue of Securities shall be applied as follows:

(1) An amount equal to the accrued interest shall be credited to the Interest and Redemption Fund for such Securities to be applied to next maturing interest thereon.

(2) If a Reserve Account has been or is being established for Securities of the same Priority of Lien as such Securities, the amount necessary to comply with subsection (E), above, unless such compliance will be obtained with amounts from a different source, or by the deposit of a Financial Facility meeting the requirements of Section 4.

(3) The balance of the proceeds, including premium, if any, shall be applied as provided in the Supplemental Action providing for the issuance of such Securities.

(G) ***Transfer of Registration of Securities.***

(1) Maintenance of Books. Each Transfer Agent shall keep or cause to be kept, at its principal office, sufficient books for the registration and transfer of registration of Securities for which it is Transfer Agent, which shall at all times be open to inspection by the City.

(2) Privilege of Transfer. Under such reasonable regulations as the Transfer Agent may prescribe, the registration of Securities for which it is the Transfer Agent may be transferred upon its Registry by the Person in whose name such Securities are registered, in person or by his or her duly authorized attorney, upon surrender of such Securities for cancellation, accompanied by delivery of a

duly executed written instrument of transfer in a form approved by the Transfer Agent for such Securities.

(3) Surrender for Transfer; Receipt of New Securities. Whenever any Security is surrendered for transfer, the City shall execute and the Transfer Agent for such Security shall authenticate and deliver a new Security or Securities, in the same aggregate principal amount, of the same maturity, and bearing the same rate or rates of interest and otherwise of the same tenor as the Security surrendered for transfer.

(4) Transfer Taxes and Governmental Charges. The Transfer Agent shall require payment by the Holder requesting the transfer of any Security for which it is the Transfer Agent, any tax or other governmental charge required to be paid with respect to such transfer.

(5) Limitations. Except as otherwise provided by Supplemental Action, a Transfer Agent shall not be required (i) to issue, register the transfer of or exchange Securities for which it is the Transfer Agent during a period beginning at the opening of business fifteen (15) days before the day of the giving of a notice of redemption or mandatory tender of such Securities selected for redemption or mandatory tender and ending at the close of business on the day of giving of that notice, or (ii) to register the transfer of or exchange of any such Security so selected for redemption or tender in whole or in part, except the unredeemed or untendered portion of such Security being redeemed or tendered in part.

(H) ***Mutilated, Lost or Stolen Securities.***

(1) If any Security is mutilated, the City, at the expense of the Holder of the Security, shall execute, and the Transfer Agent for such Security shall authenticate and deliver, a new Security of like tenor in exchange and substitution for the mutilated Security, upon surrender to such Transfer Agent of the mutilated Security.

(2) If any Security is lost, destroyed or stolen, evidence of ownership of the Security and of the loss, destruction or theft may be submitted to the Transfer Agent for such Security and, if this evidence is satisfactory to the City and the Transfer Agent, and, indemnity satisfactory to such Transfer Agent and the City shall be given, and if all requirements of any applicable law, including Act 354, Public Acts of Michigan, 1972, as amended, have been met, then, at the expense of the Holder requesting the substitute Security, the City shall execute, and such Transfer Agent shall thereupon authenticate and deliver, a new Security of like tenor and bearing the statement required by Act 354, or any applicable law hereafter enacted, in lieu of and in substitution for the Security so lost, destroyed or stolen. If any such Security shall have matured or shall be about to mature, the Transfer Agent may pay the same without surrender thereof as authorized by Act 354 instead of issuing a substitute Security.

SECTION 4. FINANCIAL FACILITIES; HEDGES.

(A) The Finance Director may, from time to time and at any time, obtain a Financial Facility in respect of all or some Securities if the Finance Director determines such to be in the best financial interests of the City.

(B) The Finance Director may at any time acquire a Credit Enhancement to fulfill the City's obligation to fund any Reserve Account or substitute a Credit Enhancement for amounts in a Reserve Account. The Credit Enhancement shall be deposited with and payable to the Transfer Agent in its capacity as paying agent for the related Securities. Before or concurrently with the acquisition of such Credit Enhancement, the Finance Director shall receive:

(1) an opinion of nationally recognized bond counsel to the effect that such substitution will not adversely affect the tax-exempt status of interest on any Securities;

(2) evidence that such Credit Enhancement is provided by a provider rated in the highest rating category of each Rating Agency then rating the Securities having the benefit of such Reserve Account;

(3) a copy of the Credit Enhancement; and

(4) an opinion of counsel satisfactory to said nationally recognized bond counsel to the effect that the Credit Enhancement is valid and enforceable in accordance with its terms.

(C) The Finance Director may, subject to the requirements of Act 34 or in accordance with any other applicable law, from time to time enter into such Hedges as the Finance Director determines to be in the best financial interests of the City.

(D) The Finance Director may grant to the provider of any Financial Facility, or to any counterparty to any Hedge authorized by this Section, such rights as may be necessary or appropriate that are not inconsistent with this Ordinance, Act 34 or any other applicable law.

SECTION 5. SECURITY FOR PAYMENT.

(A) The payment of Secured Obligations is secured by a statutory lien, which is hereby created, upon the whole of the Pledged Assets subject to the use and application thereof in accordance with this Ordinance.

(B) The lien securing Hedge Obligations is valid only to the extent permitted by law.

(C) Except for Bond Insurance, a statement of the Priority of Lien of an Ancillary Obligation shall be contained in the instrument evidencing or providing for such Ancillary Obligation.

(1) An Ancillary Obligation in respect of Securities of the same Priority of Lien:

(i) may be secured at a lower Priority of Lien, but

(ii) may not be secured at a higher Priority of Lien.

(2) Ancillary Obligations may have a Priority of Lien lower than that of the Securities in respect of which such Ancillary Obligations have been entered into and may be Parity Ancillary Obligations to Securities to which they are otherwise unrelated; provided, that any lien securing Ancillary Obligations in respect of Senior Lien Bonds shall be subject to the rights of the holders of the City's outstanding Water Supply System Revenue Second Lien Bonds, Series 1995-A, except to the extent that such Ancillary Obligations arise in connection with a Financial Facility acquired to fund any portion of the Reserve Account or to be substituted for cash therein.

(D) The lien securing the payment of a Secured Obligation is subject to the following Priorities:

(1) The lien securing Senior Obligations shall be a first lien, senior to all other liens created hereunder except the lien securing Ancillary Obligations Fees and Expenses which are further subject to the qualification of subsection (C)(2) above.

(2) The lien securing Junior Obligations shall be junior only to the lien securing Senior Obligations whenever issued. Among Junior Obligations:

- (i) the lien securing Second Lien Bonds and Parity Ancillary Obligations thereto shall be senior to the liens securing all other Junior Obligations;
- (ii) the lien of each other Priority of Junior Obligations of the same Priority of Lien shall be senior to the lien of all lower Priorities of Junior Obligations; and
- (iii) the SRF Junior Lien Bonds shall be the lowest Priority of Junior Lien Bonds, and the lien securing SRF Junior Lien Bonds and related Ancillary Secured Obligations shall be junior to the liens securing all other Junior Obligations, whenever issued.

(E) Each lien securing a Secured Obligation shall continue until either payment in full of such Secured Obligation or, in the case of Securities, is defeased as provided in Section 21 of this Ordinance. Ancillary Obligations shall be defeased in the manner provided in the agreement with the obligee of such Ancillary Obligations.

(F) In accordance with this subsection, the City may provide for the accession of Junior Lien Bonds to the status of complete parity with Senior Obligations when there shall have been filed with the Commissioners a certificate satisfying the requirements of Section 20(C) from a national consulting firm or a national firm of certified public accountants, and further reciting the opinion:

(1) that the Reserve Account contains an amount equal to the Reserve Requirement computed on a basis which includes all Securities then outstanding and such Junior Lien Bonds;

(2) that all payments into the various funds and accounts hereinabove required to be held under this Ordinance are current as of the date of accession; and

(3) that the Interest and Redemption Fund contains the amounts which would have been required to be accumulated therein on the date of accession if such Junior Lien Bonds had originally been issued as Senior Lien Bonds; such amounts shall be shown in said certificate.

The accession of such Junior Lien Bonds shall be conclusively evidenced by notice from the City to the Trustee and each Holder of such Junior Lien Bonds.

SECTION 6. PAYMENT OF SECURED OBLIGATION; SUBORDINATION.

(A) ***Generally.*** Secured Obligations are not general obligations of the City and shall be payable solely from Pledged Assets as provided in this Section:

(1) Ancillary Obligation Fees and Expenses are payable from Revenues and, to the extent of any insufficiency, Pledged Assets.

(2) All Securities and Ancillary Obligations are payable from Pledged Assets.

(B) *Subordination.*

(1) Whenever any principal (and premium, if any) of and interest on Securities of the same Priority of Lien or any payment on the Parity Ancillary Obligations thereto is due and is not made when due, then until such payment is made or provision made for the payment thereof to the satisfaction of the Holders of such Securities and the obligees of such Parity Ancillary Obligations, no such payment shall be made directly or indirectly on or in respect of any Securities of a lower Priority of Lien or any Ancillary Obligations which are Parity Ancillary Obligations to such Securities of lower Priorities of Lien (such Securities and Ancillary Obligations collectively, the “Subordinated Obligations” and the Holders and obligees thereof, the “Subordinated Obligees”), except as provided below with respect to defeased Securities.

(2) Subject to the payment in full of all Securities and Ancillary Obligations of every higher Priority of Lien (collectively, the “Superior Obligations” and the Holders and obligees thereof, the “Superior Obligees”), the Subordinated Obligees shall be subrogated to the rights of the Superior Obligees to receive payment in full of the respective Obligations until all amounts owing on the Subordinated Obligations shall be paid in full.

(3) Except as otherwise provided in a Supplemental Action, the City may agree with the Holders of Securities of any Priority of Lien and the obligee of any Parity Ancillary Obligations thereto to extend, renew, modify or amend the terms of such Securities or such Parity Ancillary Obligations thereto or any

security therefor, and any such Holders or obligees may release, sell, exchange such security and otherwise deal freely with the City, and the City with any of them, all without notice to or consent of the Holders of any Securities of any lower Priority or the obligees under any Parity Ancillary Obligations thereto without affecting the liabilities of the City to such Holders or obligees.

(4) Nothing in this subsection shall impair the right of the Holders of any defeased Securities to be paid from the escrow effecting such defeasance.

(C) ***Financial Facilities.*** Except as otherwise provided in a Supplemental Action:

(1) Nothing in this Section shall affect the payment of Securities from any Financial Facility obtained for the benefit of such Securities.

(2) No payment of an amount made by a drawing or disbursement under a Financial Facility to Holders of Securities which would otherwise have been made by the City shall be deemed to be a payment by the City on account of such Securities for the purpose of discharging the City's obligation on such Securities.

SECTION 7. SECURITYHOLDERS' RIGHTS; RECEIVER.

(A) The Holder or Holders of the Securities representing in the aggregate not less than 20% of the entire principal amount thereof then Outstanding, may, by suit, action, mandamus or other proceedings, protect and enforce the statutory lien upon Pledged Assets, and may, by suit, action, mandamus or other proceedings, enforce and compel performance of all duties of the officers of the City, including the fixing of sufficient rates, the collection of Revenues, the proper segregation of the Revenues of the System and the proper application thereof. The statutory lien upon Pledged Assets, however, shall not be construed to give the Holders of the Securities the authority to compel the sale of the System or any part thereof.

(B) If there is a default in the payment of the principal (and premium, if any) of and interest on any Securities, any court having jurisdiction in any proper action may appoint a receiver to administer and operate the System on behalf of the City and, under the direction of the court, perform all of the duties of the officers of the City more particularly set forth herein, in Act 94 and in such orders of the court.

(C) The Holder or Holders of the Securities shall have all other rights and remedies given by Act 94 and by law for the payment and enforcement of the Securities and the security therefor.

SECTION 8. MANAGEMENT.

The operation, repair and management of the System, including all projects financed by the issuance of Securities, shall remain under the supervision and control of the Commissioners in the manner provided in Article 7, Chapter 15 of the Charter of the City subject to the rights, powers and duties in respect thereto which are reserved by law and the City Charter to the Council.

SECTION 9. FIXING AND REVISING RATES; RATE COVENANTS.

(A) The coverage requirements for determining the Required Combined Coverage under this Section are the following percentages:

<u>Priority of Indebtedness</u>	<u>Percentage</u>
Senior Lien Indebtedness	120%
Second Lien Indebtedness.....	110%
SRF Junior Lien Bonds.....	100%

Prior to or concurrently with the issuance of Securities of a Priority of Lien not enumerated above, this subsection shall be amended to provide for the coverage percentage for Indebtedness in respect of such Securities, but in no case shall the coverage percentage be less than 100. Such amendment shall not require the consent of Holders of any Securities.

(B) The rates for water service and the regulations shall be the rates and regulations required to be established by Act 94. Such rates shall be fixed and revised from time to time as may be expected to be necessary to produce the greater of:

- (1) the amounts required:
 - (i) to provide for the payment of the expenses for maintenance of the System as are necessary to preserve the same in good repair and working order; and
 - (ii) to provide for the payment of Indebtedness coming due for the Fiscal Year of calculation; and
 - (iii) to provide for the creation and maintenance of reserves therefor as required by the Ordinance or any ordinance or resolution adopted in accordance with the terms thereof and hereof; and
 - (iv) to provide for such other expenditures and funds for the System as this Ordinance may require; and

(2) The Required Combined Coverage where the numerator is the Net Revenues projected for the Fiscal Year of calculation and the denominator is the Indebtedness coming due for such Fiscal Year.

(C) The City hereby covenants and agrees at all times to maintain such rates for services furnished by the System as shall be sufficient to provide for the foregoing and to repay any transfer from the Extraordinary Repair and Replacement Reserve Fund.

(D) Without taking into account any transfers from the Rate Stabilization Fund, the City shall at all times observe and comply with the covenant contained in subsection (B)(2) above as if the Rate Coverage Percentage were 100%.

(E) The charges for water service which are under the provisions of Section 21 of Act 94 are made a lien on all premises served thereby, unless notice (accompanied by a copy of the lease of the affected premises, if any,) is given to the Council that a tenant is responsible, are hereby recognized to constitute such lien and whenever any such charge against any piece of property shall be delinquent for six months, the City official or officials in charge of the

collection thereof may certify to the tax assessing officer of the City not later than April 1 of each year the fact of such delinquency, whereupon such charge shall be entered upon the next tax roll as a charge against such premises and the lien thereof enforced in the same manner as general City taxes against such premises are collected and the lien thereof enforced; provided, however, where notice is given that a tenant is responsible for such charges and service as provided by said Section 21, no further service shall be rendered to such premises until a cash deposit equal to the estimated amount of the next ensuing bill shall have been made as security for payment of such charges and services.

(F) In addition to other remedies provided, the City shall have the right to shut off and discontinue the supply of water to any premises for the nonpayment of water rates when due.

SECTION 10. NO FREE SERVICE OR USE; METERED SERVICE.

No free service or use of the System, or service or use of the System at less than cost, shall be furnished by the System to any person, firm or corporation, public or private, or to any public agency or instrumentality, including the City and any other municipality. All service provided to customers of the System, with the exception of temporary connections and certain public service uses of the City which are billed on an estimated basis, shall be metered.

SECTION 11. OPERATING AND FISCAL YEAR.

The System shall be operated on the basis of the Fiscal Year.

SECTION 12. FUNDS AND ACCOUNTS; FLOW OF FUNDS.

(A) *Establishment of Funds and Accounts.*

(1) The following funds and accounts are hereby established:

- Water Supply System Receiving Fund
- Operation and Maintenance Fund
- Senior Lien Bond Interest and Redemption Fund
 - Senior Lien Debt Service Account
 - Senior Lien Bond Reserve Account
- Second Lien Bond Interest and Redemption Fund
 - Second Lien Debt Service Account
 - Second Lien Bond Reserve Account
- SRF Junior Lien Bond Interest and Redemption Fund
 - SRF Junior Lien Debt Service Account
 - No SRF Junior Lien Bond Reserve Account is established
- Such Interest and Redemption Funds as are established by Supplemental Action for other Junior Lien Bonds of the same Priority of Lien
- Extraordinary Repair and Replacement Reserve Fund

- Improvement and Extension Fund
- Surplus Fund

(2) Additional funds and accounts may be established for other Securities of the same Priority of Lien by Supplemental Action of the Finance Director.

(B) ***Flow of Funds.***

All Revenues shall be set aside as collected and credited to the Receiving Fund. As received, amounts credited to the Receiving Fund shall be transferred *seriatim* into the following funds and accounts but only within the respective limitations and only if the maximum amount within such limitation has been transferred to the preceding fund or account:

First: to the Operation and Maintenance Fund, a sum sufficient to provide for the payment of the next month's expenses of administration and operation of the System (including Ancillary Obligation Fees and Expenses) and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order;

Second: to the Senior Lien Debt Service Account, an amount that, when added to all other amounts then on deposit therein, shall equal the Debt Service Installment Requirement for Senior Lien Obligations as of the first day of such month;

Third: to the Senior Lien Bond Reserve Account, an amount that when added to all other amounts then on deposit therein shall equal the Reserve Requirement for Senior Lien Bonds;

Fourth: to the Interest and Redemption Fund established for each Priority of Junior Lien Bonds, beginning with the Second Lien Bonds and continuing in descending order of Priority of Lien to, and including, each Priority of Lien of Junior Lien Bonds:

first: to the Debt Service Account established for such Priority of Lien, an amount that, when added to all other amounts then on deposit therein, shall equal the Debt Service Installment Requirement for Junior Obligations of such Priority of Lien as of the first day of such month;

second: to the Reserve Account, if any, established for such Priority of Lien an amount that when added to all other amounts then on deposit therein shall equal the Reserve Requirement for such Priority of Lien of Junior Lien Bonds;

Fifth: to the Extraordinary Repair and Replacement Reserve Fund, the amount of the Extraordinary Repair and Replacement Minimum Requirement so long as the balance thereof is less than the Extraordinary Repair and Replacement Maximum Requirement except that an amount withdrawn from such Fund pursuant to Section 13D shall be deducted from the Extraordinary Repair and Replacement Maximum Requirement in the Fiscal Year of withdrawal; and

Sixth: to the Improvement and Extension Fund, such amount, if any, that the Commissioners may deem advisable; provided that no amount shall be deposited therein

or credited thereto for so long as a borrowing from the Extraordinary Repair and Replacement Reserve Fund remains unpaid.

SECTION 13. USE AND APPLICATION OF AMOUNTS IN FUNDS.

(A) *Receiving Fund.*

(1) Amounts in the Receiving Fund shall be applied as received as provided in Section 12. Amounts not transferred to any other fund or account shall remain in the Receiving Fund until the last day of each Fiscal Year.

(2) Amounts remaining in the Receiving Fund as of the last day of each Fiscal Year shall be transferred to the Surplus Fund.

(B) *Operation and Maintenance Fund.*

Amounts in the Operation and Maintenance Fund shall be used to pay the expenses of administration and operation of the System (including Ancillary Obligation Fees and Expenses and any rebates to the United States government that may be required by the Code) and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order.

(C) *Interest and Redemption Funds.*

(1) Generally. Amounts in the Interest and Redemption Fund established for Securities and for Ancillary Obligations of the same Priority of Lien shall be applied to pay principal (and redemption premium, if any) of and interest on such Securities and amounts due on such Ancillary Obligations.

(2) Mandatory Redemption Requirements.

(i) A Mandatory Redemption Requirement for a maturity of Term Securities may be satisfied in whole or in part by the redemption of Term Securities of such maturity or by the purchase and surrender to the Transfer Agent of such Term Securities from amounts credited to the Interest and Redemption Fund established for such Securities of Priority of Lien or purchased with other funds legally available therefor. The Finance Director shall elect the manner in which he/she intends to satisfy all or a portion of a Mandatory Redemption Requirement for particular Term Securities not less than 40 days prior to the due date of such Mandatory Redemption Requirement unless otherwise provided in the Supplemental Action providing for the issuance of such Term Securities.

(ii) Unless otherwise provided in a Supplemental Action providing for the issuance of Term Securities, the City will receive a credit against the Mandatory Redemption Requirement for Term Securities for which such Mandatory Redemption Requirement was established that have been redeemed (other than by application of Mandatory Redemption Requirements) or otherwise acquired by the City prior to the giving of the notice of redemption and that have not been applied as a credit against any other Mandatory Redemption Requirements.

(a) Not less than 40 days prior to any mandatory redemption date for Term Securities, the Finance Director shall give notice to the Transfer Agent that such Term Securities are to be so credited.

(b) Each such Term Security shall be credited by the Transfer Agent at 100% of the principal amount thereof against the Mandatory Redemption Requirement, and the principal amount of Term Securities to be redeemed on such mandatory redemption date shall be reduced accordingly and any excess over such amount shall be credited to future Mandatory Redemption Requirements in such order as the Finance Director shall direct; provided, however, that any excess resulting from the purchase, at less than par, of such Term Securities shall be credited to the Receiving Fund.

(3) Reserve Accounts.

(i) Except as otherwise provided herein, amounts in a Reserve Account shall be used solely for the payment of the principal (and premium, if any) of and interest on Securities and Ancillary Obligations of the same Priority of Lien for which such Reserve Account was established, as to which there would otherwise be default.

(ii) If at any time the amount on deposit in or credited to a Reserve Account exceeds the Reserve Requirement for such Reserve Account, the amount of such excess may be transferred therefrom and credited to the Receiving Fund.

(iii) No further payments need be made into an Interest and Redemption Fund in respect of principal and interest after enough of the Securities for which such Fund was established have been retired so that the amount then held in such Fund, including the Reserve Account therein, if any, is equal to the entire amount of principal and interest which will be payable at the time of maturity of all the then Outstanding Securities of such Priority of Lien.

(iv) A separate Reserve Account may be established for an issue of Securities by the Supplemental Action providing for the issuance of such Securities.

(a) Securities having the benefit of such Reserve Account may be issued but only if such separate Reserve Account is fully equal to the Reserve Requirement for such Securities concurrently with the issuance of such Securities.

(b) The amounts to be paid into any separate Reserve Account to restore it to its Reserve Requirement shall be made on a parity with payments into all other Reserve Accounts established for Securities of the same Priority of Lien and shall not exceed, in any Fiscal Year, its proportionate deficit payment. "Proportionate Deficit Payment" means for a separate Reserve Account the same proportion that the amount available to remedy deficits in each Reserve Account for such Priority bears to the aggregate deficit in all Reserve Accounts for such Priority.

(D) ***Extraordinary Repair and Replacement Reserve Fund.***

(1) Amounts in the Extraordinary Repair and Replacement Reserve Fund may be used to pay the costs of making major unanticipated repairs and

replacements to the System which individually have cost or are reasonably expected to cost in excess of \$1,000,000 as determined by the Commissioners.

(2) On and after the first day of each Fiscal Year, the Finance Director may, by Supplemental Action, transfer to the Improvement and Extension Fund not more than 50% in aggregate of the balance in this Fund on the first day of such Fiscal Year if, but only if (i) in the month of such transfer the full amount of the Extraordinary Repair and Replacement Minimum Requirement for each prior month in the current Fiscal Year has been credited to this Fund and (ii) the amounts of all prior transfers from this Fund to the Improvement and Extension Fund have been restored in full.

(3) The City shall fix rates and charges for the services supplied by the System sufficient to permit it to meet its obligations under Section 13D.

(E) ***Improvement and Extension Fund.***

The Improvement and Extension Fund shall be used for improvements, enlargements, extensions or betterment to the System.

(F) ***Surplus Fund.***

Amounts from time to time on hand in the Surplus Fund may, at the option of the Commissioners, be used and applied for any purposes related to the System for which the funds and accounts were established hereunder or for any other lawful purpose of the System; provided, however, that if and whenever there should be any deficit in the Operation and Maintenance Fund or in any Interest and Redemption Fund (including any Reserve Account therein) then transfers shall be made from the Surplus Fund to such funds in the priority and order named in Section 12 to the extent of any such deficit.

(G) ***Rate Stabilization Fund***

(1) As used in this Section, “Prior Revenue” means any amounts that constitute Revenues or Net Revenues and held under this Ordinance but only to the extent that such amounts may be applied to any lawful purpose of the System. “Prior Revenue” does not include any amounts held under this Ordinance that at the time are restricted in application to a specific purpose, such as, by way of illustration, the application of amounts in the Surplus Fund in the event of a deficit as provided in the proviso to Section 13(F).

(2) The Commissioners may create a fund designated Water Supply System Rate Stabilization Fund (the “Rate Stabilization Fund”). No amounts shall be deposited therein or credited thereto except Prior Revenues and then only if:

(i) such Prior Revenue is credited to the Rate Stabilization Fund in the Fiscal Year in which it was recognized by the City as Net Revenue or within 90 days after the end of such Fiscal Year;

(ii) the amount of such Prior Revenue is deducted from the amount of Net Revenue recognized in such Fiscal Year for all purposes of this Ordinance; and

(iii) the amount of Net Revenue recognized in such Fiscal Year at least meets the minimum applicable coverage requirements of this Ordinance for such Fiscal Year after (i) such deduction and (ii) all prior deductions in respect of such Fiscal Year pursuant to this clause.

(3) Amounts on deposit in the Rate Stabilization Fund may be taken into account with respect to any Coverage Determination.

(4) Whenever any Reserved Amount is taken into account for any Coverage Determination, then such Reserved Amount shall be credited to the Receiving Fund for the Fiscal Year for which such Coverage Determination is made.

(5) Prior to the transfer of any Reserved Amount to the Receiving Fund, such Reserved Amount shall not be used or applied to any purpose except pursuant to Section 16 and then only after all other amounts then in the Rate Stabilization Fund have been applied pursuant to Section 16.

(6) Amounts on deposit in the Rate Stabilization Fund other than Reserved Amounts may be applied to any lawful purpose of the System.

SECTION 14. CONSTRUCTION FUND.

(A) There shall be established and maintained a separate depository fund designated the Construction Fund. The City may designate separate accounts in the Construction Fund for different series of Securities for administrative purposes and to better enable the City to comply with its tax covenants in Supplemental Actions regarding the exclusion from federal income taxation of interest on Securities.

(B) Amounts in the Construction Fund shall be applied solely in payment of the cost of repairs, extensions, enlargements, and improvements to the System and any costs of engineering, legal, bond insurance premiums, if any, and other expenses incident thereto, to the financing thereof.

(1) Payments of the cost of repairs, extensions, enlargements and improvements to the System, either on account or otherwise, shall not be made unless the registered engineer in charge of such work shall file with the Commissioners a signed statement to the effect that the work has been completed in accordance with the plans and specifications therefor; that it was done pursuant to and in accordance with the contract therefor; that such work is satisfactory; and that such work has not been previously paid for.

(2) Payment of the cost of engineering, legal, financial, bond insurance premium, etc., as provided in this Section shall be made under such procedures as established by and upon submission of appropriate documentation to the Finance Director.

(C) Any unexpended balance remaining in the Construction Fund may in the discretion of the Commissioners be used for meeting any Reserve Requirement or for further improvements, enlargements and extensions to the System if, at the time of such expenditure,

such use is approved by the Michigan Department of Treasury, if such permission is then required by law. Any remaining balance after such expenditure shall be paid into the Interest and Redemption Fund established for the Securities of the Priority of Lien giving rise to such balance for the purpose of purchasing Securities of such Priority at not more than the fair market value thereof but not more than the price at which such Securities may next be called for redemption or used for the purpose of calling such Securities for redemption. The City may provide additional or different lawful uses for such unexpended balance or remaining balance by Supplemental Action of the Finance Director which shall, nonetheless, be subject to receipt of a Bond Counsel's Opinion that such use is permitted by applicable law and will not adversely affect the tax exempt status of Outstanding Securities.

SECTION 15. DEPOSITARIES.

(A) Amounts in the several funds, accounts and subaccounts established pursuant to this Ordinance shall be kept in one or more accounts separate and apart from all other accounts of the City, and if kept in only one account shall be allocated on the books and records of the City in the manner and at the times provided in this Ordinance.

(B) Amounts in the Interest and Redemption Fund for Securities of the same Priority of Lien shall be kept on deposit with one of the banks or trust companies where the principal of and interest on such Securities are payable.

(C) The depository of all funds and accounts, except as otherwise specifically provided for herein, shall be those banks or trust companies designated from time to time as such by the Finance Director.

SECTION 16. PRIORITY OF FUNDS.

(A) If amounts in the Receiving Fund are insufficient to provide for the current requirements of the Operation and Maintenance Fund and each Interest and Redemption Fund (including the Reserve Account, if any, therein), then any amounts or securities held in the Surplus Fund, the Improvement and Extension Fund and the Extraordinary Repair and Replacement Reserve Fund shall be credited or transferred, first, to the Operation and Maintenance Fund and second, to the particular Interest and Redemption Fund, to the extent of the insufficiency therein from the aforesaid funds in the order listed.

(B) If any principal (and redemption premium, if any) of or interest on Securities of the same Priority of Lien or any related Ancillary Obligations become due (whether on a stated or scheduled date, by reason of call for redemption or otherwise), and there are insufficient amounts for the payment thereof in the Interest and Redemption Fund established for such Securities and Ancillary Obligations after applying payments in the Reserve Account, if any, established for such Securities, then there shall be applied to such payment amounts in each Interest and Redemption Account established for Securities of each lower Priority of Lien, beginning with the lowest Priority of Lien and proceeding *seriatim* in ascending order of Priority of Lien, until such payments are made in full.

SECTION 17. INVESTMENTS.

(A) ***Permitted Investments.*** The Permitted Investments for amounts held under this Ordinance are the Legal Investments for such amounts subject to the following:

(1) Investment of amounts in any Reserve Account shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the Holder thereof, not later than ten years from the date of the investment.

(2) Except as otherwise herein provided, investments shall mature at such times as it is estimated the funds therefrom will be required, but shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the Holder thereof, not later than five years from the date of investments.

(3) A Supplemental Action may provide for limitations in addition to or in lieu of the above limitations on Legal Investments or may eliminate any of such limitations.

(4) Notwithstanding paragraph (3), no Permitted Investments for the defeasance of particular Securities may be changed without confirmation from each Rating Agency that such change will not reduce the rating of such Securities.

(B) ***Where Held.*** To the extent required by Act 94, securities representing investments made under this Ordinance shall be kept on deposit with the bank or trust company having on deposit the fund or funds or accounts from which the purchase was made.

(C) ***Disposition of Profit and Gain.***

(1) Profit realized or interest income earned on investment of amounts in the Receiving Fund, Operation and Maintenance Fund, any Interest and Redemption Fund (including the Reserve Account, if any, therein), the Extraordinary Repair and Replacement Reserve Fund, and Improvement and Extension Fund shall be credited to the Receiving Fund.

(2) Profit realized or interest earned on investments of funds in the Construction Fund relating to any series of Securities and any Redemption Account (including any Reserve Account or Subaccount established for any Securities) shall be credited as received to the funds from which such investments were made; provided, however, that profit realized or interest earned on the Construction Fund relating to any series of Securities may, if permitted by law, be credited to the Receiving Fund at the option of the Commissioners.

(D) ***Valuation.***

(1) Investments credited to any Reserve Account shall be valued at least annually on each January 1, unless otherwise specified in the Supplemental Action providing for the issuance of such Securities, at the market value thereof, and the City shall withdraw any excess immediately and, in the event of a deficit, budget such

additional deposits at the beginning of the next succeeding Fiscal Year in an amount necessary to maintain each Reserve Account at its Reserve Requirement.

(2) Investments in the Extraordinary Repair and Replacement Reserve Fund shall be valued at least annually on each July 1 at the cost thereof.

SECTION 18. COVENANTS.

The City covenants and represents with the Holders of all Securities from time to time Outstanding that so long as any Securities remain Outstanding, as follows.

(A) ***Ownership and Authority.*** The City is the lawful owner of the System; the System is free from any and all liens and encumbrances; and the City has good right and lawful authority to encumber and pledge the Pledged Assets as herein encumbered and pledged.

(B) ***Maintenance and Operation of System.***

(1) The City will, through its Commissioners, or such successor board or body as may hereafter be legally charged with the duty of the operation of the System, maintain the System in good repair and working order and will operate it efficiently and will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the State, including the making and collecting of sufficient rates for services rendered by the System and the segregation and application of the revenues of the System in the manner provided in this Ordinance.

(2) The City will from time to time make all needed and proper repairs, replacements, additions, and betterments to the System so that the System may at all times be operated properly and advantageously, and whenever any portion of the System shall have been worn out, destroyed or become obsolete, inefficient or otherwise unfit for use, the City will procure and install substitutes of at least equal utility and efficiency so that the value and efficiency of the System shall at all times be fully maintained.

(C) ***Books and Records.*** The City will maintain and keep proper books of record and account separate from all other records and accounts in which shall be made full and correct entries of all transactions relating to the System, and the City will also cause an annual audit of such books and records for the preceding Fiscal Year to be made by an accountant who shall comment on the manner in which the City has complied with the requirements of this Ordinance. The City will make such audit available to the Holder of any Security upon request.

(D) ***Disposition of System.*** The City will not sell, lease or dispose of the System or any substantial part thereof until all Outstanding Securities have been paid in full as to both principal and interest.

(1) This covenant shall not be construed to prohibit the disposition or lease of any property comprising part of the System which is no longer necessary, appropriate, required for the use of, or profitable to the System, or which is no longer necessary to the proper operation and maintenance thereof, or which may be sold and leased back to the extent such arrangement is permitted by law.

(2) Paragraph (1) shall not be construed to authorize or permit the sale, lease or disposition of any substantial part of the System.

(3) The City may at all times in its discretion alter, repair or replace any buildings or structures, make any change in the location of its water mains, pipes, water supply tunnels, aqueducts, pumping stations, and appurtenances thereto, and any buildings or structures therefor as the Commissioners determine necessary for the System.

(4) The City will acquire and construct all extensions, enlargements, and improvements to the System promptly in accordance with the plans therefor.

(E) **No Competition.** The City will not, and will not to the extent permitted by law, permit others to operate a water supply system that will compete with the System.

(F) **Tax Exemption of Securities.** The City will take all action and refrain from any action as is necessary, including paying any rebates to the United States government that may be required by the Code so as not to impair the tax exemption of the interest on Securities issued as tax-exempt Securities from general federal and State of Michigan income taxation.

SECTION 19. TRUSTEE.

(A) **Requirement to Maintain.** The City shall at all times maintain a Trustee in order to further assure prompt compliance with all of the requirements, duties and obligations of the City with respect to the System and the Securities and to perform such other duties as may be provided in a Supplemental Action; provided that no such additional duties shall be imposed on an existing Trustee without its consent. U.S. Bank National Association is hereby appointed as Trustee. The Financial Director is authorized to select and appoint any successor bank or trust company to perform the duties of the Trustee.

(B) **Resignation of Trustee.** The Trustee may resign by giving not less than 60 days' written notice to the City specifying the date when such resignation shall take effect, and such resignation shall take effect upon the date specified in such notice provided a successor trustee has been appointed, unless previously a successor shall have been appointed, as provided in subsection (D) below, in which event such resignation shall take effect immediately on the appointment and acceptance of such successor, provided further that if a successor trustee shall not have been appointed the Trustee may petition a court of competent jurisdiction to appoint a successor trustee.

(C) **Removal of Trustee.** The Trustee shall be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee and the City, and signed by the Holders of a majority in principal amount of the outstanding Securities. In addition, as long as no event of default exists under the Ordinance, the City, upon 60 days notice to the Trustee, shall have the right to remove the Trustee by an instrument in writing filed with the Trustee.

(D) **Appointment of and Transfer to Successor Trustee.** If the Trustee shall resign or shall be removed, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or

affairs, a successor may be appointed by the holders of a majority of aggregate principal amount of Securities then outstanding, in the case of removal by the Holders, or by the City, in the case of removal by the City, by an instrument or concurrent instruments in writing of such Holders; provided, however, that in case of such vacancy the Finance Director shall forthwith appoint a Trustee, provided no event of default exists under the Ordinance, to fill such vacancy unless and until a successor Trustee shall be appointed by the Bondholders. At any time, the Trustee may substitute any affiliate, subsidiary, or successor in interest after a merger or consolidation in any and all capacities to which it is appointed hereunder as long as the entity so substituted is qualified to accept such appointment pursuant to all applicable statutory and regulatory requirements, and any requirements contained in this Ordinance. The rights, duties and substitution of the Trustee shall be governed by and construed in accordance with the laws of the State. If the Trustee substitutes an affiliate or subsidiary as Trustee or consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or other entity entitled to conduct said trustee business under applicable law, the successor without any further act shall be the successor of the Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything to the contrary contained herein notwithstanding.

Any successor Trustee shall be a trust company or bank in good standing, within the State, acceptable to the Finance Director, provided no event of default exists, and having total reported capital funds of not less than \$40,000,000 if there be such an institution willing, qualified and able to accept the trust upon reasonable and customary terms.

Any successor Trustee appointed hereunder shall execute and deliver to its predecessor and the City an instrument in writing accepting such appointment and thereupon shall become fully vested with all the powers and duties under this Ordinance. The Trustee, if it ceases to act as Trustee, shall execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the trusts, powers and duties under this Ordinance and any property held by it under this Ordinance, and shall, after all amounts owing to the Trustee have been paid in full, pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth.

(E) ***Fees, Costs and Expenses.*** All fees, costs, and expenses of any legal proceedings that may be brought by the Trustee to enforce the duties and obligations of the City hereunder or under any Securities and any amounts advanced by Securityholders to the Trustee for such costs and expenses shall be paid by the City to the Trustee or such Securityholders, or both, as the case may be, in the first instance from the Net Revenues remaining, in the month of payment, after making the transfers and deposits required by Section 12 to all Interest and Redemption Funds (including the Reserve Account, if any, therein), and, to the extent that sufficient amounts are not available from the Revenues therefor, from general funds of the City.

(F) ***Advancement of Costs and Expenses.*** In the event that general funds of the City are used to pay any such costs and expense, the City shall be reimbursed therefor with interest at the rate of 7% per annum from the first Net Revenues remaining, in the month of reimbursement, after (i) making the transfers and deposits required by Section 12 to all Interest

and Redemption Funds (including the Reserve Account, if any, therein) and (ii) paying the Trustee or Securityholders as provided in subsection (b).

(G) ***Reliance of Trustee; Standard of Care.*** The Trustee is authorized to act in reliance upon the sufficiencies, correctness, genuineness or validity of any instrument or document or other writing submitted to it hereunder and shall have no liability with respect to said matters. The Trustee shall not be liable for any error in judgment or any act done or omitted by it in good faith. In the event of any dispute or question arising hereunder the Trustee shall not be liable if it acts or takes no action in accordance with the opinion of its legal counsel.

(H) ***Indemnification of Trustee.*** In the event the required percentage of Securityholders shall direct the Trustee in writing to exercise one or more of the remedies specified in this Ordinance or in Act 94, the Trustee shall be under no obligation to proceed to enforce or compel the performance of the duties and obligations of the City under this Ordinance unless and until the Holders shall have reasonably indemnified the Trustee for all estimated costs and expenses in the exercise of said remedies, including necessary attorneys' fees.

SECTION 20. ADDITIONAL SECURITIES.

(A) *Limitations on Indebtedness.*

The City shall not incur any obligations payable from Pledged Assets except for Secured Obligations, and no obligations of the City shall be secured by a lien on Pledged Assets except as provided in this Ordinance.

(B) *Issuance of Securities.*

(1) Limitations on Issuance.

(a) The City shall not issue any Securities except in accordance with Section 20. Ancillary Obligations and related Ancillary Obligation Fees and Expenses may be incurred in respect of such Securities and shall be secured and payable as elsewhere provided in this Ordinance.

(b) Other limitations on the issuance of Securities may be added by Supplemental Action.

(2) ***Coverage Requirements.*** The coverage requirements for determining the Required Combined Coverage under this Section are the following percentages:

<u>Priority of Securities</u>	<u>Percentage</u>
Senior Lien Bonds.....	120%
Second Lien Bonds.....	110%
SRF Junior Lien Bonds.....	100%

Prior to or concurrently with the issuance of a Priority of Securities not enumerated above, this subsection shall be amended to provide for the coverage percentage for such Priority of Securities, but in no case shall such coverage percentage be less than 100. Such amendment shall not require the consent of Holders of any Securities.

(3) ***Refunding Securities.*** If any Refunding Securities are to be issued to refund Securities to be Refunded, the Annual Debt Service to be used for determining the Required Combined Coverage shall be the Annual Debt Service on the Refunding Securities and not the Annual Debt Service on the Securities to be Refunded.

(C) ***“New Money” and Refunding.***

(1) General Authority. The City may issue Additional Securities of any Priority of Lien for repairs, extensions, enlargements, and improvements to the System (including repaying amounts withdrawn from the Extraordinary Repair and Replacement Reserve Fund), refunding all or a part of any Outstanding Securities and paying the costs of issuing such Additional Securities, including deposits, if any, to be made to any Reserve Account established or to be established for such Additional Securities or any other Securities, if, but only if, there is Required Combined Coverage under either the Projected Net Revenues Test contained in subsection C(2) below or the Historical Net Revenues Test contained in subsection C(3) below. The determination in a Supplemental Action that there will be Required Combined Coverage upon the issuance of such Additional Securities shall be conclusive.

(2) Projected Net Revenues Test. For purposes of determining the Required Coverage Requirement, the numerator is the projected Net Revenues of the System for the then current or the next succeeding Fiscal Year and the denominator is the maximum composite Annual Debt Service in any Fiscal Year on Outstanding Securities and the Additional Securities to be issued.

(i) Projected Net Revenues may include 100% of the estimated increase in Net Revenues to accrue as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System to be paid for in whole or in part from the proceeds of the Additional Securities.

(ii) In projecting Net Revenues, the City shall engage the services of and be guided by a consultant of national reputation for advising municipalities with respect to setting rates and charging for the use of water supply systems.

(3) Historical Net Revenues Test. For purposes of determining the Required Coverage Requirement, the numerator is the actual Net Revenues of the System for the immediately preceding audited Fiscal Year and the denominator is the maximum composite Annual Debt Service in any future Fiscal Year on Outstanding Securities and the Additional Securities to be issued.

(i) Instead of the immediately preceding audited Fiscal Year, the City may use any audited Fiscal Year ending not more than sixteen months prior to the date of delivery of such Additional Securities.

(ii) If any change in the rates, fees and charges of the System has been authorized at or prior to the date of sale of such Additional Securities, the Net Revenues for the particular preceding Fiscal Year shall be augmented by an amount reflecting the effect of such change had the System's billings during such Fiscal Year been at the increased rates.

(iii) Net Revenues for the particular preceding audited Fiscal Year also may be augmented by 100% of the estimated increase in Net Revenues to accrue as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System to be paid for in whole or in part from the proceeds of such Additional Securities and 100% of any acquisition, extension or connection which was made subsequent to the end of the particular preceding audited Fiscal Year.

(iv) With respect to augmentation of Net Revenues, the City shall engage the services of and receive the certificate of a consultant of national reputation for advising municipalities with respect to setting rates and charges for the use of water supply systems regarding the existence of such conditions.

(v) Audited financial statements may be relied upon if no augmentation of Net Revenues is required.

(D) *Debt Service Reduction – An Additional Means of Refunding.*

The City may issue Additional Securities of any Priority of Lien without regard to Section 20C for refunding all or part of Securities then Outstanding and paying costs of issuing the Refunding Securities, including deposits which may be made to any Reserve Account established or to be established for such Additional Securities or any other Securities if, but only if:

(1) the combined Annual Debt Service coming due in the current Fiscal Year and each Fiscal Year thereafter until maturity on (A) the Additional Securities and (B) giving effect to the refunding, all Outstanding unrefunded Securities of equal and higher Priority of Lien is less than

(2) the combined Annual Debt Service coming due in the current Fiscal Year and each Fiscal Year thereafter until maturity on all securities of an equal and higher Priority of Lien, without giving effect to the refunding.

SECTION 21. DEFEASANCE.

(A) A Security is "defeased" for purposes of this Ordinance if:

(1) there has been deposited in trust sufficient cash and Permitted Investments constituting Government Obligations, not callable by the issuer, the principal of and interest on which mature at the times and in the amounts, without the reinvestment thereof, necessary to pay principal of and interest on such

Security to its maturity, or, if called for redemption, to the date fixed for redemption, together with the amount of the redemption premium, if any; provided, however, that the sufficiency of the deposit to effectuate the defeasance of a Security shall have been verified by a nationally recognized accounting firm.

(2) if such Security is to be redeemed prior to maturity, irrevocable instructions have been given to the Transfer Agent to call such Security for redemption; and

(3) Nothing in this subsection (A) shall affect any lien securing Ancillary Obligations except as provided in the agreement with the obligee of such Ancillary Obligations.

(B) A Supplemental Action providing for the issuance of Securities may:

(1) provide different means of defeasing such Securities, and such means may be in addition to or in lieu of the means set forth in subsection (A);

(2) provide for the Legal Investments that are Permitted Investments for the defeasance of such Securities, but no such Permitted Investments may thereafter be changed except as provided in Section 18; and

(3) provide for the consequences of such Securities being defeased.

(C) Except as otherwise provided in a Supplemental Action:

(1) the Legal Investments for the defeasance of such Securities are the Permitted Investments therefor; and

(2) the statutory lien herein referred to in Section 5 shall be terminated with respect to defeased Securities, the Holders of such defeased Securities shall have no further rights under this Ordinance except for payment from the deposited funds and registration and replacement of such Securities, and such Securities shall no longer be considered to be Outstanding under this Ordinance.

SECTION 22. AMENDMENTS; CONSENT OF SECURITYHOLDERS.

(A) *Amendment without Consent.*

(1) This Ordinance may be amended or supplemented from time to time by Act of Council or Supplemental Action without consent of the Holders of Securities:

(a) To issue Securities of any Priority;

(b) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed or to surrender, restrict or limit any right or power reserved to or conferred upon the City (including but not limited to the right to issue Securities or incur other Secured Obligations of, in either case, any Priority);

(c) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective

provisions contained in this Ordinance, or in regard to matters or questions arising under this Ordinance, as the City may deem necessary or desirable;

(d) To increase the size or scope of the System; and

(e) To amend or supplement this Ordinance in any respect with regard to Securities of one or more Priorities of Lien so long as such amendment does not materially adversely affect the Holders of Outstanding Securities.

(2) No Holders of Securities of a Priority of Lien shall be “materially adversely affected” for the purposes of this Ordinance by the change of any coverage percentage established for Securities of any other Priority of Lien, and no amendment of or supplement to this Ordinance that provides for or facilitates the issuance of Securities or incurs other Secured Obligations of, in either case, of any Priority of Lien shall “materially adversely affect” the Holders of Securities of any other Priority of Lien for the purposes of this Ordinance so long as such amendment does not change any coverage percentage established for such Priority of Lien or is not an amendment that requires the consent of the Holder of such Security under Section 22B(i) or (ii).

(B) *Amendments With Consent.*

(1) With the consent of the Holders of not less than 51% in principal amount of Securities then Outstanding affected thereby, the City may from time to time and at any time amend this Ordinance in any manner by Act of Council; provided, that no such amendment shall:

(i) reduce the aforesaid percentage of Holders of Securities required to consent to an amendment to this Ordinance without the consent of the Holders of all Securities then Outstanding, or

(ii) without the consent of the Holder of each Security affected thereby:

(a) extend the fixed maturity of such Security or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal or redemption premium thereof, or reduce or extend the time for payment of any premium payable on the redemption thereof, or

(b) change the Priority of Lien of such Security or deprive such Holder of the right to payment of such Security from Pledged Assets.

(2) It shall not be necessary for the consent of the Securityholders under this Section to approve the particular form of any proposed Act of Council but it shall be sufficient if such consent shall approve the substance thereof. The consent of the Holder of a Security shall bind all Holders of any Security for which such Security was the predecessor.

(3) For the purpose of acquiring consent for the purposes of this Section, the consent of a Securityholder acquiring a Security in an offering remarketing in which the offering or remarketing circular or other disclosure document fully disclosed the terms of such amendment or supplement shall be considered obtained as if such consents were being solicited under this Section, but no actual consent shall be required, and no more than one such disclosure shall be required.

(4) Promptly after an Act of Council amending this Ordinance pursuant to this Section has obtained the requisite consent, the Finance Director shall cause the Transfer Agent to notify, by mail at their addresses shown in the Registry, or by publication, Holders of all Outstanding Securities affected by such amendment, of the general terms of the substance of such Act of Council. Filing notice pursuant to the continuing disclosure agreement in respect of such Securities shall constitute sufficient notice for the purposes of this subsection.

(5) No amendment may be made under this Section 22(B) which affects the rights of the insurer or obligee of a Financial Facility or counterparty to a Hedge without its consent.

SECTION 23. SEVERABILITY AND CAPTIONS.

(A) If any section, paragraph, clause or provision of this Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any other provision of this Ordinance.

(B) Captions of sections and paragraphs of this Ordinance are furnished for the convenience of reference only and are not part of this Ordinance.

SECTION 24. PUBLICATION AND RECORDATION.

This Ordinance shall be published in full in the "Detroit Legal News", a newspaper of general circulation in the City qualified under State law to publish legal notices, promptly after its adoption.

SECTION 25. EFFECTIVE DATE.

This Ordinance shall be effective immediately.

Approved as to Form

Corporation Counsel

DWSD Indenture

EXECUTION COPY

TRUST INDENTURE

AMONG

THE CITY OF DETROIT,

DETROIT WATER AND SEWERAGE DEPARTMENT

AND

U.S. BANK NATIONAL ASSOCIATION

as Trustee

**RELATING TO THE OUTSTANDING SECURED OBLIGATIONS
OF THE DETROIT WATER AND SEWERAGE DEPARTMENT
(WATER SUPPLY SYSTEM)**

Dated as of February 1, 2013

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TRUST INDENTURE

THIS TRUST INDENTURE ("Indenture") dated as of December 1, 2012, among THE CITY OF DETROIT, a municipal corporation organized under the laws of the State of Michigan (the "City"), DETROIT WATER AND SEWERAGE DEPARTMENT, an enterprise agency of the City (the "Department") and U.S. BANK NATIONAL ASSOCIATION, a national banking association, as trustee, and its successors in trust and assignees (the "Trustee"), being authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States of America.

WHEREAS, the City, pursuant to Act No. 94, Public Acts of Michigan, 1933, as amended ("Act 94"), and Ordinance No. 30-02 adopted by the City Council of the City on November 27, 2002, which amended and restated certain prior ordinances (the "Ordinance"), has heretofore issued and intends to further issue its Securities, as defined herein, to finance and refinance improvements to its Water Supply System and for other purposes permitted under Act 94 and the Ordinance; and

WHEREAS, pursuant to Section 19 of the Ordinance, a Trustee is required in order to assure prompt compliance by the City and the Department with all of the requirements, duties and obligations of the City and the Department with respect to the System and the Securities and to perform such other duties as may be provided by a Supplemental Action, as defined herein; and

WHEREAS, the Department and the System are subject to an Order dated November 4, 2011 and continued oversight of the United States District Court, Eastern District of Michigan, Southern Division, pursuant to which certain changes have been or will be made in the manner in which the Department and the System are managed, governed and operated; and

WHEREAS, in compliance with the Ordinance and in order to provide additional security for the payment of the Secured Obligations, the City and the Department desire to enter into this Indenture with the Trustee to hold in trust the amounts required or permitted to be transferred by the City and the Department to certain funds and accounts under the Ordinance for payment of the Secured Obligations; and

NOW, THEREFORE, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

In addition to terms elsewhere defined in this Indenture, the following words and terms as used in this Indenture and the preambles hereto shall have the following meanings unless the context or use clearly indicates another or different meaning or intent and such definitions shall be equally applicable to both the singular and plural forms of the terms and words herein defined:

TRUST INDENTURE

“Act 94” means Act 94, Public Acts of Michigan, 1933, as amended.

“Ancillary Obligation” means any Reimbursement Obligation and any Hedge Obligation.

“Ancillary Obligation Fees and Expenses” means any fees and expenses in connection with any Hedge or Financial Facility in the ordinary course of the transaction.

“Bond Counsel” means a firm of nationally recognized attorneys at law acceptable to the City and experienced in legal work relating to the issuance of bonds, the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

“Bond Insurance” means any policy of insurance, contract of suretyship, guaranty or other agreement intended to protect Holders of particular Securities from loss arising from a failure of the City to timely pay principal (and premium, if any) of and interest on such Securities and pursuant to which the provider thereof is repaid solely as subrogee without creating any additional payment obligations (other than the payment of a premium or annual fee).

“City” means the City of Detroit, County of Wayne, State of Michigan.

“Code” means the Internal Revenue Code of 1986, as amended, and the rulings and regulations (including temporary and proposed) promulgated thereunder and under the Internal Revenue Code of 1954, as amended.

“Commissioners” means the Board of Water Commissioners of the City created by Article 7, Section 7.1201, of the Charter of the City. The Charter further provides that the Commissioners shall have charge of the Department. The Commissioners may act hereunder through the Director without further act or deed or through any other representatives authorized by resolution of the Commissioners to act on their behalf.

“Construction Fund” means the Construction Fund established under Section 14 of the Ordinance and Section 2.12 hereof. As further provided in Section 2.12 hereof, such Fund shall not be part of the trust estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever, and any funds on deposit in or credited to such Fund are not and shall not be Pledged Assets.

“Council” means the City Council of the City.

“Credit Enhancement” means any Credit Facility and any Bond Insurance.

“Credit Facility” means any letter of credit, line of credit, purchase agreement, surety bond or other financial arrangement, other than Bond Insurance, intended to protect Holders of particular Securities from loss arising from a failure of the City to timely pay principal of and

interest on such Securities or intended to secure an obligation to fund an account or fund, such as a Reserve Account.

“Custodial Agreement” means a custodial agreement executed by and between a Custodian and the Department pursuant to Section 2.04 and Section 2.12 hereof relating to the Operation and Maintenance Fund and the Construction Fund, respectively.

“Custodian” means the entity and any successor entity appointed by the Director under Section 2.13 hereof and acting as such under a Custodial Agreement.

“Debt Service Account” means a Debt Service Account established in an Interest and Redemption Fund and may be restricted in meaning by referring to a Priority of Securities for which such Debt Service Account was established.

“Debt Service Installment Requirement” means, as of the first day of each month with respect to a Priority of Outstanding Securities and Ancillary Obligations, if any, the total for such month of the (i) Interest Installment Requirement, (ii) Principal Installment Requirement and (iii) Sinking Fund Installment Requirement, if any.

“Default” means the failure to pay any installment of the principal of or interest on any Security.

“Department” means the Detroit Water and Sewerage Department, an enterprise agency of the City, which operates, manages and accounts for the System.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry system to record ownership of book entry interests in Bonds, and to effect transfers of book entry interests in Bonds in book entry form, the use of which will not impair the federal tax exemption of interest on the Bonds, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York (“DTC”).

“Director” means the Director of the Department or person acting in such capacity. The Director or his or her delegate shall act on behalf of the Commissioners and the Department hereunder unless otherwise specifically provided by resolution of the Commissioners.

“Extraordinary Repair and Replacement Maximum Requirement” means, for any Fiscal Year, 15% of the budgeted operation and maintenance expense of the System for such Fiscal Year less in the Fiscal Year any amount that is withdrawn from the Extraordinary Repair and Replacement Reserve Fund for paying a major unanticipated repair or replacement to the System pursuant to Section 13D of the Ordinance, but only in the Fiscal Year that such amount is withdrawn.

“Extraordinary Repair and Replacement Minimum Requirement” means, for any Fiscal Year, 1/12 of 3% of the budgeted operation and maintenance expense of the System for

such Fiscal Year plus such amount as is necessary to restore to the Extraordinary Repair and Replacement Reserve Fund any amount credited to the Improvement and Extension Fund.

“Extraordinary Repair and Replacement Reserve Fund” means the fund required to be established under Section 12A(l) of the Ordinance.

“Finance Director” means the Finance Director of the City or person acting in such capacity.

“Financial Facility” means any Credit Enhancement, Liquidity Facility or combined Credit and Liquidity Facility.

“Fiscal Year” means the fiscal year and operation year of the City which begins on July 1 and ends on the following June 30 as it may be modified.

“Government Obligations” means direct obligations of the United States, or obligations the payment of principal and interest on which is fully guaranteed by the United States, including U. S. Treasury Trust Receipts.

“Hedge” means any agreement by which the City is authorized or permitted by law to manage its debt service, either in connection with the proposed issuance or issuance of Securities or in connection with its then Outstanding Securities, including, but not limited to, interest rate exchanges or swaps, hedges and similar agreements.

“Hedge Obligations” means the City's payment obligations under a Hedge other than the obligation to pay fees and expenses in the ordinary course of the transaction.

“Hedge Receivable” means any amount receivable by the City under a Hedge including any amount by reason of the early termination thereof.

“Hedge Termination Payment” means an amount payable by the City under a Hedge by reason of the early termination thereof.

“Holder” means the Person in whose name a Security is registered in the Registry.

“Improvement and Extension Fund” means the fund required to be established under section 12A(l) of the Ordinance.

“Interest and Redemption Fund” means any Interest and Redemption Fund established for a Priority of Securities.

“Interest Installment Requirement” means, as of the first day of each month in a Fiscal Year, with respect to Securities and Ancillary Obligations of the same Priority of Lien, the amount of interest accrued and unpaid and to accrue to and including the last day of such month,

on Outstanding Securities of such Priority of Lien and related Parity Ancillary Obligations that constitute interest, if any, next coming due in such Fiscal Year.

“Junior Lien Bonds” means all Securities issued pursuant to this Ordinance other than Senior Lien Bonds.

“Junior Obligations” means all Junior Lien Bonds and all Ancillary Obligations that are not Senior Obligations.

“Legal Investment” means, with respect to any particular amounts, an investment that is authorized or permitted by law as an investment of such amounts, including Government Obligations.

“Liquidity Facility” means any letter of credit, line of credit, purchase agreement, or other financial arrangement intended to provide funds for the purchase of certain Securities in the event of a failure of the remarketing thereof but does not include any protection provided by a Credit Facility.

“Mandatory Redemption Date” means a date on which Term Securities in the principal amount of the applicable Mandatory Redemption Requirement are required to be redeemed under the Supplemental Action authorizing the sale of such Securities.

“Mandatory Redemption Requirements” means, with respect to any Term Securities, the principal amount of such Securities required to be called for redemption prior to their stated maturity as provided in the Supplemental Action authorizing the sale of such Term Securities.

“Net Revenues” means for any period of time, Revenues received during such period of time, except for those Revenues transferred to the Operation and Maintenance Fund.

“Operation and Maintenance Fund” means the Operation and Maintenance Fund established under Section 12A(1) of the Ordinance. As further provided in Section 2.04 hereof, such Fund shall not be part of the trust estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever, and any funds on deposit in or credited to such Fund are not and shall not be Pledged Assets.

“Operation and Maintenance Fund Requirement” means a sum sufficient to provide for the payment of the next month’s expenses of administration and operation of the System (including Ancillary Obligation Fees and Expenses) and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order.

“Ordinance” means Ordinance No. 30-02 adopted by the Council on November 27, 2002, which amended and restated certain prior Ordinances.

“Outstanding” unless otherwise provided in a Supplemental Action for particular Securities, means, as of any date and with respect to Securities of a particular Priority of Lien, all Securities of such Priority of Lien delivered under this Ordinance except:

- (i) Securities of such Priority theretofore paid or redeemed or acquired by the City and surrendered to the Transfer Agent for cancellation
- (ii) Securities of such Priority of Lien that have matured or have been duly called for redemption and for the payment or redemption of which amounts, together with any unpaid interest, are held by the Trustee or the Transfer Agent for the payment thereof;
- (iii) Securities of such Priority of Lien that have been defeased in accordance with this Ordinance or a Supplemental Action; and
- (iv) Securities of such Priority of Lien in exchange for or replacement of which other Securities of such Priority have been authenticated and delivered pursuant to this Ordinance or a Supplemental Action.

“Permitted Investment” means, with respect to any particular amounts, a Legal Investment subject to such limitations as imposed under Article III of this Indenture or a Supplemental Action for the investment of such amounts.

“Person” means any natural person, firm, partnership, association, limited liability company, corporation, or public body.

“Pledged Assets” means:

- (i) Net Revenues;
- (ii) the funds and accounts established by or pursuant to the Ordinance except for the Operation and Maintenance Fund and the Construction Fund and any account thereof;
- (iii) investments of amounts credited to any fund, account or subaccount that is a Pledged Asset; and
- (iv) any income or gain realized from investments that are Pledged Assets to the extent that such income or gain is not a Net Revenue.

“Principal Installment” means, with respect to Securities of the same Priority of Lien and related Ancillary Obligations, if any, the principal amount of such Securities that are not Term Securities and such of the Ancillary Obligations related to such Securities, if any, that constitute principal or other return of capital.

"Principal Installment Requirement" means, as of the first day of each month in a Fiscal Year, with respect to a Priority of Securities, the amount of Principal Installments accrued and unpaid and to accrue to, and including, the last day of such month (assuming that principal accrues on the basis of 30-day months in a year of 360 days) on Outstanding Securities of such Priority and related Ancillary Obligations, if any, next coming due in such Fiscal Year.

"Priority of Lien" means, with respect to any particular Secured Obligation, all other Secured Obligations having a lien on Pledged Assets on a parity with such Obligation.

"Rating Agency" means any nationally recognized statistical rating organization as defined in Section 3(a)(62) of the Securities Exchange Act of 1934, as amended.

"Rate Stabilization Fund" means the Fund that may be created by the Commissioners under Section 13(G) of the Ordinance.

"Receiving Fund" means the Fund required to be established and maintained by the City under Section 12A(l) of the Ordinance to which all Revenues of the System are to be credited and applied as provided in Sections 12B of the Ordinance and Section 2.02 hereof.

"Registry" has the meaning given that term in Section 3 of the Ordinance.

"Reimbursement Obligation" means the City's repayment obligations under a Financial Facility, and does not include the obligation to pay fees and expenses in the ordinary course of the transaction.

"Reserve Account" means a Reserve Account established in an Interest and Redemption Fund that may be restricted in meaning by referring to a Securities of the same Priority of Lien for which such Reserve Account was established.

"Reserve Requirement" means, for Securities of the same Priority of Lien for which a Reserve Account has been established, the lesser of the amount of Annual Debt Service, as defined in Section 2 of the Ordinance, on all Securities of the same Priority of Lien then Outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code as provided below:

(i) for Senior Lien Bonds, the "amount of Annual Debt Service" shall be maximum Annual Debt Service;

(ii) for Second Lien Bonds, the "amount of Annual Debt Service" shall be maximum Annual Debt Service; and

(iii) for all other Junior Lien Bonds for which a Reserve Account is established, the "amount of Annual Debt Service" shall be the amount set forth in the Supplemental Action establishing such Reserve Account, and if no amount is set forth, the "amount of Annual Debt Service" shall be average Annual Debt Service.

“Revenue Receipts Fund” means the Revenue Receipts Fund established pursuant to Section 2.02 hereof.

“Revenues” means the revenues of the System, as further defined in and construed consistently with such term in Section 3 of Act 94, including:

(i) Hedge Receivables; and

(ii) income earned and gain realized from the investment of amounts in the various funds, accounts and subaccounts established under the Ordinance other than the Construction Fund for any Fiscal Year during which earnings on the Construction Fund are not credited to the Receiving Fund.

“Second Lien Bonds” means the City’s outstanding Water Supply System Revenue Second Lien Bonds, Series 1995-A and any Additional Securities of equal Priority of Lien.

“Secured Obligations” means all Securities, Ancillary Obligations and Ancillary Obligation Fees and Expenses.

“Securities” means all Senior Lien Bonds and all Junior Lien Bonds.

“Senior Lien Bonds” means all Securities issued that have a senior lien on Pledged Assets.

“Senior Obligations” means all Senior Lien Bonds and Ancillary Obligations in respect of Senior Lien Bonds and secured on parity therewith, and including all Junior Lien Bonds that have acceded to a parity status with Senior Lien Bonds pursuant to 5(F) of the Ordinance and ancillary obligations in respect thereof secured on a parity therewith, if any.

“Sinking Fund Installment Requirement” means, with respect to Term Securities of the same Priority of Lien and as of the first day of each month in a Fiscal Year, the amount of any Mandatory Redemption Requirements next coming due in such Fiscal Year, including any Mandatory Redemption Requirement due at the maturity of such Term Security less the amounts credited to such Mandatory Redemption Requirements as the result of partial redemptions or purchase of such Term Securities.

“SRF Junior Lien Bonds” means all Junior Lien Bonds issued for the purpose of providing improvements to the System under the State's Revolving Fund and shall be the lowest Priority of Junior Lien Bonds.

“State” means the State of Michigan.

“Supplemental Action” means a sale order or other document signed by the Finance Director pursuant to authorization by the City, which shall be the Ordinance if the action of the

Finance Director is therein authorized, and also means an order or resolution of the Commissioners or a written directive of the Director, as the same may hereafter be authorized by statute or court order.

“System” means the Water Supply System of the City, operated, managed and accounted for as a separate enterprise fund through the Department, including all plants, works, instrumentalities and properties, used or useful, in whole or in part, in connection with obtaining a water supply, the treatment of water or the distribution of water, or the administration or management thereof, all as the same now exist or are hereafter provided for, together with all additions, extensions, repairs and improvements thereto hereafter acquired.

“Tax Certificate” means the tax compliance and non-arbitrage certificate relating to the federal arbitrage rules under Section 148 of the Code and the Treasury Regulations promulgated thereunder with respect to the Securities.

“Term Securities” means, with respect to Securities of the same Priority of Lien, any maturity of such Securities that has Mandatory Redemption Requirements.

“Transfer Agent” means, as to any particular Securities, the bank or banks selected by the Finance Director to perform the duties provided for the Transfer Agent with respect to such Securities.

“Treasury Regulations” means the regulations promulgated by the United States Department of Treasury for the interpretation of the Code.

“Trustee” means U.S. Bank National Association, a national banking association, acting in its capacity as the trustee under this Indenture, and any permitted successor trustee under Article VI of this Indenture.

ARTICLE II FUNDS AND ACCOUNTS

SECTION 2.01 Pledge of Trust Estate.

The Pledged Assets for the Securities are pledged to the Trustee for the payment of the Securities in accordance with the terms and provisions of the Ordinance, any Supplemental Action relating to Securities and this Indenture. This pledge will be valid and binding from and after the date of execution and delivery of this Indenture, and the Pledged Assets will immediately be subject to the lien of such pledge without any physical delivery thereof, recordation of this Indenture or further act, and the lien of such pledge will be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City, regardless of whether such parties have notice thereof.

SECTION 2.02 Establishment of Funds and Accounts.

a. Pursuant to the Ordinance, the City hereby establishes the following funds and accounts, which, except for the Operation and Maintenance Fund and the Construction Fund, shall be held in trust by the Trustee pursuant to the terms of this Indenture:

- (a) Receiving Fund;
- (b) Operation and Maintenance Fund;
- (c) Senior Lien Bond Interest and Redemption Fund consisting of a:
 - (1) Senior Lien Debt Service Account; and
 - (2) Senior Lien Bond Reserve Account;
- (d) Second Lien Bond Interest and Redemption Fund consisting of a:
 - (1) Second Lien Debt Service Account; and
 - (2) Second Lien Bond Reserve Account;
- (e) SRF Junior Lien Bond Interest and Redemption Fund consisting of a SRF Junior Lien Debt Service Account;
- (f) Such Interest and Redemption Funds as are established by Supplemental Action for other Priorities of Junior Lien Bonds;
- (g) Extraordinary Repair and Replacement Reserve Fund;
- (h) Rate Stabilization Fund (but only if the Commissioners direct the Trustee to establish this Fund);
- (i) Improvement and Extension Fund;
- (j) Surplus Fund; and
- (k) Construction Fund.

b. There also is established with the Trustee hereunder a Fund designated the "Revenue Receipts Fund." Such Fund shall be held and administered by the Trustee in trust, for the sole purpose of receiving all Revenues collected by the Department which are not deposited directly into the Receiving Fund and transferring such Revenues to the Receiving Fund as hereinafter provided. Such Revenues may be temporarily commingled with gross revenues of the Department's Sewage Disposal System.

Revenues of the System deposited in the Revenue Receipts Fund shall be transferred by the Trustee to the Receiving Fund within two (2) business days after receipt of written direction to do so from the Department on a form acceptable to the Trustee.

c. Additional Funds and Accounts may be established by Supplemental Action for other Priorities of Securities of other Priority of Lien or for other purposes not inconsistent with the purposes and intent of this Indenture.

SECTION 2.03 Payments into the Accounts; Withdrawals.

Pursuant to the Ordinance, all Revenues of the System shall be deposited with the Trustee and, with the exception of Revenues transferred to the Operation and Maintenance Fund as directed by the Department as herein provided, held in trust pursuant to the terms of this Indenture. As of the first day of each month, amounts credited to the Receiving Fund shall be transferred seriatim into the Operation and Maintenance Fund, the Bond Interest and Redemption Funds, Debt Service Accounts, Reserve Accounts, Extraordinary Repair and Replacement Reserve Fund and Improvement and Extension Fund, all of which are held by the Trustee pursuant to Section 2.02 of this Indenture, as follows:

First: to the Operation and Maintenance Fund, a sum as determined in the sole discretion of the Department and certified to the Trustee as sufficient to provide for the payment of the next month's expenses of administration and operation of the System (including Ancillary Obligation Fees and Expenses) and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order;

Second: to the Senior Lien Debt Service Account, an amount that, when added to amounts then on deposit in such account, shall equal the Debt Service Installment Requirement for Senior Lien Obligations as of the first day of such month;

Third: to the Senior Lien Bond Reserve Account, an amount that when added to amounts then on deposit in such account shall equal the Reserve Requirement for Senior Lien Bonds;

Fourth: to the Interest and Redemption Fund established for each Priority of Junior Lien Bonds, beginning with the Second Lien Bonds and continuing in descending order of Priority of Lien, and including, each Priority of Lien of Junior Lien Bonds, as follows:

First: to the Debt Service Account established for such Priority of Lien, an amount that, when added to amounts then on deposit in such account, shall equal the Debt Service Installment Requirement for Junior Obligations of such Priority of Lien as of the first day of such month; and

Second: to the Reserve Account, if any, established for such Priority of Lien an amount that when added to amounts then on deposit in such account shall equal the Reserve Requirement for such Priority of Lien of Junior Lien Bonds; and

Fifth: to the Extraordinary Repair and Replacement Reserve Fund, the amount of the Extraordinary Repair and Replacement Minimum Requirement to the extent that the balance thereof is less than the Extraordinary Repair and Replacement Maximum Requirement.

In any month, funds on deposit in the Receiving Fund in excess of the requirements set forth above in this Section 2.03 may, upon the direction of the Department, be transferred to the Improvement and Extension Fund (provided that no amount shall be deposited to the Improvement and Extension Fund or credited thereto for so long as a borrowing from the Extraordinary Repair and Replacement Reserve Fund remains unpaid). Any amounts remaining in the Receiving Fund as of the last day of each Fiscal Year shall be deposited in the Surplus Fund. If the Commissioners direct the Trustee to establish a Rate Stabilization Fund under this Indenture, the Commissioners may direct the Trustee to make deposits from the Receiving Fund into the Rate Stabilization Fund pursuant to the authority granted to the Commissioners in Section 13 of the Ordinance.

Any funds authorized to be withdrawn from any Fund or Account hereunder by the Department upon its written request to the Trustee may be so withdrawn pursuant to any arrangement mutually acceptable to the Trustee and the Department, including a checking arrangement under which checks may be written by the Trustee to such payees as are directed in writing by the Director or her or his authorized representative.

SECTION 2.04 Operation and Maintenance Fund; Use of Money in the Operation and Maintenance Fund.

a. The Operation and Maintenance Fund shall be established as a custodial account solely between the Department and a Custodian. The Department is hereby authorized to execute a Custodial Agreement outside this Indenture in such form and upon such terms as will allow the Department to satisfy the operation and maintenance requirements of the System as herein and as may hereafter by the Department be provided.

b. The Operation and Maintenance Fund shall not be part of the trust estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever. Any funds at any time on deposit in or credited to the Operation and Maintenance Fund are not and shall not be Pledged Assets.

c. Amounts in the Operation and Maintenance Fund shall be used to pay the expenses of administration and operation of the System (including Ancillary Obligation Fees and Expenses and any rebates to the United States government that may be required by the Code) and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order. The Department shall have sole and exclusive authority to withdraw funds from the Operation and Maintenance Fund for such purposes as it, in its sole discretion, may at any time and from time to time deem necessary or appropriate. No other Person, including the City, shall have the right or authority to use or withdraw funds from the Operation and Maintenance Fund.

d. The Trustee is hereby authorized to transfer any and all funds held by it as trustee or in any other capacity in an existing Operation and Maintenance Fund created under the Ordinance to the Operation and Maintenance Fund (and related custodial account) established hereby.

SECTION 2.05 Use of Money in the Debt Service Accounts.

a. Amounts in the Interest and Redemption Fund established for a Priority of Securities and Ancillary Obligations of the same Priority of Lien shall be applied to pay principal (and redemption premium, if any) of and interest on such Priority of Securities and amounts due on such Priority of Ancillary Obligations when due.

b. Mandatory Redemption Requirements:

(1) The Mandatory Redemption Requirement for a maturity of Term Securities may be satisfied in whole or in part by the redemption of Term Securities of such maturity or by the surrender to the Trustee of such Term Securities purchased with funds legally available therefor. Not less than forty (40) days prior to the due date of such Mandatory Redemption Requirement, unless otherwise provided in the Supplemental Action providing for the issuance of such Term Securities, the Finance Director shall notify the Trustee of the manner in which all or a portion of a Mandatory Redemption Requirement for particular Term Securities shall be satisfied and, if funds on deposit in the Interest and Redemption Fund are to be used for such purposes, the Finance Director shall direct the Trustee as to the amount of such funds to be used to redeem or purchase all or a portion of such Term Securities. In the absence of direction from the City as provided above, or upon the failure of the Trustee to acquire Term Securities before the redemption date for credit against a Mandatory Redemption Requirement, the Trustee shall use funds on deposit in the appropriate account of the Interest and Redemption Fund to satisfy the Mandatory Redemption Requirement.

(2) Unless otherwise provided in a Supplemental Action providing for the issuance of Term Securities, the City will receive a credit against the Mandatory Redemption Requirement for Term Securities for which such Mandatory Redemption Requirement was established that have been redeemed (other than by application of Mandatory Redemption Requirements) or otherwise acquired by the City and delivered to the Trustee for cancellation prior to the giving of the notice of redemption and that have not been applied as a credit against any other Mandatory Redemption Requirements.

(i) Not less than forty (40) days prior to any mandatory redemption date for Term Securities, the Finance Director shall give notice to the Trustee, acting as Transfer Agent, that such Term Securities are to be so credited.

(ii) Each such Term Security shall be credited by the Trustee at 100% of the principal amount thereof against the Mandatory Redemption Requirement, and the principal amount of Term Securities to be redeemed on such mandatory

redemption date shall be reduced accordingly and any excess over such amount shall be credited to future Mandatory Redemption Requirements in such order as the Finance Director shall direct; provided, however, that any excess resulting from the purchase, at less than par, of such Term Securities shall be transferred to the Receiving Fund.

SECTION 2.06 Use of Money in the Reserve Accounts.

a. Except as otherwise provided herein, amounts in a Reserve Account shall be used solely for the payment of the principal (and premium, if any) of and interest on Securities and Ancillary Obligations of the same Priority of Lien for which such Reserve Account was established, as to which there would otherwise be a Default.

b. If at any time the amount on deposit in or credited to a Reserve Account exceeds the Reserve Requirement for such Reserve Account, the amount of such excess shall be transferred by the Trustee into the Receiving Fund upon the direction of the Department.

c. No further payments need be made into an Interest and Redemption Fund after enough of the Securities for which such Interest and Redemption Fund was established have been retired so that the amount then held in such Fund, including any Reserve Account therein, is equal to the entire amount of principal and interest which will be payable at the time of maturity of all the then Outstanding Securities of such Priority of Lien.

d. A separate Reserve Account may be established by the Department with the Trustee for an issue of Securities by the Supplemental Action providing for the issuance of such Securities. The amounts to be paid into any separate Reserve Account to restore such account to its Reserve Requirement shall be treated by the Trustee as being on a parity with payments into all other Reserve Accounts established for the Securities of the same Priority of Lien and shall not exceed, in any Fiscal Year, its proportionate deficit payment. "Proportionate Deficit Payment" means for a separate Reserve Account the same proportion that the amount available to remedy deficits in each Reserve Account for such Priority bears to the aggregate deficit in all Reserve Accounts for such Priority.

SECTION 2.07 Use of Money in the Extraordinary Repair and Replacement Reserve Fund.

a. Amounts in the Extraordinary Repair and Replacement Reserve Fund may be used by the Department to pay the costs of making major unanticipated repairs and replacements to the System which individually cost or are reasonably expected by the Commissioners to cost in excess of \$1,000,000 as determined by the Commissioners. The Department may withdraw funds from the Extraordinary Repair and Replacement Fund for such purposes at any time and from time to time upon written request to the Trustee therefor.

b. On and after the first day of each Fiscal Year, by Supplemental Action (a certified copy of which shall be delivered to the Trustee) the Trustee may be instructed to transfer from the Extraordinary Repair and Replacement Reserve Fund to the Improvement and Extension

Fund not more than fifty percent (50%) in aggregate of the balance in the Extraordinary Repair and Replacement Reserve Fund on the first day of such Fiscal Year if, but only if (i) by the first day of the month in which the transfer is to be made, the full amount of the Extraordinary Repair and Replacement Minimum Requirement for each prior month in the current Fiscal Year has been deposited in this Fund and (ii) the amounts of all prior transfers from this Fund to the Improvement and Extension Fund have been restored in full.

c. For the purpose of determining the Extraordinary Repair and Replacement Fund Minimum Requirement and Maximum Requirement, no later than ten (10) days following the completion of the System's budget for each Fiscal Year, the Department shall deliver to the Trustee a certificate stating the amount budgeted by the System for operation and maintenance expense for such Fiscal Year.

SECTION 2.08 Use of Money in the Rate Stabilization Fund.

The Rate Stabilization Fund may be established by the Commissioners and used for the purposes set forth in Section 13 of the Ordinance.

SECTION 2.09 Use of Money in the Improvement and Extension Fund.

Amounts in the Improvement and Extension Fund shall be used for improvements, enlargements, extensions or betterment to the System. The Department may withdraw funds from the Improvement and Extension Fund for such purposes at any time and from time to time upon written request to the Trustee therefor and may borrow funds from the Extraordinary Repair and Replacement Reserve Fund for such purposes as provided in Section 2.07b.

SECTION 2.10 Use of Money in the Surplus Fund.

Amounts from time to time on hand in the Surplus Fund may, at the option of the Department, be withdrawn upon written request to the Trustee and used for any purposes related to the System; provided, however, that, if and whenever there should be any deficit in the Operation and Maintenance Fund or in any Interest and Redemption Fund (including any Reserve Account therein), then transfers shall be made by the Trustee from the Surplus Fund to such funds in the priority and order set forth in Section 2.11 hereof to the extent of any such deficit.

SECTION 2.11 Priority of Funds and Accounts.

a. If amounts in the Receiving Fund are insufficient to provide for the current requirements of the Operation and Maintenance Fund and each Interest and Redemption Fund (including the Reserve Account, if any, therein), then any amounts or securities held in the Surplus Fund, the Improvement and Extension Fund and the Extraordinary Repair and Replacement Reserve Fund shall be credited or transferred from such Funds in the order listed, first, to the Operation and Maintenance Fund and, second, to the particular Interest and Redemption Fund to the extent of the insufficiency therein.

b. If any principal (and redemption premium, if any) of or interest on Securities of the same Priority of Lien or any related Ancillary Obligations become due (whether on a stated or scheduled date, by reason of call for redemption or otherwise), and there are insufficient amounts for the payment thereof in the Interest and Redemption Fund established for Securities and Ancillary Obligations of such Priority of Lien after applying payments in any Reserve Account established for Securities of such Priority of Lien, then there shall be applied by the Trustee to such payment amounts in each Interest and Redemption Account established for Securities of each lower Priority of Lien, beginning with the lowest Priority of Lien and proceeding seriatim in ascending order of Priority of Lien, until such payments are made in full.

SECTION 2.12 Construction Fund; Use of Money in the Construction Fund.

a. The Construction Fund shall be established as a custodial account solely between the Department and a Custodian. The Department is hereby authorized to execute a Custodial Agreement outside this Indenture in such form and upon such terms as will allow the Department to efficiently and expeditiously pay Construction Costs (as defined in paragraph c. below) and other costs permitted to be paid therefrom. The Department may designate separate accounts in the Construction Fund for different series of Securities for administrative purposes and to better able the City and the Department to comply with tax covenants relating to any such Securities in connection with maintaining the exclusion, if any, from gross income for federal income tax purposes of interest on such Securities.

b. The Construction Fund shall not be part of the trust estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever. Any funds at any time on deposit in or credited to the Construction Fund are not and shall not be Pledged Assets.

c. Amounts in the Construction Fund shall be used to pay the cost of repairs, extensions, enlargements, and improvements to the System ("Construction Costs") and any costs of engineering, legal, bond insurance premiums, if any, and other expenses incident thereto, relating to the financing thereof ("Issuance Costs"). A separate account shall be established at the direction of the Department within the Construction Fund, entitled "Issuance Costs Account," from which the Custodian shall pay the Issuance Costs related to Outstanding Securities and any additional Securities issued subject to this Indenture. The Department shall have sole and exclusive authority to withdraw funds from the Construction Fund for such purposes as it, in its sole discretion, may at any time and from time to time deem necessary or appropriate. No other Person, including the City, shall have the right or authority to use or withdraw funds from the Construction Fund.

d. Any unexpended balance remaining in an account of the Construction Fund may in the discretion of the Department be used for meeting any Reserve Requirement or for further improvements, enlargements and extensions to the System if, at the time of such expenditure, such use (i) is approved by the Michigan Department of Treasury, if such approval is then required by law and (ii) based upon an opinion of Bond Counsel, will not adversely affect the exclusion from gross income for federal income tax purposes of Securities the proceeds of which were deposited in such account. Any remaining balance after such expenditure shall be paid into the Interest and Redemption Fund established for the Securities of the Priority of Lien giving rise

to such balance for the purpose of purchasing Securities of such Priority of Lien at not more than the fair market value thereof but not more than the price at which such Securities may next be called for redemption or used for the purpose of calling such Securities for redemption. The Department may provide additional or different lawful uses for such unexpended balance or remaining balance by Supplemental Action which shall, nonetheless, be subject to the City's and Department's relevant tax covenants.

e. Additional Accounts and Subaccounts of the Construction Fund may be established by the Department for purposes not described herein which are not inconsistent with the purposes and intent of this Indenture.

f. The Trustee is hereby authorized to transfer to the Construction Fund (and related custodial account) established hereby any and all funds held by it as trustee or in any other capacity on deposit in an existing Construction Fund and any and all Accounts and Subaccounts thereunder created under the Ordinance and relating to existing Securities. The Department is hereby authorized to create or continue such Accounts and Subaccounts under the Construction Fund as are necessary or appropriate to distinguish one Security from another and Securities of one Priority of Lien from Securities of another Priority of Lien.

SECTION 2.13 Custodian; Appointment and Qualifications.

a. A Custodian shall be appointed by the Director for such term and upon such terms and conditions as shall be set forth in a Custodial Agreement approved by the Director.

b. A Custodian shall be a financial institution authorized to act as a depository of public moneys under Michigan law.

ARTICLE III INVESTMENTS

SECTION 3.01 Permitted Investments.

a. The Trustee will invest all funds and accounts under this Indenture in Permitted Investments as directed by the Department in writing to the Trustee.

b. The Permitted Investments for amounts held under this Indenture are the Legal Investments for such amounts subject to the following:

(1) Investment of amounts in any Reserve Account shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the Holder thereof, not later than ten (10) years from the date of the investment.

(2) Except as otherwise provided herein or in a Supplemental Action, a certified copy of which shall be delivered to the Trustee, investments shall mature at such times as it is estimated the funds will be required, but shall be limited to obligations

bearing maturity dates or subject to redemption, at the option of the Holder thereof, not later than five (5) years from the date of investment.

(3) A Supplemental Action may provide for limitations in addition to or in lieu of the above limitations on Legal Investments or may eliminate any of such limitations.

(4) Notwithstanding paragraph (3) above, no Permitted Investments for the defeasance of particular Securities may be changed without confirmation from each Rating Agency that such change will not reduce the rating of such Securities.

c. The City and the Department acknowledge that regulations of the Comptroller of the Currency grant the parties the right to receive brokerage confirmations of the security transactions as they occur. The City and the Department specifically waive such notification to the extent permitted by law. The Department will receive periodic cash transaction statements which will detail all investment transactions.

SECTION 3.02 Tax Status of the Interest on Securities.

The City has agreed to certain covenants in the Tax Certificates for the Securities in order to ensure that the tax status of the interest on the Securities is not adversely affected. To the extent that any action permitted or required to be taken by the Trustee hereunder is inconsistent with the provisions of a Tax Certificate with respect to an issue of Securities, the Finance Director or the Department may direct the Trustee to take such action or omit to take such action hereunder as may be required to rectify such inconsistency with respect to such Securities.

SECTION 3.03 Allocation and Transfers of Investment Income.

a. Profit realized or interest income earned on investment of amounts in the Receiving Fund, Operation and Maintenance Fund, any Interest and Redemption Fund (including the Reserve Account, if any, therein), the Extraordinary Repair and Replacement Reserve Fund, and Improvement and Extension Fund shall be credited to the Receiving Fund no less frequently than monthly.

b. Profit realized or interest earned on investments of funds in the Construction Fund relating to any series of Securities and any Redemption Account (including any Reserve Account or Subaccount established for any Securities) shall be credited as received to the funds from which such investments were made; provided, however, that profit realized or interest earned on the Construction Fund relating to any series of Securities may, if permitted by law, be credited to the Receiving Fund at the option of the Department upon written direction to the Trustee and the Custodian.

SECTION 3.04 Valuation of Investments.

a. Investments credited to any Reserve Account shall be valued at least annually on each January 1, unless otherwise specified in the Supplemental Action providing for the issuance of such Securities, at the market value thereof. Any funds on deposit in a Reserve Account on or as of such valuation date in excess of the Reserve Requirement shall be transferred by the Trustee into the Surplus Fund. Any deficit in a Reserve Account shall be restored by the Trustee at the beginning of the next succeeding Fiscal Year with Funds on deposit in the Receiving Fund and Surplus Fund, in that order.

b. Investments in the Extraordinary Repair and Replacement Reserve Fund shall be valued at least annually on each July 1 at the cost thereof.

**ARTICLE IV
DISCHARGE OF LIEN**

SECTION 4.01 Discharge of Lien on Pledged Assets.

a. Upon the defeasance (as defined in Section 4.02 hereof) of an issue of Securities, and payment of the Trustee's fees, costs and expenses related thereto, the lien of this Indenture upon the Pledged Assets with respect to such Securities shall cease, terminate and be void.

b. Upon the defeasance (as defined in Section 4.02 hereof) of all Outstanding Securities, the lien of this Indenture upon the Pledged Assets shall cease, terminate and be void and thereupon the Trustee, upon determining that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, and upon payment of the Trustee's fees, costs and expenses hereunder, shall (i) cancel and discharge this Indenture and the lien on Pledged Assets, (ii) execute and deliver to the City and the Department such instruments in writing as shall be required to cancel and discharge this Indenture and the lien on Pledged Assets, (iii) re-convey to the Department the Pledged Assets, and (iv) assign and deliver to the Commissioners so much of the Pledged Assets as may be in its possession or subject to its control, except, in the event of a defeasance of the Securities moneys and Government Obligations held in the Interest and Redemption Funds, Debt Service Accounts, and Reserve Accounts for the purpose of paying Securities; provided, however, such cancellation and discharge of this Indenture shall not terminate the powers and rights granted to the Trustee with respect to the payment, transfer and exchange of the Securities; and, provided, further, that the rights of the Trustee to indemnity and payment of all reasonable fees and expenses shall survive.

SECTION 4.02 Defeasance of Securities.

a. Securities are "defeased" for purposes of this Indenture if:

(1) there has been deposited in trust sufficient cash and Permitted Investments constituting Government Obligations, not callable by the issuer, the principal of and interest on which mature at the time and in the amounts, without the reinvestment thereof,

necessary to pay principal of and interest on such Securities to its maturity, or, if called for redemption, to the date fixed for redemption, together with the amount of the redemption premium, if any, provided, however, that the sufficiency of the deposit to effectuate the defeasance of a Security shall have been verified by a nationally recognized accounting firm; and

(2) if such Securities are to be redeemed prior to maturity, irrevocable instruments have been given to the Trustee, acting as Transfer Agent, to call such Securities for redemption.

b. A Supplemental Action may be delivered to the Trustee with respect to an issue of Securities which may:

(1) provide different means of defeasing such Securities, and such means may be in addition to or in lieu of the means set forth in subparagraph a;

(2) provide for the Legal Investments that are Permitted Investments for the defeasance of such Securities, but no such Permitted Investments may thereafter be changed except as provided herein; and

(3) provide for the consequences of such Securities being defeased.

c. Except as otherwise provided in a Supplemental Action:

(1) the Legal Investments for the defeasance of such Securities are the Permitted Investment therefor; and

(2) the statutory lien herein granted pursuant to Act 94 shall be terminated with respect to defeased Securities, the Holders of such defeased Securities shall have no further rights hereunder or under the Ordinance except for payment from the deposited funds and registration and replacement of such Securities, and such Securities shall no longer be considered to be Outstanding hereunder or under the Ordinance.

SECTION 4.03 Unclaimed Moneys.

Any moneys deposited with the Trustee in accordance with the terms and provisions of this Indenture, or any moneys held by any paying or transfer agent, in trust for the payment of the principal of and redemption premium, if any, or interest on a Secured Obligation and remaining unclaimed by the Holders for three (3) years after the final maturity of a Secured Obligation or the redemption date of the Secured Obligation, as the case may be, shall be applied by the Trustee in accordance with the Uniform Unclaimed Property Act, Act. No. 29, Public Acts of Michigan, 1995, as amended from time to time. The City, the Department and the Trustee shall have no responsibility with respect to such moneys or the affected Holders of the Secured Obligation.

ARTICLE V
RIGHTS AND REMEDIES OF HOLDERS UPON DEFAULT

SECTION 5.01 Rights and Remedies of Holders.

Upon the occurrence of a Default on any Security, the Trustee may pursue any remedy permitted by law to enforce the performance of or compliance with the provisions of this Indenture.

Upon the happening and continuance of a Default on any Security, and if requested to do so by the Holders of at least twenty percent (20%) in aggregate principal amount of the Outstanding Securities and the Trustee is indemnified as provided in this Indenture and the Ordinance, the Trustee shall exercise such of the rights and powers as the Trustee shall deem most effective to enforce and protect the interests of the Holders.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Holders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Holders hereunder or now or hereafter existing.

No delay or omission to exercise any right or power accruing upon any Default shall impair any such right or power or shall be construed to be a waiver of any such Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

SECTION 5.02 Right of Holders to Direct Proceedings.

Anything in this Indenture to the contrary notwithstanding, the Holders of not less than twenty percent (20%) in aggregate principal amount of the Outstanding Securities shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture, and provided that the Trustee shall be indemnified to its satisfaction.

No Holder shall have the right to institute any proceeding for the enforcement of this Indenture unless such Holder has given the Trustee, the Department and the City written notice of a Default, the Holders of not less than twenty percent (20%) in aggregate principal amount of the Outstanding Securities shall have requested the Trustee in writing to institute such proceeding, the Trustee shall have been afforded a reasonable opportunity to exercise its powers or to institute such proceeding, and there shall have been offered to the Trustee indemnity satisfactory to the Trustee, and the Trustee shall have thereafter failed or refused to exercise such powers or to institute such proceeding within a reasonable time.

ARTICLE VI THE TRUSTEE

SECTION 6.01 Appointment.

The Trustee is hereby appointed and does hereby agree to act in such capacity and to perform the express duties of the Trustee under this Indenture, but only upon and subject to the following express terms and conditions (and no implied covenants or other obligations shall be read into this Indenture against the Trustee):

(a) The Trustee may execute any of its trusts or powers and perform any of its duties herein by or through attorneys, agents, receivers or employees, and shall be entitled to rely on advice of counsel and other professionals concerning all matters of such trusts, powers and duties. The Trustee shall not be answerable for the professional malpractice, negligence or misconduct of any attorney, agent, receiver, employee or other professionals selected by it with reasonable care, and may in all cases pay such Persons reasonable compensation. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with its trusts, powers and duties herein, except only for its gross negligence or willful misconduct.

(b) The Trustee shall not be responsible for any recital herein or in the Securities, or for the validity of the Secured Obligation or the execution by the City or the Department or sufficiency of this Indenture or of any supplements thereto or instruments of further assurance, or for the sufficiency of the Pledged Assets to secure the Securities. The Trustee shall not be liable for any loss suffered in connection with any investment of funds made by it in accordance with Article III hereof, except for losses suffered due to the Trustee's gross negligence or willful misconduct. The Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Securities from its own funds.

(c) The Trustee is authorized to act in reliance upon the sufficiencies, correctness, genuineness or validity of any instrument or documents or other writing submitted to it hereunder and shall have no liability with respect to said matters. The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of at least twenty percent (20%) in aggregate principal amount of the Securities then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or in exercising any trust or power conferred upon the Trustee under this Indenture. If the Trustee receives different or conflicting instructions or directions from more than one group of Holders of Securities, each of which is provided in accordance with this Indenture, the Trustee shall, subject to Sections 5.02 and 6.01(d), act in accordance with the instructions or directions provided by the group of Holders representing the largest aggregate principal amount of Securities then Outstanding. The Trustee shall not be liable for any error in judgment or any act done or omitted by any of its officers, employees, agents or representatives in good faith. In the event of any dispute or question arising hereunder,

the Trustee shall not be liable if it acts or takes no action in accordance with the opinion of its legal counsel or other professionals.

(d) The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in the Ordinance or of any of the documents executed in connection with the Securities or as to the existence of a Default thereunder except as otherwise provided for in this Indenture. The Trustee shall not be responsible for the validity or effectiveness of the lien on the Pledged Assets or of any other collateral given to or held by it. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as duties. The Trustee shall only be responsible for the performance of the duties expressly set forth herein and shall not be answerable for other than its gross negligence or willful misconduct in the performance of those express duties.

(e) The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers or otherwise hereunder.

(f) All moneys received by the Trustee, until used or applied or invested as herein provided, shall, except to the extent otherwise provided herein, be held as special trust funds for the purposes specified in this Indenture and for the benefit and security of the Holders as herein provided. Such moneys need not be segregated from other funds except to the extent required by law or herein provided, and the Trustee shall not otherwise be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(g) The Trustee shall not be deemed to have, or required to take, notice of a Default under this Indenture, except (i) in the event of an insufficient amount in the Interest and Redemption Funds to make a principal, premium, if any, or interest payment on the Securities, or (ii) upon written notification actually received by the Trustee of a Default from the City, the Department or the Holders of not less than twenty (20%) percent in aggregate principal amount of Securities then Outstanding. In the absence of such notice, the Trustee may conclusively presume there is no Default except as aforesaid.

(h) The Trustee shall, prior to any Default and after the curing of all Defaults which may have occurred, perform such duties and only such duties of the Trustee as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(i) The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Securities, except for any information provided by the Trustee, and shall have no responsibility for compliance with any state or federal securities laws in connection with the Securities.

(j) Notwithstanding the effective date of this Indenture or anything to the contrary in this Indenture, the Trustee shall have no liability or responsibility for any act or event relating to this Indenture which occurs prior to the date the Trustee formally executes this Indenture and commences acting as Trustee hereunder.

(k) The Trustee agrees to accept and act upon directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the City and the Department each shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such directions, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the City or the Department gives the Trustee e-mail or facsimile directions (or directions by a similar electronic method), the Trustee's understanding of such directions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such directions notwithstanding such directions conflict or are inconsistent with a subsequent written directions. The City and the Department each agree to assume all risks arising out of the use of such electronic methods to submit directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized directions, and the risk of interception and misuse by third parties.

(l) The Trustee may become the Holder of Securities with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders, whether or not such committee shall represent the Holders of at least twenty percent (20%) in aggregate principal amount of the Securities then Outstanding.

(m) The Trustee shall not be responsible for determining whether any rebates are required to be paid to the United States government pursuant to the Code.

(n) Whether or not therein expressly so provided, every provision of this Indenture or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article.

(o) Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Director, and such certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional opinions or evidence as it may deem reasonable.

(p) When the Trustee incurs expenses or renders services after a Default under this Indenture, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any applicable law relating to bankruptcy, receivership, or creditors' rights.

SECTION 6.02 Fees, Expenses.

The Trustee shall be entitled to payment and/or reimbursement for reasonable fees for its ordinary services rendered hereunder and all advances, counsel fees and other ordinary expenses reasonably made or incurred by the Trustee in connection with such ordinary services. If it becomes necessary that the Trustee perform extraordinary services, it shall be entitled to reasonable extra compensation therefor, and to reimbursement for reasonable extraordinary expenses in connection therewith; provided, that if such extraordinary services or extraordinary expenses are occasioned by the gross negligence or willful misconduct of the Trustee it shall not be entitled to compensation or reimbursement therefor.

All fees, costs and expenses of any legal proceedings that may be brought by the Trustee to enforce the duties and obligations of the City or the Department hereunder or under any Securities and any amounts advanced by Holders to the Trustee for such costs and expenses shall be paid to the Trustee or such Holders, or both, as the case may be, in the first instance from the Net Revenues remaining, in the month of payment, after making the transfers and deposits required hereunder to all Interest and Redemption Funds (including the Reserve Account, if any, therein), and, to the extent that sufficient amounts are not available from the Revenues therefor, from general funds of the City. In the event that general funds of the City are used to pay any such costs and expenses (as certified to the Trustee by the Finance Director), the City shall be reimbursed therefor with interest at the rate of seven percent (7%) per annum from the first Net Revenues remaining, in the month of reimbursement, after (i) making the transfer and deposits required hereunder to all Interest and Redemption Funds (including the Reserve Account, if any, therein) and (ii) paying the Trustee or Holders as herein provided.

To the extent permitted by law, the City hereby agrees to indemnify and hold harmless the Trustee from and against any and all costs, claims, liabilities, losses or damages whatsoever (including reasonable costs and fees of counsel, auditors or other experts), asserted or arising out of or in connection with the acceptance or administration of the trusts established pursuant to the Indenture, including the reasonable costs and expenses (including the reasonable fees and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties hereunder and of enforcing this indemnification provision, except costs, claims, liabilities, losses or damages resulting from the gross negligence or willful misconduct of the Trustee. The indemnifications set forth herein shall survive the termination of the Indenture and/or the resignation or removal of the Trustee.

The City's payment obligations under this Section shall survive the discharge of this Indenture, and shall not be limited by any law affecting the compensation of a trustee of an express trust.

SECTION 6.03 Intervention in Litigation.

In any judicial proceeding to which the City or the Department are a party, and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of the Holders, the Trustee may intervene on behalf of the Holders and shall do so if requested in writing by the Holders of at least twenty percent (20%) in aggregate principal amount of the Securities then Outstanding, and when provided with sufficient indemnity pursuant to Section 6.02 hereof.

SECTION 6.04 Resignation; Appointment of Successor Trustee; Successor Trustee Upon Merger, Consolidation or Sale.

a. The Trustee may resign by giving not less than sixty (60) days' written notice to the City specifying the date when such resignation shall take effect, and such resignation shall take effect upon the date specified in such notice provided a successor trustee has been appointed, unless previously a successor shall have been appointed, as provided in Section 6.04(b) below, in which event such resignation shall take effect immediately on the appointment and acceptance of such successor, provided further that if a successor trustee shall not have been appointed the Trustee may petition a court of competent jurisdiction to appoint a successor trustee.

b. If the Trustee shall resign or shall be removed, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Holders of a majority of aggregate principal amount of the Outstanding Securities, in the case of removal by the Holders, or by the City, in the case of removal by the City, by an instrument or concurrent instruments in writing of such Holders; provided, however, that in case of such vacancy the Finance Director shall forthwith appoint a Trustee, provided no Default on any Security exists under this Indenture, to fill such vacancy unless and until a successor Trustee shall be appointed by the Holders. At any time, the Trustee may substitute any affiliate, subsidiary, or successor in interest after a merger or consolidation in any and all capacities to which it is appointed hereunder as long as the entity so substituted is qualified to accept such appointment pursuant to all applicable statutory and regulatory requirements, and any requirements contained in this Section 6.04(b). The rights, duties and substitution of the Trustee shall be governed by and construed in accordance with the laws of the State. If the Trustee substitutes an affiliate or subsidiary as Trustee or consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or other entity entitled to conduct said trustee business under applicable law, the successor without any further act shall be the successor of the Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything to the contrary contained herein notwithstanding.

Any successor Trustee shall be a trust company or bank in good standing, within the State, acceptable to the Finance Director, provided no Default on any Security exists, and having

total reported capital funds of not less than \$40,000,000 if there be such an institution willing, qualified and able to accept the trust upon reasonable and customary terms.

Any successor Trustee appointed hereunder shall execute and deliver to its predecessor and the City an instrument in writing accepting such appointment and thereupon shall become fully vested with all the powers and duties under this Indenture. The Trustee, if it ceases to act as Trustee, shall execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the trusts, powers and duties under this Indenture and any property held by it under this Indenture, and shall, after all amounts owing to the Trustee have been paid in full, pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth.

SECTION 6.05 Removal of Trustee.

The Trustee shall be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee and the City, and signed by the Holders of a majority in principal amount of the Outstanding Securities. In addition, as long as no Default on any Security exists under this Indenture, the City, upon sixty (60) days notice to the Trustee, shall have the right to remove the Trustee by an instrument in writing filed with the Trustee.

SECTION 6.06 Instruments of Holders.

Any instrument required by this Indenture to be executed by Holders may be in any number of writings of similar tenor and may be executed by Holders in person or by an agent appointed in writing. Proof of the execution of any such instrument or of the writing appointing any such agent shall be sufficient for any of the purposes of this Indenture if it is established by a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before such officer the execution thereof. Proof of the ownership of Securities shall be established by the ownership records noted in the Registry.

The Trustee may rely on such an instrument of Holders unless and until the Trustee receives notice in the form specified above that the original such instrument is no longer trustworthy or effective.

SECTION 6.07 Appointment of Separate or Co-Trustee.

It is the intent of the parties to this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the rights of banking corporations or associations to transact business as a trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture and in particular in the case of the enforcement of this Indenture on Default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee, or hold title to the properties, in trust, as herein granted, or take any

other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-trustee. The following provisions of this Section 6.07 are adopted to these ends.

If the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, duty, obligation, title, interest and lien expressed or intended by this Indenture to be exercised by, vested in or conveyed to the Trustee with respect thereto shall be exercisable by, vested in and conveyed to such separate trustee or co-trustee, but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary for the exercise thereby by such separate trustee or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the City or the Department be required by the separate trustee or co-trustee so appointed by the Trustee for more fully vesting in and confirming to them such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City or the Department. If any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting or not be qualified to act, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a successor to such separate trustee or co-trustee.

ARTICLE VII AMENDMENTS, SUPPLEMENTAL INDENTURES

SECTION 7.01 Supplemental Indentures.

The City, the Department and the Trustee, without the consent of or notice to any Holders, may enter into an indenture or indentures supplemental to this Indenture and not inconsistent herewith or with the provisions of the Ordinance for one or more of the following purposes:

- (a) To cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture which do not materially adversely affect the interest of the Holders;
- (b) To grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;
- (c) To grant or pledge to the Trustee for the benefit of the Holders any additional security other than that granted or pledged under this Indenture;

- (d) To modify, amend or supplement this Indenture or any supplemental indenture in such manner as to comply with an order of any State or federal court regarding the Department and/or the System;
- (e) To modify, amend or supplement this Indenture or any supplemental indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute then in effect or to permit the qualification of the Securities for sale under the securities laws of any of the states of the United States;
- (f) To appoint a successor Trustee, separate trustees or co-trustees in the manner provided in Article VI; or
- (g) To make any other change which, in the judgment of the Trustee, is not materially adverse to the Trustee or the Holders.

When requested by the City or the Department, and upon receipt of an opinion of Bond Counsel to the effect that all conditions precedent under this Indenture have been met which are not inconsistent with the Ordinance, the Trustee shall join with the City and the Department in the execution of any such supplemental indenture; provided that there shall be no modification of the Trustee's duties without its consent.

SECTION 7.02 Amendments to Indenture; Consent of Holders.

Exclusive of supplemental indentures covered by Section 7.01 hereof and subject to the terms and provisions contained in this Section 7.02, and not otherwise, the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities affected by such indenture or indentures supplemental hereto shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and direct the execution by the Trustee of such other indenture or indentures supplemental hereto for the purpose of modifying, altering, amending, adding to or rescinding, in any particular manner, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Article shall permit, or be construed as permitting (a) without the consent of the Holders of all Securities then Outstanding (i) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Securities, or (ii) a reduction in the principal amount of, or the premium or the rate of interest on, any Securities, (iii) a preference or priority of any Securities over any other Securities, (iv) the creation of a lien prior to the lien of this Indenture, or (v) a reduction in the aggregate principal amount of the Securities required for consent to any supplemental indenture, or (b) a modification or change in the duties of the Trustee hereunder without the consent of the Trustee. The giving of notice to and consent of the Holders to any such proposed supplemental indenture shall be obtained pursuant to Section 7.03.

SECTION 7.03 Notice to and Consent of Holders.

If consent of the Holders is required under the terms of this Indenture for the amendment of this Indenture for any other similar purpose, the Trustee shall cause notice of the proposed execution of the amendment or supplemental indenture to be given by first class mail to the last known holders of the Securities then shown on the Registry. Such notice shall briefly set forth the nature of the proposed amendment, supplemental indenture or other action and shall state that copies of any such amendment, supplemental indenture or other document are on file at the principal corporate trust office of the Trustee for inspection by all Holders. If, within sixty (60) days or such longer period as shall be prescribed by the Trustee following the mailing of such notice the holders of a majority or all, as the case may be, of the principal amount of the Securities by instruments filed with the Trustee shall have consented to the amendment, supplemental indenture or other proposed action, then the Trustee may execute such amendment, supplemental indenture or other document or take such proposed action and the consent of the Holders shall thereby be conclusively presumed.

ARTICLE VIII
MISCELLANEOUS

SECTION 8.01 Limitation of Rights.

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture is intended or shall be construed to give to any Person other than the parties hereto and the Holders any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions herein being intended to be and being for the sole and exclusive benefit of the parties hereto, and the Holders as herein provided.

SECTION 8.02 Severability; Conflicts.

If any provision of this Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other part or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

The invalidity of any one or more phrases, sentences, clauses or Sections of this Indenture contained, shall not affect the remaining portions of this Indenture, or any part thereof.

In the event of a conflict between the provisions of this Indenture and the Ordinance, the Ordinance shall prevail, except to the extent that the conflicting provisions of this Indenture are consistent with an order or orders of a federal court having jurisdiction over the matter.

SECTION 8.03 Notices.

Except as otherwise provided herein, all notices, certificates, or other communications hereunder shall be in writing and shall be deemed given upon receipt, by hand delivery, mail, overnight delivery, telecopy or other electronic means addressed as follows:

If to the City: City of Detroit
 2 Woodward Avenue
 Suite 1200
 Detroit, Michigan 48226
 Attention: Finance Director
 Telephone: (313) 224-3491
 Facsimile: (313) 224-4466

If to the Department: Detroit Water and Sewerage Department
 735 Randolph Street
 Detroit, Michigan 48226
 Attention: Director
 Telephone: (313) 224-4701
 Facsimile: (313) 224-6067

If to the Trustee: U.S. Bank National Association
 535 Griswold Street, Suite 550
 Detroit, Michigan 48226
 Attention: Corporate Trust
 Telephone: (313) 234-4700
 Facsimile: (313) 963-9428

A duplicate copy of each notice given hereunder by any party hereto shall be given to the other parties. Any person or entity listed above may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. For purposes of this Section, "electronic means" shall mean electronic mail, telecopy or facsimile transmission or other similar electronic means of communication which produces evidence of transmission.

SECTION 8.04 Additional Notices to Rating Agencies.

The Trustee hereby agrees that if at any time (a) there is a change in the Trustee; (b) there are any modifications, supplements or amendments to this Indenture; (c) an issue of the Securities are paid in full; then, in each case, the Trustee shall promptly give notice of any such event to each Rating Agency then maintaining a rating on the affected Securities, which notice in the case of an event described in clause (b) above shall include a copy of any such amendment, modification or supplement.

SECTION 8.05 Payments Due on Non-Business Days.

In any case where the date of maturity of interest on or premium, if any, or principal of the Securities or the date fixed for redemption of any Securities shall not be a Business Day, then payment of such interest, premium or principal need not be made on such date but shall be made on the next succeeding Business Day, with the same force and effect as if made on the date of maturity or the date fixed for redemption, and, in the case of such payment, no interest shall accrue for the period from and after such date.

SECTION 8.06 Binding Effect.

This instrument shall inure to the benefit of and shall be binding upon the City, the Department and the Trustee and their respective successors and assigns, subject, however, to the limitations contained in this Indenture.

SECTION 8.07 Captions.

The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

SECTION 8.08 Governing Law.

This Indenture shall be governed by and interpreted in accordance with the laws of the State.

SECTION 8.09 Execution in Counterparts.

This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[The balance of this page is intentionally left blank.
The signature page follows.]

Trust Indenture
Signature Page

IN WITNESS WHEREOF, the City and the Department have executed this Indenture by the Finance Director and the Director, respectively, and the Trustee has caused this Indenture to be executed in its name by its duly authorized officer, all as of February 1, 2013 to be effective as of the day and year first above written.

THE CITY OF DETROIT

By: 
Cheryl Johnson
Its: Finance Director

**DETROIT WATER AND SEWERAGE
DEPARTMENT**

By: 
Sue F. McCormick
Its: Director

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By: 
Susan T. Brown
Its: Vice President

DWSD Resolution

**PROCEEDINGS OF THE BOARD OF WATER COMMISSIONERS
CITY OF DETROIT, MICHIGAN**

Meeting No. _____, 2014

Present: _____

Absent: _____

A Resolution and Ordinance Authorizing the Issuance and Sale of Water Supply System Revenue Refunding Senior Lien Bonds of the City of Detroit and Water Supply System Revenue Refunding Second Lien Bonds of the City of Detroit, all for the Purposes of Defraying Part of the Cost of Refunding Certain Water Supply System Revenue and Revenue Refunding Bonds, Funding one or more Reserve Funds, and Paying Costs of Issuance, all under Act No. 94, Public Acts of Michigan, 1933, as Amended, and the Amended and Restated Ordinance No. 30-02 adopted by the City Council of the City on January 26, 2005; Prescribing the Form of the Bonds Herein Authorized; Providing for Bond Insurance; Providing for Certain Amendments to the Ordinance of the City Council of the City and the Trust Indenture; and Authorizing the Director of the Detroit Water and Sewerage Department to Make Determinations with Respect to the Foregoing and to Take Other Actions.

The following resolution (the “**Resolution**”) was offered by Commissioner _____ and supported by Commissioner _____.

WHEREAS, the City of Detroit, Michigan (the “**City**”), pursuant to Ordinance No. 30-02 as amended and restated adopted by its City Council on January 26, 2005 (the “**Council**”), which amended and restated certain prior Ordinances (the “**Ordinance**”) has heretofore issued several series of its Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds (collectively, the “**Prior Securities**”); and

WHEREAS, Article 7, Chapter 12, of the 2012 Detroit City Charter (the “**Charter**”) creates, pursuant to federal court order, the Water and Sewerage Department (the “**Department**”) which is part of the City and is “headed by a seven (7) member board known as the Board of Water Commissioners [(the “**DWSD Board**”)] [who are] be appointed by and serve at the pleasure of the Mayor...;” and

WHEREAS, as of February 1, 2013, the City, the Department and U.S. Bank National Association, as Trustee, (the “**Trustee**”) entered into a Trust Indenture relating to the outstanding secured obligations of the Detroit Water and Sewerage Department (Water Supply System)(the “**Indenture**”); and

WHEREAS, pursuant to a series of federal court orders, the Board has been granted various powers including, pursuant to an Opinion and Order dated December 12, 2012, the sole power to approve the issuance of debt and the refinancing of debt by the Department, unless the

debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to the issuance; and

WHEREAS, on March 28, 2013, Michigan Public Act 436 of 2012 (“**PA 436**”) became effective and Kevyn D. Orr became the Emergency Manager (“**EM**”) for the City with all the powers and duties provided under PA 436; and

WHEREAS, pursuant to section 9(2) of PA 436, the EM “shall act for and in the place and stead of” the Detroit Mayor (the “**Mayor**”) and the Council and “shall have broad powers in receivership to rectify the financial emergency and assure the fiscal accountability of the City and the City’s capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare;” and

WHEREAS, on July 18, 2013, the EM, pursuant to Act 436 and with the approval of the Governor of the State of Michigan, filed on behalf of the City a petition for relief pursuant to Chapter 9 of Title 11 of the United States Code, 11 USC Section 101 to 1532 of the Bankruptcy Code (the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the Eastern District of Michigan (the “**Bankruptcy Court**”) which case is entitled *In re: City of Detroit, Michigan, Debtor* (the “**Bankruptcy Case**”); and

WHEREAS, the Detroit Water and Sewerage Department (the “**Department**”), the EM and the Mayor of the City have been working together with respect to Department matters; and

WHEREAS, on August 6, 2014, the Board adopted a resolution authorizing the distribution of an Invitation to Tender Water Supply Revenue and Revenue Refunding Bonds (the “**Invitation to Tender**”) for purchase as outlined in the Invitation to Tender (the “**Tender Transactions**”); and

WHEREAS, in connection with the Tender Transactions and as a means to purchase the Prior Securities pursuant to the terms of the Invitation to Tender, it may be deemed appropriate under the existing interest rate climate to issue refunding bonds to finance the purchase price of Prior Securities tendered for sale and/or the refunding of all or such portion of the outstanding Prior Securities pursuant to the existing call provisions of the Prior Securities (the “**Refunding Transactions**” and collectively with the Tender Transactions, the “**Refinancing Transactions**”); and

WHEREAS, pursuant to any Tender Transactions and any Refunding Transactions, any Prior Securities purchased or to be redeemed (the “**Bonds to be Refunded**”) shall be cancelled or defeased in accordance with the terms of the Ordinance and Indenture; and

WHEREAS, to finance the costs of acquiring the Bonds to be Refunded and costs of issuance related to both the Tender Transactions and the Refunding Transactions, Department staff has recommended that Water Supply System Revenue Refunding Bonds be issued as “Senior Lien Bonds” as defined in the Ordinance (the “**New Senior Lien Refunding Bonds**”), or as “Second Lien Bonds” as defined in the Ordinance (the “**New Second Lien Refunding Bonds**”), or as a combination of New Senior Lien Refunding Bonds and New Second Lien

Refunding Bonds (collectively, the “**New Refunding Bonds**,” or the “**New DWSD Bonds**”), all as determined in the Sale Order (hereinafter defined); and

WHEREAS, the New DWSD Bonds shall be issued in accordance with Act No. 94, Public Acts of Michigan, 1933, as amended (“**Act 94**”) and applicable provisions of Act 34, Public Acts of Michigan, 2001, as amended (“**Act 34**”), and the applicable provisions of the Ordinance and, as applicable, the Indenture; and

WHEREAS, all things necessary for the authorization and issuance of the New DWSD Bonds under the Constitution and laws of the State of Michigan, including Act 94, Act 34 and Act 436, and the applicable provisions of the Ordinance and the Indenture have been or will be done prior to the issuance and delivery of the New DWSD Bonds, including but not limited to pending requests for approval by the EM and the Bankruptcy Court as required by law, and the Board is now empowered and desires to authorize the issuance of the New DWSD Bonds by supplementing the Ordinance by adoption of this Resolution, all as herein provided; and

WHEREAS, before issuance of the New DWSD Bonds, it is anticipated that the EM will ratify the actions of the Board taken pursuant to this Resolution by EM Order (the “**EM Order**”) and take such other actions as he shall deem necessary or appropriate to comply with PA 436 (the EM Order, collectively with such actions, constituting the “**EM Actions**”); and

WHEREAS, this Resolution and the EM Actions collectively constitute an “Act of Council” under the Ordinance and upon completion of the EM Actions, this Resolution constitutes an “Ordinance” under Act 94; and

WHEREAS, on August 11, 2014, the City filed a motion in the Bankruptcy Court for entry by the Bankruptcy Court of a final order pursuant to (i) 11 U.S.C. §§ 105, 364(c), 364(d)(1), 364(e), 902, 904, 921, 922 AND 928 (a) approving postpetition financing and (b) granting liens and (ii) Bankruptcy Rule 9019 approving settlement of confirmation objections (the “**Final Order**”) authorizing the City, subject to compliance by the City, the DWSD Board and the Department with the procedures required for authorizing the borrowing of money under Sections 12(1) and 19 of Act 436, execution of the EM Order, adoption by the DWSD Board of this Resolution and execution of the Sale Order (defined below), and compliance by the City, the DWSD Board and the Department with the Ordinance, the Indenture, Act 94, Act 34, Act 436 and other applicable Michigan law (the “**State Law Requirements**”) to (a) issue the New DWSD Bonds, in one or more series on one or more dates, in an aggregate amount not to exceed \$2,700,000,000, to the Michigan Finance Authority or a private purchaser for the purpose of enabling the City to refund or finance the secondary market purchase and cancellation of Prior Securities, fund one or more reserve funds, pay issuance costs related to the Tender Transactions, the Refinancing Transactions, and take such other actions as deemed necessary by the Department to continue to maintain its compliance with applicable federal and State environmental law, (b) grant, pursuant to Section 364(d)(1) of the Bankruptcy Code, valid, binding, continuing, enforceable, non-avoidable fully perfected liens on the Pledged Assets (as defined in the Indenture) with the lien priorities to be defined in the Sale Order (defined below) and (c) grant the other relief outlined therein; and

WHEREAS, the DWSD Board desires to authorize the Director to establish the aggregate principal amount, purchase price, interest rates and maturities for the New DWSD Bonds, the designations of the New DWSD Bonds, the amounts and purposes of the New DWSD Bonds, the dates for payment of principal of, premium, if any, and interest on the New DWSD Bonds, and the Mandatory Redemption Requirements and other redemption provisions for the New DWSD Bonds, and make such other determinations, including amendments to the Ordinance and the Indenture as described herein, as shall be confirmed in the Sale Order (as hereinafter defined, the “***Sale Order***”); and

WHEREAS, the DWSD Board desires to authorize the Director sell such of the New DWSD Bonds in one or more Series and at one or more times, as shall be described in the Sale Order, within the parameters established herein, by negotiated sale pursuant to a Bond Purchase Agreement or Agreements (individually and collectively, the “***Purchase Agreement***”) between the Michigan Finance Authority and, if applicable, the representative named therein (the “***Representative***”) as representative of itself and the other underwriters named therein (the “***Underwriters***”), or in the event that the New DWSD Bonds are to be sold pursuant to a private placement, the purchasers identified in the Purchase Agreement (the “***Purchasers***”) and approved in the Sale Order; and

WHEREAS, in connection with issuance of the New DWSD Bonds to the Michigan Finance Authority and issuance by the Michigan Finance Authority of its related revenue bonds, it is anticipated that the Michigan Finance Authority and the Underwriters will prepare a preliminary disclosure document (the “***Preliminary Official Statement***”) and an Official Statement (the “***Official Statement***”) or a private placement memorandum (the “***Private Placement Memorandum***”), which will contain information regarding the City, the Department and the New DWSD Bonds; and

WHEREAS, the DWSD Board desires to authorize the distribution of the Preliminary Official Statement and the Official Statement or the Private Placement Memorandum; and

WHEREAS, the Michigan Finance Authority and/or the Representative on behalf of the Underwriters may require, as a condition to purchasing the New DWSD Bonds, that the City agree to provide continuing disclosure as required by Section (b)(5) of Rule 15c2-12, as amended, promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended (the “***Rule***”), unless an exemption from such requirement is available; and

WHEREAS, the DWSD Board desires to authorize and direct the Director and all other authorized persons to perform all acts consistent with the Ordinance, the Indenture and this Resolution necessary and appropriate to complete the sale, execution and delivery of the New DWSD Bonds pursuant to the Purchase Agreement;

NOW, THEREFORE, BE IT RESOLVED by the DWSD Board that:

Section 1 Definitions.

(a) Capitalized terms not defined in this Resolution, and defined in the preamble hereto, in the Ordinance or in the Indenture, are used herein as therein defined.

(b) Except when otherwise clearly required by the context, the following terms shall have the following respective meanings:

“Authorized Denomination” means:

- (i) for any Fixed Rate Security, \$5,000 or any multiple thereof;
- (ii) For any Variable Rate Security (until converted to a Fixed Rate Security), \$100,000 or any integral multiple of \$5,000 in excess thereof; or
- (iii) with respect to the foregoing types of New DWSD Bonds under (i) and (ii) above, any other denomination as determined by the Director in the Sale Order.

“Business Day” means any day except Saturday, Sunday or any day on which banking institutions located in the State of New York or the State of Michigan are required or authorized to close or on which the New York Stock Exchange is closed.

“Code” means the Internal Revenue Code of 1986, as amended.

“Continuing Disclosure Agreement” means the Continuing Disclosure Undertaking relating to the New DWSD Bonds.

“Escrow Agreement” has the meaning given such term in Section 11 of this Resolution.

“Escrow Deposit” means cash or Government Obligations, or a combination of cash and Government Obligations, at least sufficient to discharge the lien on Net Revenues securing the Bonds to be Refunded in accordance with Section 21 of the Ordinance.

“Indenture” means that certain Trust Indenture dated as of February 1, 2013, among the City, the Department, and the Trustee, as the same may be amended from time to time.

“Interest Payment Date” means, except as otherwise determined in the Sale Order:

- (i) for any Variable Rate Security, as shall be specified in the Sale Order, and
- (ii) for any Fixed Rate Security, each January 1 and July 1, or such other dates and commencing as set forth in the Sale Order.

“Issuance Costs” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of New DWSD Bonds to the Michigan Finance Authority, consummation of the Tender Transactions, and the Refunding Transactions, including without limitation any underwriters’ discount or fee, purchaser’s

discount or fee, insurance premiums, legal, financial, printing, escrow verification, consultants' fees and costs, publications costs, and other expenses incident thereto.

“Maturity Date” means such dates of maturity for the New DWSD Bonds as determined in the Sale Order.

“New Bond Reserve Requirement” means the sum of the New Senior Lien Reserve Requirement, and the New Second Lien Reserve Requirement if any.

“New DWSD Bonds” means, collectively, the New Senior Lien Bonds and the New Second Lien Bonds, as applicable.

“New Second Lien Bonds” means the New Second Lien Refunding Bonds.

“New Second Lien Reserve Requirement” means such amount, if any, as is determined in the Sale Order to be the amount necessary to make the amount on deposit in the Second Lien Bond Reserve Account at least equal to the Reserve Requirement for the Second Lien Bond Reserve Account immediately upon the issuance of the New Second Lien Bonds after taking into consideration such provision as is made for the Reserve Requirement from proceeds of New Second Lien Bonds and other funds and Surety Bonds on deposit and to be deposited in the Second Lien Bond Reserve Account.

“New Securities” means, collectively, the New Senior Lien Bonds and the New Second Lien Bonds.

“New Senior Lien Bonds” means the New Senior Lien Refunding Bonds.

“New Senior Lien Reserve Requirement” means such amount, if any, as is determined in the Sale Order to be the amount necessary to make the amount on deposit in the Senior Lien Bond Reserve Account at least equal to the Reserve Requirement for the Senior Lien Bond Reserve Account immediately upon the issuance of the New Senior Lien Bonds after taking into consideration such provision as is made for the Reserve Requirement from proceeds of New Senior Lien Bonds and other funds and Surety Bonds on deposit and to be deposited in the Senior Lien Bond Reserve Account.

“Person” means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

“Refunding Costs” means the cost of acquiring the Bonds to be Refunded, including, to the extent authorized in the Sale Order, costs associated with the Tender Transactions and the Refinancing Transactions, funding Bond Reserve Requirements, and Issuance Costs.

“Regular Record Date” means the fifteenth day of the calendar month immediately preceding the Interest Payment Date.

“Sale Order” means any of one or more orders of the Director authorizing acts consistent with the Ordinance, the Indenture and this Resolution necessary and appropriate to complete the sale, execution and delivery of the New DWSD Bonds and to complete the other transactions contemplated herein.

“Second Lien Sinking Fund” means the account within the Second Lien Bond Interest and Redemption Fund established pursuant to Section 8.

“Securities Depository” means The Depository Trust Company until the City designates a New DWSD Bonds depository by notice to the Transfer Agent, and thereafter, such New DWSD Bonds depository.

“Senior Lien Sinking Fund” means the account within the Senior Lien Bond Interest and Redemption Fund established pursuant to Section 8.

“Tax-Exempt DWSD Bonds” means any New DWSD Bonds, the payment of interest on which is exempt from taxation under the Code.

“Taxable DWSD Bonds” means any New DWSD Bonds other than Tax-Exempt DWSD Bonds.

“Tender Documents” means the Invitation to Tender dated August 7, 2014, the Questions and Answers dated August 7, 2014, the Disclosure Statement dated August 7, 2014, the Cover Letter to Bondholders dated August 7, 2014, the Information and Tender Agent Agreement dated August 7, 2014 and the Dealer Manager Agreement dated August 7, 2014, all related to the Tender Transactions defined herein.

“Transfer Agent” means the Transfer Agent under the Ordinance and, as the context requires, the Trustee under the Indenture.

(c) References to Sections and Exhibits refer to the corresponding Sections of and Exhibits to this Resolution unless otherwise stated.

(d) Whenever this Resolution provides for or authorizes doing anything or meeting any requirement in two or more ways, such act may be performed or such requirement may be met by a combination of such ways, and none of such ways shall be exclusive of any other unless such exclusivity shall be clearly required by the context.

Section 2 Authorization of New DWSD Bonds; Incorporation of the Ordinance.

(a) Authorization of Borrowing.

(1) The City may borrow an aggregate amount not in excess of \$2,700,000,000, as is finally determined in the Sale Order, and issue New DWSD Bonds at one or more times and in one or more series, all to evidence such borrowing pursuant to Act 94, the Ordinance and the Indenture, as New Senior Lien Bonds and/or New Second Lien Bonds or a combination thereof, all as finally determined in the Sale Order.

(2) The amount of the borrowings authorized by subsection (a), above:

(i) shall include the amount of the net original issue premium, if any and

(ii) the principal amount shall not exceed the principal amount of New DWSD Bonds approved for issuance by the Michigan Department of Treasury to the extent such approval is required by Act 34.

(b) Purposes of New DWSD Bonds.

The New DWSD Bonds shall be issued for the purpose of refunding the Bonds to be Refunded and paying, reimbursing and/or refinancing related costs, which may, if necessary, include funding reserve funds, costs of bond insurance, and Issuance Costs.

(c) Limitation on Issuance of New Refunding Bonds.

No New Refunding Bonds shall be issued unless:

(i) The proceeds thereof (exclusive of accrued interest) are sufficient to provide the Escrow Deposit, after payment of the Issuance Costs set forth in the Sale Order.

(ii) Concurrently, with the delivery of the New Refunding Bonds for refunding purposes, the Director gives irrevocable notice to the Transfer Agent for the Bonds to be Refunded to (a) call for redemption at the applicable redemption price all of the Bonds to be Refunded that are to be called for redemption prior to maturity pursuant to the Refunding Transactions and (b) acquire and cancel at the applicable purchase price all of the Bonds to be Refunded that are to be acquired and cancelled pursuant to the Tender Transactions.

(c) Insufficient Proceeds.

(i) To the extent that proceeds of New DWSD Bonds are insufficient to pay Refunding Costs, the insufficiency shall be paid from the proceeds of future additional bonds, if any, and moneys of the System now on hand and legally available therefor and such moneys are hereby appropriated therefor.

(d) Separate Series.

New DWSD Bonds are issuable at one or more times and as one or more separate series of Securities in such amounts as determined in the Sale Order or Sale Orders.

(e) Taxable and Tax-Exempt Securities.

New DWSD Bonds may be issued as Taxable DWSD Bonds or Tax-Exempt DWSD Bonds, or as separate series of both.

(f) Source of Payment and Security.

The New DWSD Bonds shall be payable and secured as provided in Section 4 and in the Final Order.

(g) Concerning the Ordinance.

Except as otherwise provided in this Resolution or the Sale Order, all of the provisions of the Ordinance shall apply to the New DWSD Bonds as if set forth in full in this Resolution, the purpose of this Resolution being to supplement the Ordinance to authorize the issuance of New DWSD Bonds for the purposes herein set forth.

Section 3 Details and Terms of New DWSD Bonds.

(a) Designation.

(1) The New DWSD Bonds shall bear the designations Water Supply System Revenue Refunding Senior [Second] Lien Bonds, Series 2014A [B] and shall include such other designations, including, without limitation, designations for multiple series or subseries, as determined by the Director as shall be set forth in the Sale Order and not inconsistent with the Ordinance or this Resolution.

(2) if the New DWSD Bonds are not issued in 2014, the Director is authorized in her discretion to re-designate the year and series designation of the New DWSD Bonds and the various funds and accounts established hereunder to correspond with the year of issuance of the New DWSD Bonds.

(b) Numbering.

New DWSD Bonds shall be numbered in such manner as shall be determined in the Sale Order.

(c) Principal.

New DWSD Bonds shall be issued in the form of serial or term bonds, or any combination of serial and term bonds, in any Authorized Denomination, and the principal thereof shall mature on July 1, or such other date as set forth in the Sale Order, in such years and amounts and shall be or not be subject to redemption prior to maturity, all as shall be determined in the Sale Order subject to the following limitations.

(1) No New DWSD Bond shall mature later than 40 years after the date of issuance thereof.

(2) New DWSD Bonds shall only be issued in annual principal and interest amounts permitted by the Ordinance, including Section 17 thereof.

(d) Interest.

(1) New DWSD Bonds or portions thereof shall bear interest at fixed or variable rates not in excess of the maximum rate permitted by law except as otherwise provided in Section 15 of this Resolution.

(2) Interest on New DWSD Bonds issued as Fixed Rate Securities shall be payable on each Interest Payment Date to the registered owners as of the immediately preceding Regular Record Date by check drawn on the Trustee and Transfer Agent and mailed, or sent by other means, to such registered owners at their addresses, as shown on the registration books of the City maintained by the Trustee and Transfer Agent; provided, however, that at the written request of a registered owner of at least \$1,000,000 in principal amount of like New DWSD Bonds of the same type at least five calendar days prior to any Interest Payment Date (which request may provide that it will remain in effect with respect to subsequent Interest Payment Dates unless and until changed or revoked at any time prior to an Interest Payment Date by subsequent written notice to the Trustee and Transfer Agent), interest shall be paid by wire transfer or other immediately available funds acceptable to the Trustee and Transfer Agent and the City.

(3) In the event that any portion of the New DWSD Bonds is issued bearing interest on a variable rate basis, the New DWSD Bonds shall be subject to additional provisions as set forth in the Sale Order, and the form of the New DWSD Bonds shall be as set forth in the Sale Order.

(4) The principal of the New DWSD Bonds shall be payable at the corporate office of the Trustee and Transfer Agent as principal paying agent or at such other co-paying agents as may be designated by the Director, upon presentation and surrender of the appropriate New DWSD Bond.

(e) Dating.

The New DWSD Bonds shall be dated such date or dates as determined in the Sale Order.

(f) Exchange.

The registered owner of any New DWSD Bond may exchange such New DWSD Bond for an equal aggregate principal amount of any other like New DWSD Bond of the same type and maturity in one or more of the Authorized Denominations by surrendering such New DWSD Bond to be exchanged at the designated office of the Transfer Agent together with an assignment duly executed by the registered owner thereof or his attorney or legal representative in such form as shall be satisfactory to the Transfer Agent.

(g) Transfer Agent.

U.S. Bank National Association, Detroit, Michigan, or such other Transfer Agent as set forth in the Sale Order, is appointed as the initial Transfer Agent for the New DWSD Bonds. Its acceptance of the duties of Transfer Agent for the New DWSD Bonds, and its agreement to fully and completely comply with the provisions of the Ordinances and the Indenture applicable to it, shall be evidenced by a document filed with the Director concurrently with the delivery of the New DWSD Bonds.

(h) Execution of New DWSD Bonds.

The Director and the Chief Financial Officer of the Department, together with the City Finance Director, are hereby authorized and directed to execute the New DWSD Bonds by manual or facsimile signature for and on behalf of the City and in its name, to impress or imprint thereon the official seal of the City or a facsimile thereof and to deliver the New DWSD Bonds to the Michigan Finance Authority upon receiving the purchase price therefor in lawful money of the United States.

(i) Form of New DWSD Bonds.

The New DWSD Bonds shall be in substantially the form contained in Exhibit A hereto, subject to such changes, additions or deletions as determined by the Director within the parameters of this Resolution.

Section 4 Payment of New DWSD Bonds; Confirmation of Statutory Lien.

(a) The New DWSD Bonds and the interest thereon shall be payable solely from the Pledged Assets and as set forth in the Final Order.

(b) To secure payment of New DWSD Bonds, the statutory lien upon the whole of the Pledged Assets established by Act 94 and the pledge created in Section 5 of the Ordinance is hereby confirmed in favor of the New DWSD Bonds as follows.

(1) Such lien in favor of the New Senior Lien Bonds shall be a first lien of equal standing and Priority of Lien with all issued, to be issued and outstanding Senior Lien Bonds.

(2) Such lien in favor of the New Second Lien Bonds shall be a second lien of equal standing and Priority of Lien with all issued, to be issued and outstanding Second Lien Bonds.

Section 5 Concerning the Securities Depository.

(a) As used herein:

Beneficial Owner means any Person who indirectly owns New DWSD Bonds pursuant to the indirect ownership system maintained by the Securities Depository and its Participants, commonly known as the “Book-Entry Only System.”

Participant means any Person whose ownership of New DWSD Bonds is shown on books of the Securities Depository.

(b) The New DWSD Bonds will initially be registered in the name of the Michigan Finance Authority, or such other Purchasers as designated in the Sale Order. In the event the New DWSD Bonds are later to be registered in the name of a Securities Depository or its nominee, neither the City nor the Transfer Agent shall have any responsibility or obligation to any Participant or to any Beneficial Owner with respect to any matter, including the following:

(1) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any ownership interest in New DWSD Bonds,

(2) the delivery to any Participant, Beneficial Owner or any other Person other than the Securities Depository of any notice with respect to: any New DWSD Bonds, including any notice of redemption, or

(3) the payment to any Participant, Beneficial Owner or any other Person, other than the Securities Depository of any amount with respect to the principal (and premium, if any) of or interest on any New DWSD Bonds.

(c) The Transfer Agent shall pay all principal (and premium, if any) of and interest on the New DWSD Bonds only to or upon the order of the Michigan Finance Authority, or the Securities Depository, as applicable, and all such payments shall be valid and effective fully to satisfy and discharge the City’s obligations with respect to the principal (and premium, if any) of, and interest on such New DWSD Bonds to the extent of the sum or sums so paid.

(d) If the New DWSD Bonds become registered in the name of the Securities Depository and (1) the City receives a written notice from the Securities Depository to the effect the Securities Depository is unable or unwilling to discharge its responsibilities or (2) the City determines that it is in the best interests of the Beneficial Owners of New DWSD Bonds that they be able to obtain New DWSD Bonds in certificated form, then, in either event, the City shall notify the Transfer Agent and, in the case of clause, (3), the Securities Depository.

(e) Upon discontinuance of the use of the Book-Entry Only System maintained by the Securities Depository, if any, pursuant to subsection (d), above and upon receipt of notice from the Securities Depository containing sufficient information, the City shall execute and the Transfer Agent shall authenticate and deliver New DWSD Bonds in certificated form to Beneficial Owners in exchange for the beneficial interests of such Beneficial Owners in corresponding principal amounts and in any Authorized Denominations.

(f) Notwithstanding any other provision of this Resolution to the contrary, so long as any New DWSD Bond is registered in the name of the Securities Depository or its nominee:

(1) all payments with respect to the principal, premium, if any, and interest on such New DWSD Bond and all notices of redemption, tender and otherwise with respect to such New DWSD Bond shall be made and given, respectively, to the Securities Depository as provided in the letter of representations from the City and the Transfer Agent to the Securities Depository with respect to such New DWSD Bonds or any master letter of representations from the City and the Transfer Agent to the Securities Depository;

(2) if less than all of the New DWSD Bonds of the same type of any maturity are to be redeemed, then the particular New DWSD Bonds or portions of New DWSD Bonds of such type and maturity to be redeemed shall be selected by the Securities Depository in any such manner as the Securities Depository may determine;

(3) all payments with respect to principal of the New DWSD Bonds and premium, if any and interest on the New DWSD Bonds shall be made in such manner as shall be prescribed by the Securities Depository; and

(4) if a New DWSD Bond is redeemed or tendered in part, then all amounts payable in respect of such redemption or tender shall be paid without presentation and surrender of such New DWSD Bond pursuant to the procedures of the Securities Depository.

Section 6 Bond Insurance.

(a) The Director is authorized to negotiate and obtain Bond Insurance, if the Director determines that it is in the best interest of the City. The Director is further authorized to renegotiate the terms of any outstanding Bond Insurance, if the Director determines that it is in the best interest of the Department and the City.

(b) The Director is authorized to pay the cost of any such Bond Insurance from the proceeds of New DWSD Bonds or any other funds of the System legally available.

(c) The Director is authorized to make such covenants and agreements of the City as shall be necessary or appropriate in such Bond Insurance Agreement.

Section 7 Amendments to Ordinance and Indenture.

The City currently anticipates that its Plan of Adjustment, as filed from time to time with the Bankruptcy Court (the “*Plan of Adjustment*”) will be approved later this year. In connection with confirmation of the Plan of Adjustment, the City may find it necessary or desirable to cause the Ordinance or the Indenture to be amended prior to the date of issuance of the New DWSD Bonds for a number of purposes, including but not limited to providing for the use of surety bonds that are issued by insurance companies that are not AAA rated, and the transfer of the

System to a new regional authority provided that any such transfer would contain the following requirements:

- (a) no material modifications to the source of payment and security for any DWSD outstanding bonds; (b) an opinion of tax counsel that such transfer shall have no material adverse effect on the tax exempt status of the interest on the DWSD outstanding bonds; (c) the City could issue at least \$1 of additional new money DWSD bonds in compliance with the additional bonds test set forth in the applicable Ordinance and Indenture; and (d) ratings confirmation of any rating agency then rating the outstanding DWSD bonds.

So long as such amendments do not impair the New DWSD Bonds and are not inconsistent with the Final Order, the Director is authorized pursuant to the Sale Order and prior to issuance of the New DWSD Bonds, to approve any such amendments; provided that such amendments are (i) made in accordance with Section 22 of the Ordinance or (ii) specifically required by order of the Bankruptcy Court, provided that any amendment under (ii) shall be accompanied by such documentation as shall be deemed necessary or desirable by the Director to evidence compliance with the Ordinance.

Section 8 Funds and Accounts; Flow of Funds.

Except as otherwise provided in this Resolution, all of the provisions relative to funds and accounts, their maintenance, the flow of funds and other details relative thereto, shall remain as specifically set forth in the Ordinance.

Section 9 Series 2014 Term Bond Sinking Fund Accounts.

(a) Establishment of Sinking Funds— New Senior Lien Bonds.

(1) if any New Senior Lien Bonds are issued as term bonds, there shall be established in the Senior Lien Bond Interest and Redemption Fund established by Section 12(A) of the Ordinance, an account to be designated “Series 2014 Senior Term Bond Sinking Fund Account” (the “*Senior Lien Sinking Fund*”) for such New Senior Lien Bonds.

(2) There shall be credited to the Senior Lien Sinking Fund the amounts required to be deposited in the Senior Lien Bond Interest and Redemption Fund to meet the next due Mandatory Redemption Requirement for such New Senior Lien Bonds coming due within the next twelve months.

(b) Establishment of Sinking Funds — New Second Lien Bonds.

(1) If any New Second Lien Bonds are issued as term bonds, there shall be established in the Second Lien Bond Interest and Redemption Fund authorized by Section 12(A) of the Ordinance, an account to be designated “Series 2014 Second Lien Term Bond Sinking Fund Account” (the “*Second Lien Sinking Fund*”) for such New Second Lien Bonds.

(2) There shall be credited to the Second Lien Sinking Fund the amounts required to be deposited in the Second Lien Bond Interest and Redemption Fund to meet the next due Mandatory Redemption Requirement for such New Second Lien Bonds coming due within the next twelve months:

(c) Satisfaction of Mandatory Redemption Requirements.

A Mandatory Redemption Requirement for a maturity of New DWSD Bonds issued as term bonds may be satisfied in the manner provided by Section 13(C) of the Ordinance.

Section 10 Disposition of Proceeds.

(a) New Senior Lien Refunding Bonds

(1) Disposition of Accrued Interest: From the proceeds of the sale of the New Senior Lien Refunding Bonds there shall be immediately deposited in the Senior Lien Bond and Interest Redemption Fund, an amount equal to any accrued interest received on the delivery of the New Senior Lien Refunding Bonds, and the City may take credit for the amount so deposited against the amount required to be deposited in the Senior Lien Bond and Interest Redemption Fund for payment of the next maturing interest payment on the New Senior Lien Refunding Bonds.

(2) Issuance Costs: Such portion of the proceeds from the sale of the New Senior Lien Refunding Bonds shall be applied to the payment of Issuance Costs upon submission of proper documentation to the Director to the extent such Issuance Costs are not paid from the proceeds of other New DWSD Bonds.

(3) Escrow Deposit: Except as otherwise provided in the Escrow Deposit Agreement or Tender Documents, the balance of the proceeds from the sale of the New Senior Lien Refunding Bonds shall be used to acquire Government Obligations, which together with any remaining balance of such proceeds in the form of cash, shall constitute all or part of the Escrow Deposit to be held in the Escrow Fund.

(b) New Second Lien Refunding Bonds

(1) Disposition of Accrued Interest: From the proceeds of the sale of the New Second Lien Refunding Bonds there shall be immediately deposited in the Second Lien Bond and Interest Redemption Fund, an amount equal to any accrued interest received on the delivery of the New Second Lien Refunding Bonds, and the City may take credit for the amount so deposited against the amount required to be deposited in the Second Lien Bond and Interest Redemption Fund for payment of the next maturing interest payment on the New Second Lien Refunding Bonds.

(2) Issuance Costs: Such portion of the proceeds from the sale of the New Second Lien Refunding Bonds shall be applied to the payment of Issuance Costs upon submission of proper documentation to the Director to the extent such Issuance Costs are not paid from the proceeds of other New DWSD Bonds.

(3) Escrow Deposit: Except as otherwise provided in the Escrow Deposit Agreement or Tender Documents, the balance of the proceeds from the sale of the New Second Lien Refunding Bonds shall be used to acquire Government Obligations, which together with any remaining balance of such proceeds in the form of cash, shall constitute all or part of the Escrow Deposit to be held in the Escrow Fund.

Section 11 Escrow Fund; Escrow Agreement; Payment in Lieu of Escrow Fund.

(a) Establishment of Escrow Fund

The Escrow Deposit shall be held in or credited to an account designated as the “City of Detroit Water Supply System Revenue Bonds Series 2014 Senior Lien Refunding Bonds Escrow Fund” or the “City of Detroit Water Supply System Revenue Bonds Series 2014 Second Lien Refunding Bonds Escrow Fund” pursuant to one or more escrow agreements (the “***Escrow Agreement***”).

(b) Escrow Agreement

(1) The Director is authorized to enter into the Escrow Agreement on behalf of the City with U.S. Bank National Association as “Escrow Trustee.”

(2) The Escrow Agreement:

(i) shall be in the form and substance customary for refunding and tender escrow agreements;

(ii) may permit any balance after paying the principal (and premium, if any) and interest on the Bonds to be Refunded to be applied to any lawful purpose of the System if such use will not, in the opinion of nationally recognized bond counsel, impair the exclusion of interest on the New Refunding Bonds from gross income for federal income tax purposes; and

(iii) shall otherwise be in the best interests of the City.

(c) Payment in Lieu of Establishing Escrow Fund

(1) If all Bonds to be Refunded will be paid or redeemed within 90 days of the date of issuance of the New Refunding Bonds, then in lieu of the establishment of an Escrow Fund and the execution of an Escrow Agreement as provided in subsection (b), above, then the Director is authorized to transfer the Escrow Deposit (or cash sufficient to acquire the securities making up all or a portion of the Escrow Deposit) to the trustee for the Bonds to be Refunded together with irrevocable instructions to:

(i) call or acquire the Bonds to be Refunded; and

(ii) use the Escrow Deposit to pay principal of and interest and premiums, if any, on the Bonds to be Refunded to and including the scheduled acquisition date.

(2) This subsection (c) is applicable only if, in the opinion of Bond Counsel, after use of such procedures described in this subsection (c), the Bonds to be Refunded shall no longer be Outstanding under the Ordinance.

Section 12 Tax Covenant.

(a) The Department hereby covenants and represents with the registered owners of the Tax-Exempt DWSD Bonds, and the City will covenant and represent prior to issuance of the Tax-Exempt DWSD Bonds, that so long as any of the Tax-Exempt DWSD Bonds remain outstanding and unpaid as to either principal or interest, Department and the City, respectively, shall, to the extent permitted by law, take all actions within its control to maintain and will refrain from taking any action which would impair the exclusion of the interest on the Tax-Exempt DWSD Bonds from gross income for federal income tax purposes under the Code, as currently amended.

(b) The actions referred to in subsection (a), above include, but are not limited to actions relating to any required rebate of arbitrage earnings and the expenditure and investment of proceeds of Tax-Exempt DWSD Bonds and moneys deemed to be proceeds of Tax-Exempt DWSD Bonds, and to prevent the Tax-Exempt DWSD Bonds from being or becoming “private activity bonds” as that term is used in the Code, as currently amended.

Section 13 Preliminary and Final Official Statements.

(a) The Director shall assist in the preparation of the Michigan Finance Authority’s Preliminary Official Statement and is authorized to deem the portions of Preliminary Official Statement relating to the New DWSD Bonds, the City and the Department “final” for purposes of the Rule. In the event of a private placement, the Director shall assist in the preparation of a Private Placement Memorandum.

(b) The Preliminary Official Statement with such changes and additions as the Director shall approve shall constitute the final Official Statement, and the Director is authorized to execute the final Official Statement, or if applicable, the Private Placement Memorandum, on behalf of the Department approved by her with such changes as the Director may authorize.

(c) Such final Preliminary Official Statement and final Official Statement and other offering materials satisfactory to the Director are authorized to be distributed by the Michigan Finance Authority’s Underwriters in conjunction with the offering and sale of the New DWSD Bonds and the related obligations of the Michigan Finance Authority.

Section 14 Continuing Disclosure.

Unless otherwise set forth in the Sale Order because of an exemption from the Rule, the New DWSD Bonds are hereby made subject to the Continuing Disclosure Agreement.

Section 15 Sale of New DWSD Bonds; Purchase Agreement.

(a) The New DWSD Bonds shall be sold by negotiated sale to the Michigan Finance Authority or the Purchasers pursuant to a Purchase Agreement or Agreements in customary form with such changes thereto as the Director shall determine are in the best interests of the Department and the City, within the parameters established hereby. Such determination shall be conclusively established by the Director's execution and delivery of the Purchase Agreement to the Michigan Finance Authority or the Purchasers. It is anticipated that the EM will also execute the Purchase Agreement.

(b) The reasons for choosing a negotiated sale instead of a competitive sale include the belief of the DWSD Board, based upon the recommendation of the Director and the Department's Financial Advisor, that a negotiated sale will allow the New DWSD Bonds to be offered to investors in the most efficient manner possible while also allowing sufficient flexibility to adjust to market structuring and timing demands in order to result in the lowest possible borrowing costs to the City and the Department.

(c) The Director is authorized to accept, on behalf of the Department, an offer from the Michigan Finance Authority and, if applicable, the Representative, on behalf of the Underwriters of the Michigan Finance Authority's bonds used to finance its acquisition of the New DWSD Bonds, to purchase the New DWSD Bonds subject to the following limitations.

(1) The maximum annual interest rate borne by any Tax-Exempt DWSD Bond or maturity thereof is not in excess of 7% or borne by any Taxable DWSD Bond is not in excess of 9%.

(2) The true interest cost (TIC) of New DWSD Bonds shall not exceed:

- (i) 7% with respect to Tax-Exempt DWSD Bonds; and
- (ii) 9% with respect to Taxable DWSD Bonds.

(3) The aggregate purchaser's discount at which the New DWSD Bonds shall be sold to the Michigan Finance Authority shall not exceed 5%.

(d) The Director is authorized to determine if the Purchase Agreement shall provide for liquidated damages and if so, the amount thereof, and if the Representative shall be required to provide a good faith check and if so, the amount thereof.

(e) The Director is authorized to enter into or or more Letters of Representations in connection with any Purchase Agreement for the DWSD Bonds or Michigan Finance Authority bonds issued in connection with the DWSD Bonds.

Section 16 Delegation of Authority to, and Authorization of Actions of Director.

(a) The Director shall make all determinations herein provided to be made in the Sale Order and shall make all such determinations in accordance with the best interests of the Department and the City and within the parameters of this Resolution.

(b) In addition to determinations authorized elsewhere in this Resolution, the Director shall determine the aggregate principal amount of New DWSD Bonds to be issued, but not in excess of the aggregate principal amount authorized by this Resolution, on the basis of her evaluation of the maximum amount of New DWSD Bonds which can be sold, given anticipated interest rates and the revenue coverage requirements with respect to the New DWSD Bonds and for any other reasons the Director deems appropriate.

(1) Such determination shall also include the type or types of New DWSD Bonds to be issued and if in one or more series and whether to issue New DWSD Bonds as Senior Lien Bonds or Second Lien Bonds or a combination thereof and the redemption provisions for New DWSD Bonds.

(2) The Director shall also determine and establish, in accordance with this Resolution, the maturities of New DWSD Bonds, whether such maturities shall be serial or term maturities and the Mandatory Redemption Requirements for any term maturities.

(c) The Director is authorized to file applications and to pay the related fees, if any, to the Michigan Department of Treasury at her discretion under Act 34 for one or more orders of approval to issue all or a portion of the New DWSD Bonds, and such waivers or other Treasury approvals as necessary to implement the sale, delivery and security for the New DWSD Bonds as authorized herein, and as required by the Michigan Department of Treasury or Act 34.

The Director is hereby authorized and directed to do and perform any and all other acts and things with respect to the New DWSD Bonds which are necessary or appropriate to carry into effect, consistent with the Ordinance, the Indenture and this Resolution, the authorizations therein and herein contained including without limitation the securing of ratings by bond rating agencies, and the incurring of reasonable fees costs and expenses incidental to the foregoing, for and on behalf of the Department.

All determinations and decisions of the Director with respect to the issuance and sale of the New DWSD Bonds as permitted or required by this Resolution shall be confirmed and approved by the Director in the Sale Order.

During the Director's absence or disability, or while the Director's position is vacant, the Chief Financial Officer shall exercise all the powers, perform all the duties and make all the determinations herein required or permitted by the Director.

Section 17 Ratification.

All determinations and decisions of the Director with respect to the issuance and sale of the New DWSD Bonds as permitted or required by the Ordinance, the Indenture, or law are hereby ratified, confirmed and approved.

Section 18 Additional Authorization.

The Director, Chief Financial Officer and Corporation Counsel to the Department, any such officials acting in an interim or acting capacity, their deputies and staff, or any of them, are hereby authorized to execute and deliver such certificates, documents, instruments, opinions and other papers as may be deemed necessary or appropriate to complete the sale, execution and delivery of the New DWSD Bonds and otherwise give effect to the transactions contemplated by this Resolution, as determined by such officials executing and delivering the foregoing items.

Section 19 Resolution a Contract.

Upon completion of the EM Actions, the provisions of this Resolution and the EM Order shall constitute a contract between the City, the Department and each registered owner of an outstanding New DWSD Bond.

Section 20 Election with Respect to New DWSD Bonds.

The New DWSD Bonds shall be issued as “Additional Securities” pursuant to such subsection(s) of Section 20 of the Ordinance, as shall be determined by the Director in the Sale Order.

Section 21 Appointment of Bond Counsel; Engagement of Other Parties.

(a) The appointment by the Director of the law firm of Dykema Gossett PLLC, as Bond Counsel for the New DWSD Bonds is hereby ratified, approved and confirmed, notwithstanding the periodic representation by Dykema Gossett PLLC, in unrelated matters of other parties and potential parties to the issuance of the New DWSD Bonds.

(b) The fees and expenses of Dykema Gossett PLLC, shall be payable as an Issuance Cost from the proceeds of the New DWSD Bonds or other available funds in accordance with the letters of such firms on file with the Director.

(c) The Director is authorized to engage other consultants, including, without limitation, financial advisors, verification agents, or other parties as she deems necessary or appropriate in connection with the sale, issuance and delivery of the New DWSD Bonds and to pay the fees and expenses thereof from the proceeds of the New DWSD Bonds or other available funds. The contract with KPMG with respect to the Refinancing Transactions is ratified and approved.

Section 22 Repeal; Savings Clause.

All other ordinances, resolutions or orders of the City, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

Section 23 Severability; Paragraph headings; and Conflict.

If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this Resolution. The paragraph headings in this Resolution are furnished for convenience of reference only and shall not be considered to be part of this Resolution.

Section 24 Publication.

This Resolution shall be published in full in the Detroit Legal News, or such other newspaper selected by the Director which constitutes a newspaper of general circulation in the City qualified under State law to publish legal notices, promptly after its adoption.

Section 25 Effective Date.

This Resolution shall be effective immediately upon adoption.

FORM OF NEW DWSD BONDS

R-__

**UNITED STATES OF AMERICA
STATE OF MICHIGAN
COUNTY OF WAYNE
CITY OF DETROIT
WATER SUPPLY SYSTEM REVENUE REFUNDING
[SENIOR/SECOND] LIEN BOND
SERIES 2014**

INTEREST RATE

MATURITY DATE

ORIGINAL ISSUE DATE

_____ 1, 20__

CUSIP:

REGISTERED OWNER:

PRINCIPAL AMOUNT: \$ _____

The City of Detroit, Wayne County, Michigan (the “*City*”), for value received, promises to pay, but only from the Pledged Assets hereinafter specified, to the Registered Owner named above, or registered assigns, the Principal Amount stated above in lawful money of the United States of America, on the Maturity Date stated above, unless prepaid prior thereto as hereinafter provided, with interest thereon from the Original Issue Date stated above, or the most recent date to which interest has been paid, until paid, at the Interest Rate Per Annum stated above, first payable on _____, 2014, and semiannually on each January 1 and July 1 thereafter (each an Interest Payment Date). Principal of this bond (as hereinafter defined) is payable upon presentation and surrender at the designated office of U.S. Bank National Association, as Trustee under the Trust Indenture hereinafter defined and as Transfer Agent hereinafter defined, or such other trustee or such other transfer agent as the City may hereafter designate by notice mailed to the registered owner not less than 60 days prior to any Interest Payment Date (the “*Trustee*” or the “*Transfer Agent*”).

Interest on this bond is payable to the registered owner of record as of the close of business on the 15th day of the month immediately preceding any Interest Payment Date as shown on the registration books kept by the Trustee and Transfer Agent by check or draft mailed by the Trustee and Transfer Agent to the registered owner at the registered address; provided, that at the written request of the registered owner of at least \$1,000,000 upon notice as provided

in the Bond Authorization Interest on this bond shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

For the prompt payment of the principal of and interest on this bond, the revenues of the Water Supply System of the City (the “**System**”), including all appurtenances, extensions and improvements thereto, after provision has been made for reasonable and necessary expenses of operation, maintenance and administration (the “**Net Revenues**”), are irrevocably pledged and a statutory lien on the Net Revenues and Pledged Assets (as defined in the Ordinance, hereinafter defined) is hereby recognized. • [The following sentence to appear in only Senior Lien Bonds: Such lien is a first lien and the Bonds are of equal standing on a parity with all other obligations heretofore and hereafter issued or incurred under the Ordinance (hereinafter defined) and secured by a first lien on Net Revenues.] • [The following sentence to appear in only Second Lien Bonds: Such lien is a second lien, subject to obligations heretofore and hereafter issued or incurred under the Ordinance secured by a second lien on Net Revenues. The Bonds are of equal standing on a parity with all other obligations heretofore and hereafter issued or incurred under the Ordinance and secured by, a second lien on Net Revenues.) •

This bond is one of a series of Bonds of even Original issue Date aggregating the principal sum of \$_____ (the “**Bonds**”) issued pursuant to an Amended and Restated Ordinance adopted on January 26, 2005, as amended and supplemented (the “**Ordinance**”), a Trust Indenture dated as of February 1, 2013 by and among the City, the Department and U.S. Bank National Association, as Trustee (the “**Trust Indenture**”) a Resolution of the Board of Water Commission adopted on _____, 2014, and a Sale Order of the Director of the Detroit Water and Sewerage Department, dated _____ 2014, an Order of the Emergency Manager of the City of Detroit dated _____, 2014 and an Order of the United States Bankruptcy Court for the Eastern District of Michigan dated _____, 2014 (collectively, the “**Bond Authorization**”), and under and in full compliance with the Constitution and statutes of the State of Michigan; including specifically Act No. 94, Public Acts of Michigan, 1933, as amended, for purposes of refunding or purchasing in the secondary market and cancelling certain prior bonds of the City secured by Net Revenues funding a portion of the Reserve Requirement and paying Issuance Costs of the Bonds.

Notwithstanding any other provision of this Obligation, so long as the Michigan Finance Authority (the “**MFA**”) is the owner of this Obligation, (a) this Obligation is payable as to principal, premium, if any, and interest at the corporate trust office of U.S. Bank National Association, St. Paul, MN or at such other place as shall be designated in writing to the Issuer by the MFA (the “**MFA’s Depositary**”); (b) the Issuer agrees that it will deposit with the MFA’s Depositary payments of the principal of, premium, if any, and interest on this Obligation in immediately available funds at least five business days prior to the date on which any such payment is due whether by maturity, redemption or otherwise; and (c) written notice of any redemption of this Obligation shall be given by the Issuer and received by the MFA’s Depositary at least 40 days prior to the date on which such redemption is to be made.

For a complete statement of the revenues from which and the conditions under which this bond is payable, a statement of the conditions under which New DWSD Bonds (as defined in the Ordinance) of equal standing and New DWSD Bonds of junior [or senior and junior] standing

may hereafter be issued and the general covenants and provisions pursuant to which this bond is issued, reference is made to the Ordinance. Capitalized terms not defined herein and defined in the Bond Authorization are used herein as therein defined.

[This sentence in Bonds subject to redemption: The Bonds are subject to redemption prior to maturity as provided in the Sale Order.]

THIS BOND IS A SELF-LIQUIDATING BOND AND IS NOT A GENERAL OBLIGATION OF THE CITY AND DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION, BUT IS PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST SOLELY FROM THE PLEDGED ASSETS OF THE SYSTEM. THE PRINCIPAL OF AND INTEREST ON THIS BOND ARE SECURED BY THE STATUTORY LIEN AS HEREINBEFORE MENTIONED.

The City has covenanted and agreed, and hereby covenants and agrees, to fix and maintain at all times while any bonds payable from the Pledged Assets of the System shall be outstanding, such rates for service furnished by the System as shall be sufficient to provide for payment of the interest upon and the principal of the Bonds and all other Securities (as defined in the Ordinance) issued and to be issued under the Ordinance as and when the same shall become due and payable, to create and maintain a bond redemption fund therefor, including a bond reserve, to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the same in good repair and working order, and to provide for such other expenditures and funds for the System, all as are required by the Ordinance.

This bond is transferable only upon the books of the City kept for that purpose at the office of the Trustee and Transfer Agent by the registered owner hereof in person, or by his attorney duly authorized in writing, upon the surrender of this bond together with a written instrument of transfer satisfactory to the Trustee and Transfer Agent duly executed by the registered owner or his attorney duly authorized in writing, and thereupon a new registered Bond or Bonds of the same type, in the same aggregate principal amount and of the same maturity shall be issued to the transferee in exchange therefor as provided in the Bond Authorization and upon the payment of the charges, if any, therein prescribed.

It is hereby certified and recited that all acts, conditions and things required by law precedent to and in the issuance of this bond and the series of Bonds which this bond is one have been done and performed by regular and due time and form as required by law.

This bond is not valid or obligatory for any purpose until the Trustee and Transfer Agent's Certificate of Authentication hereon has been executed by the Trustee and Transfer Agent.

*[Signature and Countersignature, Certificate of Authentication and
Form of Assignment Follow]*

IN WITNESS WHEREOF, the City of Detroit, County of Wayne, State of Michigan, has caused this bond to be signed in its name by the facsimile signatures of its Mayor and its Director and a facsimile of its corporate seal to be printed, impressed or otherwise reproduced hereon, all as of the Original Issue Date.

CITY OF DETROIT

By: _____

[seal]

Countersigned:

By: _____

CERTIFICATE OF AUTHENTICATION

This bond is one of the Bonds described in the within-mentioned Bond Authorization.

U.S. Bank National Association,
Trustee and Transfer Agent

By: _____

Date of Authentication: _____, 20____

ASSIGNMENT

For Value Received the undersigned hereby sells, assigns and transfers unto _____ the within bond and all rights thereunder, and
(Please print or typewrite name and address of transferee)

hereby irrevocably constitutes and appoints as attorney-in-fact to transfer the within bond on the books kept for, registration thereof, with full power of substitution in the premises.

Dated: _____ Signature Guaranteed _____

NOTICE: The signature(s) to this assignment must, correspond with the name as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever.

When assignment is made by a guardian, trustee, executor or administrator, an officer of a corporation, or anyone in a representative capacity, proof of such person's authority to act must accompany the bond.

Signature(s) must be guaranteed by an eligible guarantor institution participating in a Securities Transfer Association recognized signature guarantee program. The Trustee will not transfer of this bond unless the information concerning the transferee requested below is provided.

PLEASE INSERT SOCIAL SECURITY
NUMBER OR OTHER IDENTIFYING
NUMBER OF TRANSFEREE.

Name and Address:

(Insert number for first named transferee if held by joint account.)

LAN01\359284.1

ORDER NO. 10

ORDER OF THE EMERGENCY MANAGER OF THE CITY OF DETROIT, COUNTY OF WAYNE, STATE OF MICHIGAN, RATIFYING AND APPROVING THAT CERTAIN RESOLUTION AND ORDINANCE (TOGETHER, THE “BOND RESOLUTION”) OF THE BOARD OF WATER COMMISSIONERS AUTHORIZING THE ISSUANCE AND SALE OF WATER SUPPLY SYSTEM SENIOR LIEN BONDS OF THE CITY OF DETROIT AND WATER SUPPLY SYSTEM REVENUE REFUNDING SECOND LIEN BONDS OF THE CITY OF DETROIT, ALL FOR THE PURPOSES OF DEFRAYING PART OF THE COST OF REFUNDING CERTAIN WATER SUPPLY SYSTEM REVENUE AND REVENUE REFUNDING BONDS, FUNDING ONE OR MORE RESERVE FUNDS, AND PAYING COSTS OF ISSUANCE, ALL UNDER ACT NO. 94, PUBLIC ACTS OF MICHIGAN, 1933, AS AMENDED, AND THE AMENDED AND RESTATED ORDINANCE NO. 30-02 ADOPTED BY THE CITY COUNCIL OF THE CITY ON JANUARY 26, 2005; PRESCRIBING THE FORM OF BONDS THEREIN AUTHORIZED; PROVIDING FOR BOND INSURANCE; PROVIDING FOR CERTAIN AMENDMENTS TO ORDINANCE NO. 30-02 OF THE CITY COUNCIL OF THE CITY AND THE TRUST INDENTURE; AND AUTHORIZING THE DIRECTOR OF THE DETROIT WATER AND SEWERAGE DEPARTMENT TO MAKE DETERMINATIONS WITH RESPECT TO THE FOREGOING AND TO TAKE OTHER ACTIONS.

WHEREAS, the City of Detroit, Michigan (the “City”), pursuant to Ordinance No. 30-02 as amended and restated by its City Council (the “Council”) on January 26, 2005, which amended and restated certain prior Ordinances (the “Ordinance”) has heretofore issued several series of its Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds (collectively, the “Prior Securities”); and

WHEREAS, Article 7, Chapter 12, of the 2012 Detroit City Charter (the “Charter”) creates, pursuant to federal court order, the Water and Sewerage Department (the “Department”) which is part of the City and is “headed by a seven (7) member board known as the Board of Water Commissioners [(the “DWSD Board”)] [who are] appointed by and serve at the pleasure of the Mayor...;” and

WHEREAS, as of February 1, 2013, the City, the Department and U.S. Bank National Association, as Trustee, (the “Trustee”) entered into a Trust Indenture relating to the outstanding secured obligations of the Detroit Water and Sewerage Department (Water Supply System) (the “Indenture”); and

WHEREAS, on March 1, 2013, the Governor (the “Governor”) of the State of Michigan (the “State”) determined that a financial emergency existed within the City of Detroit, County of Wayne, State of Michigan (the “City”) pursuant to the Local Government Fiscal Responsibility Act, Act 72, Public Acts of Michigan, 1990, as amended (“Act 72”); and

WHEREAS, on March 14, 2013, the Governor confirmed that a financial emergency existed within the City and, pursuant to Act 72, assigned to the Local Emergency Financial

Assistance Loan Board established pursuant to the Emergency Municipal Loan Act, Act 243 Public Acts of Michigan, 1980, as amended (the “Board”) the responsibility for managing the financial emergency; and

WHEREAS, on March 14, 2013, pursuant to Act 72, the Board appointed Kevyn D. Orr as Emergency Financial Manager for the City; and

WHEREAS, pursuant to a series of federal court orders, the DWSD Board has been granted various powers including, pursuant to an Opinion and Order dated December 12, 2012, the sole power to approve the issuance of debt and the refinancing of debt by the Department, unless the debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to the issuance; and

WHEREAS, on March 28, 2013, Michigan Public Act 436 of 2012 (“Act 436”) became effective and Kevyn D. Orr became the Emergency Manager (“EM”) for the City with all the powers and duties provided under PA 436; and

WHEREAS, on July 18, 2013, the EM, pursuant to Act 436 and with the approval of the Governor of the State of Michigan, filed on behalf of the City a petition for relief pursuant to Chapter 9 of Title 11 of the United States Code, 11 USC Section 101 to 1532 of the Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Eastern District of Michigan (the “Bankruptcy Court”) which case is entitled In re: City of Detroit, Michigan, Debtor (the “Bankruptcy Case”) and;

WHEREAS, pursuant to section 9(2) of PA 436, the EM “shall act for and in the place and stead of” the Detroit Mayor (the “Mayor”) and the Council and “shall have broad powers in receivership to rectify the financial emergency and assure the fiscal accountability of the City and the City’s capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare;” and

WHEREAS, pursuant to Section 10(1) of Act 436, the Emergency Manager may “issue to the appropriate local elected and appointed officials and employees, agents, and contractors of the local government the orders the emergency manager considers necessary to accomplish the purposes of this act;” and

WHEREAS, pursuant to Section 12(1)(c) of Act 436, the Emergency Manager, “notwithstanding any charter provision to the contrary,” may “[r]eceive and disburse on behalf of the local government all federal, state, and local funds earmarked for the local government. These funds may include, but are not limited to, funds for specific programs and the retirement of debt;” and

WHEREAS, pursuant to Section 12(1)(ee) of Act 436, the Emergency Manager, “notwithstanding any charter provision to the contrary,” may “[t]ake any other action or exercise any power or authority of any officer, employee, department, board, commission, or other similar entity of the local government, whether elected or appointed, relating to the operation of the local government. The power of the emergency manager shall be superior to and supersede the power of any of the foregoing officers or entities;” and

WHEREAS, upon the Emergency Manager's appointment, the Emergency Manager has all powers granted under Act 436, including Section 12(1)(ee) thereof; and

WHEREAS, the DWSD Board has committed to working with the Emergency Manager and the Mayor of the City to ensure the most efficient, responsive and effective operation of the Department; and

WHEREAS, on August 6, 2014, the Board adopted a resolution (the "Tender Resolution") authorizing the distribution of an Invitation to Tender Sewer Revenue and Revenue Refunding Bonds (the "Invitation to Tender"), for purchase as outlined in the Invitation to Tender (the "Tender Transactions"); and

WHEREAS, on August 6, 2014, the EM issued his Order No 3 ("Order No. 3") ratifying and approving the Tender Resolution; and

WHEREAS, in connection with the Tender Transactions and as a means to purchase the Prior Securities pursuant to the terms of the Invitation to Tender, it may be deemed appropriate under the existing interest rate climate to issue refunding bonds to finance the purchase of the Prior Securities tendered for sale and/or the refunding of all or such portion of the outstanding Prior Securities pursuant to the existing call provisions of the Prior Securities (the "Refunding Transactions" and collectively with the Tender Transactions, the "Refinancing Transactions"); and

WHEREAS, pursuant to any Tender Transactions and any Refunding Transactions, any Prior Securities purchased or to be redeemed (the "Bonds to be Refunded") shall be cancelled or defeased in accordance with the terms of the Ordinance and Indenture; and

WHEREAS, to finance the costs of acquiring the Bonds to be Refunded and costs of issuance related to both the Tender Transactions and the Refunding Transactions, Department staff has recommended that Water Supply System Revenue Refunding Bonds be issued as "Senior Lien Bonds" as defined in the Ordinance (the "New Senior Lien Refunding Bonds"), or as "Second Lien Bonds" as defined in the Ordinance (the "New Second Lien Refunding Bonds"), or as a combination of New Senior Lien Refunding Bonds and New Second Lien Refunding Bonds (collectively, the "New Refunding Bonds," of the "New DWSD Bonds"), and in an amount all as determined in the Sale Order (hereinafter defined); and

WHEREAS, the New DWSD Bonds shall be issued in accordance with Act No. 94, Public Acts of Michigan, 1933, as amended ("Act 94") and applicable provisions of Act 34, Public Acts of Michigan, 2001, as Amended ("Act 34") and the applicable provisions of the Ordinance and, as applicable, the Indenture; and

WHEREAS, all things necessary for the authorization and issuance of the New DWSD Bonds under the Constitution and laws of the State of Michigan, including Act 94, Act 34 and Act 436, and the applicable provisions of the Ordinance and the Indenture will be done prior to the issuance and delivery of the New DWSD Bonds, including but not limited to approval by the Bankruptcy Court as required by law; and

WHEREAS, on August 13, 2014, the DWSD Board adopted the Bond Resolution; and

WHEREAS, before issuance of the New DWSD Bonds, pursuant to this Order No. 10, the EM shall take such additional actions as he shall deem necessary or appropriate, if any, to comply with Act 436 (Order No. 3 and this Order No. 10, collectively with such actions, constituting the "EM Actions"); and

WHEREAS, the Bond Resolution and the EM Actions collectively will constitute an "Act of Council" under the Ordinance and upon completion of the EM Actions, the Bond Resolution will constitute an "Ordinance" under Act 94; and

WHEREAS, on August 11, 2014, the City filed a motion in the Bankruptcy Court for entry by the Bankruptcy Court of a final order pursuant to (i) 11 U.S.C. §§ 105, 364(c), 364(d)(i) 364(e), 902, 904, 921, 922 and 928(a) approving post-petition financing and (b) granting liens and (ii) Bankruptcy Rule 9019 approving settlement of confirmation objections (the "Final Order") authorizing the City, subject to compliance by the City, the DWSD Board and the Department with the procedures required for authorizing the borrowing of money under Sections 12(1) and 19 of Act 436, execution of the Ratifying EM Order, adoption by the DWSD Board of this Resolution and the Sale Order (defined below), and compliance by the City, the DWSD Board and the Department with the Ordinance, the Trust Indenture, Act 94, Act 34, Act 436 and other applicable Michigan law (the "State Law Requirements") to (a) issue the New DWSD Bonds, in one or more series on one or more dates, in an aggregate amount not to exceed \$2,700,000,000, to the Michigan Finance Authority or a private purchaser for the purpose of enabling the City to finance a portion of the Project, refund or finance the secondary market purchase and cancellation of Prior Securities, fund one or more reserve funds, pay issuance costs related to the Tender Transactions, the Refinancing Transactions and the New Project Bonds, and take such other actions as deemed necessary by the Department to continue to maintain its compliance with applicable federal and State environmental law, (b) grant, pursuant to Section 364(d)(1) of the Bankruptcy Code, valid, binding, continuing, enforceable, non-avoidable fully perfected liens on the Pledged Assets (as defined in the Indenture) with the lien priorities to be defined in the Sale Order (defined below) and (c) grant the other relief provided therein; and

WHEREAS, the Bond Resolution authorizes the Director to establish the aggregate principal amount, purchase price, interest rates and maturities for the New DWSD Bonds, the designations of the New DWSD Bonds, the amounts and purposes of the New DWSD Bonds, the dates for payment of principal of, premium, if any, and interest on the New DWSD Bonds, and the Mandatory Redemption Requirements and other redemption provisions for the New DWSD Bonds, and make such other determinations, including amendments to the Ordinance and the Indenture as to be described in the Bond Resolution, as shall be confirmed in the Sale Order of the Director (as hereinafter defined, the "Sale Order"); and

WHEREAS, the Bond Resolution further authorize the Director sell such of the New DWSD Bonds in one or more Series and at one or more times, as shall be described in the Sale Order, within the parameters established herein, by negotiated sale (the "Public Offering") pursuant to a Bond Purchase Agreement or Agreements (individually and collectively, the "Purchase Agreement") between the Michigan Finance Authority and, if applicable, the representative named therein (the "Representative") as representative of itself and the other underwriters named therein (the "Underwriters"), or in the event that the New DWSD Bonds are

to be sold pursuant to a direct purchase (the "Direct Purchase"), the purchasers identified in the Purchase Agreement (the "Purchasers") and approved in the Sale Order; and

WHEREAS, the final terms of the Public Offering or Direct Purchase will be subject to approval by the EM; and

WHEREAS, in connection with issuance of the New DWSD Bonds to the Michigan Finance Authority and issuance by the Michigan Finance Authority of its related revenue bonds, the Michigan Finance Authority and the Underwriters will prepare a preliminary disclosure document (the "Preliminary Official Statement") and an Official Statement (the "Official Statement") or a private placement memorandum (the "Private Placement Memorandum", together with the Preliminary Official Statement and the Official Statement, the "Offering Documents"), which will contain information regarding the City, the Department and the New DWSD Bonds; and

WHEREAS, the Michigan Finance Authority and/or the Representative on behalf of the Underwriters may require, as a condition to purchase the New DWSD Bonds, the at the City agree to provide continuing disclosure as required by Section (b)(5) of Rule 15c2-12, as amended, promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended (the "Rule"), unless an exemption from such requirement is available; and

WHEREAS, the EM will authorize the distribution of the Offering Documents; and

WHEREAS, the EM desires to authorize and direct the Mayor, the Finance Director, the City Clerk and all other authorized persons to perform all acts consistent with the Bond Resolution, the Ordinance, the Indenture and this Order No. 10, necessary and appropriate to complete the sale, execution and delivery of the New DWSD Bonds; and

NOW, THEREFORE, IT IS HEREBY ORDERED AS FOLLOWS:

1. The Bond Resolution is hereby approved, adopted and ratified in full.
2. The final terms of the Public Offering and/or Direct Purchase of the New DWSD Bonds as to be incorporated in the Director's Sale Order shall be approved by the EM by his execution of the Letter of Representations attached to the Purchase Agreement, such execution to be conclusive evidence of his approval thereof.
3. The EM shall approve the Offering Documents by his execution of the appropriate Offering Documents, such execution to be conclusive evidence of his approval thereof.
4. The EM, the Mayor, the Finance Director and the City Clerk are hereby authorized and directed to perform all acts and execute such documents consistent with the Bond Resolution, the Ordinance, the Indenture and this Order No. 10, necessary and appropriate to complete the sale, execution and delivery of the New DWSD Bonds.

5. If any component of this Order No. 10 is declared illegal, unenforceable or ineffective by a court of competent jurisdiction, such component shall be deemed severable so that all other components contained in this Order No. 10 shall remain valid and effective.

6. This Order No. 9 is effective immediately upon the date of execution below.

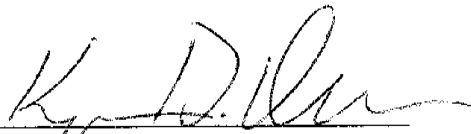
7. The Emergency Manager may modify, amend, rescind, replace, supplement or otherwise revise this Order at any time.

8. This Order No. 9 shall be distributed to the Mayor, members of the City Council and all department heads.

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Dated: August ~~14~~¹⁶ 2014

By:



Kevin D. Orr
Emergency Manager
City of Detroit

cc: State of Michigan Department of Treasury
Mayor Michael Duggan
Members of Detroit City Council

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Amendment to Bond Ordinance

**Amendment to Ordinance
Dated August 27, 2014**

**Relating to City of Detroit, Michigan
Department of Water and Sewerage
Water Supply System Revenue and Revenue Refunding Bonds**

**An Ordinance to Amend Ordinance No. 30-02 of the City of Detroit,
as amended and restated on January 26, 2005.**

WHEREAS, the City of Detroit, Michigan (the “City”), pursuant to an amendment and restatement of Ordinance No. 30-02, which amendment and restatement adopted by its City Council on June 26, 2005 (the “Council”), (the “Ordinance”) has heretofore issued several series of its Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds; and

WHEREAS, Article 7, Chapter 12, of the 2012 Detroit City Charter (the “Charter”) creates, pursuant to federal court order, the Water and Sewerage Department (the “Department”) which is part of the City and is “headed by a seven (7) member board known as the Board of Water Commissioners [(the “DWSD Board”)] [who are] be appointed by and serve at the pleasure of the Mayor...;” and

WHEREAS, as of February 1, 2013, the City, the Department and U.S. Bank National Association, as Trustee, (the “Trustee”) entered into a Trust Indenture relating to the outstanding secured obligations of the Detroit Water and Sewerage Department (Water Supply System) (the “Indenture”); and

WHEREAS, pursuant to a series of federal court orders, the DWSD Board has been granted various powers including, pursuant to an Opinion and Order dated December 12, 2012, the sole power to approve the issuance of debt and the refinancing of debt by the Department, unless the debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to the issuance; and

WHEREAS, on March 28, 2013, Michigan Public Act 436 of 2012 (“PA 436”) became effective and Kevyn D. Orr became the Emergency Manager (“EM”) for the City with all the powers and duties provided under PA 436; and

WHEREAS, pursuant to section 9(2) of PA 436, the EM “shall act for and in the place and stead of” the Detroit Mayor (the “Mayor”) and the Council and “shall have broad powers in receivership to rectify the financial emergency and assure the fiscal accountability of the City and the City’s capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare;” and

WHEREAS, on July 18, 2013, the EM, pursuant to Act 436 and with the approval of the Governor of the State of Michigan, filed on behalf of the City a petition for relief pursuant to Chapter 9 of Title 11 of the United States Code, 11 USC Section 101 to 1532 of the Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Eastern District of Michigan (the “Bankruptcy Court”) which case is entitled In re: City of Detroit, Michigan, Debtor (the “Bankruptcy Case”); and

WHEREAS, the Department, the EM and the Mayor of the City have been working together with respect to Department matters; and

WHEREAS, on August 13, 2014, the DWSD Board adopted a resolution and ordinance (the “Bond Authorizing Resolution”) authorizing the issuance of Water Supply System Revenue Refunding Bonds (the “2014 Water Supply System Revenue Refunding Bonds”), and authorized execution of a Sale Order implementing such authorization, including amendments to the Ordinance; and

WHEREAS, on August 16, 2014, the EM issued his order approving the Bond Authorizing Resolution; and

WHEREAS, on August 25, 2014, the Bankruptcy Court issued its Order (Docket No. 7028) approving issuance of the 2014 Water Supply System Revenue Refunding Bonds (the “Bankruptcy Court Approving Order”), subject to the terms and conditions contained therein; and

WHEREAS, on August 27, 2014, the Department and the EM executed a Sale Order approving issuance of the 2014 Water Supply System Revenue Refunding Bonds (the “Sale Order”), in accordance with the provisions of the Bond Authorizing Resolution and the Bankruptcy Court Approving Order, including the provisions thereof; and

WHEREAS, the Sale Order constitutes an “Act of Council” under the Ordinance; and

WHEREAS, the City and the Department, acting through the DWSD Board and the EM, have determined that it is in the best interest of the City and the Department to amend the Ordinance so as to include certain provisions implementing the Bankruptcy Court Approving Order; and

WHEREAS, the City and the Department, acting through the DWSD Board and the EM, have determined that it is in the best interest of the City and the Department to amend the Ordinance to include supplemental authority for the acquisition of Credit Enhancement for Reserve Accounts under certain circumstances; and

WHEREAS, Section 4 of the Ordinance provides for the acquisition of Credit Enhancement to fulfill the City’s obligation to fund any Reserve Account upon receipt of (1) an opinion of nationally recognized bond counsel to the effect that such substitution will not adversely affect the tax-exempt status of interest on any Securities; (2) evidence that such Credit Enhancement is provided by a provider rated in the highest rating category of each Rating Agency then rating the Securities having the benefit of such Reserve Account; (3) a copy of the

Credit Enhancement; and (5) an opinion of counsel satisfactory to said nationally recognized bond counsel to the effect that the Credit Enhancement is valid and enforceable in accordance with its terms; and

WHEREAS, certain series of the 2014 Revenue Refunding Bonds (the “Insured 2014 Revenue Refunding Bonds”) will be insured by a policy of Bond Insurance by bond insurers which are not rated in the highest rating category of each Rating Agency then rating the Securities; and

WHEREAS, Section 13(C)(3) of the Ordinance provides that a separate Reserve Account may be established for an issue of Securities by Supplemental Action providing for the issuance of such Securities; and

WHEREAS, one or more of the insurers of the Insured 2014 Revenue Refunding Bonds has issued a commitment to provide Credit Enhancement to fulfill the obligation of the City and the Department to fund the Reserve Account related to its Insured 2014 Revenue Refunding Bonds on a series-specific basis; and

WHEREAS, Section 22(A) of the Ordinance provides that the Ordinance may be amended or supplemented from time to time by Act of Council or Supplemental Action without consent of the Holders of Securities to amend or supplement the Ordinance in any respect with regard to one or more Priorities of Securities so long as such amendment does not materially adversely affect the Holders of Outstanding Securities; and

WHEREAS, Section 22(A) of the Ordinance provides, with respect to any amendment to the Ordinance, that no Holders of a Priority of Securities shall be “materially adversely affected” for the purposes of an amendment to the Ordinance, so long as such amendment does not change any coverage percentage established for such Priority of Securities or is not an amendment that requires the Consent of the Holders of such Security under Section 22B of the Ordinance; and

WHEREAS, Section 22(A) of the Ordinance provides that a confirmation of the rating of the Securities held by Holders affected by any amendment of or supplement to the Ordinance shall be conclusive evidence that such Holders were not materially adversely affected by such amendment or supplement; and

WHEREAS, the City and the Department, in connection with issuance of the 2014 Revenue Refunding Bonds, have obtained (a) consent of the Holders of the 2014 Revenue Refunding Bonds to Section 1.2 of this Amendment to Ordinance, (b) consent of the issuers of Financial Facilities applicable to Outstanding Securities to this Amendment to Ordinance, and (c) ratings from each Rating Agency on the 2014 Revenue Refunding Bonds (without regard to availability of Bond Insurance with respect to certain series of such bonds), at least as high as the ratings on Outstanding Securities of equivalent Priority; and

WHEREAS, the City and the Department determine that it is in the best interests of the City and Holders to amend the Ordinance as set forth herein; and

WHEREAS, the City and the Department further determine that the Ordinance Amendments contained herein do not have a material adverse effect on the interests of Holders; and

NOW, THEREFORE, THE CITY AND THE DEPARTMENT, BY ACTION OF THE DWSD BOARD AND THE EM, ORDAIN:

Section 1. Supplements to the Ordinance.

Section 1.1. Supplement to Section 1 of the Ordinance. The following definition is added to the Section 1 of the Ordinance:

“Pension Liability Payment Fund” means the fund required to be established under Section 12A(a) of the Ordinance, as amended.

Section 1.2. Supplement to Section 4 of the Ordinance. The following paragraph is added to Section 4 of the Ordinance:

The Director of the Detroit Water and Sewerage Department and the Finance Director may at any time acquire Credit Enhancement to fulfill the City’s obligation to establish any Reserve Account established on a series-specific basis under Section 13C(3) of the Ordinance that is provided by a provider rated in less than the highest rating category of each Rating Agency then rating the Securities having the benefit of such Reserve Account. Before or concurrently with the acquisition of such Credit Enhancement, the Director of the Detroit Water and Sewerage Department and the Finance Director shall receive:

- (1) an opinion of nationally recognized bond counsel to the effect that such substitution will not adversely affect the tax-exempt status of interest on any Securities;
- (2) evidence that such Credit Enhancement is provided by a provider rated at the time of purchase, in a rating category of each Rating Agency at least equal to the greater of (x) the rating of the provider of any Credit Enhancement relating to the Securities having the benefit of such Reserve Account and (y) the rating of the Securities having the benefit of such Reserve Account;
- (3) a copy of the Credit Enhancement;
- (4) an opinion of counsel satisfactory to said nationally recognized bond counsel to the effect that the Credit Enhancement is valid and enforceable in accordance with its terms; and
- (5) evidence that the Holders of the Securities having the benefit of such Reserve Account have consented to a Reserve Account funded with Credit Enhancement provided in accordance with these provisions.

Section 1.3. Supplement to Section 12A(a) of the Ordinance. The following fund is added to Section 12A(a) of the Ordinance, immediately preceding the Extraordinary Repair and Replacement Reserve Fund, by this Supplemental Action:

- Pension Liability Payment Fund;

Section 1.4. Supplement to Section 12B of the Ordinance. The following subsection is added after “Fourth” and the remaining subsections are renumbered accordingly:

Fifth: to the Pension Liability Payment Fund, *first* the amount of the difference between the Department’s annual GRS pension plan contribution allocated to the Water Supply System provided for in the Plan of Adjustment filed by the City in Case No. 13-53846 in the United States Bankruptcy Court for the Eastern District of Michigan, (the “Plan of Adjustment”) and the portion of the \$24 million allocated to the Water Supply System payable annually out of the Operation and Maintenance Fund, and *second*, and to the extent of available funds, the amount of the Department’s allocable share of debt service on the City’s New B Note (as defined in the Plan of Adjustment) allocated to the Water Supply System, which allocable share constitutes the amount of such debt service related to other pension and employee benefits funded with the City’s New B Notes and directly related to Department employees;

Section 2. Severability; Paragraph Headings; and Conflict.

If any section, paragraph, clause or provision of this Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any other provision of this Ordinance. The paragraph headings in this Ordinance are furnished for convenience of reference only and shall not be considered to be part of this Ordinance.

Section 3. Publication and Recordation.

This Ordinance shall be published in full in a newspaper of general circulation in the City qualified under State Law to publish legal notices, promptly after its adoption.

Section 4. Effective Date.

This Ordinance shall be effective immediately.

First Supplemental Indenture

FIRST SUPPLEMENTAL INDENTURE

Dated as of September 1, 2014

to the

TRUST INDENTURE

By and Among

THE CITY OF DETROIT,

DETROIT WATER AND SEWERAGE DEPARTMENT

and

U.S. BANK NATIONAL ASSOCIATION

as Trustee

**RELATING TO THE OUTSTANDING SECURED OBLIGATIONS
OF THE DETROIT WATER AND SEWERAGE DEPARTMENT
(WATER SUPPLY SYSTEM)**

Dated as of February 1, 2013

**FIRST SUPPLEMENTAL INDENTURE
TO THE
TRUST INDENTURE**

This First Supplemental Indenture (this ***“First Supplemental Indenture”***) supplements the Trust Indenture dated as of February 1, 2013, is dated as of September 1, 2014, effective September 4, 2014 (the ***“Effective Date”***), and is entered into by and among the City of Detroit Water and Sewerage Department, an enterprise agency of the City of Detroit, Michigan (the ***“Department”***), the City of Detroit, Michigan, (the ***“City”***) acting through Kevyn D. Orr, its Emergency Manager (the ***“Emergency Manager”***) and U.S. Bank National Association, as trustee (the ***“Trustee”***).

WHEREAS, pursuant to Act 94, Public Acts of Michigan, 1933, as amended (the ***“Act”***), the City, the Department and the Trustee have previously entered into the Trust Indenture dated as of February 1, 2013 (the ***“Indenture”***); and

WHEREAS, the City and the Department have outstanding bonds that have been issued under the Indenture (all such outstanding bonds are collectively referred to as the ***“Outstanding Water Supply System Revenue Bonds”***); and

WHEREAS, the City and the Department are amending the Ordinance (as defined in the Indenture) to add certain provisions thereto which do not require the consent of Holders under Section 22A of the Ordinance; and

WHEREAS, Section 22(A) of the Ordinance provides, with respect to any amendment to the Ordinance, that no Holders of Securities of a Priority Lien (all as defined in the Ordinance) shall be ‘materially adversely affected’ for the purposes of an amendment to the Ordinance, so long as such amendment does not change any coverage percentage established for such Priority Lien or is not an amendment that requires the Consent of the Holders of such Security under Section 22(B) of the Ordinance; and

WHEREAS, the City, the Department and the Trustee desire to enter into this First Supplemental Indenture to supplement certain provisions of the Indenture to be consistent with the Ordinance, as amended; and

WHEREAS, Section 7.01 of the Indenture authorizes indentures or indentures supplemental to the Indenture and not inconsistent with the provisions of the Ordinance (as defined in the Indenture) for one or more purposes, including to make such other provisions in regard to matters or questions arising under the Indenture which do not materially adversely affect the interest of the Holders (as defined in the Indenture); and

WHEREAS, the consent of all Financial Facilities (as defined in the Indenture) to the amendments to the Ordinance and the provisions of this First Supplemental Indenture have been obtained; and

WHEREAS, the supplements made by this First Supplemental Indenture are supplements authorized by Section 7.01 of the Indenture;

NOW, THEREFORE, by this First Supplemental Indenture, the City and the Department have agreed and covenanted and hereby agree and covenant with the Trustee, the Holders of the Outstanding Water Supply System Revenue Bonds under the Indenture and any future Holders of the Outstanding Water Supply System Revenue Bonds under the Indenture as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND AUTHORITY

Section 1.1. Short Title. This document shall be known as and may be designated by the short title “First Supplemental Indenture.”

Section 1.2. Definitions. All words and phrases defined in Article I of the Indenture shall have the same meaning in this First Supplemental Indenture, except as otherwise amended or defined in this First Supplemental Indenture.

Section 1.3. Authority. This First Supplemental Indenture is adopted pursuant to the provisions of the Act, the Indenture, the resolution of the Board of Water Commissioners of the Department adopted August 13, 2014, the order of the Emergency Manager adopted August 15, 2014, and the Sale Order of the Department adopted August 27, 2014.

ARTICLE II

SUPPLEMENT TO THE INDENTURE

Section 2.1. Supplement to Article I of the Indenture. From and after the Effective Date, the following definition is added to the Indenture:

“Pension Liability Payment Fund” means the fund required to be established under Section 12(A)(1) of the Ordinance, as amended.

Section 2.2. Supplement to Section 2.02 of the Indenture. From and after the Effective Date, the subsection is added after (f), and the remaining subsections thereafter are relettered accordingly:

(g) Pension Liability Payment Fund;

Section 2.3. Supplement to Section 2.03 of the Indenture. From and after the Effective Date, the following subsection is added after “Fourth” and the remaining subsections are renumbered accordingly:

Fifth: to the Pension Liability Payment Fund, *first* the amount of the difference between the Department’s annual general retirement system pension plan contribution allocated to the Water Supply System provided for in the Plan of

Adjustment filed by the City in Case No. 13-53846 in the United States Bankruptcy Court for the Eastern District of Michigan, (the “Plan of Adjustment”) and the portion of the \$24 million allocated to the Water Supply System payable annually out of the Operation and Maintenance Fund, and *second*, and to the extent of available funds, the amount of the Department’s allocable share of debt service on the City’s New B Note (as defined in the Plan of Adjustment) allocated to the Water Supply System, which allocable share constitutes the amount of such debt service related to other pension and employee benefits funded with the City’s New B Notes and directly related to Department employees; the time and amount of such payments to be set forth in written direction to be delivered by an authorized officer of the Department to the Trustee;

Furthermore, from and after the Effective Date, the following subsection is added at the end of Section 2.03:

Amounts in the Pension Liability Payment Fund or required to be deposited in the Pension Liability Payment Fund pursuant to the Plan of Adjustment shall be used by the Department in accordance with the Plan of Adjustment and pursuant to written direction to be delivered by an authorized officer of the Department to the Trustee.

ARTICLE III GENERAL PROVISIONS

Section 3.1. First Supplemental Indenture Construed with Indenture. All of the provisions of this First Supplemental Indenture shall be deemed to be construed as part of the Indenture to the same extent as if fully set forth therein.

Section 3.2. Indenture as Supplemented to Remain in Effect. Except as supplemented by this First Supplemental Indenture, the Indenture shall remain in full force and effect.

Section 3.3. Execution in Counterparts. This First Supplemental Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 3.4. Severability. If any section, paragraph, clause or provision of this First Supplemental Indenture shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this First Supplemental Indenture.

Section 3.5. Governing Law. This First Supplemental Indenture shall be construed in accordance with the laws of the State of Michigan.

IN WITNESS WHEREOF, the authorized officers of the Department, the City and the Trustee have executed this First Supplemental Indenture as of the date first written above.

DETROIT WATER AND SEWERAGE
DEPARTMENT

By: _____
Sue F. McCormick
Its: Director

CITY OF DETROIT

By: _____
Kevyn D. Orr
Its: Emergency Manager

U.S. BANK NATIONAL ASSOCIATION

By: _____
Susan T. Brown
Its: Senior Vice President

Sale Order

**Sale Order
of the Director of the Detroit Water and Sewerage Department
of the City of Detroit
with respect to**

**City of Detroit, Michigan
Detroit Water and Sewerage Department
Water Supply System Revenue Refunding
Senior Lien Bonds and Revenue Refunding Second Lien Bonds**

WHEREAS, on August 13, 2014, the Board of Water Commissioners (the “**BOWC**”) of the Detroit Water and Sewerage Department (the “**Department**”) of the City of Detroit (the “**City**”) adopted the resolution entitled in relevant part *Resolution and Ordinance Authorizing the Issuance and Sale of Water Supply System Revenue Refunding Senior Lien Bonds of the City of Detroit and Water Supply System Revenue Refunding Second Lien Bonds of the City of Detroit (the “BOWC Bond Resolution”)*);

WHEREAS, Article 7, Chapter 12, of the 2012 Detroit City Charter (the “**Charter**”) creates, pursuant to federal court order, the Water and Sewerage Department (the “**Department**”) which is part of the City and is “headed by a seven (7) member board known as the Board of Water Commissioners [(the “**DWSD Board**”)] [who are] be appointed by and serve at the pleasure of the Mayor...” and

WHEREAS, as of February 1, 2013, the City, the Department and U.S. Bank National Association, as Trustee, (the “**Trustee**”) entered into a Trust Indenture relating to the outstanding secured obligations of the Detroit Water and Sewerage Department (Water Supply System)(the “**Indenture**”); and

WHEREAS, pursuant to a series of federal court orders, the DWSD Board has been granted various powers including, pursuant to an Opinion and Order dated December 12, 2012, the sole power to approve the issuance of debt and the refinancing of debt by the Department, unless the debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to the issuance; and

WHEREAS, on March 28, 2013, Michigan Public Act 436 of 2012 (“**PA 436**”) became effective and Kevyn D. Orr became the Emergency Manager (“**EM**”) for the City with all the powers and duties provided under PA 436; and

WHEREAS, pursuant to section 9(2) of PA 436, the EM “shall act for and in the place and stead of” the Detroit Mayor (the “**Mayor**”) and the Council and “shall have broad powers in receivership to rectify the financial emergency and assure the fiscal accountability of the City and the City’s capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare;” and

WHEREAS, on July 18, 2013, the EM, pursuant to Act 436 and with the approval of the Governor of the State of Michigan, filed on behalf of the City a petition for relief pursuant to

Chapter 9 of Title 11 of the United States Code, 11 USC Section 101 to 1532 of the Bankruptcy Code (the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the Eastern District of Michigan (the “**Bankruptcy Court**”) which case is entitled In re: City of Detroit, Michigan, Debtor (the “**Bankruptcy Case**”) and

WHEREAS, on August 25, 2014, the Bankruptcy Court issued a final order pursuant to (i) 11 U.S.C. §§105, 364(c), 364(d)(1), 364(e), 902, 904, 921 922 and 928 (a) approving post-petition financing and (b) granting liens and (ii) Bankruptcy Rule 9019 approving settlement of confirmation objections (the “**Final Order**”) authorizing the City, subject to compliance by the City, the DWSD Board and the Department with the procedures required for authorizing the borrowing of money under Sections 12(1) and 19 of Act 436, execution of the EM Order, adoption by the DWSD Board of the BOWC Bond Resolution and execution of this Sale Order, and compliance by the City, the DWSD Board and the Department with the Ordinance, the Trust Indenture, Act 94, Act 34, Act 436 and other applicable Michigan law (the “**State Law Requirements**”) to (a) issue the New DWSD Bonds, in one or more series on one or more dates, in an aggregate amount not to exceed \$2,700,000,000, to the Michigan Finance Authority or a private purchaser for the purpose of enabling the City to refund or finance the secondary market purchase and cancellation of Prior Securities, fund one or more reserve funds, pay issuance costs related to the Tender Transactions and the Refinancing Transactions, and take such other actions as deemed necessary by the Department to continue to maintain its compliance with applicable federal and State environmental law, (b) grant, pursuant to Section 364(d)(1) of the Bankruptcy Code, valid, binding, continuing, enforceable, non-avoidable fully perfected liens on the Pledged Assets (as defined in the Indenture) with the lien priorities to be defined in the Sale Order (defined below) and (c) grant the other relief outlined therein; and

WHEREAS, the EM has adopted one or more orders adopted (collectively, the “**EM Order**”) approving and ratifying the BOWC Bond Resolution and has taken such other actions as he deemed necessary or appropriate to comply with PA 436 (the EM Order, collectively with such actions, constituting the “**EM Actions**”, and collectively with the BOWC Bond Resolution, the “**Bond Resolution**”).

WHEREAS, the Bond Resolution was adopted pursuant to Act No. 94, Public Acts of Michigan, 1933, as amended, and Ordinance No. 30-02 of the City Council, as amended and restated on January 26, 2005 (the “**City Council**”) (the “**Ordinance**”) and collectively with the EM Actions, constitutes an “Ordinance” for purposes of Act 94;

WHEREAS, the Bond Resolution authorizes the Director of the Department (the “**Director**”), acting on behalf of the City, to sell and deliver some or all of the securities defined therein as the New Securities by sale order within the parameters established by the Bond Resolution for the purposes set forth therein as herein more fully stated; and

WHEREAS, this instrument (the “**Sale Order**”) is the “sale order” referred to in the Bond Resolution and constitutes the exercise of authority therein granted to the Director;

NOW, THEREFORE, THE DIRECTOR HEREBY ORDERS ON BEHALF OF THE CITY AS FOLLOWS:

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.1 Definitions

1.1.1 *Certain Defined Terms*

“**Bonds**” means, collectively, the Senior Lien Bonds, and the Second Lien Bonds.

“**Closing Memorandum**” means the closing memorandum prepared by the Michigan Finance Authority and executed by the Director on behalf of the Department on the date of issuance and delivery of the Bonds which, among other information, describes the final sources and uses of Bond proceeds.

“**Department**” means the Water and Sewerage Department of the City.

“**Indenture**” means the Trust Indenture, dated as of February 1, 2013, among the City, the Department and the Trustee.

“**Official Statement**” means the Official Statement, dated August 27, 2014, with respect to the Bonds and the obligations of the Michigan Finance Authority issued in connection with the Bonds.

“**Preliminary Official Statement**” means the Preliminary Official Statement, dated August 19, 2014 and supplemented by the Supplement thereto dated August 25, 2014, with respect to the Bonds and the obligations of the Michigan Finance Authority issued in connection with the Bonds.

“**Second Lien Bonds**” means the City of Detroit, Michigan, Detroit Water and Sewerage Department, Water Supply System Revenue Refunding Second Lien Bonds described herein.

“**Senior Lien Bonds**” means the “City of Detroit, Michigan, Detroit Water and Sewerage Department, Water Supply System Revenue Refunding Senior Lien Bonds described herein.

“**Trustee**” means, initially, U.S. Bank National Association, and any successor trustee appointed and acting as such in accordance with the Indenture and the Ordinance.

1.1.2 Terms Defined by Reference

Capitalized terms not defined herein and defined in the preamble or in the Ordinance or Bond Resolution are used herein as therein respectively defined.

Section 1.2 Exhibits

References to Exhibits by number refer to the correspondingly numbered Exhibits hereto and the Section numbers of this Sale Order to which they relate.

ARTICLE II

AUTHORITY AND AUTHORIZATION

Section 2.1 The Bonds

2.1.1 Authorization

Pursuant to the Bond Resolution and this Sale Order, the Bonds shall be issued, as provided in the Bond Resolution and this Sale Order.

2.1.2 Authority

(a) The Bonds shall be issued pursuant to the authority contained in Section 20(C) or 20(D) of the Ordinance for the issuance of Additional Securities as Senior Lien Bonds and Second Lien Bonds for the purposes described herein.

(b) Compliance with the Required Combined Coverage requirements set forth in Section 20(C) or 20(D) of the Ordinance is set forth in the Feasibility Report of The Foster Group, LLC provided in connection with the issuance of the Bonds and included in the Official Statement.

2.1.3 Additional Securities

The Bonds shall constitute “Additional Securities” within the meaning of the Ordinance and shall be issued for the purpose of paying Project Costs.

ARTICLE III

TITLE AND TERMS

Section 3.1 Designations

The Bonds shall bear the full designations set forth in **Exhibit 3.1**.

Section 3.2 Terms

3.2.1 Common Terms

The terms common to the Bonds are as follows:

Type	Current Interest, Fixed Rate Bonds
Form	Fully registered without interest coupons
Serial and Term Bonds	Serial Bonds and Term Bonds
Numbering	From R-1 upward
Authorized Denominations...	\$5,000 and any multiple thereof
Dated Date	Date of Initial Delivery
Interest Payment Dates	Semi-annually on each January 1 and July 1 in each year
First Interest Payment Date ..	January 1, 2015
Initial Registration	Michigan Finance Authority
Manner of Delivery	Physical Delivery to Michigan Finance Authority

3.2.2 *Maturities and Interest Rates*

The Bonds shall mature on the dates and in the respective amounts and shall bear interest at the rates per annum as set forth in **Exhibit 3.2.2**.

3.2.3 *Sinking Fund Redemption*

(a) The Term Bonds are subject, to mandatory redemption in part on the dates and in the amounts set forth in **Exhibit 3.2.3**.

(b) The redemption price of such Term Bonds shall be 100% of the principal amount of such Bonds called for redemption plus interest accrued to the redemption date thereof.

3.2.4 *Optional Redemption*

(a) The Bonds are subject to optional redemption on the date and in the amounts set forth in **Exhibit 3.2.4**.

ARTICLE IV

GENERAL REDEMPTION PROVISIONS

Section 4.1 *Partial Redemption*

If less than all of a Bond is called for redemption, the Transfer Agent, upon presentation of the Bond called for redemption in part, shall register, authenticate, and deliver a new Bond to the Holder of the same maturity and tenor and in the principal amount of the portion of the Bond not called for redemption.

Section 4.2 Notice of Redemption

The Transfer Agent shall give at least 30 days' notice to the Holders of Bonds called for redemption in whole or in part at their last address as it appears in the Registry.

Section 4.3 Bonds Payable on Redemption Date

Notice of redemption having been given as provided in Section 4.2, the Bonds or portions thereof to be redeemed shall, on the redemption date, become due and payable at the redemption price thereof plus interest accrued to the date of redemption, and if on such redemption date the Transfer Agent holds amounts sufficient to pay such redemption price plus interest accrued to the date of redemption; then interest on such Bonds or portions thereof shall cease to accrue; otherwise, such Bonds shall continue to bear interest as if they had not been subject to redemption.

ARTICLE V DISPOSITION OF SALE PROCEEDS; RESERVE FUND REQUIREMENTS; REFUNDED BONDS, PURCHASED BONDS; BOND INSURANCE

Section 5.1 Disposition of Sale Proceeds

The proceeds from the sale of the Bonds, together with other available funds, shall be expended for the purposes and in the amounts set forth in **Exhibit 5.1** hereto. Proceeds designated for deposit in the Escrow Fund shall be paid to the Escrow Trustee. Proceeds designated for the purchase price for tendered bonds shall be paid to DTC for payment of tendered bonds being purchased. All other proceeds shall be paid to the Trustee for deposit to the appropriate Fund or Account under the Indenture.

Section 5.2 [Reserved]

Section 5.3 Reserve Requirements

The amount of the New Second Lien Reserve Requirement and the New Senior Lien Reserve Requirement is set forth in **Exhibit 5.3**.

Section 5.4 Credit Enhancement for Certain Reserve Requirements

The Director, in consultation with the Finance Director of the City, has determined that it is in the best interest of the City and the Department to fulfill certain of the New Senior Lien Reserve Requirements established in Section 5.3 with Credit Enhancement as set forth in **Exhibit 5.4**, subject to compliance with Section 4 of the Ordinance, as supplemented.

Section 5.5 Bonds To Be Refunded

On August 22, 2014, the DWSD Board accepted Offered Bonds for purchase, to be financed with issuance of the Bonds. In addition, the Prior Securities set forth in **Exhibit 5.5** are to be called for redemption on October 6, 2014 or as otherwise established in the Escrow

Agreement authorized under the Bond Resolution, it having been determined to be in the best interests of the City and the Department to do so.

Section 5.6 Bond Insurance

Purchase of bond insurance for certain of the bonds of the Michigan Finance Authority (“*MFA*”) bonds to be issued to acquire the Bonds, all as set forth in **Exhibit 5.6** is approved, it having been determined to be in the best interests of the Department and the City to acquire the same. The Director may enter into one or more Bond Insurance Agreements in connection with acquisition of such municipal bond insurance policies.

ARTICLE VI

SALE OF BONDS

Section 6.1 Acceptance of Offer

The Director accepts the offers to purchase Bonds as set forth in the Purchase Contract with the MFA (the “*Purchase Contract*”), and acknowledges the terms of the Bond Purchase Agreement (the “*Bond Purchase Agreement*”) of even date herewith between the MFA and Citigroup Global Markets, acting on behalf of itself and the other underwriters named therein, to purchase the MFA’s Bonds being issued to finance the MFA’s purchase of the Bonds (collectively, the “*Underwriters*”) at the purchase price set forth in **Exhibit 6.1**. Additionally, the Director accepts the offer of Citigroup Global Markets set forth in the Tender and Purchase Agreement as set forth therein.

Section 6.2 Satisfaction of Limitations

The offers contained in the Purchase Contract, the Bond Purchase Agreement and the Tender and Purchase Agreement are within the limitations set forth in Section 18(c) of the Bond Resolution.

Section 6.3 Preliminary Official Statement

6.3.1 Deemed Final

The portions of the Preliminary Official Statement relating to the City and the Department described in the Letter of Representations attached to the Bond Purchase Agreement are “deemed final” for purposes of the Rule.

6.3.2 Distribution

The distribution of the Preliminary Official Statement to interested persons by the Underwriters is ratified and approved.

Section 6.4 Official Statement

The Underwriters are authorized to distribute the Official Statement to purchasers of the Bonds and other interested persons.

ARTICLE VII

AMENDMENT TO ORDINANCE AND SUPPLEMENT TO INDENTURE

Section 7.1 Amendment to Ordinance

In accordance with Section 9 of the Bond Resolution and consistent with the Final Order of the Bankruptcy Court, the Amendment to Ordinance attached as **Exhibit 7.1** is approved.

Section 7.2 First Supplemental Indenture

In accordance with Section 9 of the Bond Resolution and consistent with the Final Order of the Bankruptcy Court, the First Supplemental Indenture attached as **Exhibit 7.2** is approved. The Director is authorized and directed to execute the First Supplemental Indenture on the date of issuance of the Bonds.

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IN WITNESS WHEREOF, I have hereunto set my hand as of the 27th day of August, 2014.

**CITY OF DETROIT
DETROIT WATER AND SEWERAGE
DEPARTMENT**

By: _____
Sue F. McCormick
Director

Approved:

Kevyn D. Orr
Emergency Manager
City of Detroit

Signature Page to Sale Order
(Water Supply System Revenue Refunding Bonds)

EXHIBIT 3.1**SERIES DESIGNATIONS**

\$206,540,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A
\$188,455,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014B
\$62,700,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014C
\$307,645,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014D
\$9,270,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E
\$65,425,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014F
\$14,815,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014G

EXHIBIT 3.2.2**MATURITIES AND INTEREST RATES**

**Water Supply System Revenue Refunding Senior Lien Local Project Bonds,
Series 2014A**

\$206,540,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2015	3,925,000	5.000%	0.350%
7/1/2016	2,400,000	5.000%	0.800%
7/1/2017	8,065,000	5.000%	1.150%
7/1/2018	2,275,000	5.000%	1.510%
7/1/2020	37,165,000	5.000%	2.250%
7/1/2021	40,260,000	5.000%	2.620%
7/1/2022	41,225,000	5.000%	2.960%
7/1/2023	27,035,000	5.000%	3.240%
7/1/2035	20,020,000	5.000%	4.460%*
7/1/2037	24,170,000	5.000%	4.520%*

*Yield to par call date on July 1, 2024.

**Water Supply System Revenue Refunding Senior Lien Local Project Bonds,
Series 2014B**

\$188,455,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2023	5,975,000	5.000%	3.240%
7/1/2024	45,555,000	5.000%	3.440%
7/1/2025	29,525,000	5.000%	3.650%*
7/1/2026	50,370,000	5.000%	3.860%*
7/1/2027	34,340,000	5.000%	3.930%*
7/1/2028	22,690,000	5.000%	4.090%*

*Yield to par call date on July 1, 2024.

**Water Supply System Revenue Senior Lien Local Project Bonds,
Series 2014C**

\$62,700,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2018	39,410,000	5.000%	1.600%
7/1/2019	21,900,000	5.000%	2.000%
7/1/2020	1,390,000	5.000%	2.390%

**Water Supply System Revenue Refunding Senior Lien Local Project Bonds,
Series 2014D**

\$247,320,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2015	31,960,000	2.000%	0.730%
7/1/2016	32,500,000	5.000%	1.140%
7/1/2017	33,825,000	5.000%	1.490%
7/1/2029	47,265,000	5.000%	4.500%*
7/1/2030	54,305,000	5.000%	4.550%*
7/1/2031	28,515,000	5.000%	4.620%*
7/1/2032	18,950,000	5.000%	4.650%*

\$60,325,000 5.000% Term Bonds
Due July 1, 2034, Yield 4.730%*

*Yield to par call date on July 1, 2024.

**Water Supply System Revenue Refunding Senior Lien Local Project Bonds,
Series 2014E (Taxable)**

\$9,270,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2019	9,270,000	2.850%	2.850%

**Water Supply System Revenue Refunding Second Lien Local Project Bonds,
Series 2014F**

\$63,215,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2019	2,810,000	5.000%	2.290%
7/1/2020	4,690,000	5.000%	2.680%
7/1/2021	6,355,000	5.000%	3.020%
7/1/2022	2,080,000	5.000%	3.340%
7/1/2023	3,670,000	5.000%	3.620%
7/1/2024	2,130,000	5.000%	3.820%
7/1/2025	2,870,000	5.000%	4.030%*
7/1/2026	1,895,000	5.000%	4.240%*
7/1/2027	1,930,000	5.000%	4.320%*
7/1/2033	455,000	5.000%	4.780%*
7/1/2034	1,215,000	5.000%	4.830%*
7/1/2036	33,115,000	5.000%	4.870%*

\$2,210,000 5.000% Term Bonds
Due July 1, 2032, Yield 4.700%*

*Yield to par call date on July 1, 2024.

**Water Supply System Revenue Refunding Second Lien Local Project Bonds,
Series 2014G**

\$14,815,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
7/1/2015	3,160,000	2.000%	0.980%
7/1/2016	725,000	5.000%	1.500%
7/1/2017	2,630,000	5.000%	1.830%
7/1/2018	8,300,000	5.000%	2.170%

EXHIBIT 3.2.3

MANDATORY SINKING FUND REDEMPTION

The Series 2014D Bonds maturing on July 1, 2034 are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

Series 2014D Term Bonds maturing July 1, 2034

<u>Date</u>	<u>Amount</u>
July 1, 2033	7,765,000
July 1, 2034	52,560,000

The Series 2014F Bonds maturing on July 1, 2032 are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

Series 2014F Term Bonds maturing July 1, 2032

<u>Date</u>	<u>Amount</u>
July 1, 2028	445,000
July 1, 2029	500,000
July 1, 2030	405,000
July 1, 2031	420,000
July 1, 2032	440,000

EXHIBIT 3.2.4

OPTIONAL REDEMPTION PROVISIONS

The Series 2014A Bonds, the Series 2014B Bonds, the Series 2014D Bonds and the Series 2014F Bonds maturing prior to July 1, 2025 are not subject to optional redemption prior to maturity. The Series 2014A Bonds, the Series 2014B Bonds, the Series 2014D Bonds and the Series 2014F Bonds maturing on or after July 1, 2025 are subject to redemption at the option of the Department on or after July 1, 2024 in whole or in part, at any time and, if in part, from such maturities as the Department determines, at par, plus accrued interest to the redemption date.

The Series 2014C Bonds, the Series 2014E Bonds and the Series 2014G Bonds are not subject to optional redemption prior to maturity.

EXHIBIT 5.1**USE OF PROCEEDS**

Total Par Amount	\$854,850,000.00
Premium / Original Issue Discount	\$48,421,910.46
Cash from Prior Reserve Fund	\$32,022,896.00
Accrued Interest Equity Contribution	\$8,206,804.49
 Total	 \$943,501,610.95
 USES:	
Payment of Purchase Price for Tendered Bonds	\$781,223,185.53
Deposit to Escrow Fund for Redemption of Bonds	\$162,278,425.42
 Total	 \$943,510,610.95

EXHIBIT 5.3

NEW RESERVE REQUIREMENTS

EXHIBIT 5.4

CREDIT ENHANCEMENT FOR CERTAIN RESERVE REQUIREMENTS

EXHIBIT 5.5

BONDS TO BE REFUNDED

EXHIBIT 5.6

DESCRIPTION OF BOND INSURANCE

EXHIBIT 7.1

FORM OF AMENDMENT TO ORDINANCE

EXHIBIT 7.2

FORM OF FIRST SUPPLEMENTAL INDENTURE

APPENDIX II-D

**AUDITED FINANCIAL STATEMENTS OF THE WATER FUND OF THE CITY OF
DETROIT, MICHIGAN, AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

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**CITY OF DETROIT
WATER FUND**

Basic Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)

**CITY OF DETROIT
WATER FUND**

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KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

Kevyn Orr, Emergency Financial Manager,
the Board of Water Commissioners,
the Honorable Mayor Mike Duggan, and
the Honorable Members of the City Council
City of Detroit, Michigan:

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund, as of June 30, 2013, and the changes in its financial position, and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Emphasis of Matter Regarding Uncertainty About Ability to Continue as a Going Concern

The accompanying basic financial statements have been prepared assuming that the City and the Water Fund will continue as a going concern. As discussed in note 16(a) to the basic financial statements, on July 18, 2013, the City, including the Fund, filed a voluntary petition under Chapter 9 of the Bankruptcy Code which raises substantial doubt about the Fund's ability to continue as a going concern. Management's plans in regard to this matter are also described in note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Pension Plans

As discussed in note 11(d) and (e) to the basic financial statements, the City and the General Retirement Systems (GRS) a single-employer defined benefit pension plan which covers substantially all employees of the City, including employees of the Fund, utilized different actuarial assumptions in calculating the unfunded actuarial accrued liability. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Fund Financial Statements

As discussed in note 1, the basic financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan, as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, schedules of employer contributions, and schedules of funding progress that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such supplemental information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Detroit, Michigan
July 25, 2014

**CITY OF DETROIT
WATER FUND**

Statement of Fund Net Position

June 30, 2013

Current assets:	
Cash and cash equivalents	\$ 16,273,604
Investments	31,400,752
Accounts receivable:	
Billed accounts receivable	76,807,485
Unbilled accounts receivable	31,426,122
Other accounts receivable	2,827,025
Allowance for doubtful accounts	<u>(27,158,423)</u>
Total accounts receivable, net	83,902,209
Restricted:	
Cash and cash equivalents	4,792,279
Investments	105,703,197
Due from other funds	48,334,968
Due from fiduciary funds	1,680,314
Inventories	6,261,724
Prepaid expenses	<u>3,819,179</u>
Total current assets	<u>302,168,226</u>
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	24,301,021
Investments	199,563,737
Other receivables	5,121,918
Net pension asset	96,261,825
Deferred charges	36,280,286
Capital assets:	
Assets not subject to depreciation	165,545,005
Assets subject to depreciation, net	<u>1,918,087,376</u>
Total noncurrent assets	<u>2,445,161,168</u>
Total assets	<u>\$ 2,747,329,394</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
WATER FUND**

Statement of Fund Net Position

June 30, 2013

Current liabilities:

Accounts and contracts payable	\$ 23,947,476
Accrued salaries and wages	969,965
Due to other funds	8,272,748
Other accrued liabilities	13,592,704
Revenue bonds and state revolving loans	41,380,000
Pension obligation certificates of participation	2,855,885
Accrued interest	66,454,704
Accrued compensated absences	9,340,642
Accrued workers' compensation	1,435,000
Claims and judgments	17,236
Total current liabilities	<u>168,266,360</u>

Long-term liabilities:

Revenue bonds and state revolving loans, net	2,447,241,502
Pension obligation certificates of participation, net	76,699,025
Accrued other postemployment benefits	70,552,075
Accrued compensated absences	1,282,223
Accrued workers' compensation	8,155,000
Claims and judgments	226,750
Derivative instruments – swap liability	16,489,465
Total long-term liabilities	<u>2,620,646,040</u>
Total liabilities	<u>\$ 2,788,912,400</u>

Fund net position:

Net investment in capital assets	\$ 37,874,003
Restricted:	
Restricted for debt service	106,687,859
Unrestricted deficit	<u>(186,144,868)</u>
Total fund net position	<u>\$ (41,583,006)</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
WATER FUND**

Statement of Revenues, Expenses, and Changes in Fund Net Position

Year ended June 30, 2013

Operating revenues:	
Water sales – Detroit	\$ 75,653,761
Water sales – suburban	275,185,243
Miscellaneous	4,688,757
Total operating revenues	<u>355,527,761</u>
Operating expenses:	
Source of supply	3,787,570
Low-lift pumping	7,152,542
High-lift pumping	22,348,780
Purification	16,426,454
Water quality operations	834,185
Pumping stations	19,924,747
Transmission	25,630,185
Distribution	3,953,602
Services	12,420,169
Hydrant division	508,762
Meters	4,635,389
Commercial	7,352,495
Administrative and general	26,229,460
Other items:	
Net OPEB obligation	17,248,909
Nonrecurring capital asset adjustment	18,735,709
Total operating expenses before depreciation	<u>187,188,958</u>
Depreciation	<u>83,031,094</u>
Total operating expenses	<u>270,220,052</u>
Operating income	<u>85,307,709</u>
Nonoperating revenues (expenses):	
Investment losses:	
Losses on investment activity	(840,377)
Change in fair value of derivatives	(6,101,602)
Interest expense, net of capitalized interest	(127,866,520)
Amortization of bond issuance costs	(8,533,883)
Miscellaneous revenues	6,404,158
Total nonoperating expenses, net	<u>(136,938,224)</u>
Decrease in net position before capital contributions	(51,630,515)
Capital contributions	<u>165,403</u>
Decrease in fund net position	(51,465,112)
Fund net position – beginning of year	<u>9,882,106</u>
Fund net position – end of year	<u>\$ (41,583,006)</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
WATER FUND**

Statement of Cash Flows

Year ended June 30, 2013

Cash flows from operating activities:	
Receipts from customers	\$ 366,533,111
Internal activity – payments to other funds	(15,255,345)
Payments to suppliers	(112,927,039)
Payments to employees	(61,797,221)
Net cash provided by operating activities	<u>176,553,506</u>
Cash flows from noncapital financing activities:	
Interest paid on pension obligation certificates of participation	(5,021,870)
Miscellaneous nonoperating income	6,404,158
Net cash provided by noncapital financing activities	<u>1,382,288</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(25,388,614)
Proceeds from sale of capital assets	234,062
Principal paid on revenue bonds and state revolving loans	(33,120,000)
Interest paid on revenue bonds and state revolving loans	(131,184,555)
Net cash used in capital and related financing activities	<u>(189,459,107)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	910,487,630
Purchase of investments	(915,942,700)
Interest received on investments	1,630,634
Net cash used in investing activities	<u>(3,824,436)</u>
Net decrease in cash and cash equivalents	(15,347,749)
Cash and cash equivalents at beginning of year	<u>60,714,653</u>
Cash and cash equivalents at end of year	<u>\$ 45,366,904</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 85,307,709
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	83,031,094
Bad debt expense	15,930,757
Nonrecurring capital asset adjustment	18,735,709
Loss on disposal of capital assets	1,945,313
Changes in assets and liabilities:	
Accounts receivable	(4,925,407)
Due from other funds	(8,555,773)
Inventories	(601,398)
Prepaid expenses	678,366
Net pension asset	(5,584,729)
Accounts and contracts payable	(12,788,553)
Accrued salaries and wages	(126,172)
Due to other funds	(6,699,572)
Due to fiduciary funds	(10,952,567)
Other accrued liabilities, compensated absences, and workers' compensation	3,952,333
Other postemployment benefits	17,248,910
Claims and judgments payable	(42,514)
Net cash provided by operating activities	<u>\$ 176,553,506</u>
Noncash activities:	
Fair value of derivatives	\$ (8,077,440)
Deferred outflows of resources investment derivatives	14,179,042

See accompanying notes to basic financial statements.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(1) Reporting Entity

The City of Detroit (the City) Charter established the Detroit Water and Sewerage Department (the DWSD) in the year 1836 to supply water, drainage, and sewage service within and outside the City. The Water Fund (the Fund), an enterprise fund, separately accounts for the Water Supply System (the System), as is required by bond ordinances of the City.

The DWSD is governed by a seven member Board of Water Commissioners (the Board). Pursuant to federal court order issued in February 2011, the Board includes four members appointed by the Mayor of the City of Detroit, and one each nominated by the Wayne County Executive, the Oakland County Water Resources Commissioner, and the Macomb Public Works Commissioner with confirmation by the Mayor of Detroit. All members must have at least seven years of experience in a regulated industry. The Board's governance structure, authority, and level of operational autonomy is established by four standing federal court orders dated September 9, 2011 (Creation of the Root Cause Committee); November 4, 2011 (Adoption of the Root Cause Committee Plan of Action); October 5, 2012 (Clarification of the November 4, 2011 Order), and December 14, 2012 (Adoption of Root Cause Committee's Plan of Action Clarification).

These court orders were the result of federal court oversight of DWSD for most of the time from May 6, 1977 through March 27, 2013. The nature of this case was alleged violations of the Clean Water Act involving the DWSD's wastewater treatment plant (WWTP) and its National Pollutant Discharge Elimination System (NPDES) permit. On March 15, 2013, DWSD's Director was required to submit the Final Director's report of compliance for federal court review. The report summarized progress made in implementing the changes granted by the four court orders noted above. On March 27, 2013, the federal court judge entered a final order closing the case based upon "tremendous progress" by the empowered Board of Water Commissioners, implementation of human resource functions, and improved procurement policy, the court found that DWSD's compliance record vastly improved. The resulting order was "that the existing ACO [Administrative Consent Order] is a sufficient mechanism to ensure sustained compliance with the DWSD's NPDES permit and the Clean Water Act and this Court shall, therefore, close this case." The final court order reiterated that it retains limited jurisdiction for the purpose of enforcement of its orders issued on September 9, 2011, November 4, 2011, October 5, 2012, and December 14, 2012.

Authority granted by the federal court to the DWSD includes operational independence in the areas of law, finance, human resources, and procurement. Specifically these orders enjoin the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices that are inconsistent with the express terms of this court's orders. Further the orders grant DWSD the authority to: purchase its own information technology systems; establish its own subunits and programs within its Finance Division including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management, and deferred compensation; independence from City Finance Policies; be exempt from the application of City ordinances, the City's human resources policies and regulations, Civil Service Commission Rules, and City resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; establish bank accounts in its own name; establish its own self-insurance fund; and approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners (unless the debt contains a full or partial general obligation pledge of the City of Detroit, in which case City Council

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

approval would be required prior to issuance). The basic financial statements of the Fund have been included in the City's Comprehensive Annual Financial Report and reported as an enterprise fund. Copies of these reports, along with other financial information, can be obtained at the Fund's administrative office located at 735 Randolph, Detroit, Michigan 48226 and on its website at www.dwsd.org.

(2) Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies followed in the preparation of the Fund's basic financial statements. These policies conform to U.S. generally accepted accounting principles (GAAP).

(a) Basis of Accounting

The accounting policies of the Fund conform to GAAP as applicable to governmental entities. The accounts of the Fund, which are organized as an enterprise fund, are used to account for the Fund's activities, which are financed and operated in a manner similar to a private business enterprise. Accordingly, the Fund maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Fund receives value without directly giving equal value in return, include contributions and grants. On an accrual basis, revenue from contributions and grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements and expenditure requirements. Timing requirements specify the year when the resources are required to be used or the fiscal year when use is first permitted. Expenditure requirements specify the year in which the resources are provided to the Fund on a reimbursement basis.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(c) Investments

Investments are reported at fair value based on quoted market prices.

(d) Inventories and Prepaid Items.

Inventories consist of operating and maintenance and repair parts for water assets and are valued at the lower of cost or market, with cost being determined on an average cost method. Inventory is recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(e) Capital Assets

Capital assets are recorded at historical cost, together with interest capitalized during construction. The Fund's capitalization levels are \$5,000 on tangible personal property and for improvements other than buildings, and \$50,000 on infrastructure, including water mains. All acquisitions of land and land improvements are capitalized regardless of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	67 years
Building and structures	40 years
Mains	67 years
Services and meters	20–67 years
Machinery, equipment, and fixtures	3–20 years

The Fund capitalizes qualifying net interest costs of the System on bonds issued for capital construction in accordance with FASB Statement No. 34, *Capitalization of Interest Cost*, as amended. Accordingly, capitalized interest for the year ended June 30, 2013 was \$7,244,644.

Construction in progress is related to buildings, improvements or infrastructure, that have not yet been placed in service for the intended use. These costs include contract costs (materials, labor, and overhead) as well as professional fees and interest incurred during the construction period. Upon completion, construction-in-progress costs are transferred to the appropriate capital asset classification. A periodic review of projects included in construction in progress identified projects as suspended or cancelled during the period and resulted in project related operations and maintenance costs being recorded as a nonrecurring capital asset adjustment expense.

(f) Taxes and City Services

The Fund pays no direct federal, state, or local taxes, except local taxes on excess property and federal Social Security taxes. The Fund reimburses the City for most of the direct services furnished by other City departments, including general staff services. Charges are billed for all water services provided to City departments.

(g) Shared Costs

Costs related to shared facilities and personnel are allocated to the Fund on a basis that relates costs incurred to the Fund benefited.

(h) Compensated Absences

The liability for compensated absences reported in the basic financial statements consists of unpaid, accumulated vacation, and sick leave balances. Unused vacation pay and banked overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. The liability for compensated absences has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare tax).

(i) Bond Premiums, Discounts, Issuance Costs, and Deferred Amounts on Refunding

Bond premiums, discounts, issuance costs, and deferred amounts on refunding are deferred and amortized over the life of the bonds. Bond premiums and discounts are amortized using the effective interest method, and bond issuance costs and deferred amounts on refunding are amortized using the straight-line method. Bonds payable are reported net of the applicable bond premium, discounts, and deferred amounts on refunding. Bond issuance costs are reported as deferred charges.

(j) Net Position

Fund net position is categorized as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, and related debt.

Restricted – The net position has been legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Fund's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of assets that do not meet the definition of "restricted" or "net investment in capital assets."

(k) Unbilled Revenue

The Fund records unbilled revenues for services provided prior to year-end by accruing actual revenues billed in the subsequent month.

(l) Interest Expense

Interest expense in the statement of revenues, expenses, and changes in fund net position includes amounts paid on interest rate swaps, as well as the amortization of premiums, discounts, and deferred amounts on refunding. Interest expense is reported net of capitalized interest of \$7,244,644 for the year ended June 30, 2013.

(m) Classification of Revenues and Expenses

The Fund classifies its revenues and expenses as either operating or nonoperating.

Operating revenues include activities that have the characteristics of exchange transactions, such as revenue from charges for water service. Such revenue has been shown net of allowances of \$15,930,757.

**CITY OF DETROIT
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Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as contributions and investment income.

Operating expenses include the costs of operating the water utility, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

(n) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Upcoming Accounting Pronouncements

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ending June 30, 2014.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections – an Amendment of GASB Statements No. 10 and No. 62*. This Statement amends or removes certain provisions of GASB Statements No. 10 and No. 62 related to fund-based reporting of a state and local government's risk financing activities, accounting for operating lease payments, differences between the initial investment and the principal amount of a purchased loan or group of loans, and servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from the current (normal) servicing fee rate. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's 2014 fiscal year.

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ending June 30, 2014.

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June 30, 2013

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and new note disclosures and required supplemental information (RSI). The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ending June 30, 2015.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in the Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's fiscal year ending June 30, 2015.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of the Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions* (see above). The Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's fiscal year ending June 30, 2015.

(p) New Accounting Pronouncements

During the year, the Fund adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement impacted the format and reporting of the balance sheet.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(3) Deposits and Investments

The deposits and investments of the Fund at June 30, 2013 are reported in the basic financial statements as follows:

	<u>Cash and cash equivalents</u>	<u>Investments</u>
Current unrestricted assets	\$ 16,273,604	31,400,752
Current restricted assets	4,792,279	105,703,197
Noncurrent restricted assets	<u>24,301,021</u>	<u>199,563,737</u>
Total cash and investments	<u>\$ 45,366,904</u>	<u>336,667,686</u>

State law authorizes the Fund to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The Fund is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools as authorized by state law.

(a) Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Fund's deposits may not be returned by the bank. The Fund does not have a deposit policy for custodial credit risk. At June 30, 2013, the Fund had \$43,278,127 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Fund believes that due to the dollar amount of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Fund evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

(b) Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund does not have a policy for custodial credit risk. As of June 30, 2013, the Fund had no investments subject to custodial credit risk.

(c) Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of an increase in interest rates. The Fund's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The Fund's policy minimizes interest rate risk by requiring that the Fund attempt to match its investments

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

with anticipated cash flow requirements. Unless related to a specific cash flow, the Fund is generally not permitted to directly invest in securities maturing more than 10 years from the original date of purchase. As of June 30, 2013, the maturities for the Fund's fixed income investments were as follows:

	Fair value	Investment maturities in years		
		Less than one year	One to five years	Six to ten years
Investment:				
U.S. government agency securities	\$ 208,183,290	—	190,769,170	17,414,120
Pooled funds	128,484,396	128,484,396	—	—
Total investments	\$ 336,667,686	128,484,396	190,769,170	17,414,120

(d) Credit Risk

Credit risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill its obligation. The Fund limits its investments in commercial paper, mutual funds, and external investment pools that purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs).

As of June 30, 2013, the credit quality ratings for the Fund's fixed income investments were as follows:

Investment	Fair value	Ratings	
		S&P	Moody's
U.S. government agency securities	\$ 208,183,290	AA+	Aaa
Pooled funds	128,484,396	AAAm	Aaa
Total investments	\$ 336,667,686		

(e) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund's policy specifies a number of limitations to minimize concentration of credit risk, including prohibiting investing more than 5% of the portfolio in securities (other than U.S. government agencies, mutual funds, external investment pools, and other pooled investments) of any one issuer.

More than 5% of the Fund's investments are in Federal Home Loan Bank, Federal Farm Credit Bank, and Federal National Mortgage Association securities. These investments represented 16%, 10%, and 35%, respectively, of the Fund's total investments as of June 30, 2013.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(4) Restricted Assets

Restricted assets, principally cash and investments, are available for debt service on revenue bonds and to provide funds for improvements, enlargements, extensions, and construction. In certain instances, minimum levels of assets are required by bond ordinance provisions or by Board of Water Commissioners' decree. These assets are maintained as follows:

- (1) With respect to the Bond and Interest Redemption Fund, after provision has been made for expenses of operation and maintenance of the System, a sum proportionately sufficient to provide for payment, when due, of the current principal and interest is set aside. The Bond Reserve Account is part of the Bond and Interest Redemption Fund, and the amounts credited to this account are to be used only to pay principal and interest on the bonds when current revenues are not sufficient.
- (2) With respect to the Extraordinary Repair and Replacement Reserve Fund, after meeting the requirements of the foregoing funds, monthly deposits in an amount equal to one-twelfth of 3% of the budgeted operation and maintenance expense of the System for the fiscal year must be set aside until the aggregate amount funded totals at least 15% of that year's budgeted operating and maintenance costs. These deposits are to be used for major unanticipated repairs and replacement to the System with actual or anticipated cost exceeding \$1 million. Once this fund is fully funded, deposits required are amounts needed to maintain fully funded status. Borrowings of up to 50% of the balance in this fund on the first day of the related fiscal year are allowed for transfer to and use from the Improvement and Extension Fund. Any such borrowings must be repaid prior to any deposits being made to the Improvement and Extension Fund.
- (3) After the above deposits have been made, excess amounts may be deposited in the Improvement and Extension Fund, established for the payment of improvements, enlargements, repairs, extensions, or betterment to the System.
- (4) With respect to the Construction Fund, the portion of the proceeds of the sale of bonds for building or improving the System is deposited in this fund. A separate depository account is required for each series of bonds. Proceeds for construction purposes received from federal and state grants and other sources that restrict the use of such proceeds are also deposited into this account.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(5) Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance, June 30, 2012	Additions	Disposals	Balance, June 30, 2013
Nondepreciated capital assets:				
Land and land rights	\$ 6,466,486	—	—	6,466,486
Construction in progress	235,667,626	16,393,660	(92,982,767)	159,078,519
Total nondepreciable assets	242,134,112	16,393,660	(92,982,767)	165,545,005
Depreciated capital assets:				
Land improvements	101,297,526	1,272	(1,272)	101,297,526
Buildings and structures	781,238,195	25,755,681	(301,795)	806,692,081
Mains	997,757,837	10,122,820	(160,956)	1,007,719,701
Services	51,838,576	—	—	51,838,576
Meters	123,186,963	980,176	(328,441)	123,838,698
Machinery, equipment, and fixtures	1,011,433,159	50,770,343	(1,640,416)	1,060,563,086
Total depreciable assets	3,066,752,256	87,630,292	(2,432,880)	3,151,949,668
Less accumulated depreciation:				
Land improvements	(16,629,135)	(1,449,486)	—	(18,078,621)
Buildings and structures	(284,433,656)	(17,377,301)	—	(301,810,957)
Mains	(337,513,264)	(14,204,137)	—	(351,717,401)
Services	(26,846,269)	(632,059)	—	(27,478,328)
Meters	(44,718,078)	(5,091,268)	—	(49,809,346)
Machinery, equipment, and fixtures	(440,941,766)	(44,276,843)	250,970	(484,967,639)
Total accumulated depreciation	(1,151,082,168)	(83,031,094)	250,970	(1,233,862,292)
Net capital assets	\$ 2,157,804,200	20,992,858	(95,164,677)	2,083,632,381

See note 14 for discussion of commitments related to construction activities.

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(6) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2013 were as follows:

	Balance, June 30, 2012	Increase	Decrease	Balance, June 30, 2013	Amount due within one year
Revenue bonds	\$ 2,556,395,000	—	(31,620,000)	2,524,775,000	39,850,000
State revolving loans	22,953,761	—	(1,500,000)	21,453,761	1,530,000
Total revenue bonds	2,579,348,761	—	(33,120,000)	2,546,228,761	41,380,000
Add unamortized premiums	58,543,808	—	(3,460,576)	55,083,232	—
Less:					
Unamortized discounts	(3,844,224)	—	211,804	(3,632,420)	—
Deferred amounts on refunding	(115,135,403)	—	6,077,332	(109,058,071)	—
Total revenue bonds, net	2,518,912,942	—	(30,291,440)	2,488,621,502	41,380,000
Pension obligation certificates					
2005 series	27,098,167	—	—	27,098,167	2,855,885
Pension obligation certificates					
2006 series	51,506,122	—	—	51,506,122	—
Plus deferred amounts on refunding	953,488	—	(2,867)	950,621	—
Total pension obligation certificates, net	79,557,777	—	(2,867)	79,554,910	2,855,885
Other long-term liabilities:					
Accrued compensated absences	9,421,311	10,542,196	(9,340,642)	10,622,865	9,340,642
Accrued workers' compensation	10,339,000	3,658,431	(4,407,431)	9,590,000	1,435,000
Claims and judgments	286,500	616,041	(658,555)	243,986	17,236
Accrued other postemployment benefits	53,303,165	28,034,697	(10,785,787)	70,552,075	—
Total other long-term liabilities	73,349,976	42,851,365	(25,192,415)	91,008,926	10,792,878
Total	\$ 2,671,820,695	42,851,365	(55,486,722)	2,659,185,338	55,028,763

**CITY OF DETROIT
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Notes to Basic Financial Statements

June 30, 2013

(7) Revenue Bonds Payable (Including State Revolving Loans)

Revenue bonds payable and state revolving loans amounted to \$2,546,228,761 at June 30, 2013. Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the revenue bonds payable at June 30, 2013:

Issue	Bond date	Amount issued	Range of interest rates	Maturity date	Outstanding balance at June 30, 2013
Series 1993	10/15/93	\$ 38,225,000	6.50%	7/01/14-15	\$ 24,725,000
Series 1997-A	8/01/97	186,220,000	6.00	7/01/14-15	13,430,000
Series 2001-A	5/01/01	301,165,000	5.00	7/1/29-30	73,790,000 c
Series 2001-C	5/14/08	4,055,000	3.50 to 4.25	7/01/13-18	2,240,000
Series 2001-C	5/14/08	186,350,000	4.50 to 5.75	7/01/19-29	186,350,000 c
Series 2003-A	1/30/03	234,805,000	4.50 to 5.00	7/01/19-34	178,785,000 c
Series 2003-B	1/30/03	41,770,000	5.00	7/01/34	41,770,000 c
Series 2003-C	1/30/03	4,335,000	Variable (*)	7/01/13-14	4,335,000
Series 2003-C	1/30/03	25,325,000	4.25 to 5.25	7/01/15-22	25,325,000 c
Series 2003-D	9/01/06	3,180,000	4.00 to 4.20	7/01/13-16	1,320,000
Series 2003-D	9/01/06	139,575,000	4.25 to 5.00	7/01/17-33	139,575,000 c
Series 2004-A	8/16/06	17,600,000	3.75 to 5.25	7/01/13-16	17,520,000
Series 2004-A	8/16/06	55,165,000	4.50 to 5.25	7/01/17-25	55,165,000 c
Series 2004-B	8/16/06	52,840,000	4.00 to 5.00	7/01/13-16	29,975,000
Series 2004-B	8/16/06	100,990,000	4.25 to 5.00	7/01/17-23	100,990,000 c
Series 2005-A	3/23/05	20,965,000	3.40 to 5.00	7/01/13-15	6,375,000
Series 2005-A	3/23/05	84,035,000	3.90 to 5.00	7/01/16-35	84,035,000 c
Series 2005-B	5/14/08	19,070,000	4.00 to 5.50	7/01/13-18	13,525,000
Series 2005-B	5/14/08	175,830,000	4.75 to 5.50	7/01/19-35	175,830,000 c
Series 2005-C	3/23/05	36,405,000	5.00	7/01/13-15	21,090,000
Series 2005-C	3/23/05	90,200,000	5.00	7/01/16-22	90,200,000 c
Series 2006-A	8/16/06	42,795,000	5.00	7/01/13-16	26,900,000
Series 2006-A	8/16/06	237,205,000	5.00	7/01/17-34	237,205,000 c
Series 2006-B	4/01/09	900,000	3.30 to 5.00	7/01/13-19	700,000
Series 2006-B	4/01/09	119,100,000	5.50 to 7.00	7/01/20-36	119,100,000 c
Series 2006-C	8/16/06	12,585,000	4.00 to 5.00	7/01/13-16	9,655,000
Series 2006-C	8/16/06	208,060,000	5.00	7/01/17-33	208,060,000 c
Series 2006-D	8/16/06	4,430,000	4.00 to 5.00	7/01/13-16	1,760,000
Series 2006-D	8/16/06	142,160,000	4.25 to 5.00	7/01/17-32	142,160,000 c
Series 2011-A	12/22/11	37,880,000	3.00 to 5.00	7/01/13-21	32,380,000
Series 2011-A	12/22/11	341,710,000	5.00 to 5.75	7/01/22-41	341,710,000 c
Series 2011-B	12/22/11	7,455,000	2.496 to 5.00	7/01/13-21	6,390,000
Series 2011-B	12/22/11	9,740,000	6.00	7/01/22-33	9,740,000 c
Series 2011-C	12/22/11	3,925,000	3.00 to 5.00	7/01/21	2,700,000
Series 2011-C	12/22/11	99,965,000	4.50 to 5.25	7/01/23-41	99,965,000 c
Total revenue bonds payable					<u>\$ 2,524,775,000</u>

* Interest rates are reset periodically at the stated current market interest rate.

c Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

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Notes to Basic Financial Statements

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The following is a schedule of the state revolving loans at June 30, 2013:

<u>Issue</u>	<u>Bond date</u>	<u>Amount issued</u>	<u>Range of interest rates</u>	<u>Maturity date</u>	<u>Outstanding balance at June 30, 2013</u>
Series 2005 SRF-1	9/22/05	\$ 13,805,164	2.125%	10/01/13-26	\$ 9,960,164
Series 2005 SRF-2	9/22/05	8,891,730	2.125	10/01/13-26	6,241,730
Series 2006 SRF-1	9/21/06	5,180,926	2.125	10/01/13-26	3,715,926
Series 2008 SRF-1	9/29/08	2,590,941	2.500	10/01/13-28	1,535,941
Total state revolving loans					<u>\$ 21,453,761</u>

The state revolving loans are issued as part of the State of Michigan's Revolving Fund Loan Program. As the System draws additional amount from time to time hereafter, the outstanding principal amounts of such bonds will correspondingly increase. All loans are callable under terms specified in the loan agreements.

As of June 30, 2013, aggregate debt service requirements of the Fund's debt (fixed-rate and variable-rate) instruments were as follows, to the extent not otherwise adjusted and/or discharged pursuant to the plan of adjustment confirmed in the Bankruptcy Case. These amounts assume that current interest rates on variable rate bonds will remain the same for their term. As these rates vary, interest payments on variable-rate bonds will vary.

	<u>Principal</u>	<u>Interest</u>	<u>Total requirements</u>
Year(s) ending June 30:			
2014	\$ 41,380,000	131,247,052	172,627,052
2015	53,345,000	129,316,023	182,661,023
2016	58,660,000	126,493,985	185,153,985
2017	61,720,000	123,387,156	185,107,156
2018	64,685,000	120,393,717	185,078,717
2019-2023	369,815,941	550,462,485	920,278,426
2024-2028	467,407,820	445,793,623	913,201,443
2029-2033	581,100,000	316,521,486	897,621,486
2034-2038	587,260,000	158,565,766	745,825,766
2039-2042	260,855,000	34,774,526	295,629,526
	<u>\$ 2,546,228,761</u>	<u>2,136,955,819</u>	<u>4,683,184,580</u>

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Bonds outstanding at June 30, 2013 include approximately \$2.3 billion of bonds and loans callable at various dates after June 30, 2013. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(a) Issuance of State Revolving Loans

No new loans were received from the State of Michigan Revolving Loan Fund during the year ended June 30, 2013. At June 30, 2013, \$3,909,059 in bonds was authorized and unissued.

(b) Defeased Debt

In previous years, the Fund defeased certain revenue bonds by placing the proceeds of new revenue bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's basic financial statements. At June 30, 2013, \$178,070,000 of bonds outstanding is considered defeased.

(c) Pledges of Future Revenue

The Water Fund has pledged specific revenue streams to secure the repayment of the revenue bonds and State of Michigan revolving fund loans. The bonds and loans are paid solely from the net revenues of the System. A summary of the pledged revenue and the applicable debt as of June 30, 2013 is as follows:

Bonds	Type of revenue pledged	General purpose for debt	Term of pledged commitment	Remaining principal and interest requirement	Principal and interest for the year ended June 30, 2013	Pledged Revenue recognized for the year ended June 30, 2013	Proportion of pledged revenue collected
Revenue Bonds and State of Michigan Revolving Fund Loans	All Water Fund operating revenue	Funding of various waste water treatment and collection capital improvements, refund certain water revenue bonds, pay termination amounts for interest rate swap agreements, and funding reserve requirements	Thru 2040	\$ 4,683,184,580	172,638,228	209,887,202	121.6%

The fund has approximately \$334 million in restricted cash and investments related to various bond indentures as of June 30, 2013.

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(d) Debt Ratings

In November 2012, Moody's downgraded the ratings of the Funds Senior and Second Lien Bonds from "Baa2/Baa3" to "Baa3/Bal." In June 2013, Moody's further downgraded the ratings from "Baa3/Bal" to "Bal/Ba2" and then to "B1/B2." In April 2013, Fitch downgraded the ratings of the Senior and Second Lien Bonds as well, from "A/A-" to "BBB+/BBB." See additional disclosure in Note 17(c).

(8) Pension Obligation Certificates (POCs)

The Detroit Retirement Systems Funding Trust issued POCs for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the two retirement systems of the City, which include the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS). The GRS includes employees and retirees of certain governmental funds, proprietary funds (Transportation Fund, Sewage Disposal Fund, and Water Fund), and the Detroit Public Library, a discretely presented component unit of the City.

A trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City. The City entered into service contracts with the GRSSC and PFRSSC to facilitate the transaction.

The POCs were allocated to the governmental activities and the Transportation Fund, Sewage Disposal Fund, and Water Fund based on those funds portion of the overall UAAL liquidated by the use of the POCs net proceeds. Since the Detroit Public Library is a discretely presented component unit of the City, its prorated portion of the POCs liability assumed was included in the balance of the POCs obligation recorded in the governmental activities.

As of June 30, 2013, the Fund did not remit the required principal payments on the POCs totaling \$1,250,905. This payment is considered callable and has been reflected as a current obligation as of June 30, 2013.

In June 2013, Fitch downgraded the rating of the POCs from "CC" to "C" and then again from "C" to "D." Moody's downgraded the POC rating in November 2012 from "B3" to "Caa1." Moody's further downgraded the POC rating in June 2013 from "Caa1" to "Caa3" and then again from "Caa3" to "Ca." In June 2013, Standard & Poor's lowered its rating of the POC from "B" to "CCC-", from "CCC-" to "CC," and then further from "CC" to "D."

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The Fund's portion of future principal and interest amounts for the POCs as of June 30, 2013 is as follows, to the extent not otherwise adjusted and/or discharged pursuant to a plan of adjustment confirmed in the Bankruptcy Case. See note 16(a).

	<u>Principal</u>	<u>Interest</u>	<u>Investment derivatives, net</u>	<u>Total</u>
Year(s) ending June 30:				
2014	\$ 2,855,885	2,970,486	2,486,293	8,312,664
2015	1,801,509	1,929,557	2,486,293	6,217,359
2016	2,000,473	1,846,454	2,486,293	6,333,220
2017	2,217,845	1,750,171	2,486,293	6,454,309
2018	2,450,918	1,643,426	2,486,293	6,580,637
2019–2023	13,728,876	6,679,844	12,004,025	32,412,745
2024–2028	17,796,305	3,955,870	10,637,103	32,389,278
2029–2033	23,948,991	2,984,992	5,367,846	32,301,829
2034–2035	11,803,487	868,920	215,882	12,888,289
Total	<u>\$ 78,604,289</u>	<u>24,629,720</u>	<u>40,656,321</u>	<u>143,890,330</u>

(9) Risk Management

The Fund is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. The Fund is self-insured for losses such as workers' compensation, legal, disability benefits, and vehicular liabilities. Also included is the risk of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The Fund, through the City, provides health and dental insurance benefits to employees and retirees through self-insured health plans that are administered by third-party administrators. The Fund does not purchase excess or stop-loss insurance for its self-insured health plans.

The Fund purchases public official liability insurance, property insurance for certain properties, and general liability insurance for accidents occurring at certain properties. The Fund assumes a \$250,000 self-insured retention for any one loss or occurrence under its self-insured public official liability program. The Fund purchases excess liability insurance for its general liability for certain properties that provides per occurrence and aggregate protection. The Fund is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance.

There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks.

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including

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frequency and amount of payouts and other economic and social factors. The claim liabilities also include estimated costs for claim administration fees and outside legal and medical assistance costs.

Changes in the balance of claim liabilities for the years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 10,625,500	14,111,000
Current year claims and changes in estimates	4,274,472	3,421,215
Claims payments	<u>(5,065,986)</u>	<u>(6,906,715)</u>
Balance at end of year	<u>\$ 9,833,986</u>	<u>10,625,500</u>

(10) Derivative Instruments

The table below summarizes derivative instrument activity during the reporting period and balances at the end of the period:

		<u>Changes in fair value</u>		<u>Fair value at June 30, 2013</u>		<u>Notional amount</u>
		<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Investment derivatives:						
Pay-fixed interest rate swaps:	Interest and investment earnings	\$	8,077,440	Long-term liabilities	\$ (16,489,465)	43,440,338

As of June 30, 2013, the Fund determined that the pay-fixed interest rate swaps listed as investment derivative instruments no longer met the criteria for effectiveness. Accordingly, the change in fair value of the swaps noted in the above table, and previously deferred amounts totaling \$14,179,042 were reported within investment revenue for the year ended June 30, 2013.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

(a) Objectives

In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the Fund has been allocated a portion of the City's four separate pay-fixed, receive-variable interest rate swaps related to the POCs and the GRS.

(b) Terms

Certain key terms and fair values relating to the outstanding investment derivative instruments are presented below:

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Associated financing issue	Notional amount (1)	Effective date	Rate paid	Rate received	Fair value	Swap termination date	Final maturity of bonds
Investment derivatives:							
Pension obligation certificates:							
Taxable certificate of participation SBSFPC-0009 (2)	14,792,275	6/12/2006	6.36%	3-MTH LIBOR +0.34%	\$ (5,828,055)	6/15/2034	6/15/2034
Taxable certificate of participation SBSFPC-0012 (2)	6,927,894	6/12/2006	6.32	3-MTH LIBOR +0.30%	(2,419,783)	6/15/2029	6/15/2029
Taxable certificate of participation 37380341 (2)	14,792,275	6/12/2006	6.36	3-MTH LIBOR +0.34%	(5,824,101)	6/15/2034	6/15/2034
Taxable certificate of participation 37380351 (2)	6,927,894	6/12/2006	6.32	3-MTH LIBOR +0.30%	(2,417,526)	6/15/2029	6/15/2029
Total	<u>43,440,338</u>				<u>\$ (16,489,465)</u>		

(1) Notional amount balance as of June 30, 2013.

(2) Denotes the System's allocation of the associated notional amount.

(c) Credit Risk

Credit risk can be measured by actual market value exposure or theoretical exposure. When the fair value of any swap has a positive market value, then the Fund is exposed to the actual risk that the counterparty will not fulfill its obligations. As of June 30, 2013, the Fund had no net exposure to actual credit risk on its investment derivatives (without regard to collateral or other security arrangements) for any of its counterparties. The table below shows the credit quality ratings of the counterparties to each swap. The Fund uses two different counterparties, as one way of diversifying its credit risk. In addition, the swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's (S&P), and/or Moody's Investors Service (Moody's). Collateral on all swaps is to be in the form of cash or U.S. government securities held by a third-party custodian. The Fund has not calculated theoretical credit exposure.

Counterparty	S&P	Moody's
SBS Financial Products Company, LLC:		
Credit Support provided by Merrill Lynch Capital Services, Inc. and guaranteed by Merrill Lynch & Co.	A-	Baa2
UBS, AG	A	A2

(d) Interest Rate Risk

All investment derivatives are pay-fixed, receive-variable interest rate swaps. The Fund believes it has significantly reduced interest rate risk by entering into interest rate swaps, subject to the settlement with the swap counterparties described in note 10 (f) and the potential adjustment of the related POCs pursuant to a plan of adjustment confirmed in the Bankruptcy Case, or the invalidation thereof pursuant to the lawsuit commenced by the City on January 31, 2014 described in note 16.

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(e) Basis Risk

The Fund is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At June 30, 2013, the associated debt used the same index for the POCs (based on LIBOR) in the table above. As a result, there is no significant exposure to basis risk as of June 30, 2013.

(f) Termination Risk

The Fund or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the Fund may owe or be due a termination payment depending on the fair value of the swap at that time. The termination payment due to a counterparty may not be equal to the fair value. If any of the swaps were terminated, the associated variable rate financings would no longer carry synthetic interest rates.

On January 8, 2009, the City received formal notice from the Swap Counterparty to four of the eight Swap Agreements stating that an event had occurred, which, if not cured by the City, would constitute an Additional Termination Event. On January 14, 2009, the City also received formal notice from the Swap Counterparty to the four remaining Swap Agreements, stating that the applicable Swap Insurers had been downgraded below the thresholds set forth in the Swap Agreements. Under the Swap Agreements, such Swap Insurer downgrades, coupled with the downgrades of the POCs, if not cured by the City, constitute an Additional Termination Event. In June 2009, the City and the Counterparties agreed to an amendment to the Swap Agreements, and thereby eliminating the Additional Termination Event and the potential for an immediate demand for payment to the Swap Counterparties. As part of the amended Swap Agreements, the Counterparties waived their right to termination payments. Additionally, the City now directs its Wagering Tax revenues to a Trust as collateral for the quarterly payment to the Counterparties, increased the Swap rate by 10 basis points effective July 1, 2010, and agreed to other new termination events. The termination events under the amended Swap Agreement includes a provision granting the Counterparties the right to terminate the amended Swap Agreement if certain coverage levels of the Wagering Taxes over the required quarterly payment are not met or if POCs ratings are withdrawn, suspended, or downgraded below "Ba3" (or equivalent). In March 2012, the POCs received a credit downgrade below "Ba3." In light of the debt rating declines of the City, a risk of a Swap Agreement Termination exists.

In December 2013, the City had negotiated an agreement with the Counterparties to terminate the swaps, but the Bankruptcy Court rejected the agreement and the agreement was subsequently terminated. After the termination of this agreement, the City continued to negotiate with the swap counterparties in an effort to reduce the City's obligations under the swap agreements. These negotiations resulted in the parties' agreement on the principal terms of a settlement and plan support agreement pursuant to which, among other things, the City will pay, over time, the aggregate sum of \$85 million in full satisfaction of the claims between the parties (the Plan Support Agreement). On March 3, 2014, the City filed a motion seeking the Bankruptcy Court's approval of the Plan Support Agreement pursuant to Section 105(a) of the Bankruptcy Code and Rule 9019 of the Federal Rules

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of Bankruptcy Procedure (the Renewed Settlement Motion). On April 15, 2014, the Bankruptcy Court entered an order approving the Renewed Settlement Motion.

(g) Rollover Risk

The Fund is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the Fund will not realize the synthetic rate offered by the swaps on the underlying issues. The Fund is exposed to rollover risk on the GRS swaps should they be terminated prior to the maturity of the associated financings (POCs).

(h) Foreign Currency Risk

All derivatives are denominated in U.S. dollars, and therefore, the Fund is not exposed to foreign currency risk.

(i) Market Access Risk

The Fund is exposed to market access risk on swaps in the event it will not be able to enter credit markets or in the event the credit will become more costly.

(11) Pension Plan

The City's proposed plan of adjustment (see note 16 (a)) proposes significant changes to its pension plans. Confirmation of a plan of adjustment may materially restructure benefits available under such plans.

Substantially all employees of the City, including employees of the Fund, are covered by a single-employer plan composed of a defined benefit with an optional employee-contributed annuity through the GRS. The GRS pays a monthly pension to qualified individuals upon retirement. The amount is based upon a combination of years of service and annual salary.

(a) Plan Description

The GRS is administered in accordance with the City of Detroit Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to the GRS board of trustees. The GRS issues separate, stand-alone financial statements annually. A copy of these financial statements can be obtained at the Coleman A. Young Municipal Center, 2 Woodward Ave., Rm. 908, Detroit, Michigan, 48226.

(b) Funding Policy

The GRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The contribution requirements are established and may be amended by the GRS board of trustees based on information provided by the GRS consulting actuary. The City's contribution is set by the City Council in conjunction with its approval of the City's annual budget based on information provided by the GRS consulting actuary.

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The recommended contribution rate is determined by the GRS' consulting actuary using the entry age normal actuarial cost-funding method. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the actuarial accrued liability.

Based upon the June 30, 2011 actuarial valuation, the actuarial required contribution rate for the Fund was 28.32% of covered payroll for the year ended June 30, 2013. Contributions for the Fund were \$15,682,945 for the year ended June 30, 2013.

Employees may also elect to contribute (a) 0%, (b) 3% of annual compensation up to the Social Security wage base and 5% of any excess over that, (c) 5%, or (d) 7% toward annuity savings. Contributions are voluntary for all union and nonunion employees. Contributions received from employees of the Fund were \$2,325,357 during the year ended June 30, 2013.

The contribution requirements of plan members and the City are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. Members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service. Members of the GRS who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension.

The annual pension cost and the change in net pension asset allocated to the Fund for the year ended June 30, 2013 were as follows:

Annual required contributions	\$ 12,183,894
Interest on net pension asset	(7,373,733)
Adjustment to annual required contribution	<u>5,288,055</u>
Annual pension cost	10,098,216
Contributions made (employer)	<u>15,682,945</u>
Change in net pension asset	5,584,729
Net pension asset, beginning of year	<u>90,677,096</u>
Net pension asset, end of year	<u><u>\$ 96,261,825</u></u>

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The actuarial methods and significant assumptions used to determine the annual required contributions (ARCs) for the year ended June 30, 2013 were as follows:

Valuation date	June 30, 2011
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period for unfunded accrued liabilities	30 years, open
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.90%
Projected salary increases*	4.00–8.90
Cost-of-living adjustments	2.25

* Includes inflation rate of 4.00%.

(c) Three-Year Trend Information

	<u>Fiscal year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension asset</u>
General Retirement System	June 30, 2013	\$ 10,098,216	155%	\$ 96,261,825
	June 30, 2012	4,387,834	150	90,677,096
	June 30, 2011	9,082,258	132	88,474,553

(d) Funded Status and Funding Progress Based on Actuarial Assumptions of GRS

The funded status of the GRS plan as of June 30, 2012 (the most recent actuarial valuations available) based on actuarial assumptions of GRS is as follows:

Actuarial value of assets	\$ 2,806,489,202
Actuarial accrued liability	<u>3,644,172,577</u>
Unfunded (overfunded) AAL	<u>\$ 837,683,375</u>
Funded ratio	77.0%
Covered payroll	\$ 257,992,420
Ratio of UAAL/covered payroll	324.7%

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Significant actuarial assumptions used by GRS to determine the funded status for the year ended June 30, 2012 are as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age
Asset valuation method	7-year Smoothed Market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases	4.0–8.9
Includes inflation at	4.0
Cost-of-living adjustments	2.25

(e) Funded Status and Funding Progress Based on Actuarial Assumptions of the City

As discussed further in note 16, and in connection with the City's filing of a voluntary petition under Chapter 9 of the Bankruptcy Code, the City utilized different actuarial assumptions than GRS to determine the funded status of the plan. Specifically, the City believes that an investment rate of return of 7.0%, instead of 7.9% used by GRS is more achievable. Additionally, the City believes the actual market value of plan assets instead of a 7-year smoothed market value is more appropriate in measuring the funded status of the plan. The funded status of the plan as of June 30, 2012 (the most recent actuarial valuations available) based on the City's actuarial assumptions is as follows:

Actuarial value of assets	\$ 2,159,000,000
Actuarial accrued liability	<u>4,085,000,000</u>
Unfunded (overfunded) AAL	<u>\$ 1,926,000,000</u>
Funded ratio	52.9%
Covered payroll	\$ 257,992,420
Ratio of UAAL/covered payroll	746.5%

Significant actuarial assumptions used by the City to determine the funded status for the year ended June 30, 2012 are as follows:

Actuarial cost method	Entry age
Asset valuation method	Actual market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0–8.9
Includes inflation at	4.0
Cost-of-living adjustments	2.25

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(f) Administrative Expenses

Actuarial investment management and bank trustee fees and expenses are included in the GRS plan's administrative expenses when incurred. In addition, the GRS plan's administrative salary, rent, accounting services, duplicating, telecommunications, and travel expenses are included in the GRS plan's administrative expenses when incurred.

(12) Other Postemployment Benefits

(a) Plan Description

The employees of the Fund participate in the Employee Health and Life Insurance Benefit Plan (Benefit Plan), which is a single-employer defined benefit plan administered by the City and City's Retirement Systems. The Benefit Plan provides hospitalization, dental care, vision care, and life insurance to all officers and employees of the City who were employed on the day preceding the effective date of the Benefit Plan and who continue in the employ of the City on and after the effective date of the Benefit Plan. Retirees are allowed to enroll in any of the group plans offered by the City to active employees. The City provides healthcare coverage for substantially all retirees in accordance with terms set forth in union contracts or provisions found in Section 13, Article 8 of the Code of Ordinances.

The healthcare benefit eligibility conditions for Fund employees hired before 1995 are 30 years of creditable service or age 60 and 10 years of creditable service or age 65 and 8 years of creditable service. The healthcare benefit eligibility conditions for Fund employees hired on after 1995 are age 55 and 30 years of creditable services, or age 60 and 10 years of creditable service or age 65 and 8 years of creditable service. The City provides full healthcare coverage to Fund employees who retired prior to January 1, 1984, except for the Master Medical benefit that was added on to the coverage after that date. The Fund pays up to 90% of healthcare coverage if retired after January 1, 1984; however, for Fund employees who retired between January 1, 1984 and June 30, 1994, the retiree share has been reduced by 50% by appropriations from City Council. The Fund also pays healthcare coverage for the spouse, under the same formulas noted above, as long as the spouse continues to receive a pension. The Fund does not pay health coverage for a new non-City retiree spouse. Dental and vision coverage is provided for the retiree and the spouse.

The City does provide healthcare coverage to Fund employees that opt for early retirement. For Fund employees hired before 1995, the healthcare benefit eligibility conditions are 25 years of creditable service and employees hired after 1995 is age 55 and 25 years of creditable service. The coverage begins when the retiree would have been eligible for normal retirement. The Fund pays up to 90% of healthcare coverage for the retiree and the spouse. The Fund pays up to 90% of healthcare coverage for the spouse as long as the spouse continues to receive a pension. The City does not pay for healthcare coverage for a new non-City retiree spouse. Dental and vision coverage is provided for the retiree and the spouse.

The City also provides healthcare coverage to Fund employees who meet certain healthcare benefit eligibility conditions at reduced rates for those that retire under the Deferred Retirement Benefits (Vested), the Death-in-Service Retirement Benefits Duty and Non-Duty Related, and the Disability

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Retirement Benefits Duty and Non-Duty Related. Complementary healthcare coverage is provided by the City for those Fund retirees that are Medicare-Eligible. Fund retirees who opt out of the retiree healthcare coverage may obtain coverage at a later date.

In addition to healthcare coverage, the City allows Fund retirees to continue life insurance coverage under the Group Insurance Protection Plan offered to active employees in accordance with Section 13, Article 9 of the Code of Ordinances. The basic life insurance coverage for Fund employees is based on the employee's basic annual earnings to the next higher thousand dollars. The life insurance benefit amounts range from \$3,750 to \$12,500.

The Supplemental Death Benefit Plan (Supplemental Plan) is a pre-funded single-employer defined benefit plan administered by the Employee Benefits Board of Trustees. The money is held in the City of Detroit Employee Benefit Trust and the City uses the trust fund to account for the Supplemental Plan. In accordance with Section 13, Article 8 of the Code of Ordinances, effective July 1, 1999 and prior to the member's retirement from the City, a death benefit of \$10,000 will be paid. After retirement of the member from the City, the amount of death benefits paid is based upon the retiree's years of City service ranging from \$1,860 (for 8 to 10 years of service) to \$3,720 (for 30 years of service). For years of service beyond 30 years, \$93.00 will be added per year for each additional year of service.

There were 1,699 retirees eligible for benefits, as of June 30, 2013. These plans do not issue separate financial statements.

Under the City's proposed plan of adjustment in the Bankruptcy Case (see note 16(a)), the City intends to establish voluntary employees' beneficiary association trust that provide life, sickness, accident, and other similar benefits to current and future retirees of the City and certain of their dependents who are eligible for benefits. Upon the effectiveness of such plan, if such plan is confirmed, the City would have no further responsibility to provide life insurance or death benefits to retirees.

(b) Funding Policy

Employee Health and Life Insurance Benefit Plan – The cost of benefits for the Benefit Plan, which is financed on a pay-as-you-go basis, for the year ended June 30, 2013 for the Fund retiree's was as follows:

Benefits	Fund cost	Retiree cost	Total cost
Hospitalization	\$ 10,214,128	2,336,533	12,550,661
Dental	466,535	65,999	532,534
Vision	82,750	10,832	93,582
Life insurance	11,113	4,829	15,942
	<u>\$ 10,774,526</u>	<u>2,418,193</u>	<u>13,192,719</u>

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Supplemental Death Benefit Plan – The cost of benefits for the Supplemental Plan, which is a pre-funded plan with the funds held in the City of Detroit Employee Benefit Trust, for the year ended June 30, 2013 for the Fund retiree's was as follows:

<u>Benefit</u>	<u>Fund cost</u>	<u>Retiree cost</u>	<u>Total cost</u>
Supplemental death benefit plan	\$ 11,261	1,453	12,714

The City of Detroit Employee Benefit Trust paid death benefits in the amount of \$90,743 for the Fund retirees for the year ended June 30, 2013.

(c) Annual OPEB Costs and Net OPEB Obligation

The Fund's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Fund's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plans, and changes in the Fund's OPEB obligation for the retirees of the Fund:

	<u>Employee health and life insurance benefit plan</u>	<u>Supplemental death benefit plan</u>	<u>Total</u>
Annual required contribution (ARC)	\$ 27,588,287	89,411	27,677,698
Interest on net OPEB obligation	2,125,552	8,218	2,133,770
Adjustment to ARC	(1,771,292)	(5,479)	(1,776,771)
Annual OPEB cost (expense)	27,942,547	92,150	28,034,697
Contributions made	(10,774,526)	(11,261)	(10,785,787)
Changes in net OPEB obligation	17,168,021	80,889	17,248,910
Net OPEB obligation, beginning of year	53,138,799	164,366	53,303,165
Net OPEB obligation, end of year	\$ 70,306,820	245,255	70,552,075

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The annual OPEB cost, the percentage of annual OPEB cost contributed to each plan, and the net OPEB obligation for the three most recent fiscal years ended June 30 for the retirees of the Fund were as follows:

	<u>Year ended</u>	<u>Annual OPEB cost</u>	<u>Actual contributions</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Employee Health and Life Insurance Benefit Plan	June 30, 2013	\$ 27,942,546	10,774,526	38.6%	\$ 70,306,820
	June 30, 2012	22,375,284	9,705,471	43.4	53,138,799
	June 30, 2011	21,925,262	9,368,052	42.7	40,468,986
Supplemental Death Benefit Plan	June 30, 2013	92,150	11,261	12.2%	245,255
	June 30, 2012	76,339	21,913	28.7	164,366
	June 30, 2011	89,444	12,164	13.6	109,940

(d) Funded Status and Funding Progress

Employee Health and Life Insurance Benefit Plan (Benefit Plan) – As of June 30, 2011, the most recent actuarial valuation date for the Benefit Plan, the actuarial accrued liability for benefits related to all current and former City employees was \$5,718,286,228, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,718,286,228. The covered payroll (annual payroll of all active City employees covered by the plan) was \$444,358,728 and the ratio of the UAAL to the covered payroll was 1,287 percent. The funded status related to the retirees of the Fund was not available.

Supplemental Death Benefit Plan (Supplemental Plan) – As of June 30, 2011, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all current and former City employees was \$34,564,960 and the actuarial value of assets was \$25,681,765, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,883,195. The covered payroll (annual payroll of all active City employees covered by the plan) was \$444,358,728 and the ratio of the UAAL to the covered payroll was 2.0%. The funded status related to the retirees of the Fund was not available.

Actuarial valuations of the ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

A schedule of funding progress, which presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits, is included in the City's Comprehensive Annual Financial Report.

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(e) Actuarial Methods and Assumptions

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

The actuarial methods and significant assumptions used to determine the annual required contributions for the year ended June 30, 2013 were as follows:

	Employee health and life insurance benefit plan	Supplemental death benefit plan
Valuation date	June 30, 2011	June 30, 2011
Actuarial cost method	Individual entry-age	Individual entry-age
Amortization method	Level percent	Level dollar
Amortization period for unfunded actuarial accrued liabilities	30 years, open	30 years, open
Asset valuation method	N/A	3 year smoothed market
Actuarial assumptions:		
Investment rate of return	4.0%	5.0%
Projected salary increases*	4.0	N/A
Healthcare cost trend rate	8.5% for 2013, grading down to 4.5% in 2021 and 4.0% in 2022 and beyond	N/A

* Includes inflation rate of 4.0%.

In the June 30, 2011 actuarial valuation for the Employee Health and Life Insurance Benefit Plan, the mortality tables used by the City's plan to evaluate death benefits to be paid for retirees was 110% of the RP 2000 Combined Male and 110% of the RP 2000 Combined Female table setback two years. The City's plan used an annual rate of retirement of 50%, initially, reduced to an ultimate rate of 20% after age 70 for General City.

In the June 30, 2011 actuarial valuation for the Supplemental Death Benefit Plan, the mortality tables used by the City's plan to evaluate death benefits to be paid for Fund retirees was 120% of the RP 2000 Combined Male and 120% of the RP 2000 Combined Female table setback two years. The City's plan used an annual rate of retirement of 50%, initially, reduced to an ultimate rate of 20% after age 70 for General City.

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(13) Due from (to) Other Funds

During the course of operations, numerous transactions occur between individual funds and other City funds for goods provided or services rendered. Related receivables and payables are classified as “due from other funds” or “due to other funds,” respectively, on the statement of fund net assets, will be settled within one year, and are summarized as follows as of June 30, 2013:

Due from other funds:	
General Fund	\$ 5,467,779
Other governmental funds	571,530
General Retirement System Service Corporation	29,228
Sewage Disposal Fund	42,266,431
Fiduciary	1,680,314
Total due from other funds	<u>\$ 50,015,282</u>
Due to other funds:	
General Fund	\$ 7,104,695
Other governmental funds	1,168,053
Total due to other funds	<u>\$ 8,272,748</u>

(14) Capital Improvement Program

The Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (the Program). The total cost of this program is anticipated to be approximately \$519 million through fiscal year 2018. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2013 was approximately \$112.3 million.

(15) Contingencies

The City is subject to various governmental environmental laws and regulations. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, established accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care. The Fund determined that there were no estimated pollution remediation obligations to be recorded at June 30, 2013.

The Fund is also a defendant in numerous alleged claims, lawsuits, billing disputes, and other stated and pending demands. The Fund and the City’s Legal Department have estimated a reserve, which is included in the accompanying basic financial statements, for the potential outcome of such claims or the amount of

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potential damages in the event of an unfavorable outcome for each of the above contingencies. The Fund's management and the City's Legal Department believe that any differences in reserved amounts and final settlement, after consideration of claims covered by insurance, resulting from such litigation will not materially impact the Fund's financial position or results of operations.

The City holds various commercial insurance policies to cover other potential loss exposures.

(16) Bankruptcy and Subsequent Events

(a) Bankruptcy

The City of Detroit was insolvent on June 30, 2013 as the General Fund liabilities exceeded its assets by \$73.0 million and cash and investments on hand totaling \$102.2 million were insufficient to meet obligations due. The City's accumulated unassigned General Fund deficit was \$132.6 million on June 30, 2013. On June 15, 2013, due to liquidity constraints, the City did not make a principal and interest payment totaling \$41.0 million (\$33.3 million due from the General Fund) due on its pension obligation certificates of participation (POCs). In addition, as of June 30, 2013, the City did not make a payment of \$105.6 million (\$96.9 million General Fund) of pension contributions due to the General Retirement and Police and Fire Retirement systems. Also, the City's General Fund owed the Other Post Employment Benefits Fund \$44.4 million on June 30, 2013. Furthermore, as of June 30, 2013, the City's General Fund has utilized restricted funds of \$69.6 million from the Risk management and Motor Vehicle accounts and the Solid Waste Fund to cover other obligations.

Over the past several decades, the City has experienced significant economic and social challenges that have negatively impacted employment, business conditions and quality of life. Three of the City's largest revenue streams – distributable state aid, property taxes, and municipal income taxes – are especially susceptible during times of major economic downturns and have declined in recent years due to high levels of unemployment. Population decline and home foreclosures have adversely impacted City property valuations and property and income tax collections. Further stressing the City's liquidity are legacy costs such as retiree health care and debt service. As the City's tax base and revenues decline, the legacy costs become an increasing percentage of the General Fund budget reducing funding available for essential services such as police and fire.

In February 2013, a financial review team appointed by the Governor of the State of Michigan determined that a local government financial emergency existed in the City. On March 14, 2013, the Local Emergency Financial Assistance Loan Board appointed Kevyn Orr as the emergency financial manager of the City in accordance with Public Act 72 of 1990, the Local Government and School District Fiscal Responsibility Act. On March 28, 2013, Public Act 436 of 2012, the Local Financial Stability and Choice Act, took effect which replaced Public Act 72. Public Act 436 specified that an emergency financial manager appointed under Public Act 72 of 1990 and serving on the effective date of Public Act 436 of 2012 would continue to serve under the new act. Public Act 436 changed the title of the emergency financial manager to emergency manager and expanded the powers of the emergency manager to include the ability to recommend to the Governor that the City file a petition for relief under chapter 9 of title 11 of the United State Code (the "Bankruptcy Code").

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On July 18, 2013, the Governor delivered the Authorization Letter to the emergency manager and the State treasurer authorizing the City to commence a bankruptcy case under Chapter 9 of the Bankruptcy Code. In the Authorization Letter, the Governor agreed with the emergency manager that Chapter 9 offers the only feasible alternative to fix the City's finances and to complete a sustainable restructuring for the benefit of Detroit's approximately 700,000 residents. Based on the emergency manager's Recommendation Letter, the Governor determined that: (a) the City cannot meet its obligations to its citizens; (b) the City cannot meet its basic obligations to its creditors; (c) the City's failure to meet its obligations to its citizens is the primary cause of its inability to meet its obligations to its creditors; and (d) the only feasible path to ensuring the City will be able to meet obligations in the future is to have a successful restructuring under the federal bankruptcy process.

Upon receiving the Authorization Letter, the emergency manager issued an order directing the commencement of the City's Chapter 9 bankruptcy case. Consistent with these approvals, on July 18, 2013, the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code in the Bankruptcy Court, which case is captioned *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.).

On July 19, 2013, Bankruptcy Judge Steven W. Rhodes was assigned to the Bankruptcy Case by the Chief Judge of the United States Court of Appeals for the Sixth Circuit.

On December 5, 2013, the Bankruptcy Court entered (a) the Eligibility Order stating that the City is eligible to be a debtor under Chapter 9 of the Bankruptcy Code and (b) the Order for Relief entitling the City to proceed under Chapter 9.

Notices of appeal of the Eligibility Order were filed by a number of entities, all of whom also filed petitions for permission to appeal the Eligibility Order directly to the United States Court of Appeals for the Sixth Circuit (the Sixth Circuit). The Sixth Circuit granted these parties' petitions on February 21, 2014, and a briefing schedule has been established. All appeals of the Eligibility Order pending in the District Court have been stayed pending the Sixth Circuit's disposition of the various appeals pending before it. By law, the Bankruptcy Case is not stayed pending the resolution of the various appeals of the Eligibility Order.

Under Chapter 9 of the Bankruptcy Code, actions by creditors to collect indebtedness the City owed prior to the Petition Date were stayed, and certain other pre-petition contractual obligations may not be enforced against the City. The Chapter 9 filing has enabled the City to continue to operate and provide services to its residents by freezing certain pre-petition debts until a plan of adjustment can be approved. The City has been paying certain pre-petition liabilities, including certain employee salaries, wages, benefits, and other obligations, during the Bankruptcy Case. Other unsecured obligations owed by the City at July 18, 2013 are subject to compromise in the bankruptcy process. The City has stopped making payments related to unsecured funded debt and legacy liabilities, with the exception of retiree healthcare benefits and certain vendors providing essential goods and services.

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Since filing the Bankruptcy Case, the emergency manager has coordinated the City's legal strategy related to bankruptcy with his professional advisors. Certain of the primary activities to date in the Bankruptcy Case are summarized below:

Administrative Matters

Since the Petition Date, the emergency manager has taken steps to preserve the benefits and protections afforded by the automatic stay imposed by Sections 362 and 922 of the Bankruptcy Code (the Chapter 9 Stay). For example, at the outset of the Bankruptcy Case, the City obtained orders of the Bankruptcy Court (a) confirming the application of the Chapter 9 Stay to the City and its officers and inhabitants and (b) extending the protections of the Chapter 9 Stay to, among others, Nondirector City employees and certain State officials.

Upon a motion filed by the City, the Bankruptcy Court entered an order on November 21, 2013 establishing certain bar dates for the filing of proof of claims. Also upon a motion of the City, the Bankruptcy Court entered an order on December 24, 2013, approving certain alternative dispute resolution procedures to facilitate the resolution of certain contingent, unliquidated and/or disputed claims against the City that arose prior to the Petition Date. The City's proposed plan of adjustment establishes a claims resolution process that will enable the City to resolve the claims that will be addressed pursuant to such plan.

Retiree Committee

Since the Petition Date, the emergency manager has continued to participate in negotiations with the City's creditors and other interested parties with the goal of reaching consensus, to the fullest extent possible, on the terms of a plan of adjustment. In support of these discussions, at the outset of the Bankruptcy Case, the City requested the appointment of an official committee of retired employees (the Retiree Committee) to represent the interests of retirees in these negotiations. Prior to the commencement of the Bankruptcy Case, no single party was empowered to represent all of the City's retirees, who hold billions of dollars of legacy claims that must be addressed in any restructuring. On August 2, 2013, the Bankruptcy Court entered an order directing the appointment of the Retiree Committee, which was formed on August 22, 2013. Since that time, the City has conducted discussions with the Retiree Committee and its advisors regarding the City's restructuring and the treatment of retirees' claims, which discussions have resulted in an agreement with respect to retiree claims for pension and medical benefits under the plan of adjustment.

Swap Settlement

Prior to the Petition Date, the emergency manager reached a consensual resolution with the counterparties to the City's interest rate swap agreements (the Swap Counterparties) that would, among other things, allow the City to terminate its obligations under the swap agreements in exchange for approximately \$235.0 million (the Settlement Payment). This agreement was memorialized in a Forbearance and Optional Termination Agreement (the FOTA) between the City and the Swap Counterparties. On the Petition Date, the City filed a motion with the Bankruptcy Court to assume the FOTA under Section 365 of the Bankruptcy Code and approve the parties' settlement under Rule 9019 of the Federal Rules of Bankruptcy Procedure (the Settlement Motion).

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There was significant opposition to the Settlement Motion, which resulted in litigation regarding, among other things, the appropriateness of the compromises in the FOTA, the Swap Counterparties' ability to consummate the FOTA and the City's ability to make the Settlement Payment. An evidentiary hearing on the Settlement Motion commenced on December 17, 2013. On December 18, 2013, the Bankruptcy Court ordered the City and the Swap Counterparties back to mediation to discuss a reduction of the Settlement Payment. On December 24, 2013, the parties agreed to fix the Settlement Payment at the reduced amount of \$165 million. The hearing on the Settlement Motion was concluded on January 13, 2014, and, on January 17, 2014, the Bankruptcy Court issued an order denying the Settlement Motion. On February 6, 2014, the City filed a notice of termination of the FOTA.

After the termination of the FOTA, the City continued to negotiate with the Swap Counterparties in an effort to reduce the City's obligations under the swap agreements. These negotiations resulted in the parties' agreement on the principal terms of a settlement and plan support agreement pursuant to which, among other things, the City will pay, over time, the aggregate sum of \$85 million in full satisfaction of the claims between the parties (the Plan Support Agreement). On March 3, 2014, the City filed a motion seeking the Bankruptcy Court's approval of the Plan Support Agreement pursuant to Section 105(a) of the Bankruptcy Code and Rule 9019 of the Federal Rules of Bankruptcy Procedure (the Renewed Settlement Motion). On April 15, 2014, the Bankruptcy Court entered an order approving the Renewed Settlement Motion, which order was subsequently appealed by certain parties in interest.

Mediation

The Bankruptcy Court established a mediation program to facilitate the negotiation of restructuring issues. In particular, Judge Rhodes appointed Judge Gerald E. Rosen, Chief Judge for the United States District Court for the Eastern District of Michigan, as the lead mediator for the City's Bankruptcy Case. In turn, Judge Rosen appointed six additional mediators, each focusing on different elements of the City's restructuring and reorganization activities. To date there have been multiple mediation sessions and numerous written submissions related to, among other things, the City's core restructuring initiatives outlined in the City of Detroit Proposal for Creditors, dated June 14, 2013; issues arising in connection with the City's general obligation debt; labor and pension matters; and matters related to the future of the DWSD.

POC Litigation

On January 31, 2014, the City commenced an adversary proceeding in the Bankruptcy Court by filing a complaint against the Service Corporations and the funding trusts (the Funding Trusts) that issued the POCs, alleging that the 2005 and 2006 transactions and agreements resulting in the sale of the POCs to the public was invalid, illegal and unenforceable because the \$1.5 billion of debt incurred by the City exceeded the City's statutory debt limit and was not incurred in conformity with other state laws. The complaint seeks (a) a declaratory judgment that the POC transactions are illegal, void and of no effect whatsoever; (b) a declaratory judgment that any Claims based on the City's obligations under the Service Contracts on account of the POCs should be disallowed pursuant to 11 U.S.C. § 502(b)(1); and (c) an injunction prohibiting the defendants from taking any

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action to require the City to make payments or provide distributions under a plan of adjustment on account of the POCs.

The Funding Trusts answered the complaint on March 17, 2014, (a) denying the City's allegations that the POC transactions caused the City to exceed its statutory debt limit and created debt not in conformity with other state laws, (b) raising several affirmative defenses and (c) asserting several counterclaims against the City. On April 10, 2014, the City moved to dismiss substantially all of the counterclaims brought by the Funding Trusts. Also on March 17, 2014, motions to intervene in the adversary proceeding were filed by Financial Guarantee Insurance Company, an insurer of the POCs, and several POC holders. On April 10, 2014, the Service Corporations moved to dismiss the complaint as to them, arguing primarily that the City lacked standing to bring suit against the Service Corporations. A hearing was held on the motions to intervene and the Service Corporations' motion to dismiss on May 15, 2014. On June 30, 2014, the Bankruptcy Court entered an order denying the Service Corporations' motion to dismiss and granting the motions to intervene for the limited purpose of defending against the City's claims in the complaint.

Plan of Adjustment

The Bankruptcy Court set a deadline of March 1, 2014 for the City to file a plan of adjustment in the Bankruptcy Case. On February 21, 2014, the City filed its plan of adjustment and a related disclosure statement. On March 31, 2014, the City filed its amended plan of adjustment and amended disclosure statement. On April 16, 2014, the City filed its second amended plan of adjustment and second amended disclosure statement. On April 25, 2014, the City filed its third amended plan of adjustment and third amended disclosure statement. On May 5, 2014, the City filed its fourth amended plan of adjustment and fourth amended disclosure statement. Also on May 5, 2014, the Bankruptcy Court entered an order approving the disclosure statement and the mailing of the disclosure statement and plan of adjustment to creditors to vote on. The plan of adjustment (as it has been and may be further amended, modified, or supplemented, the Plan) is subject to further change.

On July 21, 2014, Kurtzman Carson Consultants LLC filed a declaration regarding the solicitation and tabulation of votes on, and the results of voting with respect to, the fourth amended plan of adjustment. Those impaired classes that voted to accept the Plan included the PFRS pension claims, GRS pension claims, OPEB claims, COP Swap claims and Unlimited Tax General Obligation Bond claims. Those impaired classes that voted to reject the Plan included the COP claims and certain classes of DWSD debt. A hearing to consider confirmation of the Plan is scheduled to commence on August 14, 2014. The Plan is subject to challenge by creditors or to modification made as the result of issues that may be raised by the Bankruptcy Court. Copies of the Plan and the related disclosure statement can be found on the City's website at:

<http://www.detroitmi.gov/EmergencyManager/BankruptcyChapter9.aspx>.

The Plan provides a framework to restructure the City's long-term obligations such that the City can exit bankruptcy and return to fiscal stability. It provides for the adjustment of secured and unsecured debt and outlines proposed reinvestment initiatives. The Plan proposes that unsecured nonretiree creditors with whom the City has not reached a settlement generally will receive an approximately 10%-13% recovery on their claims. The Plan also proposes for the City to invest approximately

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\$1.4 billion over 10 years to, among other things: (1) comprehensively address and remediate residential urban blight, (2) improve the operating performance and infrastructure of its police, fire, EMS and transportation departments (among other departments), (3) modernize its information technology systems on a City-wide basis and (4) improve services at all levels to Detroit's citizens.

The Plan includes settlements that the City believes will inure to the benefit of the City's creditors and its residents. The City settled controversial and sensitive issues relating to the Detroit Institute of Arts, which settlement is expected to yield at least \$466 million to provide a source of recovery for the approximately 33,000 individuals who participate in the City's two Retirement Systems. The State of Michigan is also participating in this settlement and will contribute the value of \$350 million to the City's two retirement systems in exchange for, among other things, the receipt of releases from pension claimants.

The Plan also proposes a reduction in healthcare benefits for retirees. The Plan provides for the establishment of two VEBAs (Voluntary Employees Beneficiary Association) in accordance with Section 501(c)(9) of the Internal Revenue Code of 1986, as amended, that would provide healthcare, life and other benefits to beneficiaries and certain of their dependents. The "Detroit Police and Fire VEBA" would be established for retired police and fire uniform employees and the "Detroit General VEBA" would be established for the retirees in the General Retirement System. The two VEBAs will each be governed by a board of trustees who will be responsible for management of the assets held by the VEBA, administration, and determination of the level of distribution of benefits to the beneficiaries. The Plan contemplates that the City will distribute to both VEBAs an appropriate share of New B Notes, which will be issued pursuant to the Plan. Under the Plan, the City will have no responsibility following the effectiveness thereof to provide life insurance or death benefits to current or former employees.

The total gain expected to occur by adjusting the City's debts pursuant to the proposed Plan is not reasonably measured or estimated, given that settlements with all creditors have not been reached and the Plan has not been confirmed by the Bankruptcy Court as of the date of this report. The Plan does not contemplate termination of services, discontinuance of operations, or termination of the City.

UTGO Settlement

On April 9, 2014, the City and three bond insurers agreed to a settlement in principle regarding the unlimited tax general obligation bonds (UTGO) that they insure, which UTGO bonds had a total principal value of \$369.1 million at June 30, 2013. The settlement, which is subject to Bankruptcy Court approval pursuant to Bankruptcy Rule 9019, would resolve, among other disputes, certain litigation pending in the Bankruptcy Court regarding the UTGO bonds. Pursuant to the settlement, holders of UTGO bonds will transfer a portion of such bonds having a principal amount of \$287.5 million in consideration for \$279.6 million of new UTGO bonds issued by the Michigan Finance Authority. The insurers of the prior UTGO bonds will receive \$7.9 million of the new UTGO bonds which will aggregate \$287.5 million in principal amount. The new bonds will be secured by the City's pledge of UTGO bond ad valorem tax levy and the distributable state aid (DSA) that the City is entitled to receive. The City's plan of adjustment, if approved, will provide

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Notes to Basic Financial Statements

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that the proceeds of ad valorem taxes pledged and collected to pay the remaining principal and related interest of the original UTGO bonds—which will remain outstanding and not be exchanged for new bonds—will be assigned by the Plan to support the City’s two pension plans primarily for additional distributions to those retirees who meet certain income eligibility criteria.

Pension Settlements

The Plan provides that, on the effective date of the Plan, the City will assume the obligations related to the already accrued benefits under the GRS pension plan and the PFRS pension plan as those benefits will have been modified in the Plan. This means that the City will not seek to terminate the GRS or the PFRS, although their respective pension plans will be closed to new participants, and vested active employees will not continue to accrue additional pension benefits under the terms and conditions of the current plans, i.e., the two plans will be “frozen.” The City will continue to retain the responsibility to fund all amounts necessary to provide the adjusted (reduced) pension benefits to its employees and retirees who will have accrued benefits in either of the GRS or PFRS pension plans as of the effective date of the Plan, although the City’s contributions will be fixed during the period ending June 30, 2023. Thereafter, the City will be required to contribute all amounts necessary to fund the modified accrued pensions regardless of the actual future investment performance of the pension plan assets. Although, pursuant to the Plan, the City will provide necessary funding to support the reduced pension benefit levels, the level of funding necessary to support those reduced pension benefits will depend upon, among other things, future actuarial assumptions, changes in retiree mortality and investment returns. Using the assumptions adopted by the City in proposing the Plan, between 2024 and 2053, the City will contribute approximately \$2.816 billion, the present value of which is approximately \$1.038 billion.

To reduce the risk that the City has experienced from the past investment and discretionary benefit allowance practices of the GRS and PFRS pension funds, which contributed to the current underfunding in each of the pension funds, and to ensure that pension funding obligations do not impair the Plan objective of assuring that the City will have sufficient funds to operate and to improve infrastructure and public safety, the City has developed the following pension restructuring approach: (a) the City has set a goal of achieving a 70% and 75% funded status for GRS and PFRS, respectively, based upon an assumed investment rate of return of 6.75%, by June 30, 2023 and based further on the market value of assets, not a smoothed value of assets; and (b) the City has determined the cash contributions it can reasonably afford to make to each pension plan during the period ending June 30, 2023. Based on these parameters, which were chosen to achieve predictable pension contributions over the long term and sufficient pension funding to provide benefits as modified, and to align the City’s required future cash contributions to the plans with its reasonably projected revenues, the City has determined what pension benefit cuts are necessary from the participants in each pension plan.

Under the Plan, claims against the City are divided into different classes. Claims related to PFRS pensions are in Class 10. Claims related to GRS pensions are in Class 11. Specifically, the calculation of the amounts of the allowed PFRS pension claims in Class 10 and the allowed GRS pension claims in Class 11 utilizes among, other assumptions, a 6.75% discount rate to value liabilities and a 6.75% investment return rate for future growth rate of assets. This investment return

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rate is less than (a) the net 8% investment return rate historically utilized by PFRS in calculating the actual underfunding of the PFRS pension plan and (b) the net 7.9% investment return rate historically utilized by GRS in calculating the actuarial underfunding of the GRS pension plan. In both cases the City has utilized the lower rate as a measure to ensure that both GRS and PFRS utilize prudent and conservative investment policies going forward to protect the assets in both pension plans from unnecessary and imprudent risk of depletion to the detriment of the plan beneficiaries and also to insulate the City—given its limited cash resources—from unforeseen and unbudgeted increases in required future contributions to the pension plans that could cause the City to experience budget deficits in the future.

With respect to PFRS pension claims, the Plan provides for two alternatives for pension benefits. The Plan will not reduce monthly pension payments for holders of PFRS pension claims, but it will either reduce annual cost-of-living adjustments (COLAs or escalators) by 55% or eliminate them entirely, depending upon whether certain outside funding is received from the settlement with the State (the State Settlement) and the settlement regarding the Detroit Institute of Arts (the DIA Settlement). The State Settlement and the DIA Settlement are subject to a number of conditions precedent, including, but not limited to, the retirees of both pension systems voting to accept the Plan. As noted above, holders of PFRS pension claims voted to accept the Plan.

Similarly, with respect to GRS pension claims, the Plan provides for two alternatives for pension benefits. If the outside funding is received from the State Settlement and the DIA Settlement, monthly GRS pension benefits will be reduced by 4.5% and COLAs will be eliminated. If the outside funding from the State Settlement and the DIA Settlement is not received, monthly GRS pension benefits will be reduced by 27% and COLAs will be eliminated. In either case, holders of GRS pension claims who participated in the Annuity Savings Fund during the period July 1, 2003 to June 30, 2013, also will be subject to the recoupment by the City of excess interest credited to Annuity Savings Funds accounts during that period. As noted above, holders of GRS pension claims voted to accept the Plan. The State Settlement and DIA Settlement remain subject to a number of other conditions precedent.

Pursuant to the DIA Settlement, (a) certain charitable foundations and funders of the nonprofit corporation (DIA Corp.) that operates the Detroit Institute of Arts (collectively with DIA Corp., the DIA Funding Parties) have committed to assist in the funding of the City's restructured legacy pension obligations and (b) the City has agreed to enter into certain transactions that will cause the DIA assets to remain in the City in perpetuity and to otherwise make the DIA assets available for the benefit of the residents on the City and State of Michigan. The DIA Settlement will be funded as follows: (a) an irrevocable commitment of at least \$366 million by the charitable foundations; and (b) in addition to its continuing commitments outside of the DIA Settlement, an irrevocable commitment from DIA Corp. to raise at least \$100 million from its donors, the payment of which \$100 million will be guaranteed by DIA Corp. Upon the closing of the DIA Settlement transaction, the City shall irrevocably transfer the DIA assets to the DIA Corp., as trustee, to be held in perpetual charitable trust, and within the City limits, for the primary benefit of the residents of the City and citizens of the State.

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On the effective date of the Plan, if the conditions precedent to the State Settlement are satisfied or otherwise addressed, the City and the State will consummate the State Settlement. On the later of (a) the date on which the conditions precedent set forth in the definitive documents governing the State Settlement have been satisfied or (b) 60 days after the effective date of the Plan, the State or the State's authorized agent will contribute the net present value of \$350 million using a discount rate of 6.75% to GRS and PFRS for the benefit of the holders of pension claims. The State Settlement requires that the Plan provide for the release of the State and certain related entities by each holder of a pension claim from all liabilities arising from or related to the City and the Bankruptcy Case.

The consummation of both the DIA Settlement and the State Settlement are subject to a number of conditions, as set forth in the Plan. If the DIA Settlement or State Settlement is not consummated, the treatment of pension claims in Classes 10 and 11 under the Plan will reflect larger cuts to pension benefits

Actuarial Assumptions of the City versus the Retirement Systems for the Actuarial Calculation of the UAAL

The unfunded actuarial accrued liability (UAAL) with respect to the GRS plan and PFRS plans is based on the Retirement Systems' actuarial valuations. The City believes that the UAAL amounts reported by the Retirement Systems were based on various actuarial assumptions and methods that were favorable to reducing the City's required contributions to the Systems. The assumptions are further discussed in note 11 (d) and (e) and included: (1) annual rates of return on investments (GRS – 7.9%; PFRS – 8.0%) that were overly optimistic in light of the Retirement Systems' diverse mix of assets/investments and the inability of the City to budget for and fund pension investment loss in the event that investment returns were not achieved; (2) the "smoothing" (reallocation over a period of years) of asset gains and losses over a seven-year period, which masks the funding shortfall; and (3) the use of 29-year (PFRS) and 30-year (GRS) amortization periods for funding UAAL – which is applied anew each year to the full amount of unfunded liability – that allows unfunded liabilities to continue to grow rapidly as a result of the compounding effect.

As set forth in the City's disclosure statement with respect to its proposed plan of adjustment, the City estimated that the combined UAAL for the Retirement Systems was \$3.474 billion as of June 30, 2013, consisting of \$2.037 billion in UAAL for GRS and \$1.437 billion in UAAL for PFRS. The City's actuary, Milliman Inc., calculated this UAAL using the June 30, 2012 actuarial valuations performed by the Retirement Systems, rolling forward the actuarial accrued liability to June 30, 2013 using the City's actuarial assumptions discussed in the previous paragraph, and using the actual market fair value of the Retirement Systems' assets as of June 30, 2013.

Liabilities Subject to Compromise

Unsecured obligations owed by the City at July 18, 2013 are subject to compromise in the bankruptcy process. Liabilities subject to compromise at June 30, 2013 include the following:

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Notes to Basic Financial Statements

June 30, 2013

		Business-type Activities					
	Total Governmental Activities	Sewage Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	Non-Major Proprietary Fund	Total Primary Government (a)
Long-term obligations subject to compromise:							
Unfunded actuarial accrued liability							
GRS (note 11 (d))	341,752,000	163,542,720	140,583,000	157,129,280	—	—	803,007,000
Unfunded actuarial accrued liability	147,216,398	—	—	—	—	—	147,216,398
OPEB Employee Health and Life							
Insurance Benefit Plan (note 12 (d))	4,435,014,878	394,762,645	426,621,672	446,879,462	13,158,072	1,849,499	5,718,286,228
OPEB Supplemental Death Benefit							
Plan (note 12 (d))	5,034,167	1,184,046	1,279,604	1,340,365	39,466	5,547	8,883,195
General Obligation Bonds Unlimited							
Tax	369,115,000	—	—	—	—	—	369,115,000
General Obligation Bonds Limited Tax	155,511,968	—	5,458,032	—	—	—	160,970,000
Revenue bonds (note 6)	—	2,824,494,316	—	2,524,775,000	—	—	5,349,269,316
POC (note 8)	1,180,285,236	89,079,643	103,935,832	78,604,289	—	—	1,451,905,000
Notes and loans payable	33,600,000	—	—	—	—	—	33,600,000
Accrued compensated absences (note 6)	66,500,292	1,194,979	3,436,935	10,622,865	179,633	17,349	81,952,053
Accrued workers compensation (note 6)	61,849,000	3,293,000	4,302,693	9,590,000	597,000	81,000	79,712,693
Capital leases payable	—	—	8,243,938	—	—	—	8,243,938
Claims and judgments (note 6)	54,499,463	190,000	—	243,986	113,997	2,000	55,049,446
Accrued pollution remediation	156,765	—	—	—	—	—	156,765
Total long-term obligations subject to compromise	6,850,535,167	3,477,741,349	693,861,706	3,229,185,247	14,088,168	1,955,395	14,267,367,032
Current obligations subject to compromise:							
Accounts payable	50,176,837	50,488,376	9,010,130	23,947,479	349,573	102,394	134,074,789
Accrued liabilities	53,467,821	—	—	—	—	—	53,467,821
Accrued interest payable	30,143,758	70,858,984	1,737,106	66,454,704	237,550	—	169,432,102
Due to other governmental agencies	130,821,685	—	—	—	—	2,234	130,823,919
Due to fiduciary funds	141,316,438	—	13,631,878	25,278	621,640	503,834	156,099,068
Due to component units	9,125,372	—	—	—	—	—	9,125,372
Deposits and refunds	14,172,507	—	—	—	—	—	14,172,507
Swap liability	239,677,971	18,581,500	21,739,808	16,489,465	—	—	296,488,744
Other liabilities	15,660,102	23,327,269	—	13,592,704	658,573	2,054,629	55,293,277
Total current obligations subject to compromise	684,562,491	163,256,129	46,118,922	120,509,630	1,867,336	2,663,091	1,018,977,599

Amounts that the City recorded as liabilities subject to compromise are in many instances different from amounts filed by the creditors. Differences between amounts scheduled by the City and claims filed by the creditors are being investigated and will be resolved in connection with the claims reconciliation process. Until the process is complete, the ultimate number and amount of allowable claims cannot be ascertained. In this regard, it should be noted that the claims reconciliation process may result in adjustments to current estimates of allowable claims. Although the City currently believes the liability amounts are fairly represented, the ultimate resolution of these claims will be based upon the final plan of adjustment confirmed by the Bankruptcy Court.

Bonds Subject to Compromise

Listed below are the General Obligation Unlimited Tax, General Obligation Limited Tax and Revenue bonds that are subject to compromise.

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Notes to Basic Financial Statements

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	<u>Balance</u> <u>June 30, 2013</u>		<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities:			
General obligation bonds -		General obligation bonds -	
Unlimited tax:		Limited tax:	
Series 1999-A	18,470,000	Self-insurance bonds:	
Series 2001-A(1)	77,600,000	Series 2004	13,000,000
Series 2001-B	4,000,000	General obligation:	
Series 2002	6,645,000	Series 2005-A(1)	7,720,000
Series 2003-A	—	Series 2005-A(1)	52,175,000
Series 2003-A	34,380,000	Series 2005-A(2)	1,460,000
Series 2004-A(1)	39,270,000	Series 2005-A(2)	9,475,000
Series 2004-B(1)	8,275,000	Series 2005-B	1,935,000
Series 2004-B(1)	29,365,000	Series 2005-B	6,940,000
Series 2004-B(2)	725,000	Series 2008-A(1)	37,806,968
Series 2005-B	6,875,000	Series 2008-A(2)	25,000,000
Series 2005-B	37,920,000		<u>155,511,968</u>
Series 2005-C	7,605,000		
Series 2005-C	10,795,000		
Series 2008-A	15,120,000		
Series 2008-A	43,510,000		
Series 2008-B(1)	28,560,000		
	<u>369,115,000</u>		

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2013

	<u>Balance</u> <u>June 30, 2013</u>		<u>Balance</u> <u>June 30, 2013</u>
Business-type Activities:		Water Fund:	
Transportation Fund:		Water supply system revenue	
General obligation bonds -		bonds (note 7):	
Limited tax:		Series 1993	24,725,000
Series 2008-A(1)	5,458,032	Series 1997-A	13,430,000
Sewage Disposal Fund:		Series 1999-A	—
Sewage disposal system revenue		Series 2001-A	73,790,000
bonds:		Series 2001-C	2,240,000
Series 1998-A	16,435,000	Series 2001-C	186,350,000
Series 1998-A	49,075,000	Series 2003-A	178,785,000
Series 1998-B	16,505,000	Series 2003-B	41,770,000
Series 1998-B	48,770,000	Series 2003-C	4,335,000
Series 1999-A	—	Series 2003-C	25,325,000
Series 1999-A	61,429,316	Series 2003-D	1,320,000
Series 2001-B	110,550,000	Series 2003-D	139,575,000
Series 2001-C (1)	4,410,000	Series 2004-A	17,520,000
Series 2001-C (1)	148,510,000	Series 2004-A	55,165,000
Series 2001-C (2)	2,020,000	Series 2004-B	29,975,000
Series 2001-C (2)	119,630,000	Series 2004-B	100,990,000
Series 2001-D	21,300,000	Series 2005-A	6,375,000
Series 2001-E	136,150,000	Series 2005-A	84,035,000
Series 2003-A	70,450,000	Series 2005-B	13,525,000
Series 2003-A	128,940,000	Series 2005-B	175,830,000
Series 2003-B	150,000,000	Series 2005-C	21,090,000
Series 2004-A	67,755,000	Series 2005-C	90,200,000
Series 2005-A	1,820,000	Series 2006-A	26,900,000
Series 2005-A	236,770,000	Series 2006-A	237,205,000
Series 2005-B	37,195,000	Series 2006-B	700,000
Series 2005-C	12,425,000	Series 2006-B	119,100,000
Series 2005-C	41,095,000	Series 2006-C	9,655,000
Series 2006-A	123,655,000	Series 2006-C	208,060,000
Series 2006-B	6,335,000	Series 2006-D	1,760,000
Series 2006-B	238,150,000	Series 2006-D	142,160,000
Series 2006-C	8,495,000	Series 2011-A	32,380,000
Series 2006-C	18,065,000	Series 2011-A	341,710,000
Series 2006-D	288,780,000	Series 2011-B	6,390,000
Series 2012-A	95,445,000	Series 2011-B	9,740,000
Series 2012-A	564,335,000	Series 2011-C	2,700,000
	<u>2,824,494,316</u>	Series 2011-C	99,965,000
			<u>2,524,775,000</u>

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2013

(b) Legal Matters

For more than 35 years, the Detroit Water and Sewerage Department (DWSD) was a defendant in a lawsuit initiated by the United States Environmental Protection Agency (the EPA). In 1977, the EPA sued the City and the DWSD, alleging violations of the federal Clean Water Act (the CWA). The case was pending in the United States District Court for the Eastern District of Michigan (the District Court)—and the DWSD operated under federal court oversight—until March of 2013 due to “a recurring cycle” of compliance failures with regard to the CWA and National Pollutant Discharge Elimination System (NPDES) permits required by the Michigan Department of Environmental Quality (the MDEQ). Pursuant to an Administrative Consent Order (the ACO) with the MDEQ, in July 2011 the DWSD agreed to undertake certain remedial measures to address what the District Court had identified as areas of persistent dysfunction, including deficiencies in maintenance, capital expenditures, planning, staffing, and procurement. As of the Petition Date, the ACO remained effective, allowing the MDEQ to continue its oversight of the DWSD.

Determining that the ACO, standing alone, was insufficient to guarantee the DWSD’s long-term compliance with the CWA and NPDES standards, in 2011, the District Court ordered a “Root Cause Committee” comprised of City and DWSD officials to formulate a plan to address the root causes of the DWSD’s persistent noncompliance. The Root Cause Committee drafted—and the District Court adopted—a “Plan of Action,” which proposed to restructure the DWSD to address systemic dysfunction and achieve long-term compliance with federal and state environmental standards. In March 2013, the Root Cause Committee submitted a plan to the District Court recommending the creation of an autonomous DWSD. On March 27, 2013, the District Court issued an order closing the case and declining to address the Root Cause Committee’s recommendation for further restructuring the DWSD. In its order dismissing the case, the District Court stated that it was satisfied that the court’s orders “have been substantially implemented.”

On April 8, 2013, the Sixth Circuit Court of Appeals issued a ruling in favor of certain unions that had sought to intervene in the case prior to the dismissal, reversing the District Court’s denial of certain motions to intervene and remanding for a limited grant of intervention.

On June 5, 2013, the District Court issued an order to show cause regarding the question of whether the District Court is divested of jurisdiction to address the remanded issues as a result of the order of dismissal. The City also has commenced an appeal in this case. On July 30, 2013, the Sixth Circuit Court of Appeals stayed the City’s appeal pending resolution of the City’s Chapter 9 bankruptcy case.

(c) Debt Ratings

On July 3, 2013, Standard & Poor’s downgraded the rating on the Water Fund on the senior lien and second lien revenue bonds to “BB-” and then again lowered the rating on March 25, 2014 to a “CCC.” On February 28, 2014, Fitch downgraded the Water revenue bonds. Senior lien Water Fund revenue bonds were downgraded to “BB+” from “BBB+.” Water Fund second lien revenue bonds were downgraded to “BB” from “BBB.”

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2013

(d) Other Matters

On November 14, 2012, the Detroit Water and Sewerage Department's Board of Water Commissioners approved a \$2 million contract with a consultant, EMA, for job redesign and organizational optimization services with a term that ended June 30, 2013. On June 26 and July 24, 2013, three additional contracts were awarded continue the entity wide organizational optimization. First, the Phase II Amendment Project (\$1,999,760) is implementing the Job Design and new Business Processes at the Water Plants, System Control Center, Wastewater Plant, and Field Service Yards. Second, the Phase IV Information Technology (IT) Project (\$1,550,000) is developing the requirements and documentation for the Enterprise Resource Planning/Financial System, producing an IT and Geographic Information System Roadmap, developing the Network Requirements, and other related systems, governance, and planning matters. Third, the Phase V Asset Management Program (\$1,996,540) is developing and implementing specific requirements for asset management activities to meet the regulatory requirements. These projects will be completed in phases over a 12 to 30 month time period.

**CITY OF DETROIT
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Other Supplemental Information

June 30, 2013

Other Supplemental Information

As discussed in note 4, City of Detroit bond ordinance requires minimum levels of assets held in reserve for debt service on revenue bonds and to provide funds for improvements, enlargements, extensions, and construction. The Water Fund's reserves consist of the following cash and investments classified on the statement of net position as either restricted or unrestricted as follows:

Water Fund	Funded from revenues		Funded from debt issuance	Total
	Unrestricted	Restricted	restricted	
Flow of funds (per ordinance):				
Receiving fund	\$ —	—	—	—
Operations and maintenance	12,484,444	—	—	12,484,444
Senior lien debt service	—	82,257,737	—	82,257,737
Senior lien bond reserve	—	—	147,912,297	147,912,297
Second lien debt service	—	23,445,460	—	23,445,460
Second lien bond reserve	—	—	63,870,435	63,870,435
Extraordinary repair and replacement	22,472,000	—	—	22,472,000
Improvement and extension	—	—	—	—
Subtotal – Reserves defined by ordinance	34,956,444	105,703,197	211,782,732	352,442,373
Less funded by surety (noncash)	—	—	(139,468,933)	(139,468,933)
Total – Reserves defined by ordinance (net of Surety coverage)	34,956,444	105,703,197	72,313,799	212,973,440
Unspent construction bond proceeds	—	—	155,358,575	155,358,575
Other restricted proceeds	—	984,664	—	984,664
Variance from ordinance requirement	12,717,912	—	—	12,717,912
Total cash, cash equivalents and investments	\$ 47,674,356	106,687,861	227,672,374	382,034,591

Note: Surety coverage includes series specific policies; therefore, represents the lesser of the maximum amount of the policy, or amount of reserve requirement allocated to the specific series covered by such policy.

See accompanying independent auditor's report

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APPENDIX II-E

CHARACTERISTICS OF THE WATER SUPPLY SYSTEM SERVICE AREA

Currently, DWSD provides water service to the entire City of Detroit and neighboring southeastern Michigan communities throughout Wayne, Oakland, Macomb, St. Clair, Lapeer, Genesee, Washtenaw, and Monroe counties. The 1,079 square-mile water service area, which includes Detroit and 127 suburban communities, makes up approximately 40% of the state's population.

LARGEST MUNICIPAL ENTITIES SERVED BY THE DEPARTMENT

Set forth below are summary descriptions of the largest municipal entities receiving water service from the Department based upon the 2010 population estimates available from the U.S. Census Bureau and other sources.

City of Detroit

Demographics

The City is located in southeastern Michigan in Wayne County and has a land area of approximately 138 square miles. According to the U.S. Census Bureau's 2012 Statistical Abstract, the City is the center of the nation's 12th largest metropolitan statistical area. In 2010, the City was the 19th largest city, with a 2010 census population of 713,777. As of December 2012, the City had a population of approximately 685,000, according to figures provided by the City in the Plan of Adjustment. The City is internationally known for its automobile manufacturing and trade. The southeastern border of the City lies on the Detroit River, an international waterway, which is linked by the St. Lawrence Seaway to seaports around the world. The City is the commercial capital of Michigan and a major economic and industrial center of the nation. There are eight diverse industrial parks, and three fortune 500 companies have world headquarters within the confines of the City.

Historically, the City's economy has been closely tied to the manufacturing sector, especially the automotive industry. The two major U.S. automobile companies and Chrysler LLC are principal employers and taxpayers in the Detroit metropolitan area. While the City's economy is linked to automobile and automobile related manufacturing, recent developments are allowing the City to be more diversified by increasing its activities in other manufacturing sectors, technology, health care, trade, commerce and tourism.

The City's educational and medical institutions continue to grow in size and recognition. Wayne State University, one of the nation's largest urban educational institutions, as well as the University of Detroit-Mercy, the largest independent university in the State, are located in the City.

In the last several years, the City recently has seen some positive movement of businesses and residents to the downtown area. Quicken Loans, the largest online mortgage lender (NMLS#3030), and affiliated companies moved its headquarters into downtown in 2010, and by late 2013 concentrated 9,192 employees in the downtown. Blue Cross Blue Shield has 5,415 employees downtown. In addition, the City has had \$2.1 billion in development projects in Greater Downtown Detroit between 2010 and 2012.

Governance

The City is a home rule city with significant independent powers under the City Charter. The City provides the following services: public protection, public works, cultural and recreational, civic center,

health, physical and economic development, transportation, water supply and sewage disposal, human services (including housing), airport and parking. Commencing in 2013, certain public lighting services within the City are provided by an independent Public Lighting Authority created pursuant to state law. In accordance with the Charter, ordinarily, the City is managed by two branches of government, an executive branch, which is headed by the Mayor, and the legislative branch, which is comprised of the City Council and its agencies. The Mayor and the nine members of the City Council are elected every four years. However, since March 14, 2013, the City has been operating under the authority of an Emergency Manager and, since July 19, 2013, the City has been in a chapter 9 U.S. Bankruptcy Court proceeding. For a further description of the City, its historical demographics and the Emergency Manager's authority, see the City's disclosure statement filed in connection with its Sixth Amended Plan of Adjustment of the City filed with the Bankruptcy Court and available at <http://www.kccllc.com/detroit>.

Upon the City's exit from bankruptcy and the return of executive and legislative powers to the Mayor and City Council under State law, anticipated to occur in the fall of 2014, the City is expected to operate pursuant to the Charter, subject, as of the effective date of the Plan of Adjustment, to the terms of the Plan of Adjustment and the oversight of a financial review commission established pursuant to Act 181, Michigan Public Acts of 2014, and related legislation requiring the appointment of a chief financial officer for the City, restricting changes in employee and retiree benefits and imposing new requirements on pension management. The City Charter grants the Mayor broad managerial powers including the authority to appoint department directors, deputy directors and other executive officials. The City Council, as the legislative branch, must approve budget appropriations, procurement of goods and services and certain policy matters. The Charter also provides that the voters of the City reserve the power to enact City ordinances by initiative and to nullify ordinances enacted by the City by referendum. These powers, however, do not extend to the budget or any ordinance for the appropriation of money nor to emergency ordinances.

The Department continues to implement a number of changes mandated by the United States District Court, Eastern District of Michigan, Southern Division (the "District Court") as part of a lawsuit filed by the United States Environmental Protection Agency against the City in 1977, *United States v. City of Detroit, et al.*, Case No. 77-71100 (E.D. Michigan). All of the changes are intended to separate many affairs of the Department from the City and give the Department greater authority and autonomy to manage and operate the Water Supply System and the Sewage Disposal System. See "THE DEPARTMENT—Court Mandated Changes."

Southeastern Oakland County Water Authority

The Authority is a municipal corporation created to distribute water to its ten constituent members which include the following municipalities: City of Berkley, Village of Beverly Hills, City of Birmingham, City of Clawson, City of Huntington Woods, City of Lathrup Village, City of Pleasant Ridge, City of Royal Oak, City of Southfield, and the Village of Bingham Farms. The Authority was established in 1953, and in terms of population is the largest wholesale customer served by the Department. The area comprising the Authority covers approximately 56 square miles and is located north of and adjacent to Detroit serving an estimated population of 210,386. Two cities account for roughly two-thirds of the land area and population served by the Authority: Royal Oak and Southfield. The City of Royal Oak encompasses approximately 11.8 square miles and had a 2010 population of 57,236. It is primarily a residential and commercial community. The City of Southfield covers approximately 26.2 square miles and had a 2010 population of 71,739. Southfield is a residential community with substantial commercial development. The Authority recently added Bloomfield Hills and Bloomfield Township as non-member customer communities. These communities were formerly direct customers of the Department.

Warren

The City of Warren became an incorporated city in 1957 and was one of the first large suburban communities to develop in the Detroit metropolitan area. The City of Warren encompasses approximately 34.3 miles of the southwestern section of Macomb County and it is adjacent to Detroit. The 2010 population of Warren was 134,056. Warren's economy is closely linked with the automobile industry, much of it being research and development rather than manufacturing. General Motors Corporation and Chrysler Group LLC have major facilities in Warren.

Genesee County and the City of Flint

The City of Flint is the county seat of Genesee County and is located about 60 miles northwest of Detroit. Flint is the principal city of the Flint MSA. Incorporated in 1855, the City of Flint covers approximately 34.1 square miles and had a 2010 population of 102,434. The U.S. Census Bureau, 2009-2011 American Community Survey identified a regional population of 422,080. In addition, the survey showed a median household income of \$53,415 and a per capita income of \$21,335. The workforce in manufacturing represented approximately 14.2%.

Recently, however, Genesee County and the City of Flint (along with other neighboring communities) formed the Karegnondi Water Authority (the "KWA"), which intends to sell raw water to communities in Michigan's "thumb" area. In 2013, the Department terminated its contract with Flint and in May 2014, Flint began operating its own water treatment plant utilizing the Flint River as its raw water source. Genesee County, which previously purchased water from the Department through the Flint contract, is now purchasing water directly from the Department while the parties negotiate a long-term service contract. However, it is anticipated that if the KWA becomes operational in mid-2016 as currently planned, Genesee County will no longer rely on the Department as its primary finished water supplier and will look to the Department primarily for emergency back-up water supply.

Sterling Heights

The City of Sterling Heights is located in southwestern Macomb County, about six miles north of Detroit's city limits. Sterling Heights was incorporated in 1968 and covers an area of approximately 36.7 square miles. The 2010 population was 129,699. Industrial development in Sterling Heights continues a trend begun in the City of Warren, immediately to the south of Sterling Heights. The first major industry to locate in Sterling Heights was Ford Motor Company in 1956, followed later by Daimler Chrysler AG. In addition, General Dynamics Land System, another major employer, has located its engineering and design headquarters in Sterling Heights. The Detroit News Paper Agency maintains its principal printing plant in Sterling Heights. Lakeside Mall Property LLC, owners of the area's largest shopping mall, is among of the ten largest taxpayers in Sterling Heights.

Clinton Township

Clinton Township is located in the central portion of Macomb County, approximately 20 miles northeast of downtown Detroit. It is primarily a residential community with a land area of approximately 38 square miles. Its population grew from 95,648 in 2000 to 96,796 in 2010.

Livonia

The City of Livonia is located in Wayne County, about 13 miles northwest of downtown Detroit. Incorporated in 1950, Livonia is a residential, commercial and industrial city which encompasses some 36 square miles. Livonia's major population growth occurred in the 1950s and 1960s. The 2010 population

was 96,942. Livonia's tax base is well diversified. General Motors Corporation and Ford Motor Company comprise approximately 5.3% of its tax base. Three large shopping centers attract shoppers from surrounding communities.

Dearborn

The City of Dearborn adjoins Detroit on the southwest. Its eastern boundary is approximately eight miles from the center of Detroit. Dearborn was incorporated in 1928 and today covers some 24.5 square miles. The location of Ford Motor Company's headquarters in Dearborn in the early 1930s shaped the economy and growth of that city, and continues to be the largest employer and taxpayer. The 2010 population was 98,153.

Westland

The City of Westland, with an area of 20.5 square miles, is located 16 miles west of downtown Detroit. Land use is primarily residential and commercial in character. Conveniently located near an interstate freeway, industrial development includes auto suppliers, injection molders and tool and die shops. The 2010 population was 84,094.

DETROIT MSA

The Detroit Metropolitan Statistical Area ("Detroit MSA") is comprised of six counties: Wayne, Oakland, Macomb, Livingston, Lapeer and St. Clair. Except for Flint, which is located outside the Detroit-Warren-Livonia MSA, all of the Water Supply System service area is located within the Detroit MSA, although the two are not coterminous. The Detroit MSA is ranked the 12th largest metropolitan statistical area in terms of population in the country.

Population

The population in the Detroit MSA grew from 3,169,649 in 1950 to 4,452,557 in 2000. In 2010 the population had shrunk to 4,296,250 and estimates indicate that the population has shrunk minimally since then, to 4,294,983 in July 2013. The following table presents population trends of the Detroit MSA and the United States since 1990.

Table 1
Population Trends

Year	Detroit-Warren-Livonia MSA		U.S.
	Population	% Change	% Change
1990	4,248,699	(5.3%)	9.8%
2000	4,452,557	4.8%	13.2%
2010	4,296,250	(3.5%)	9.7%
2013	4,294,983	(0.0%)	2.4%

SOURCE: US. Department of Commerce, Bureau of the Census.

Employment

The Detroit MSA's economy is highly susceptible to swings in the national economy due to its high concentration of employment in the durable goods industries, particularly the automotive industry.

Over the past two decades, all three major automotive companies have experienced severe financial problems which have adversely affected the economy of the Detroit area.

The following table sets forth certain information on total employment by industry group for the Detroit MSA and that of the United States. The region has in the past consistently maintained a greater percentage of persons employed in the manufacturing sector than the nation as a whole, which reflected the area's dependence on the automotive industry.

Table 2
Annual Employment by Place of Work (Non-Agricultural)

	Detroit-Warren-Livonia MSA							
	2010		2011		2012		2013	
	(000's)	%	(000's)	%	(000's)	%	(000's)	%
Industry Group:								
Natural Resources, Mining, & Construction.....	51	2.9%	55	3.1%	56	3.1%	58	3.1%
Manufacturing.....	188	10.8%	205	11.5%	219	11.9%	229	12.3%
Trade, Transportation & Utilities....	325	18.8%	336	18.8%	343	18.7%	348	18.7%
Information.....	27	1.6%	26	1.5%	27	1.5%	27	1.4%
Financial Activities.....	95	5.5%	98	5.5%	99	5.4%	102	5.5%
Professional and Business Services	304	17.5%	328	18.4%	347	18.9%	359	19.3%
Education and Health Services.....	285	16.4%	291	16.3%	296	16.1%	297	15.9%
Leisure & Hospitality.....	169	9.8%	174	9.7%	177	9.7%	178	9.5%
Other Services.....	82	4.7%	75	4.2%	76	4.1%	78	4.2%
Government.....	<u>207</u>	<u>11.9%</u>	<u>198</u>	<u>11.1%</u>	<u>193</u>	<u>10.5%</u>	<u>188</u>	<u>10.1%</u>
Total.....	<u>1,733</u>	<u>100.0%</u>	<u>1,786</u>	<u>100.0%</u>	<u>1,833</u>	<u>100.0%</u>	<u>1,864</u>	<u>100.0%</u>

	U.S.							
	2010		2011		2012		2013	
	(000's)	%	(000's)	%	(000's)	%	(000's)	%
Industry Group:								
Natural Resources & Mining.....	705	0.5%	788	0.6%	848	0.6%	868	0.6%
Construction.....	5,518	4.2%	5,533	4.2%	5,646	4.2%	5,827	4.3%
Manufacturing.....	11,528	8.8%	11,726	8.9%	11,927	8.9%	12,006	8.8%
Trade, Transportation & Utilities....	24,636	18.9%	25,065	19.0%	25,476	19.0%	25,870	19.0%
Information.....	2,707	2.1%	2,674	2.0%	2,676	2.0%	2,685	2.0%
Financial Activities.....	7,695	5.9%	7,697	5.8%	7,784	5.8%	7,880	5.8%
Professional and Business Services	16,728	12.8%	17,332	13.1%	17,932	13.4%	18,560	13.6%
Education and Health Services.....	19,889	15.3%	20,228	15.3%	20,698	15.4%	21,102	15.5%
Leisure & Hospitality.....	13,049	10.0%	13,353	10.1%	13,768	10.3%	14,242	10.4%
Other Services.....	5,331	4.1%	5,360	4.1%	5,430	4.0%	5,464	4.0%
Government.....	<u>22,490</u>	<u>17.3%</u>	<u>22,086</u>	<u>16.8%</u>	<u>21,920</u>	<u>16.3%</u>	<u>21,864</u>	<u>16.0%</u>
Total.....	<u>130,276</u>	<u>100.0%</u>	<u>131,842</u>	<u>100.0%</u>	<u>134,105</u>	<u>100.0%</u>	<u>136,368</u>	<u>100.0%</u>

NOTE: Totals may not add due to rounding.

SOURCE: Michigan Department of Technology, Management and Budget, Labor Market Information; U.S. Department of Labor, Bureau of Labor Statistics for U.S.

Unemployment in the Detroit MSA in comparison to the City, the State and the United States is illustrated in the following table:

Table 3
Civilian Unemployment Rates

	<u>Detroit</u>	<u>Detroit MSA</u>	<u>State of Michigan</u>	<u>U.S.</u>
2009	24.8%	14.9%	13.3%	9.3%
2010	22.7%	13.5%	12.5%	9.6%
2011	20.2%	11.6%	10.4%	8.9%
2012	18.0%	10.3%	9.1%	8.1%
2013	16.9%	9.4%	8.8%	7.4%

SOURCE: Michigan Department of Technology, Management and Budget, Labor Market Information.

Housing Characteristics

Table 4
Housing Characteristics-Second Quarter 2014

	<u>Detroit MSA</u>	<u>State of Michigan</u>	<u>United States</u>
Homeownership Rates	72.4%%	75.9%%	64.7%
Rental vacancy	8.5%%	7.6%%	7.5%
Homeownership Vacancy	1.0%	1.3%	1.9%

SOURCE: U.S. Department of Commerce, Bureau of Census.

Manufacturing

The following table shows a breakdown of manufacturing employment by type for the Detroit MSA from 2009 through 2013.

Table 5
Manufacturing Employment

Industry Group:	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(In Thousands)				
Total durable goods industries	151.1	154.4	170.9	182.9	191.2
Total nondurable goods industries	<u>31.1</u>	<u>32.0</u>	<u>34.2</u>	<u>36.3</u>	<u>38.2</u>
Total manufacturing employment	182.2	186.4	207.2	219.2	229.4

SOURCE: Michigan Department of Labor and Economic Growth, Office of Labor Market Information.

Household Income

The following table sets forth certain information concerning median household income in the 25 most populous U.S. metropolitan areas.

Table 6
Median Household Income – 2012

Rank	Metropolitan Area	Median household income (dollars)
1	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	88,233
2	San Francisco-Oakland-Fremont, CA Metro Area	74,922
3	Boston-Cambridge-Quincy, MA-NH Metro Area	71,738
4	Baltimore-Towson, MD Metro Area	66,970
5	Minneapolis-St. Paul-Bloomington, MN-WI Metro Area	66,282
6	Seattle-Tacoma-Bellevue, WA Metro Area	65,677
7	New York-Northern New Jersey-Long Island, NY-NJ-PA Metro Area	63,982
8	Denver-Aurora-Broomfield, CO Metro Area	61,453
9	San Diego-Carlsbad-San Marcos, CA Metro Area	60,330
10	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area	60,105
11	Chicago-Joliet-Naperville, IL-IN-WI Metro Area	59,261
12	Los Angeles-Long Beach-Santa Ana, CA Metro Area	57,271
13	Portland-Vancouver-Hillsboro, OR-WA Metro Area	56,978
14	Dallas-Fort Worth-Arlington, TX Metro Area	56,954
15	Houston-Sugar Land-Baytown, TX Metro Area	55,910
16	Atlanta-Sandy Springs-Marietta, GA Metro Area	54,628
17	St. Louis, MO-IL Metro Area	52,243
18	Riverside-San Bernadino-Ontario, CA Metro Area	51,695
19	San Antonio-New Braunfels, TX Metro Area	51,486
20	Phoenix-Mesa-Glendale, AZ Metro Area	51,359
21	Pittsburgh, PA Metro Area	50,489
22	Detroit-Warren-Livonia, MI Metro Area	50,310
23	Miami-Fort Lauderdale-Pompano Beach, FL Metro Area	46,648
24	Orlando-Kissimmee-Sanford, FL Metro Area	46,020
25	Tampa-St. Petersburg-Clearwater, FL Metro Area	44,402

SOURCE: U.S. Department of Commerce, Bureau of Census.

Largest Employers

Below is a listing of the largest employers by company and by number of employees actually or estimated to be employed within the City and the State as of July 2013.

Table 7

Largest Employers

Company	City Employment	State Employment
Detroit Medical Center	11,497	13,458
City of Detroit	9,591	9,591
Quicken Loans Inc.	9,192	9,423
Henry Ford Health System	8,807	17,862
Detroit Public Schools	6,586	6,586
U.S. Government	6,308	27,789
Wayne State University	6,023	6,023
Chrysler L.L.C.	5,426	30,440
Blue Cross Blue Shield of Michigan	5,415	7,437
General Motors Corp.	4,327	41,379
State of Michigan	3,911	45,144
DTE Energy	3,700	9,183
St. John Health	3,566	12,560
U.S. Postal Service	2,643	NA
Wayne County Government	2,566	3,274

SOURCE: Crain's *Book of Lists*, 2013 Edition.

Detroit/Wayne County Port Authority

The Detroit/Wayne County Port Authority is a public agency responsible for promoting trade and freight transportation through the Port of Detroit, (the “Port”) which provides direct water service to world markets via the Great Lakes/St. Lawrence Seaway. The Port has five privately-owned and operated full-service terminals, a liquid bulk terminal and bulk facility, and a single dock facility with capacity for 14 oceangoing vessels. In addition, more than 30 industries located on the Detroit and Rouge Rivers have their own port facilities. A variety of ship repair services are available. The Detroit area, which is the largest foreign trade zone in the United States, provides financial advantages related to federal taxes and customs duties at subzones throughout the City and region. The Port is a principal port of entry for trade with Canada by means of bridge, vehicular tunnel, rail tunnel and barge service. Steel and scrap steel are the principal export products of the Port, handled for the three local steel mills. General cargo constitutes a minor portion of total tonnage due to the lack of regularly scheduled shipping service.

Transportation Network

Five major rail lines provide direct service to the Detroit area by railroad companies such as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargo handled by the rail lines in the Detroit area include automobiles, auto parts, steel, chemicals and food products.

Air transportation service is provided to the City at the Detroit City Airport, which has general aviation and cargo services, and at the Detroit Metropolitan Wayne County Airport, the nation's 12th largest airport (by number of aircraft operations) which is the second largest hub and primary Asian gateway for Delta. As of July 2014, the Detroit Metropolitan Wayne County Airport had scheduled passenger service provided by 26 U.S. flag carriers and four foreign flag carriers with more than 32 million annual passenger deplanements and enplanements.

This area's extensive toll-free highway system, which includes the 1-94, 1-75, 1-96 and 1-696 interstate highways and Canadian Highway 401, provides one-day access, based on a 500-mile day, to 48% (by population) of the U.S. market and to the Province of Ontario, Canada.

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APPENDIX II-F
DISTRICT COURT ORDERS

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February 11, 2011 Stipulated Order

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

United States of America,

Plaintiff,

v.

Honorable Sean F. Cox

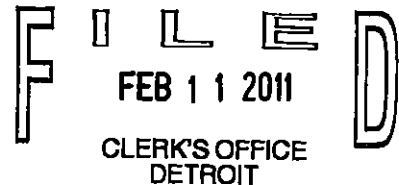
City of Detroit, et al.,

Case No. 77-71100

Defendants.

_____ /

STIPULATED ORDER



The City of Detroit, Wayne County, Oakland County and Macomb County stipulate and agree:

Whereas, Sec. 7-1501 of the Detroit City Charter provides that the Mayor appoints a seven member Board of Water Commissioners, at least four of whom must be Detroit residents; and

Whereas, the Board has a membership of four Detroit residents, one resident of Wayne County, one resident of Oakland County and one resident of Macomb County; and

Whereas, the Charter provides that the Board of Water Commissioners shall appoint a director of the Detroit Water and Sewerage Department (DWSD), oversee all operations and management of DWSD and procurement of goods and services, and set rates for water and sewer service; and

Whereas, the Parties agree that DWSD's ability to comply with environmental laws and its NPDES Permit will be enhanced by the Board's exercise of its powers and authority to the fullest extent of the law; and

Whereas, the Parties have worked together to collaboratively resolve certain concerns regarding the past management, operations and oversight of DWSD.

1 of 4
Shc

It is stipulated and agreed between Detroit, Wayne County, Oakland County and Macomb County that:

The Mayor of Detroit will appoint three commissioners, one each nominated by the Wayne County Executive, the Oakland County Water Resources Commissioner and the Macomb County Public Works Commissioner. The parties agree to file briefs on the issue of whether the members of the Board of Water Commissioners will serve at the pleasure of the Mayor or whether they should only be removed for cause.

All seven members of the Board of Water Commissioners must have at least seven years of experience in a regulated industry, a utility, engineering, finance or law. However, notwithstanding the foregoing and to provide continuity, it is expressly ordered that no more than two (2) current members may remain on the Board of Water Commissioners and all other members shall be newly appointed.

Members of the Board of Water Commissioners will be compensated at a rate of \$10,000.00 per year and \$250 per meeting, not to exceed \$20,000.00 per year in total. This compensation may, in the future, be adjusted by the Board, with the consent of the Mayor and Wayne County Executive, the Oakland County Water Resources Commissioner and the Macomb County Public Works Commissioner.

The Board of Water Commissioners will have three staff. One shall be an attorney, one shall have expertise in finance, and one shall have technical expertise (engineering or water or wastewater operations). The By-Laws shall provide that five votes are required for approval of Board staff members.


The Board of Water Commissioners By-Laws will be amended to require five votes of seven to approve rates and a five-year capital improvement plan.

The Mayor shall appoint a Board of Water Commissioners as described above before April 1, 2011.


Oakland County's Motion For Appointment Of Interim Regional Management Committee shall be withdrawn without prejudice.

Within six months of the date of this Order, any party may file a motion with the Court to demonstrate that the Detroit Water and Sewerage Department is in substantial compliance with its NPDES Permit and the consent judgments of this Court. If the Court is satisfied that substantial compliance has been achieved, it shall dismiss this lawsuit.

If any provision of this Stipulated Order is held to be void or unenforceable, the remaining provisions shall remain valid and shall be construed in such a manner as to achieve their original purposes in full compliance with applicable laws.

2 of 4


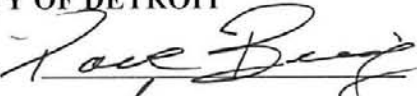
IT IS SO ORDERED.


S/Sean F. Cox
Sean F. Cox
United States District Judge

Dated: February 11, 2011

**BY OUR SIGNATURES APPEARING BELOW, WE HEREBY
STIPULATE TO THE ENTRY OF THIS STIPULATED ORDER THIS 11TH
DAY OF FEBRUARY, 2011.**

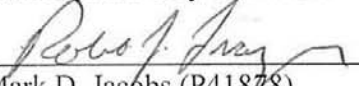
CITY OF DETROIT

By: 

Its: 

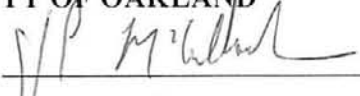


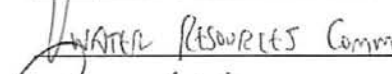
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4 of 4

SFC

November 4, 2011 Order

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

United States of America,

Plaintiff,

v.

Honorable Sean F. Cox

City of Detroit, *et al.*,

Case No. 77-71100

Defendants.

ORDER

The United States Environmental Protection Agency (“EPA”) initiated this action in 1977 against the City of Detroit (“the City”) and the Detroit Water and Sewerage Department (the “DWSD”), alleging violations of the Clean Water Act, 33 U.S.C. § 1251 *et seq.* (“the Clean Water Act”). The violations, which are undisputed, involve the DWSD’s wastewater treatment plant (“WWTP”) and its National Pollutant Discharge Elimination System (“NPDES”) permit.

As set forth in this Court’s September 9, 2010 Opinion & Order (Docket Entry No. 2397):

For the more than 34 years during which this action has been pending, the City and the DWSD have remained in a recurring cycle wherein the DWSD is cited for serious violations of its NPDES permit, the City and the DWSD agree to a detailed remedial plan aimed at compliance, but the DWSD is unable to follow the plan and is again cited for the same or similar violations. Although this Court has taken various measures, designed to eliminate the various impediments to compliance that have been identified by experts and acknowledged by the City, those measures have proven inadequate to achieve sustained compliance.

(*Id.* at 1).

In September 2009, the DWSD was again unable to maintain compliance with its NPDES

permit and was again cited for violations by the Michigan Department of Environmental Quality (“DEQ”). In January of 2010, Detroit Mayor Dave Bing appointed a Chief Operating Officer who assumed the position of acting Director of the DWSD. Thereafter, the City worked with the DEQ to develop another plan for compliance and worked with Oakland County, Wayne County and Macomb County to resolve longstanding issues regarding the DWSD.

On July 8, 2011, the City and the DEQ entered into an Administrative Consent Order (“the ACO”), aimed at achieving long-term compliance with the DWSD’s NPDES permit and the Clean Water Act. After the ACO was executed, the City filed a motion asking the Court to order that the requirements set forth in the ACO are substituted for the requirements of the Second Amended Consent Judgment, find that the DWSD has made substantial progress toward achieving full compliance with its NPDES permit and the Clean Water Act, and dismiss this case.

As explained in detail in this Court’s September 9, 2010 Opinion & Order, this Court denied that motion. In doing so, this Court noted that *after* executing the ACO on July 8, 2011, the DWSD self-reported serious violations of its NPDES permit to the DEQ. Thus, the City had not established that the DWSD has achieved even short-term compliance with the ACO and the Clean Water Act. In addition, this Court concluded that the extensive record in this case establishes that, unless more fundamental corrective measures are taken to address the institutional and bureaucratic barriers to compliance, sustained compliance with the Clean Water Act and the ACO will simply not occur. This Court further explained:

Although the City has had ample opportunity to propose solutions to the root causes of noncompliance that were identified early on in this case, to date, it

has not proposed or implemented a plan that has sufficiently addressed those root causes.

To be fair, the City has been constrained in the measures it has proposed or implemented to date because the City is bound by various provisions of the City's Charter and ordinances, and by existing contracts, that prevent the City from making fundamental changes in the identified problem areas. This Court, however, has broad equitable power to order any relief necessary to achieve compliance with the Clean Water Act and this Court *is not* constrained by the provisions of the City's Charter or ordinances. Nevertheless, this Court is mindful that remedies that override state or local law should be narrowly tailored and that, to the extent possible, local officials should at least have the opportunity to devise their own solutions to remedy a violation of federal law.

(*Id.* at 2).

Accordingly, this Court ordered the Mayor of the City of Detroit (and/or his designee), the City Council President and President Pro Tem, and a current member of the Board of Water Commissioners ("BOWC") (to be chosen by the BOWC) to meet and confer and, within 60 days of the date of this order, propose a plan that addresses the root causes of non-compliance that are discussed in this Opinion & Order. (*Id.* at 44). The Court directed that, in making such recommendations to the Court, these individuals *shall not* be constrained by any local Charter or ordinance provisions or by the provisions of any existing contracts. Finally, the Court cautioned that "[i]f the local officials fail to devise and propose a workable solution to remedy the underlying causes of the recurrent violations of the Clean Water Act in this case, this Court will order a more intrusive remedy on its own." (*Id.* at 43).

Following this Court's September 9, 2010 Opinion & Order, the above individuals have been meeting and conferring in order to devise and propose a workable solution to remedy the underlying root causes of noncompliance ("the Root Cause Committee"). On November 2,

2011, the Root Cause Committee submitted a written proposed “Plan of Action” to the Special Master in this action, which the Special Master then submitted to the Court on that same date. (Docket Entry No. 2409).

I. The Court Adopts The Plan Proposed By The Root Cause Committee.

Having studied the Plan of Action proposed by the Root Cause Committee, the Court concludes that the Plan of Action adequately addresses the majority of the root causes of non-compliance that are outlined in this Court’s September 9, 2011 Opinion & Order. As such, the Court **ADOPTS** the Plan of Action proposed by the Root Cause Committee (Ex. A to this Order), which includes a DWSD Procurement Policy (Ex. B to this Order), and **ORDERS** that the Plan of Action shall be implemented in order to remedy the recurring violations of the Clean Water Act in this case.

As the Committee noted in the Plan of Action, **the changes being ordered do not restructure the DWSD as a separate entity. The DWSD, and all of the assets of the DWSD, shall remain a department of the City of Detroit.**

II. The Court Concludes That The Plan Does Not Adequately Address CBA Issues And Orders Additional Relief Necessary For The DWSD To Achieve Short-Term And Long-Term Compliance.

DWSD employees are members of 20 different collective bargaining units, each of which has its own collective bargaining agreement (“CBA”) that expires on June 30, 2012. (*See* Docket Entry No. 2409, Ex. C, Appx. 12). The Root Cause Committee reviewed the record in this case, and consulted with several outside sources, and concluded that “[i]t is evident from the various historical reports, and current conditions, that certain CBA provisions and work rules have limited DWSD from maintaining long-term environmental compliance.” (Plan of Action at

3). The Root Cause Committee agreed that certain changes to existing CBAs need to occur. Despite earnest efforts of all members, however, the Committee could not agree on how to achieve the necessary changes.

Based on the record in this case, the Court concludes that certain CBA provisions and work rules are impeding the DWSD from achieving and maintaining both short-term and long-term compliance with its NPDES permit and the Clean Water Act. Given that the Committee was unable to agree on a proposed solution for remedying these impediments to compliance, this Court shall order its own remedy.

As the Root Cause Committee recognized, this Court may elect from several potential options in ordering a remedy to these impediments to compliance, including:

(i) the approach provided in State legislation for emergency managers that would terminate all collective bargaining agreements; (ii) suspension of the duty to bargain for 5 years as provided in certain State emergency laws; (iii) establishing a regional authority as a new employer for DWSD employees; (iv) terminating the workforce so DWSD would start with a blank slate; (v) outsourcing plant operations so corporate representations or warranties of compliance could be enforced; and (vi) ordering that negotiations take place to address the various identified problems.

(Plan of Action at 3). The Court has carefully considered all options and concludes that the least intrusive means of effectively remedying these impediments to compliance is to: 1) keep all current CBAs that cover DWSD employees in force, but strike and enjoin those current CBA provisions or work rules that threaten short-term compliance; and 2) Order that, in the future, the DWSD shall negotiate and sign its own CBAs that cover only DWSD employees, and prohibit future DWSD CBAs from containing certain provisions that threaten long-term compliance.

Specifically, the Court hereby **ORDERS** that:

1. The Director of the DWSD, with the input and advice of union leadership, shall develop a DWSD employee training program, a DWSD employee assessment program, and a DWSD apprenticeship training program.
2. Any City of Detroit Executive Orders imposing furlough days upon City employees shall not apply to DWSD employees.
3. The DWSD shall act on behalf of the City of Detroit to have its own CBAs that cover DWSD employees ("DWSD CBAs"). DWSD CBAs shall not include employees of any other City of Detroit departments. The Director of the DWSD shall have final authority to approve CBAs for employees of the DWSD.
4. The Court hereby strikes and enjoins any provisions in current CBAs that allow an employee from outside the DWSD to transfer ("bump") into the DWSD based on seniority. Future DWSD CBAs shall adopt a seniority system for the DWSD that does not provide for transfer rights across City of Detroit Departments (ie., does not provide for "bumping rights" across city departments).
5. DWSD management must be able to explore all available means and methods to achieve compliance with its NPDES permit and the Clean Water Act. DWSD CBAs shall not prohibit subcontracting or outsourcing and the Court hereby strikes and enjoins any provisions in current CBAs that prohibit the DWSD from subcontracting or outsourcing.
6. DWSD CBAs shall provide that excused hours from DWSD work for union activities are limited to attending grievance hearings and union negotiations, with prior notification to DWSD management. The Court strikes and enjoins any current CBA provisions to the contrary.
7. DWSD CBAs shall include a three-year time period pertaining to discipline actions.
8. The Director of the DWSD shall perform a review of the current employee classifications at the DWSD and reduce the number of DWSD employee classifications to increase workforce flexibility. Future DWSD CBAs

shall include those revised employee classifications.

9. DWSD CBAs shall provide that promotions in the DWSD shall be at the discretion of management and based upon skill, knowledge, and ability, and then taking seniority into account. The Court strikes and enjoins and current CBA provisions to the contrary.
10. Past practices on operational issues shall not limit operational changes initiated by management with respect to DWSD CBAs.
11. The Court strikes and enjoins any provisions in existing CBAs that prevent DWSD management from assigning overtime work to employees most capable of performing the necessary work within a classification, at the discretion of management. DWSD CBAs shall provide that management has the discretion to assign overtime work to employees most capable of performing the necessary work within a classification, at the discretion of management.
12. Any existing work rules, written or unwritten, or past practices that are contrary to these changes are hereby terminated.
13. The Court enjoins the Wayne County Circuit Court and the Michigan Employment Relations Commission from exercising jurisdiction over disputes arising from the changes ordered by this Court. The Court also enjoins the unions from filing any grievances, unfair labor practices, or arbitration demands over disputes arising from the changes ordered by this Court.

III. The Court Orders Further Study Regarding Concepts And Issues That Are Not Fully Developed At This Time.

In a section of the Plan of Action titled “Additional Considerations” (Plan of Action at 6), the Root Cause Committee discussed the concepts of: 1) an “Efficient Compliance Payment;” and 2) a Payment in Lieu of Taxes arrangement. The Plan of Action also notes that the implementation of the Plan of Action may result in a reduction in chargeback revenues to the

City of Detroit from the DWSD that will need to be addressed during the transition period. The Committee stated that while it “believes these concepts are all important and that some combination of these concepts is critical to the long-term viability of this Plan, the Committee was unable to achieve consensus on a recommended path due to the complexity of the concepts under consideration and the amount of research required to complete this task in the time available.” (*Id.*).

The Court **ORDERS** the Root Cause Committee to continue to meet and confer, and to gather necessary financial records, in order to make specific recommendations regarding how the reduction in chargeback issue should be addressed during the transition period. Within 60 days of this Order (by January 4, 2012), the Root Cause Committee shall submit a written supplement to the Plan of Action to the Special Master regarding that issue and recommendations regarding same.

The Court further **ORDERS** that the Root Cause Committee shall continue to meet and confer in order to further study the concepts of an “Efficient Compliance Payment” and/or a Payment in Lieu of Taxes arrangement. Within 90 days of this Order (by February 4, 2012), the Root Cause Committee may submit a written supplement to the Plan of Action to the Special Master regarding those concepts and any recommendations regarding same.

IV. The Court Orders Implementation Of The Adopted Plan Of Action And The Additional Relief Ordered By This Court.

The Court hereby **ORDERS** the following with respect to implementation of the Plan of Action, and the additional relief ordered by this Court:

1. Implementation of the Plan of Action shall be the responsibility of the Mayor of the City of Detroit (or his designee) until such time as a

permanent Director of the DWSD has been hired. Once a new Director of the DWSD has been hired, that new Director shall assume primary responsibility for implementing this Order and shall join the Root Cause Committee.

2. Until the Plan of Action has been fully implemented, or this case has been dismissed, the Root Cause Committee shall meet at least once per month, at which time the individual vested with primary responsibility for implementing the Plan of Action shall apprise the Root Cause Committee of the status of the implementation.
3. In order to facilitate prompt implementation, until the Plan of Action has been fully implemented, or this case has been dismissed, the BOWC member that was chosen by the BOWC to serve on the Root Cause Committee shall serve as interim Chair of the BOWC.
4. The BOWC shall amend its by-laws within 60 days of this Order (by January 4, 2012), to make them consistent with the adopted Plan of Action and this Order.
5. Within 6 months from the date of this Order (by May 4, 2012), the Director of DWSD shall prepare a written Report of Compliance with the ACO that identifies any current or anticipated barriers to long-term compliance with the ACO and the Clean Water Act ("the Director's Report of Compliance"). The Director of the DWSD shall include within that report any additional recommendations or changes that are necessary to achieve long-term compliance.
6. The Director's Compliance Report shall be provided to the BOWC, the Mayor of the City of Detroit, the Detroit City Council, the DEQ, and the Special Master. The Director's Compliance Report shall request any comments, suggestions, or recommendations from the BOWC, the Mayor of the City of Detroit, the Detroit City Council, and the DEQ within 30 days.
7. To provide adequate time for review and consideration of the comments, suggestions, and recommendations made, and to allow an opportunity to

make necessary changes, the Director of the DWSD shall submit, to the Special Master, a final report to the Court on the status of compliance with the ACO, any remaining barriers to long-term compliance, together with proposed solutions, within 90 days of submission of the initial Director's Report of Compliance.

8. After receiving the final Director's Report of Compliance, the Court will determine whether it shall modify or amend this Order. If the Court determines that this Order needs to be amended, the amended order will be issued within 30 days after the Courts receipt of the final Director's Report of Compliance.
9. Thereafter, the DWSD may file a motion seeking to dismiss this case if it believes there has been substantial compliance with this Order (and any amendment of this order) and the July 8, 2011 ACO.

IT IS SO ORDERED.

S/Sean F. Cox

Sean F. Cox

United States District Judge

Dated: November 4, 2011

I hereby certify that a copy of the foregoing document was served upon counsel of record on November 4, 2011, by electronic and/or ordinary mail.

S/Jennifer Hernandez

Case Manager

November 2, 2011

Hand Delivered

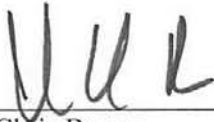
David M. Ottenwess
Ottenwess Allman & Taweel, PLC
535 Griswold Street, Ste. 850
Detroit, MI 48226

Re: DWSD Root Cause Committee


Dear Mr. Ottenwess:

Pursuant to Federal District Court Judge Sean Cox's Order of September 9, 2011, the undersigned met to develop a plan for the Detroit Water and Sewerage Department (DWSD) to comply with its NPDES permit and the Clean Water Act.

The undersigned were the Committee members as identified in the Order or appointed as representatives. We met numerous times over the last sixty days. The Committee members conducted research into the root cause issues and solutions. Enclosed is our consensus Plan of Action, which includes a separate document consisting of the Committee's proposed broad-stroke DWSD Procurement Policy. Although it is not part of the Committee's Plan of Action, because it is referenced in the Plan of Action, we are also enclosing a copy of a report that the Acting Director of the DWSD provided to the Committee. We are asking you, as the special master in Case No. 77-71100, to transmit this letter and document to the Court on our behalf.



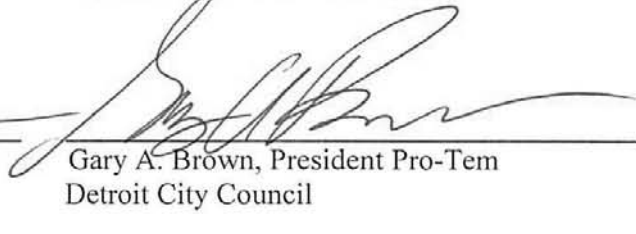
Chris Brown
City of Detroit Chief Operating Officer
Mayor's Office



James G. Fausone
DWSD
Board of Water Commissioners



Charles Pugh, President
Detroit City Council



Gary A. Brown, President Pro-Tem
Detroit City Council

COMMITTEE'S PLAN OF ACTION

November 2, 2011

I. PREAMBLE

On September 9, 2011, the Court entered an Opinion and Order that created this Root Cause Committee to review barriers to short and long-term compliance. Pursuant to that order, this Committee was given sixty days to develop a plan and present that plan to the Court for its consideration. While the Committee was bound by a Confidentiality Order to its internal process, the members of the Committee were permitted to solicit and receive input from various sources with knowledge of the Detroit Water and Sewerage Department (hereinafter "DWSD" or "the Department") operations and utility operations more generally. Specifically, the Committee received input from the following sources:

- The Detroit City Council
- The Board of Water Commissioners
- DWSD Management Staff
- Union Representatives
- Management-side Labor Counsel
- Industry Professionals
- Current DWSD Vendors
- Rate Consultant
- Regulatory Agency Input

The Committee had available and reviewed the historical reports prepared on the Department's root cause issues. After careful study of the problems and based on our meetings, our review of the Findings of Facts by the Parties, by the Court through its own findings contained in its Opinion and Order of September 9, 2011 through our review of various studies and reports contained therein, the Committee has determined that there are essentially five root cause issues which must be addressed in order to allow DWSD to achieve accountability and long-term compliance with state and federal laws. The five areas of concern we will address with more specificity below include:

- Human Resources
- Procurement
- Law
- Finance
- Rates

It is important to note that the changes recommended by the Committee in these areas are significant, but critical to changing the environment of non-compliance at DWSD. It is equally important to note that **these changes do not contemplate DWSD becoming a separate entity.**

That is to say, **DWSD, and all of the assets of the DWSD, shall remain a department of the City of Detroit**, despite any changes in structure or governance recommended by this Committee.

This Committee's recommended Plan of Action ("the Plan") is organized into 3 main categories: Governance, Legal Barriers, and Transition Issues. In putting this Plan together, the Committee has attempted to respond to all known root causes and provide recommended solutions. However, in recognizing that the Court's judicial relief must be as minimally intrusive as possible to achieve long-term compliance, we believe that there may need to be additional changes made in the future, possibly through a second-phase plan once we have the ability to work with the implementation of this Plan.

II. GOVERNANCE

The structure of DWSD is essentially a unitary department whose water and wastewater systems are currently managed and operated by the City of Detroit as a department of city government, although managed as a separate enterprise fund. The DWSD provides water service to less than four million people in Detroit and neighboring southeast Michigan communities. The DWSD also provides wastewater collection and treatment for Detroit and approximately 76 municipal suburban communities.

The combined functions of the DWSD are recommended to be broken into two divisions – operations and administration. We have examined these separate divisions in detail in order to make recommendations to address the long-term problems at DWSD and to streamline the function of both aspects of the Department.

The operations side of DWSD deals with the infrastructure and day-to-day operations of water treatment and sewage removal. The administrative component will include the functions of human resources, finance, legal and procurement services for the entire Department. These services are currently subject to the institutional procedures applied to City Departments. In general we conclude that operations can best be streamlined through recommendations in sub-paragraph (A). The administrative end of DWSD may be best addressed by streamlining the approval process in the above-mentioned key areas as outlined in sub-paragraph (C).

A. OPERATIONS

(1) Divisional Structure within DWSD Administration

DWSD shall establish an autonomous administrative structure within the Department to provide for its own divisions of Purchasing, Human Resources, Law, and Finance. These divisions shall report to the Director of DWSD and shall not have any reporting requirements to the similar functions of the City of Detroit.

(2) Procurement Policy for DWSD

Since the Committee has determined that DWSD should be exempted from following the requirements of the City of Detroit's procurement ordinance in order to promote efficiency and ensure long-term compliance, the Committee has prepared the attached DWSD Procurement Policy to govern the procurement activities of DWSD. We recognize that the policy is a broad overview of a full procurement process and may need to be expanded to be fully implemented by the Department. At the same time, we understand that this policy will ultimately require formal adoption by the Board of Water Commissioners at a later time, consistent with the parameters we have laid out.

(3) Immediate needs for Human Resources

(a) Employees Covered by Collective Bargaining Agreements

The Committee reviewed the historical reports referenced earlier which discussed the root cause issues of non-compliance. It is evident from the various historical reports, and current conditions, that certain CBA provisions and work rules have limited DWSD from maintaining long-term environmental compliance. These issues, along with others, at least contribute to not achieving and maintaining long-term compliance by limiting manpower and workforce flexibility.

The Acting Director of DWSD submitted to the Committee a report on root cause problems and solutions. That report also provided recommendations for specific collective bargaining agreement (hereinafter "CBA") and work rules changes. The Department requested relief from specific items across all CBAs. In particular, Appendix 12 of the Plan was reviewed and discussed. The Appendix listed approximately 30 specific provisions and changes in the AFSCME CBA and seeks to apply similar changes to all the CBAs that apply to DWSD employees.

The Committee was aware that there are various approaches to addressing the concerns referenced in that report that fall along a scale of intrusiveness including: (i) the approach provided in State legislation for emergency managers that would terminate all collective bargaining agreements; (ii) suspension of the duty to bargain for 5 years as provided in certain State emergency laws; (iii) establishing a regional authority as a new employer for DWSD employees; (iv) terminating the workforce so DWSD would start with a blank slate; (v) outsourcing plant operations so corporate representations or warranties of compliance could be enforced; and (vi) ordering that negotiations take place to address the various identified problems.

The Committee spent considerable time discussing the option of negotiating the changes requested, or that may be necessary, with the 20 unions that represent the DWSD workforce.

The Committee agreed that all collective bargaining agreements that apply to DWSD workforce shall remain in force. However, the Committee agreed that certain changes to the CBAs need to occur. The Committee could not agree on how to achieve the desired changes.

The problem areas that were identified and require solutions are:

1. Effective employee training programs, employee assessment programs, and apprenticeship training programs should be developed and provided for by DWSD.
2. DWSD should act on behalf of the City of Detroit to have its own collective bargaining agreements after July 1, 2012. In other words, agreements with DWSD should not include employees of other City of Detroit departments.
3. DWSD should adopt a separate seniority system for the department that does not provide for rights across city of Detroit departments. This should also eliminate the confusion caused by bumping rights from other departments into DWSD.
4. Any prohibition on subcontracting or outsourcing should be eliminated from the CBAs. DWSD must be free to explore all available avenues to achieve long-term compliance.
5. Excused hours from work for union activities should be limited to attending grievance hearings and union negotiations, with prior notification to DWSD Management.
6. The timeline on use of past discipline should be three years.
7. The number of DWSD employee classifications should be reduced to the minimum identified by the Director to assure flexibility and long term compliance.
8. Promotions should be at the discretion of management and based upon the individual's skill, knowledge and ability, and then taking seniority into account.
9. Past practices on operational issues should not limit operational changes initiated by management.
10. Overtime should be assigned to employees most capable of performing work in a classification, at the discretion of management.

It was recognized that the provisions of all the CBAs would have to be modified with respect to each of the issues listed above, and ancillary provisions interpreted consistent with these changes. Any work rules, written or unwritten, which exist that are contrary to these changes would have to be terminated.

While the Committee was able to identify the above CBA and work rule challenges, it could not agree if the solution to these challenges could/should be left to negotiations or if Court ordered implementation was required.

(b) DWSD Executive Management Team

DWSD shall develop an Executive Management Team of exempt non-union, at-will positions. The members of the Executive Management Team, other than the Director of DWSD, shall serve at the pleasure of the Director of DWSD and may be removed with or without cause. The Executive Management Team cannot exceed ten percent (10%) of the total workforce of DWSD. This Executive Management Team is in addition to the three technical advisors to the BOWC, as outlined the Court's stipulated order of February 11, 2011. Nothing in this Plan will prevent the Director of DWSD from hiring non-employees of DWSD to perform some or all of the services of the Executive Management Team if that is deemed necessary to improve the operations of DWSD to ensure Long-Term Compliance.

The DWSD Executive Management Team should develop a formal succession plan to be presented to the BOWC for its review and approval.

B. RATES

(1) Approval Authority

In the past, City Council has been required to approve water and sewerage rates charged by DWSD. The City Council assumed this responsibility pursuant to MCL §117.5e which provides that a municipal water or sewerage system:

which serves more than 40% of the population of the state shall hold at least 1 public hearing at least 120 days before a proposed rate increase is scheduled to take effect and that [a] final vote by the governing body of the city to implement a proposed rate increase shall not be taken until the hearings provided for in this subdivision are concluded and the results of those hearings are considered by the city's governing body. M.C.L. § 117.5e(b).

According to the most recent census data collected by the U.S. Census Bureau, the City of Detroit has received documentation that DWSD does not service more than 40% of Michigan's population. As a consequence, City Council no longer need to approve water and sewerage rates for DWSD customers pursuant to State law, City Ordinance, or City Charter.

It is, however, the recommendation of the Committee that retail rates for the citizens of the City of Detroit shall still require City Council approval, only after a public hearing for City of Detroit residents. All wholesale rates will be fully and finally approved by the Board of Water Commissioners.

(2) Additional Considerations

The Committee spent a substantial amount of time discussing the need to create an incentive within Detroit and DWSD to support making difficult decisions that would promote improving the efficiency of DWSD. This Efficient Compliance Payment concept would allow for a calculation and cost sharing whereby the savings associated with a reduction in operating expenses is shared by DWSD, the City of Detroit, Staff of DWSD, and the customers of DWSD. This type of arrangement will help focus everyone's efforts on the ultimate goal of insuring long-term compliance, continually improving efficiency of operations, and ultimately reducing the administrative component¹ of the rate expense. The Acting Director of DWSD presented a detailed proposal on computing the Efficient Compliance Payment at Appendix 13 of the attached report.

Additionally, the transition to a more autonomous DWSD will result in a substantial reduction in chargeback revenues to the City of Detroit from the operations of DWSD. This is the result of DWSD no longer reimbursing the City of Detroit for the cost of staff associated with City Departments within Finance, Procurement, Law, Human Resources, and Information Technology Services. Since the ability of DWSD to hire its own staff to fulfill these functions will be quicker than the City's ability to reduce its staff and expenses commensurate with those changes, a budget deficit will be created within the City that the Committee feels needs to be addressed. Therefore, the Committee discussed the need for a temporary, time-limited, transition payment to the City of Detroit to prevent the implementation of this plan from causing a deficit within the City of Detroit's General Fund. The Committee was unable to reach consensus on the amount and the number of years needed for the transition payment at this time.

Further, the Committee agreed that there was a need to explore Payment in Lieu of Taxes arrangements for DWSD that would mirror agreements in place with other public utilities throughout the State of Michigan.

While the Committee believes that these concepts are all important and that some combination of these concepts is critical to the long-term viability of this Plan, the Committee was unable to achieve consensus on a recommended path due to the complexity of the concepts under consideration and the amount of research required to complete this task in the time available.

C. ADMINISTRATIVE - APPROVAL AUTHORITY

In order to assist the City and DWSD in achieving substantial compliance, we have

¹It is understood that wholesale rates consist globally of two components: Capital Expenditures and Operating Expenditures. Since Capital Expenditures are tied to investing in the core business of the utility, it is not helpful to the long-term interest of DWSD to provide an incentive to lower the Cap Ex commitment. Rather, the incentive should rest on reducing the administrative expenses which are solely under the control of DWSD management.

determined that there is a need to streamline the approval process for various activities within the DWSD operations and create a more direct culture of accountability within the staff at DWSD. To achieve this objective, the Committee has agreed to reduce, and in many instances, eliminate, redundant approval processes and provide for clearer lines of approval. The approval authority we propose is divided along two lines: final approvals to be housed within DWSD and final approvals to be held by the Detroit City Council. These approvals are outlined in greater detail below.

As previously stated, the DWSD will remain a department of the City of Detroit. Nevertheless, there is an efficiency of operations need to allow final approval authority to vest in the Director of DWSD with respect to the signing of several types of legal documents on behalf of DWSD's operations. Therefore, it is recommended that the Director of DWSD be vested with delegated authority to sign documents of the type referenced within this Plan and that the delegated authority shall include the right to bind the City of Detroit to the terms of the agreements contained therein.

In addition to all powers currently vested in DWSD pursuant to the City Charter, City Ordinances, State Law, and the By-Laws for the Detroit Water and Sewerage Department Board of Water Commissioners ("BOWC"), DWSD, acting through its Director upon authorization by the Board of Water Commissioners, shall have final authority to approve the following types of documents without any further approvals from other departments, board, agencies, or offices of the City of Detroit:

- Legal Settlements and Claims paid by DWSD;
- Collective Bargaining Agreements for employees of DWSD;
- Terms and Conditions of Employment for employees of DWSD;
- The Budget for DWSD (Subject to approval of Rates) as outlined above;
- Wage scales for DWSD employees, subject to City Council's veto rights as outlined below; and
- Those procurements not covered by the Board of Water Commissioners' and the Detroit City Council's approval outlined in the attached DWSD Procurement Policy.

The Committee also examined the process for the recruitment, hiring, and dismissal of the DWSD Director and believes that there is an opportunity to improve that process. At the same time, we recognize that efforts to fill the current vacancy in the Director position is well on its way to completion and that a new process for recruitment should not impact the current search. With this in mind, we recommend that the process be amended as follows:

- (a) A Director search committee should be established that will include representation from the Mayor's office, a member of the Board of Water Commissioners selected by the Board and who is not a resident of Detroit, and a member of the Detroit City Council appointed by the President.
- (b) The hiring of the Director should be unchanged from the current process.
- (c) The removal of the Director should require either

- a. Five (5) votes by the Board of Water Commissioners; or
- b. A two-thirds (2/3) vote of the Detroit City Council and the approval of the Mayor.

The Detroit City Council, as the legislative branch of the City of Detroit, recognizes the need to increase accountability for performance within DWSD in order to achieve long-term compliance with the Clean Water Act. As a result, the role of the Detroit City Council in approving actions of DWSD will be more targeted to broader policy issues. Specifically, the Detroit City Council will retain authority to approve the following items, subject to ratification by the Mayor:

- DWSD Rate approval as outlined in the Rate Section, above,
- Approval of the final City of Detroit Budget, which shall incorporate the DWSD enterprise fund budget as an attachment. However, there shall not be a need for DWSD to appear for a budget hearing as the components of the budget are approved within the Rate approval vote that has already taken place prior to the budget approval.
- Salary ranges for City employees are contained within a document commonly known as the "white book." With respect to non-represented employees of DWSD, the rates shall be deemed approved by the Detroit City Council if they are not rejected by a majority vote of the Detroit City Council within 30 days of their being presented to the Council.

In addition to the specific approval authority cited above, the Detroit City Council will continue to serve an important role in monitoring the overall performance of the Detroit Water and Sewerage Department. The Director of DWSD shall provide the City Council with copies of its quarterly MDEQ reports on the status of its implementation of the compliance program as required by Section 3.10 of the ACO and shall be required to make appearances before the Detroit City Council no less than semi-annually to explain efforts to remain in compliance with the ACO. The monitoring role shall include requesting reports on environmental compliance, scheduling meetings with the DWSD Director and DWSD staff, and reviewing DWSD's compliance with the court orders.

III. Legal Barriers

One of the key areas of concern throughout the Court's oversight of DWSD's non-compliance with the Clean Water Act is the existing City of Detroit procurement process. While this Committee does not have the time needed to perform an exhaustive review of the existing procurement process and to make specific recommendations to modify that system, it is clear that the current process has failed DWSD. In order to achieve long-term compliance, this committee agrees that DWSD will need to be relieved of the requirement to fully comply with the existing provisions of the City of Detroit's Procurement Ordinance. As a by-product of this decision, it is also clear that DWSD cannot be expected to fully comply with the Charter provisions related to Privatization (Charter Section 6-307).

While we agree that DWSD should be free from the language of those laws outlined

above, as currently written, we do believe that several of the key concepts must still control the operations of DWSD's procurement process. That discussion will occur under the Procurement Section of this report.

There are two provisions of the Detroit City Charter that speak to the approval authorities for the sale of property of DWSD. After considerable discussion in the Committee on DWSD's need to find better ways to operate in an efficient and effective manner and adapt the system to meet the needs of the current customer base as opposed to the capacity that the system was originally designed to support, the Committee felt that there was a need to seek relief from Charter Sections Charter 7-1504 and Charter 4-112. The Committee suggests that the sale of property by DWSD shall be overseen by the Detroit City Council as provided by the procurement policy. Therefore, the Committee suggests that the sale of property within DWSD should be solely governed by the provisions of the proposed procurement policy attached to this Plan.

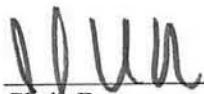
IV. TRANSITIONAL PLAN

In order to assist DWSD in obtaining the administrative support services that it needs to insure accountability in order to achieve long-term compliance, it is agreed that DWSD will be free to seek its own new staff in filling the newly created administrative positions within DWSD's Administrative Division with respect to HR, Finance, Law, and Procurement. Existing staff within City of Detroit Departments of Finance, Budget, Human Resources and Labor Relations, and Law that support the activities of DWSD will be addressed through the City of Detroit's traditional process for addressing staffing reduction or bumping decisions, consistent with this order.

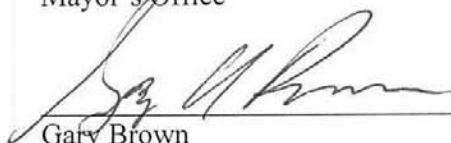
Finally, the Committee recognizes that we may need the assistance of professional labor and bond attorneys to help us navigate the transitional issues associated with Collective Bargaining Agreements and existing and/or future Bond transactions within the context of the Governance and Approval recommended changes outlined above. It is our intent to vest the Director of DWSD with the exclusive authority to sign CBAs on behalf of DWSD for its employees and to negotiate the terms and conditions of employment for DWSD employees. Equally, it is our intent to support all existing bond commitments that have been made by the City of Detroit as well as to avoid impairing DWSD's ability to issue future bonds to support our Capital Expenditure needs.

At the end of this process, we would recommend that the Court's final order instruct the Board of Water Commissioners to amend their By-laws to make them consistent with this Plan as we have outlined.

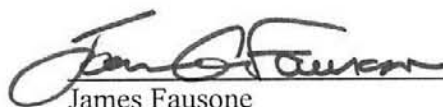
We the undersigned, hereby submit this Plan, as presented, to the Special Master upon our recommendation that the Court accept this proposal.



Chris Brown
Chief Operating Officer
Mayor's Office



Gary Brown
President Pro Tem,
Detroit City Council



James Fausone
Board Member
Board of Water Commissioners



Charles Pugh
President
Detroit City Council

Attachment

Detroit Water and Sewerage Department Procurement Policy
November 2, 2011

(1) General Policy Statement

The Detroit Water and Sewerage Department ("DWSD") shall procure all goods and services through the use of competitive bidding as outlined in this policy, unless an express exception is provided to that general rule. The DWSD Director shall take all necessary measures to ensure this policy is adhered to.

(2) Types of Competitive Bidding

In the procurement of goods or commodities, DWSD shall only use an Invitation for Bids in which the price factor shall be the only factor considered in the award of a contract. An Invitation for Bids shall not be due any sooner than 14 calendar days from the date of issuance.

In the procurement of professional services, DWSD shall use a Request for Proposals. A Request for Proposals shall not be due any sooner than 21 calendar days from the date of issuance.

In the procurement of construction services, the Department is free to determine the type of competitive bidding and the time frame for response that is appropriate for the complexity of the project.

(3) Minimum Qualifications for Response

DWSD shall provide within each competitive solicitation the minimum qualifications needed to submit a responsible and acceptable response. These minimum qualifications may include, among others, insurance requirements, compliance with the Ethics code, Section 2-6-91 *et seq* of the Detroit City Code, disclosure statements, certificates of good standing with the State of Michigan, etc.

(4) Exceptions to Competitive Bidding

While the general rule is that all procurements by DWSD shall be done pursuant to competitive bidding, there is a need for narrow exceptions to this general rule that will promote efficiency of operations and assist with insuring long-term compliance. The exceptions are as follows:

(A) Emergency Procurements

The DWSD Director, without prior approval of the Board of Water Commissioners ("BOWC") or Detroit City Council, may make, or authorize others to make, an emergency procurement when public exigencies require the immediate delivery of articles or performance of services or when there exists a threat to public health, welfare or safety or to prevent an imminent violation of a required environmental permit or

Administrative Consent Order under emergency conditions where prior approval would be impossible or impracticable under the circumstances; provided that:

(i) Emergency procurement shall be made with such competition as is practicable under the circumstances; and

(ii) The DWSD Director or other person he or she authorizes to make emergency procurement shall, within one (1) week of the procurement, notify the Board of Water Commissioners and the Detroit City Council in writing of the procurement and the basis for the emergency and for the selection of the particular contractor. The DWSD Director shall submit the procurement contract for any necessary approval within four (4) weeks of the procurement.

(B) Sole Source Procurements

Competitive bidding is not required when the DWSD Purchasing staff certifies that only one (1) source of supply is available.

(C) Small Purchases

(i) *General.* Any contract not exceeding \$25,000.00 may be made in accordance with the small purchase procedures authorized in this section. Procurement requirements shall not be artificially divided so as to constitute a small purchase under this section.

(a) When a dollar limit is specified upon the authority delegated by this subsection, it shall be construed to apply to the cumulative amount of contracts awarded to a specific business for a kind of supplies, service or construction within the same fiscal year. DWSD shall requisition and solicit procurements in amounts which are based upon their reasonable and foreseeable needs and storage capacities, and upon other relevant factors, such as, economies of scale in purchasing, shipping and handling; or the shelf-life, useful life, or seasonal availability of a product. Contracts shall not be divided into smaller parts to circumvent the need for Board of Water Commissioners or Detroit City Council approval.

(b) Separate contracts may however be used if:

(1) There is a need to document expenditures as against various restricted funding sources; or

(2) It is not economically practical to store a one-year supply of a given commodity, because of shelf-life, or storage costs and capacities; or

(3) Product price often changes, and more often than not in a downward trend; or

(4) Different users have significant differences in the timing of their needs for a service or product; or

(5) The initial or continuing need for a product or service is not readily foreseeable so as to enable consolidated purchasing; or

(6) The cost of coordinating consolidated purchasing will exceed any savings which are likely to be generated; or

(7) To promote greater utilization of small businesses.

(ii) *Small purchases over \$5,000.00 but not exceeding \$25,000.00.* Insofar as it is practical, solicitations of verbal or written quotes from a minimum of three qualified sources of supply shall be made and documentation of the quotes recorded on or attached to the purchase requisition. Reasonable best efforts shall be made to solicit bids from Detroit Based Businesses. The award shall be made to the lowest responsive/responsible source. Monthly, the Board of Water Commissioners shall be provided a list of purchases, vendors and amounts which fall into this category.

(iii) *Small purchases under \$5,000.00.* Any purchase not exceeding \$5,000.00 may be accomplished without securing competitive quotations if the prices are considered to be fair and reasonable. Competitive quotations need only be taken when the DWSD Director suspects the price may not be fair and reasonable, e.g., comparison to previous price paid, personal knowledge of the price range of the item involved. The maximum amount for purchases that may be achieved by using this method of procurement is \$5,000.00. Every effort should be made to distribute such purchases equitably among qualified suppliers.

(iv) *Protest rights.* The provisions of Section 7 shall not apply to contracts awarded under the procedures set forth in this subsection.

(v) *Evaluation Credits for Small Purchases.* Evaluation credits under Section 5 shall not be considered for small purchases under \$25,000.00.

(D) Cooperative Purchases

The DWSD Director may either participate in, sponsor, conduct, or administer a cooperative purchasing agreement for the procurement of supplies, services, or construction services with one or more public procurement units in accordance with an agreement entered into between the participants. Such cooperative purchasing may include, but is not limited to, joint or multi-party contracts between public procurement

units. Examples of such cooperative purchasing is State of Michigan contracts, General Services Administration (GSA) contracts, supplies and/or services procured from another governmental agency, and U.S. Communities.

(i) *Sale, acquisition or use of supplies.* The DWSD Director may sell to, acquire from, or use any supplies belonging to another public procurement unit independent of the requirements of the general bidding requirements of this policy.

(ii) *Cooperative use of supplies or services.* The DWSD Director may enter into an agreement, independent of the general bidding requirements of this policy, with any public procurement unit for the cooperative use of supplies or services under the terms agreed upon between the parties.

(iii) *Joint use of facilities/equipment.* The purchasing director may enter into agreements for the common use or lease of warehousing facilities, capital equipment, and other facilities with another public procurement unit under the terms agreed upon between the parties

(iv) *Cooperative Purchase Agreements.* In the event that the DWSD Director determines that it is advantageous to take advantage of a Cooperative Purchase Agreement for the procurement of goods from a vendor that is neither a Detroit Based Business nor a Detroit Resident Business, the DWSD Director shall provide an opportunity for Detroit Based Businesses or Detroit Resident Businesses to submit a bid that is equal to or less than the cost of the Cooperative Purchase price.

(E) Personal Services Contracts

Competitive bidding is not required for personal services contracts. A personal services contract is one that furnishes labor, time, or effort by an individual not required to deliver specific end product, other than reports which are merely incidental to required performance. This term does not include employment agreements or collective bargaining agreements.

(5) Price Equalization Credits

(A) Price Equalization Credit Categories shall be:

(i) Detroit Based Business

(ii) Detroit Resident Business

(iii) Joint Venture

(iv) Mentor Venture**(v) Customer Based Business**

In order to claim entitlement to a credit pursuant to this section, the vendor must submit proper documentation of their entitlement to the credit at the time that the vendor responds to the competitive solicitation. Failure to provide documentation at the time of the bid submission shall negate any application of the equalization credits to the evaluation of that bid.

(B) Price Equalization Credits

	Contracts Up to \$1 million	Contracts ≥\$1 million
Detroit Based Business	2%	1%
Detroit Resident Business	2%	1%
Joint Venture	1%	0.5%
Mentor Venture	1%	0.5%
Customer Based Business	1%	0.5%

(C) Use of Price Equalization Credits

In evaluating the bids of competing vendors, the Price Equalization Credits contained within this policy can be used to reduce the relative cost of the price component of any bids provided by vendors responding to a Request for Proposals or a competitive solicitation related to construction services. The relative reduction in price shall be in accordance with the percentages outlined above in Section B.

A potential vendor is entitled to use multiple credits in their bid in accordance with the chart contained in subsection (B) above provided that:

(i) a potential vendor cannot claim both a **Joint Venture** and a **Mentor Venture**; and

(ii) a potential vendor cannot claim to be both a **Customer Based Business** and a **Detroit Based Business**.

Price Equalization Credits will not be utilized in the award of contracts pursuant to an Invitation for Bids for the procurement of goods or where prohibited by applicable law. Federal law prohibits such equalization credits on projects utilizing federal funds.

(6) Approval of Contracts

(A) Approval by the Director of DWSD

The DWSD Director shall have full and final approval to approve procurements of the following types of goods and services at dollar values that do not exceed the following limits:

- (i) Personal Services contracts that do not exceed \$50,000;
- (ii) Goods or commodities contracts that do not exceed \$100,000;
- (iii) Professional Services contracts that do not exceed \$250,000;
- (iv) Construction contracts that do not exceed \$500,000; and
- (v) Sale of land or equipment contracts that do not exceed \$500,000, pursuant to a written appraisal from a licensed appraiser.

(B) Approval by the Board of Water Commissioners

The Board of Water Commissioners shall be required to approve the following types of procurements prior to execution by the DWSD Director:

- (i) Personal Services contracts that exceed \$50,000;
- (ii) Goods or commodities contracts that exceed \$100,000;
- (iii) Professional Services contracts that exceed \$250,000;
- (iv) Construction contracts that exceed \$500,000; and
- (v) Sale of land or equipment contracts that exceed \$500,000, pursuant to a written appraisal from a licensed appraiser.

(C) Approval by the Detroit City Council

In addition to requiring approval of the Board of Water Commissioners, the following types of procurements shall also require the approval of the Detroit City Council prior to execution by the Director of DWSD:

- (i) Personal Services contracts that exceed \$150,000;
- (ii) Goods or commodities contracts that exceed \$2,000,000;

- (iii) Professional Services contracts that exceed \$2,000,000;
- (iv) Construction contracts that exceed \$5,000,000; and
- (v) Sale of land or equipment contracts that exceed \$2,500,000, pursuant to a written appraisal from a licensed appraiser.

(7) Bid Protests and Appeals

(A) A potential vendor who is not recommended for award of a contract after participating in DWSD's competitive solicitation process may protest the award of the contract by filing a written notice of protest with the Board of Water Commissioners within seven (7) days of the notice of award. The written notice shall reference the solicitation number and the basis for the protest.

(B) Upon receiving a bid protest, the DWSD Director shall immediately halt the processing of the relevant contract award until the protest has been resolved.

(C) The Bid Protest shall be reviewed by the staff of the Board of Water Commissioners in an expeditious manner. The Board of Water Commissioners shall vote to either accept or reject the bid protest within fourteen (14) days of the date upon which the protest was filed. If the Board of Water Commissioners accepts the bid protest, the DWSD Director shall act in accordance with the Board of Water Commissioners findings. If the Board of Water Commissioners rejects the Bid Protest, the Director of DWSD shall notify the protestor of that decision and their opportunity to appeal to the Detroit City Council.

(D) A potential vendor may appeal a denial of their bid protest to the Detroit City Council. To be valid, the appeal must be filed with the Detroit City Clerk within seven (7) days of receipt of the denial of their bid protest. The Detroit City Council, acting through its Committee on Public Health and Safety, shall decide whether to accept or reject the appeal within ten (10) days of receipt of the Appeal.

(8) Definitions

Procurement - A written agreement for the purchase or sale of goods, services, land and fixtures attendant to the land.

Detroit Based Business – A business which pays city income taxes on the business's net profits and pays city property taxes on a plant or office and equipment which are ordinarily required for the furnishing of the goods or the performance of the services required by the contract and referred to in the application for certification as a Detroit-based business, or other real or personal property in the city equivalent in value to such

plant or office and equipment for not less than one (1) taxable year immediately prior to the date of the application for certification as a Detroit-based business, which shall comply with the following requirements:

- (1) Provide verification that the firm has the physical resources including, but not limited to, inventory, equipment, vehicles, etc., as well as the ability to provide the services indicated in its application for certification at the city location; and
- (2) Provide verification of the ability of the business to carry out the service or repair the product to be sold to the city at the city site; and
- (3) Provide references, licenses, or other means of verification acceptable to the city that the services the firm offers to the city has been provided at the city site for at least one (1) year prior to the date of application; and
- (4) Provide verification that the business has or can procure an adequate number of employees based at its city site to perform services indicated in the application

Detroit Resident Business - means any business which employs a minimum of four (4) employees at least fifty-one (51) percent of which are city residents.

Joint Venture - means a joint venture of separate firms, one of which is a DBB, or DRB which has been created to perform a specific contract, and is evidenced by a written agreement which provides at a minimum that the DBB or DRB:

- (1) Is substantially included in all phases of the contract, including, but not limited to, bidding and staffing; and
- (2) Provides at least fifty-one (51) percent of the total performance, responsibility, and project management of a specific job; and
- (3) Receives at least fifty-one (51) percent of the total remuneration from a specific contract; and
- (4) Shares in profits and losses.

Mentor Venture - means a joint venture of separate firms, one of which is a D-BB, D-BSB, D-RB or D-BMBC, which has been created to perform a specific contract, and is evidenced by a written agreement which provides at a minimum that the D-BB, D-BSB, D-RB or D-BMBC:

- (1) Is substantially included in all phases of the contract including, but not limited to bidding and staffing; and
- (2) Provides at least thirty (30) percent of the total performance, responsibility and project management of a specific job; and
- (3) Receives at least thirty (30) percent of the total remuneration from a specific contract; and
- (4) Shares in profits and losses.

Customer Based Business – A business that is headquartered and operating in the region and that receives water or wastewater services from DWSD.

	IFB - Good and Commodities (No. Days)	RFP - Professional Services (No. Days)
<u>General Requirements Time</u>		
Solicitation Preparation and Advertisement	14	20
Days to Respond from Date of Issuance of Solicitation*	14	21
Scoring Responses and Issuing Notice of Award	3	7
Negotiating Final Documents	14	14
Total General	45	62
<u>Approval Time</u>		
Board of Water Commissioners Approval	30	30
Detroit City Council Approval	7	7
Total Approval Time	37	37
<u>Protest Time</u>		
Days to File Protest with BWC*	7	7
BWC Decision on Protest*	14	14
Appeal Adverse Decision to DCC*	7	7
DCC Decision on Appeal*	10	10
Total Protest Time	38	38
<u>POSSIBLE TIMING</u>		
General, No Approval, No Protest	45	62
General, BWC Approval Required, No Protest	75	92
General, DCC Approval Required, No Protest	82	99
General, No Approval, Protest	83	100
General, BWC Approval Required, Protest	113	130
General, DCC Approval Required, Protest	120	137

Notes:

1. Items marked with * are those with time requirements defined by the policy
2. Actual times for protested contracts may be shorter if some of the approvals are made to overlap
3. Approval time for DCC is added to BWC because it is assumed that DCC will only review contracts already approved by BWC

October 5, 2012 Order

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

United States of America,

Plaintiff,

v.

Honorable Sean F. Cox

City of Detroit, *et al.*,

Case No. 77-71100

Defendants.

_____ /

OPINION & ORDER
REGARDING THE DWSD'S MOTION FOR INTERIM ORDER

This matter is currently before the Court on a “Motion for Interim Order Clarifying November 4, 2011 Order and for Expedited Briefing Schedule” (D.E. No. 2473), filed by the Detroit Water and Sewerage Department (“DWSD”) on September 24, 2012. The Court issued orders setting forth an expedited briefing schedule, and the briefing on this motion has concluded. The Court finds that oral argument would not significantly aid the decisional process. *See* Local Rule 7.1(f)(2), U.S. District Court, Eastern District of Michigan. The Court therefore orders that the motion will be decided without oral argument.

For the reasons that follow, the Court shall grant the motion in part, deny the motion in part, take certain requests under advisement, and order supplemental briefing regarding certain requests in the motion. The Court shall GRANT the motion to the extent that it shall:

- 1) Enjoin the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices that are inconsistent with the express terms of this Court’s Orders;

- 2) Order that the City and its employees and agents shall work cooperatively with the DWSD to implement this Court's Orders in a timely and efficient manner;
- 3) Declare that the BOWC's June 26, 2012 Resolution is in accordance with this Court's November 4th Order and shall be effective and controlling until this Court orders otherwise;
- 4) Clarify that the DWSD's General Counsel, rather than the City's Corporation Counsel, may provide legal advice to the DWSD regarding implementing this Court's orders;
- 5) Declare that in determining whether monetary approval thresholds are triggered under the existing DWSD Procurement Policy adopted by this Court, amounts are to be determined on a fiscal year basis for multi-year contracts;
- 6) Declare that expert witness engagements and other expert consulting contracts on pending legal matters authorized by the DWSD's General Counsel shall be exempt from the competitive bidding requirements of the DWSD Procurement Policy;
- 7) Declare that the DWSD has the authority to purchase its own information technology systems, which may differ from those of the City;
- 8) Declare that: a) the DWSD is free to establish its own sub-units and programs within its Finance Division to implement the November 4 Order, including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management, and deferred compensation; and b) the DWSD is not bound by City Finance Policies;
- 9) Declare that: a) the DWSD is exempt from the application of City ordinances, the City's human resources policies and regulations, Civil Service Commission Rules, and City resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; and b) the DWSD is not bound by the Civil Service Commission as provided in Section 6-405 of the City's Charter;
- 10) Enjoin any Charter provision, ordinance, resolution, or any other rule or practice, that prohibits or restricts the DWSD's ability to rehire DWSD's employees following their retirement from the DWSD;
- 11) Order that the current BOWC members may establish terms of office for

existing members and a rotation schedule; and

- 12) Clarify that the Court does not construe the Root Cause Committee's Plan of Action, or this Court's November 4, 2011 Order adopting it, as prohibiting the DWSD's organizational structure from being modified in the future.

The Court shall DENY the motion to the extent that the Court shall DENY:

- 1) Any request for an order enjoining the City from applying existing or future Charter provisions, ordinance, etc. "that are inconsistent with the operational independence of DWSD necessary to achieve short and long term compliance";
- 2) Any request for the Court to delegate authority to the DWSD to interpret this Court's Orders and bind the City to such interpretations;
- 3) The DWSD's request for the Court to clarify or declare that "the November 4 Order grants DWSD authority to proceed with contracts to assess outsourcing opportunities and/or to outsource functions of DWSD solely upon the approval of the BOWC and without regard to the dollar value of the contract";
- 4) The DWSD's request that the DWSD be exempted from the City of Detroit's Prevailing Wage Ordinance; and
- 5) The DWSD's request that it be granted authority to adopt additional Local Economic Development policies.

The Court shall allow SUPPLEMENTAL BRIEFING from the parties with respect to the following issues / requests for relief:

- 1) Specific requests regarding the chargeback of transition services;
- 2) The DWSD's request that the BOWC be allowed to delegate settlement approval authority to the Director of the DWSD;
- 3) The DWSD's requests regarding Sections 7.5-208 and 7.5-209 of the Detroit City Charter;
- 4) Any requested alternative method for obtaining tax clearances;
- 5) The DWSD's request that the BOWC be granted authority to further define

the DWSD Procurement Policy;

- 6) Whether the DWSD may obtain and utilize its own Employer Identification Number;
- 7) Establishing separate bank accounts and establishing a separate self insurance fund;
- 8) Issuance and approval of debt;
- 9) Obtaining and utilizing a separate EIN; and
- 10) Requests relating to a Defined Contribution Plan.

Finally, the Court shall take the following requests UNDER ADVISEMENT:

- 1) The DWSD's request for clarification from the Court as to MERC's jurisdiction over matters relating to the DWSD; and
- 2) The DWSD's request for an additional six months to file the Director's Final Compliance Report.

BACKGROUND

This action, which was filed in 1977 and has been active since that time, has an exceptionally long history that is more fully set forth in this Court's September 9, 2011 Opinion & Order (D.E. No. 2397) and its November 4, 2011 Order (D.E. No. 2410).

The United States Environmental Protection Agency ("EPA") initiated this action in 1977 against the City of Detroit ("the City") and the DWSD, alleging violations of the Clean Water Act, 33 U.S.C. § 1251 *et seq.* ("the Clean Water Act"). The violations, which are undisputed, involve the DWSD's wastewater treatment plant ("WWTP") and its National Pollutant Discharge Elimination System ("NPDES") permit. As explained in this Court's September 9, 2011 Opinion & Order:

For the more than 34 years during which this action has been pending, the

City and the DWSD have remained in a recurring cycle wherein the DWSD is cited for serious violations of its NPDES permit, the City and the DWSD agree to a detailed remedial plan aimed at compliance, but the DWSD is unable to follow the plan and is again cited for the same or similar violations. Although this Court has taken various measures, designed to eliminate the various impediments to compliance that have been identified by experts and acknowledged by the City, those measures have proven inadequate to achieve sustained compliance.

(*Id.* at 1).

In September of 2009, the DWSD was again unable to maintain compliance with its NPDES permit and was again cited for violations by the Michigan Department of Environmental Quality (“MDEQ”). In January of 2010, Detroit Mayor Dave Bing appointed a Chief Operating Officer who assumed the position of acting Director of the DWSD. Thereafter, the City worked with the MDEQ to develop another plan for compliance and worked with Oakland County, Wayne County and Macomb County to resolve longstanding issues regarding the DWSD.

On July 8, 2011, the City and the MDEQ entered into an Administrative Consent Order (“the ACO”), aimed at achieving long-term compliance with the DWSD’s NPDES permit and the Clean Water Act. After the ACO was executed, the City filed a motion asking the Court to order that the requirements set forth in the ACO are substituted for the requirements of the Second Amended Consent Judgment, find that the DWSD has made substantial progress toward achieving full compliance with its NPDES permit and the Clean Water Act, and dismiss this case.

This Court denied that motion. In doing so, this Court noted that *after* executing the ACO on July 8, 2011, the DWSD self-reported serious violations of its NPDES permit to the MDEQ. Thus, the City had not established that the DWSD has achieved even short-term compliance with the ACO and the Clean Water Act. In addition, this Court concluded that the extensive record in this case establishes that, unless more fundamental corrective measures are taken to address the

institutional and bureaucratic barriers to compliance, sustained compliance with the Clean Water Act and the ACO will simply not occur.

Thus, this Court was faced with the unenviable task of determining how to remedy these ongoing and serious violations of the Clean Water Act, given the complex nature of the problem and the fact that the rather extraordinary actions taken over the past four decades have proven inadequate.

Rather than order a remedy on its own, without input from the City, this Court considered other options and ultimately decided to take an admittedly unique approach:

The Court further concludes that an effective equitable remedy to achieve sustained compliance will require this Court to order structural changes regarding the DWSD that will likely override the City of Detroit's Charter, its local ordinances, and/or some existing contracts.

This Court does not arrive at this conclusion lightly. As noted above, Judge Feikens attempted several less intrusive measures, over several decades, but those less intrusive measures have not enabled the DWSD to achieve sustained compliance. In addition, although the City has had ample opportunity to devise and implement its own solutions to the underlying causes of noncompliance that have been identified and discussed since the inception of this case, to date, it has not proposed or implemented a plan that has sufficiently addressed those root causes.

To be fair, the City has been constrained in the measures it has proposed or implemented to date because the City is bound by various provisions of the City's Charter and ordinances, and existing contracts, that prevent *the City* from making fundamental changes in the identified problem areas.

This Court, however, has broad equitable power to order any relief necessary to achieve compliance with the Clean Water Act and this Court *is not* constrained by the provisions of the City's charter or ordinances. *Weinberger*, 456 U.S. at 318; *Perkins*, 47 F.3d at 216.

This Court appreciates that its broad equitable authority is to be "tempered by precepts of comity and federalism." *Kendrick*, 740 F.2d at 437. As then-Judge (now Justice) Stephen Breyer explained in *Metropolitan District Commission*,¹ considerations of comity and federalism, however, do not give a state or

¹*United States v. Metropolitan District Commission*, sometimes referred to as the Boston Harbor case, is another case involving Clean Water Act violations continuing over many years.

municipality the legal power to violate federal law or to continue violations of the Clean Water Act over a thirty-four year period. *United States v. Metropolitan District Commission*, 930 F.2d at 136. Maintaining the status quo is not an option.

Nevertheless, this Court is mindful that remedies that override state or local law should be narrowly tailored and that, to the extent possible, local officials should at least have the opportunity to devise their own solutions to remedy a violation of federal law.

Accordingly, the Court shall ORDER the Mayor of the City of Detroit (and/or his designee), the City Council President and President Pro Tem, and a current member of the Board (to be chosen by the Board) to meet and confer and, within 60 days of the date of this order, propose a plan that addresses the root causes of non-compliance that are discussed in this Opinion & Order. In making such recommendations to the Court, these individuals *shall not* be constrained by any local Charter or ordinance provisions or by the provisions of any existing contracts.

(*Id.* at 42-43) (emphasis in original). This Court ordered the above individuals to submit their proposed plan no later than November 4, 2011. (*Id.* at 44).

Following this Court's September 9, 2011 Opinion & Order, the City leaders and BOWC member identified therein met to devise and propose a workable solution to remedy the underlying root causes of noncompliance ("the Root Cause Committee"). On November 2, 2011, the Root Cause Committee submitted a written proposed "Plan of Action" to the Special Master in this action, which the Special Master then submitted to the Court on that same date. (Docket Entry No. 2409). The Root Cause Committee spent considerable time in developing their proposed Plan of Action. The Root Cause Committee members noted that they were "permitted to solicit and receive input from various sources" with knowledge of the DWSD and utility operations and they noted that they received input from: 1) the Detroit City Council; 2) the Board of Water Commissioners; 3) DWSD Management Staff; 4) Union Representatives; 5) Management-side Labor Counsel; 6) Industry Professionals; 7) Current DWSD Vendors; 8) a Rate Consultant; and 9) Regulatory Agency Input. (D.E. No. 2409-1 at 2).

On November 4, 2011, this Court issued an Order (D.E. No. 2410), wherein this Court found that the proposed Plan of Action adequately addresses the majority of the root causes of non-compliance outlined in this Court's September 9, 2011 Opinion & Order. This Court therefore adopted the Plan of Action (D.E. No. 2410-1), which includes a DWSD Procurement Policy (D.E. No. 2410-2), proposed by the Root Cause Committee and ordered its implementation. (D.E. No. 2410).

Although the Root Cause Committee agreed that certain changes to existing collective bargaining agreements ("CBAs") need to occur, despite earnest efforts, the Committee could not agree on how to achieve the necessary changes. Because the proposed Plan of Action did not adequately address collective bargaining issues, the Court considered the issue on its own:

Based on the record in this case, the Court concludes that certain CBA provisions and work rules are impeding the DWSD from achieving and maintaining both short-term and long-term compliance with its NPDES permit and the Clean Water Act. Given that the Committee was unable to agree on a proposed solution for remedying these impediments to compliance, this Court shall order its own remedy.

....

The Court has carefully considered all options and concludes that the least intrusive means of effectively remedying these impediments to compliance is to: 1) keep all current CBAs that cover DWSD employees in force, but strike and enjoin those current CBA provisions or work rules that threaten short-term compliance; and 2) Order that, in the future, the DWSD shall negotiate and sign its own CBAs that cover only DWSD employees, and prohibit future DWSD CBAs from containing certain provisions that threaten long-term compliance.

Specifically, the Court hereby **ORDERS** that:

1. The Director of the DWSD, with the input and advice of union leadership, shall develop a DWSD employee training program, a DWSD employee assessment program, and a DWSD apprenticeship training program.

2. Any City of Detroit Executive Orders imposing furlough days upon City employees shall not apply to DWSD employees.
3. The DWSD shall act on behalf of the City of Detroit to have its own CBAs that cover DWSD employees (“DWSD CBAs”). DWSD CBAs shall not include employees of any other City of Detroit departments. The Director of the DWSD shall have final authority to approve CBAs for employees of the DWSD.
4. The Court hereby strikes and enjoins any provisions in current CBAs that allow an employee from outside the DWSD to transfer (“bump”) into the DWSD based on seniority. Future DWSD CBAs shall adopt a seniority system for the DWSD that does not provide for transfer rights across City of Detroit Departments (ie., does not provide for “bumping rights” across city departments).
5. DWSD management must be able to explore all available means and methods to achieve compliance with its NPDES permit and the Clean Water Act. DWSD CBAs shall not prohibit subcontracting or outsourcing and the Court hereby strikes and enjoins any provisions in current CBAs that prohibit the DWSD from subcontracting or outsourcing.
6. DWSD CBAs shall provide that excused hours from DWSD work for union activities are limited to attending grievance hearings and union negotiations, with prior notification to DWSD management. The Court strikes and enjoins any current CBA provisions to the contrary.
7. DWSD CBAs shall include a three-year time period pertaining to discipline actions.
8. The Director of the DWSD shall perform a review of

the current employee classifications at the DWSD and reduce the number of DWSD employee classifications to increase workforce flexibility. Future DWSD CBAs shall include those revised employee classifications.

9. DWSD CBAs shall provide that promotions in the DWSD shall be at the discretion of management and based upon skill, knowledge, and ability, and then taking seniority into account. The Court strikes and enjoins and current CBA provisions to the contrary.
10. Past practices on operational issues shall not limit operational changes initiated by management with respect to DWSD CBAs.
11. The Court strikes and enjoins any provisions in existing CBAs that prevent DWSD management from assigning overtime work to employees most capable of performing the necessary work within a classification, at the discretion of management. DWSD CBAs shall provide that management has the discretion to assign overtime work to employees most capable of performing the necessary work within a classification, at the discretion of management.
12. Any existing work rules, written or unwritten, or past practices that are contrary to these changes are hereby terminated.
13. The Court enjoins the Wayne County Circuit Court and the Michigan Employment Relations Commission from exercising jurisdiction over disputes arising from the changes ordered by this Court. The Court also enjoins the unions from filing any grievances, unfair labor practices, or arbitration demands over disputes arising from the changes ordered by this Court.

(D.E. No. 2410 at 4-7).

Thereafter, Sue McCormick was hired as the Director of the DWSD and began work on

January 1, 2012. In addition, following a request by the Root Cause Committee, this Court issued an order authorizing the DWSD to hire a Chief Operating Officer / Compliance Officer. (See D.E. No. 2456, “the Court agrees that, given the volume and nature of the work entailed to implement this Court’s November 4, 2011 Order, and comply with the ACO, the creation of a new position at the DWSD is warranted and appropriate.”). Matt Schenk was then hired as the DWSD’s COO/CO.

The DWSD has been working toward implementing this Court’s November 4th Order, pursuant to which it was to file certain reports by specified dates. The November 4th Order required the Director to file an initial compliance report by May 4, 2012, identifying any additional barriers to long-term compliance with the ACO and the Clean Water Act, and making any additional requests needed for compliance. The Order provided for that report to be circulated among the BOWC, the Mayor of the City of Detroit, the Detroit City Council, and the MDEQ, who could then provide comments, suggestions and recommendations to the Director before a final Director’s Report of Compliance would be filed with the Court on August 4, 2012. (D.E. No. 2410 at 9-10).

On May 4, 2012, the DWSD filed an initial compliance report (D.E. No. 2460) that, for several reasons, asked the Court to extend the date for the filing of the Director’s Final Compliance Report to October 4, 2012. (*Id.* at 17-18). This Court granted that request in an Order issued on May 17, 2012 (D.E. No. 2461) and, therefore, the Final Director’s Report was due to be filed on October 4, 2012.

On August 20, 2012, the DWSD filed a “Motion for Relief Essential to Compliance with this Court’s November 4, 2011 Order Mandating DWSD-Specific Collective Bargaining

Agreements.” (D.E. No. 2469). This Court issued an Order that granted that motion, to the extent that it ordered as follows:

[T]he Court hereby:

- 1) CLARIFIES that Paragraph 3 on Page 6 of this Court’s November 4, 2011 Order was intended to, and shall be construed as, ordering the severance of DWSD employees from existing bargaining units that are comprised of both DWSD and non-DWSD employees, thereby establishing separate DWSD bargaining units that cover only DWSD employees; and
- 2) ORDERS that MERC is not enjoined from ruling on the DWSD’s pending Clarification Petitions, in order to effectuate the above severancing ordered by this Court.

IT IS SO ORDERED.

(D.E. No. 2470 at 3).

On September 24, 2012, the DWSD filed the instant “Motion for Interim Order Clarifying November 4, 2011 Order and for Expedited Briefing Schedule.” (D.E. No. 2473). The DWSD asserts that it needs an interim order to address uncertainties and ambiguities that arise out of this Court’s November 4th Order, that are impeding the DWSD’s ability to implement the November 4th Order. The pending motion includes multiple requests for injunctive relief.

On September 25, 2012, this Court granted the request for expedited consideration and issued an order for expedited briefing providing that parties may file responses to the motion no later than 4:00 p.m. on October 1, 2012.

On September 28, 2012, Macomb County filed a response brief indicating that it supports the DWSD’s motion, but stating that any clarification from the Court with respect to additional Local Economic Development policies “should contain a clear directive that all policies pertaining to procurement shall insure that goods and services are provided in a cost-effective

manner and contractors are selected by cost and qualification.” (D.E. No. 2475).

Oakland County also filed a response brief, indicating that it generally supports the relief requested by the DWSD, but that it objects to the requested six-month extension for filing the Director’s Final Compliance Report. (D.E. No. 2483). Oakland County asserts that a three-month extension should be adequate. (*Id.* at 1 n.1).²

On October 1, 2012, the City filed a 23-page response brief challenging several requests for relief contained in the motion and requesting additional time to respond to the DWSD’s Motion. (D.E. No. 2480).

Thereafter, on October 2, 2012, this Court held a Status Conference with the parties to address the City’s request for additional time to respond to the motion. At the conference, Counsel for the City advised that, although the City filed a brief responding to multiple issues, it may, or may not, wish to supplement that brief. The City requested that it be allowed until October 5, 2012, at 12:00 p.m. to supplement its brief. The Court granted that request; but, on October 4, 2012, the City advised that it would not be filing a supplemental brief. Thus, the briefing as to this motion has now concluded.

Standard For Granting Injunctive Relief

Rule 65 of the Federal Rules of Civil Procedure governs injunctions and provides, in pertinent part, that “[e]very order granting an injunction and every restraining order” must state the reasons why it issued, state its terms specifically, and describe in reasonable detail the act or acts restrained or required. Fed. R. Civ. P. 65(d)(1).

As the Supreme Court has explained, the specificity requirements of Rule 65(d) are

²Oakland County’s motion also addresses issues not raised in the pending motion.

“designed to prevent uncertainty and confusion on the part of those faced with injunctive orders, and to avoid the possible founding of a contempt citation on a decree too vague to be understood.” *Schmidt v. Lessard*, 414 U.S. 473, 476 (1974). An injunction “should clearly let defendant know what he is ordered to do or not to do.” *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1203 (11th Cir. 2001). Rule 65(d) is satisfied “only if the enjoined party can ascertain from the four corners of the order precisely what acts are forbidden or required.” *Petrello v. White*, 533 F.3d 110, 114 (2d Cir. 2008); 11A FED. PRAC. & PROC. CIV. § 2955, *Form and Scope of Injunctions or Restraining Orders* (2d ed.) (The standard established by Rule 65(d) “is that an ordinary person reading the court’s order should be able to ascertain from the document itself exactly what conduct is proscribed.”).

ANALYSIS

With the above standard in mind, the Court shall address the relief requested in the pending motion. The DWSD’s motion contains nine separately titled sections that contain specific requests for injunctive relief. Each section will be addressed in turn.

I. Request for Comprehensive Equitable Relief

The first section of the pending motion, titled “Request for Comprehensive Equitable Relief,” contains three requests.

First, the DWSD asks the Court to enjoin “the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices that are inconsistent with the operational independence of DWSD necessary to achieve short and long term compliance.” (DWSD’s Motion at 3). The DWSD asserts that such relief is needed because “experience has shown that neither DWSD nor

the Court can identify every City ordinance, charter provision, resolution, executive order, policy, or procedure that is currently inconsistent with and/or is adversely impacting the long-term path to compliance with the November 4 Order.” (*Id.* at 3).

The specific injunctive relief requested by DWSD – an order enjoining the City from applying existing or future Charter provisions, ordinances, etc. “that are inconsistent with the operational independence of DWSD necessary to achieve short and long term compliance” – would not satisfy the specificity requirements of Rule 65(d). Every order for injunctive relief “should clearly let defendant know what he is ordered to do or not to do. A court order should be phrased in terms of objective actions, not legal conclusions.” *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1203 (11th Cir. 2001). Rule 65(d) is satisfied “only if the enjoined party can ascertain from the four corners of the order precisely what acts are forbidden or required.” *Petrello v. White*, 533 F.3d 110, 114 (2d Cir. 2008). If this Court were to order the requested injunctive relief, the City would not be able to ascertain, from the terms of the order, whether a given Charter provision or ordinance is enjoined or not by virtue of being “inconsistent with the operational independence of DWSD necessary to achieve short and long term compliance.”

Nevertheless, the Court concludes that an order enjoining the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices *that are inconsistent with the terms of this Court’s Orders* is appropriate and within the permissible scope of Rule 65(d). Accordingly, the Court hereby **ENJOINS** the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or

practices that are inconsistent with the terms of this Court's Orders.

Second, the DWSD asks the Court to order the "City to work cooperatively with DWSD to implement the November 4 Order in an efficient and timely manner". (DWSD's Motion at 3). Although not explicitly stated in the November 4th Order, this Court fully expects the City to work cooperatively with the DWSD to implement the changes ordered by this Court. To the extent that such clarification is necessary, the Court hereby **ORDERS** that the City and its employees and agents shall work cooperatively with the DWSD to implement this Court's Orders in a timely and efficient manner. The Court further directs that, if the City and/or its agents and employees fail or refuse to implement the terms of this Court's Orders, the DWSD shall file a motion so advising the Court, at which time the Court may order the City and/or its employees and agents to show cause why they should not be held in contempt.

Third, the DWSD asks the Court to authorize the City "to pass along charges" for "transition services" provided to the DWSD, at the City's "actual cost." (DWSD's Motion at 3).

The City objects to this request, noting that no specific services are identified in the motion.

The Root Cause Committee's Plan of Action stated that implementation may result in a reduction in chargeback revenues to the City from the DWSD that would need to be addressed but also stated it did not have adequate information to make a recommendation as to that issue. (Plan of Action, D.E. No. 2410-1, at 6). In adopting the Plan of Action, this Court ordered the Root Cause Committee to "continue to meet and confer, and to gather necessary financial records, in order to make specific recommendations regarding how the reduction in chargeback issue should be addressed during the transition period" and to submit a written recommendation

to the Court by January 4, 2012. (11/4/11 Order, D.E. No. 2410, at 8). To date, however, the Court has not received a written submission with specific recommendations on this issue, and the DWSD's pending motion does not contain any specific recommendations or requests regarding the chargeback of transition services. Thus, the DWSD's motion does not provide sufficient detail as to this requested relief such that the Court can properly evaluate it at this time. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

II. The City of Detroit's Financial Stability Agreement

The second section of the pending motion relates to the City of Detroit's Financial Stability Agreement ("FSA"), which the City entered into after this Court's November 4, 2011 Order. The FSA does not address its applicability to the DWSD. Because it was issued before the FSA existed, the November 4th Order does not address whether, or to what extent, the FSA applies to the DWSD.

This Court ordered that "DWSD shall act on behalf of the City of Detroit to have its own [collective bargaining agreements ("CBAs")] that cover DWSD employees" and that such CBAs "shall not include employees of any other City of Detroit departments." (11/4/11 Order at 6). The November 4th Order also provides that the "Director of the DWSD shall have final authority to approve CBAs for employees of the DWSD." (*Id.*).

The DWSD's verified motion states that, following the November 4th Order, the DWSD

has entered into new DWSD-specific CBAs with eleven of the twenty unions that represent DWSD employees. That leaves nine unions, comprised of DWSD employees, whose most recent CBAs expired that have not reached a new agreement with the DWSD.

“When most City union contracts expired in June 2012, the City imposed terms of employment (City Employment Terms or “CET[s]”).” (City’s Br. at 5). The City, however, has not applied the CETs to any DWSD personnel because of this Court’s November 4th Order. That leaves the DWSD in a position where the CBAs that previously governed DWSD employees have expired and, for those unions who have not reached a new DWSD-specific CBA, the DWSD must determine what employment terms will be in effect until new agreements are reached.

It appears undisputed that, absent this Court’s Order, the City’s CETs would be applied. On June 26, 2012, the BOWC passed a Resolution that CETs are applicable to DWSD unions that have not settled CBAs until such time as: (a) the relevant union signs an agreement with the DWSD; (b) negotiations reach an impasse and the DWSD imposes its own terms and conditions of employment on that union. (*See* D.E. No. 2476-3).

The DWSD’s motion asks this Court to clarify or declare “that the FSA is applicable to DWSD only to the extent that it is not inconsistent with the November 4 Order and the other orders of this Court”. (DWSD’s Motion at 5). But as the City notes, the DWSD “identifies only one provision of the FSA that it wants applied” – the City’s CETs that were imposed on non-DWSD City unions after their contracts expired in June of 2012. (City’s Br. at 5).

The DWSD also asserts that, “[d]espite the Resolution and DWSD’s sharing information regarding its adoption with the City’s Labor Relations Division, the City has not implemented the

Resolution.” (DWSD’s Motion at 5). It asks the Court to clarify or declare “the Resolution adopted by the BOWC on June 26, 2012 implements and is consistent with the November 4 Order and is effective and controlling, regardless of whether it might otherwise be impacted by the FSA.” (DWSD’s Motion at 5).

In response, the City states that it has no objection to DWSD implementing the City’s CETs – if directed to do so by the Court. (*Id.* at 6). The City has not done so to date, however, for several reasons, including that it believed that doing so may be contrary to this Court’s November 4th Order.

The Court agrees that, in order for the DWSD to continue to progress in implementing this Court’s November 4th Order, the Court must provide the parties clarification and direction on this issue. The Court **DECLARES** that the BOWC’s June 26, 2012 Resolution is in accordance with this Court’s November 4th Order and shall be effective and controlling until this Court orders otherwise.

III. Legal Representation and Authority

The third section of the pending motion, titled “Legal Representation and Authority”, contains three requests for injunctive relief.

The DWSD first asks the Court to clarify or declare “that legal authority for interpreting the November 4 Order and advising the Director of DWSD regarding legal aspects of its implementation lies with DWSD’s General Counsel”. (DWSD’s Motion at 7). The DWSD asserts that “on several occasions during the past several months, City administrative departments have declined to act in accordance with the Director’s interpretation of the November 4 Order and the Director’s plan for implementing that order and/or have expressed

their disagreement with the Director's interpretation of the November 4 Order. Examples of this are the City's Labor Relations Director's refusing to recognize that the CETs applied to City unions that did not sign agreements with DWSD prior to implementation of the CETs; City Law Department advice that DWSD is still bound by the tax-clearance process identified by the City Finance Department prior to awarding a contract rather than a DWSD alternative process; and City Labor Relations' and Law Department's interpreting an employee reversion as being distinguishable from this Court's November 4 Order to prevent transferring and bumping of employees from the City to DWSD, and others." (*Id.* at 5-6).

The Court is unsure as to precisely what relief DWSD is requesting. To the extent that the DWSD asks the Court to clarify that the DWSD's General Counsel, rather than the City's Corporation Counsel, may provide legal advice to the DWSD regarding implementing this Court's orders, the Court agrees that the DWSD's General Counsel may provide such advice and counsel to the DWSD and **GRANTS** that request.

To the extent that the DWSD is asking for some type of delegated authority to interpret this Court's Orders and bind the City to such interpretations, that request is **DENIED**. Again, in order to comply with the specificity requirements of Rule 65, the DWSD and the City should be able to ascertain from the four corners of this Court's orders what acts are required or enjoined. To the extent that a provision in this Court's orders is unclear, or the DWSD and the City disagree as to whether the order requires or enjoins a given act, the parties should seek clarification from this Court. In addition, as stated above, the Court is directing that, if the City and/or its agents and employees fail or refuse to implement the terms of this Court's Orders, or violate the terms of the Orders, the DWSD should file a motion so advising the Court, at which

time the Court may order the City and/or its employees or agents to show cause why they should not be held in contempt.

The Root Cause Committee's Plan of Action, adopted by this Court in its November 4th Order, provides that the "DWSD, acting through its Director upon authorization by the Board of Water Commissioners, shall have final authority to approve" "Legal Settlements and Claims paid by DWSD." (Plan of Action, D.E. No. 2410-1, at 7). As its second request in this section of the motion, the DWSD asks this Court to clarify or declare "that the BOWC may delegate certain approval threshold limits to DWSD management for approval of legal settlements, contract claims, and pre-litigation settlement offers without further BOWC approval". (DWSD's Motion at 7).

In its response brief, the City states that it does not oppose this request but states that "it might be prudent for the Court to set the threshold amount that may be delegated. (City's Br., D.E. No. 2480, at 8).

The DWSD's motion, however, does not identify a requested threshold amount and it does not explain why it wishes to have the above provision modified in order to delegate approval authority. The Court concludes that the DWSD's motion does not provide sufficient information such that the Court can properly evaluate this requested relief and **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012 that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

As its third request in this section of the motion, the DWSD asks the Court to clarify or

declare that “Sections 7.5-208 and 7.5-209 of the Detroit City Charter regarding intra-governmental disputes and enforcement of the Charter shall not apply to issues related to DWSD and the implementation of and applicability of this Court’s Orders”. (DWSD’s Motion at 7). The DWSD’s motion, however, does not discuss the substance of either of the above Charter provisions, nor does it sufficiently explain how the DWSD believes that those provisions are impeding the DWSD from complying with its NPDES Permit, the Clean Water Act, the current ACO with the MDEQ, or this Court’s orders. In addition, it is unclear to this Court as to the precise relief that the DWSD is requesting as to these two Charter provisions. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

IV. Procurement

The fourth section of the pending motion, which relates to procurement issues, contains numerous requests for injunctive relief. (DWSD’s Motion at 7-13).

First, the DWSD asks the Court to clarify or declare that “the November 4 Order grants DWSD authority to proceed with contracts to assess outsourcing opportunities and/or to outsource functions of DWSD solely upon the approval of the BOWC and without regard to the dollar value of the contract”. (DWSD’s Motion at 12). In support of this first request for relief, the DWSD notes that the Root Cause Committee’s Plan of Action stated:

In order to achieve long-term compliance, this committee agrees that DWSD will need to be relieved of the requirement to fully comply with the existing provisions

of the City of Detroit's Procurement Ordinance. As a by-product of this decision, it is also clear that DWSD cannot be expected to fully comply with the Charter provisions related to Privatization (Charter Section 6-307).

(Plan of Action, D.E. No. 2410-1, at 8). The DWSD asserts that the Root Cause Committee's Plan of Action, which was adopted by this Court, therefore "intended to provide limits on City Council's role in being involved in DWSD's decisions to outsource work of the Department." (DWSD's Motion at 9). The DWSD further asserts that the Root Cause Committee recognized that the "recommended Procurement Policy would not cover all types of procurements and, accordingly, provided for a general catch all on page 7". (*Id.*). It contends that the Plan of Action thus evidences an "intent to leave procurements not specifically addressed in the Plan to the sole discretion of the DWSD Director with approval from the Board of Water Commissioners." (*Id.* at 10). The DWSD argues that "there is an ambiguity concerning whether DWSD's outsourcing authority discussed therein was intended to be limited by the dollar thresholds for approval authority by the BOWC and the Council" within the Procurement Policy. The DWSD contends that the Order should be read so as to grant it the authority to proceed with contracts to assess outsourcing opportunities solely upon the approval of the BOWC and without regard to the dollar value of the contract.

The Court agrees that the Root Cause Committee's Plan of Action and Procurement Policy, which were both adopted by this Court, intended to provide limits on City Council's role in approving contracts. But those limits are set forth in the Procurement Policy's provision governing the approval required for various contracts:

(6) Approval of Contracts

(A) Approval by the Director of DWSD

The DWSD Director shall have full and final approval to approve procurements of the following types of goods and services at dollar values that do not exceed the following limits:

- (i) Personal Services contracts that do not exceed \$50,000;
- (ii) Goods or commodities contracts that do not exceed \$100,000;
- (iii) Professional Services contracts that do not exceed \$250,000;
- (iv) Construction contracts that do not exceed \$500,000; and
- (v) Sale of land or equipment contracts that do not exceed \$500,000, pursuant to a written appraisal from a licensed appraiser.

(B) Approval by the Board of Water Commissioners

The Board of Water Commissioners shall be required to approve the following types of procurements prior to execution by the DWSD Director:

- (i) Personal Services contracts that exceed \$50,000;
- (ii) Goods or commodities contracts that exceed \$100,000;
- (iii) Professional Services contracts that exceed \$250,000;
- (iv) Construction contracts that exceed \$500,000 and
- (v) Sale of land or equipment contracts that exceed \$500,000, pursuant to a written appraisal from a licensed appraiser.

(C) Approval by the Detroit City Council

In addition to requiring approval of the Board of Water Commissioners, the following types of procurements shall also require the approval of the Detroit City Council prior to execution by the Director of DWSD:

- (i) Personal Services contracts that exceed \$150,000;
- (ii) Goods or commodities contracts that exceed \$2,000,000;

- (iii) Professional Services contracts that exceed \$2,000,000;
- (iv) Construction contracts that exceed \$5,000,000; and
- (v) Sale of land or equipment contracts that exceed \$2,500,000, pursuant to a written appraisal from a licensed appraiser.

(Procurement Policy, D.E. No. 2410, at 6-7). Thus, the Procurement Policy agreed to by the Root Cause Committee and adopted by this Court, provides that: 1) professional services contracts that do not exceed \$250,000 can be approved by the Director of the DWSD, without approval from the BOWC or the Detroit City Council; 2) professional services contracts that exceed \$250,000 require the approval of both the Director of the DWSD and the BOWC; and 3) professional services contracts that exceed \$2,000,000 require the approval of the Detroit City Council, in addition to the approval of the Director of the DWSD and the BOWC. The Court finds no ambiguity in the Procurement Policy agreed to by the Root Cause Committee, and adopted by this Court, and shall **DENY** this request.³

Second, the DWSD asks the Court to clarify or declare that “in determining whether monetary approval thresholds are triggered under the existing DWSD Procurement Policy, amounts should be determined on a fiscal year basis for multi-year contracts”. (DWSD’s Motion at 12). The Procurement Policy recommended by the Root Cause Committee, and adopted by

³The DWSD’s Reply Brief states that it is seeking a declaration that City Council approval is not necessary for it to “move forward with the EMA Contract and other outsourcing matters” and asserts that it believes that unions comprised of DWSD employees will put inordinate political pressure on City Council not to approve the EMA Contract or other contracts that deal with outsourcing and therefore this Court should declare that the EMA Contract and future outsourcing contracts do not require City Council approval. (DWSD’s Reply Br. at 4-5). The Court finds that argument, based on a hypothetical scenario, and lacking an explanation as to how such relief is necessary for compliance with the DWSD’s NPDES Permit, the Clean Water Act, or this Court’s November 4th Order, premature.

this Court, contains a section that governs the approval of contracts (Procurement Policy, D.E. No. 2410-2, at 6-7). The DWSD asks the Court to clarify that the monetary approval thresholds provided in that section are determined on a fiscal year basis for multi-year contracts. The Court agrees that although implicit in the Root Cause Committee's Plan of Action, the Court should clarify this issue and hereby **DECLARES** that in determining whether the monetary approval thresholds are triggered under the existing DWSD Procurement Policy, amounts should be determined on a fiscal year basis for multi-year contracts.

Third, the DWSD asks the Court to clarify or declare that "DWSD is not bound by the City's Prevailing Wage Ordinance". (DWSD's Motion at 12). The Root Cause Committee did not make any recommendations to the Court regarding the DWSD being exempt from the City's Prevailing Wage Ordinance, and the Court's November 4th Order did not order DWSD exempt from the City's Prevailing Wage Ordinance. Moreover, although the DWSD's motion asks the Court to now declare that the DWSD is not bound by the City's Prevailing Wage Ordinance, the DWSD's motion does not explain why such relief is needed in order to achieve compliance with the DWSD's NPDES permit, the Clean Water Act, or this Court's November 4, 2011 Order. The Court hereby **DENIES** this request.

Fourth, the DWSD asks the Court to clarify or declare that "expert witness engagements as well as other expert consulting contracts on pending legal matters authorized by DWSD's General Counsel are exempted from the competitive bidding requirements of the DWSD Procurement Policy". (DWSD's Motion at 7 & 12). The DWSD asserts that it needs to retain expert witnesses and consultants on pending legal matters quickly and therefore such contracts should not be subject to the competitive bidding requirements in the Procurement Policy. The

Court agrees that, if the DWSD were required to follow the competitive bidding requirements for such contracts, the DWSD would be unable to meet court-imposed deadlines. Due to the expedited nature of the need to hire expert witnesses and consultants in the course of litigation, such contracts must be exempt from the competitive bidding requirements of the Procurement Policy. The Court hereby **GRANTS** this request and **DECLARES** that expert witness engagements and other expert consulting contracts on pending legal matters authorized by the DWSD's General Counsel are exempted from the competitive bidding requirements of the DWSD Procurement Policy.

Fifth, the DWSD asks the Court to grant "DWSD authority to establish its own process to define and obtain tax clearances that is consistent with applicable state law and, upon doing so, will no longer be bound by the City's tax-clearance process". (DWSD's Motion at 12). The DWSD's motion, however, does not sufficiently explain what the City's current tax-clearance process is, what specific substitute process it wishes to use, or how complying with the City's current process impedes the DWSD's ability to comply with its NPDES Permit, the Clean Water Act, or this Court's November 4th Order. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

Sixth, the DWSD asks the Court to clarify or declare that the BOWC has the authority "to further define the procurement policy over time to address areas not inconsistent with the Court's orders includes the authority to (a) modify the bid protest and appeal process, (b) include

a debarment process within the Procurement Policy, (c) add additional definitions to the Procurement Policy, (d) provide for additional exemptions, by category, from the competitive bidding process, and (e) define and establish a separate approval process for grant applications, grant agreements, and intergovernmental agreements”. (DWSD’s Motion at 12).

The Procurement Policy agreed to by the Root Cause Committee, and adopted by this Court, contains a provision governing bid protests and appeals. (Procurement Policy, D.E. No. 2410-2, at 7). The DWSD’s motion does not explain how the BOWC wishes to modify that provision or why such a modification is needed. Nor does the DWSD’s motion explain: 1) what additional definitions in the Procurement Policy need to be added or why such definitions are needed; 2) what additional exceptions from the competitive bidding process are needed and why such definitions are needed; 3) what kind of approval process is needed for grant applications, grant agreements and intergovernmental agreements, and why such a process is needed. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on these issues. No later than November 16, 2012, the DWSD may file a reply brief.

Seventh, the DWSD asks the Court to clarify or declare that “the requirement that DWSD have its own separate finance, human resources and procurement functions includes its authority to purchase its own information technology systems which may differ from those of the City”. (DWSD’s Motion at 12). In response, the City notes that its own Human Resources Deputy Director agrees in principle “that DWSD should obtain its own payroll system.” (City’s Br. at

12). The City asserts, however, that implementing such a system will take a significant amount of time and asserts that, because the City may soon be implementing its own new system, implementing both systems simultaneously will be difficult. (*Id.* at 12-13).

The Court concludes that, in order to implement the changes set forth in this Court's November 4th Order, which are needed for long-term compliance with the DWSD's NPDES Permit, the Clean Water Act, and the ACO, the DWSD must be able to obtain its own payroll system. The Court hereby **DECLARES** that the requirement that DWSD have its own separate finance, human resources, and procurement functions includes its authority to purchase its own information technology systems which may differ from those of the City. The Court further **ORDERS** that the City and its employees and administrators shall give the DWSD necessary access to existing systems during the transition process.

Eighth, the DWSD asks the Court to clarify or declare "whether DWSD was intended to be free to adopt additional Local Economic Development policies or whether the equalization credits contained within the Root Cause Committee's recommended Procurement Policy were intended to be exclusive local business preference for DWSD contracts". (DWSD's Motion at 12-13). The Root Cause Committee's Procurement Policy sets forth specific equalization credits, that were agreed to by the Root Cause Committee, that would apply to the bidding of DWSD contracts. (Procurement Policy, D.E. No. 7, at 4-5). In adopting that provision, this Court enjoined the application of any contrary City Charter provisions or ordinances to the DWSD. The DWSD's motion does not state what additional local economic development policy or equalization credits it wishes to adopt, nor does it explain why the equalization credits agreed to by the Root Cause Committee should be modified or how a modification is needed to comply with

the DWSD's NPDES Permit, the Clean Water Act, or this Court's November 4th Order. The Court **DENIES** this request.

V. Finance

The Fifth Section relates to finance and includes multiple requests for relief.

First, it asks the Court to clarify or declare that "DWSD (i) is authorized to establish bank accounts that are separate from the accounts of the City Treasurer and is, therefore, not bound by section 6-305 of the Detroit City Charter, (ii) is free to establish its own sub-units and programs within its Finance Division to implement the November 4 Order, including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management, deferred compensation, and any other sub-units that it deems appropriate, (iii) is not bound by City Finance Policies (i.e., debt management, investment, budget, etc.), and (iv) may pursue the establishment of its own self-insurance fund separate from the City's". (DWSD's Motion at 13-14).

With respect to the request set forth in subsections (ii) and (iii) above, the Court shall GRANT those requests. As set forth in this Court's September 9, 2011 Opinion, and the Plan of Action adopted by the Court in its November 4th Order, one of the central causes of the DWSD's inability to achieve long-term compliance with its NPDES and the Clean Water Act has been bureaucratic and institutional barriers relating to finance. This relief is necessary for the DWSD to fully implement the Plan of Action, adopted by this Court's November 4th Order. The Court hereby **DECLARES** that: 1) the DWSD is free to establish its own sub-units and programs within its Finance Division to implement the November 4th Order, including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management,

and deferred compensation; and 2) the City is not bound by City Finance Policies.

With respect to the requests for relief set forth in subsections (i) and (iv), however, the DWSD's motion does not sufficiently explain why the requested relief is necessary to comply with its NPDES Permit, the Clean Water Act, the ACO, or this Court's November 4th Order. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

Second, the DWSD asks the Court to clarify or declare that "(i) DWSD may issue new debt, refinance existing debt, and/or enter into loan agreements upon the approval of the BOWC and (ii) approval of the City and the City Council is required only in circumstances where DWSD's debt issuance would involve a pledge of the City's full faith and credit". (D.E. No. 2374). The Court again concludes that the DWSD's motion does not sufficiently explain why the requested relief is necessary to comply with its NPDES Permit, the Clean Water Act, the ACO, or this Court's November 4th Order. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

VI. Human Resources

The Sixth Section of the pending motion relates to human resources and includes multiple

requests for relief.

The DWSD asks the Court to Clarify or declare that “DWSD is exempt from application of City Ordinances, Human Resource Policies, Human Resource Regulations, Civil Service Commission Rules, City Council Resolutions, Administrative or Executive Orders, and other such City Human Resources documents and requirements pertaining to payroll, employee benefits, employee relations, labor relations, and other Human Resource matters”. (DWSD’s Motion at 16). It also asks the Court to “Clarify or declare that “DWSD is not bound by the Civil Service Commission as provided in Section 6-405 of the Detroit City Charter”. (*Id.* at 17). As explained in this Court’s September 9, 2011 Opinion, human resources issues have been a chronic problem for the DWSD since the inception of this case. Over the past four decades, the City’s personnel policies, civil service rules, and other restrictions have repeatedly been identified by experts, and acknowledged by the City, as impediments to the DWSD’s compliance with its NPDES Permit and the Clean Water Act. (*See, e.g.* 9/9/11 Opinion, D.E. No. 2397, at 12-15, 17-18, 21-23, and 26). The Court shall **GRANT** this request and **DECLARES** that: 1) the DWSD is exempt from the application of City ordinances, the City’s human resources policies and regulations, Civil Service Commission Rules, and City resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; and 2) the DWSD is not bound by the Civil Service Commission as provided in Section 6-405 of the City’s Charter.

The DWSD also asks the Court to Clarify or declare that “DWSD’s status and rights as an employer that (i) has authority to determine the terms and conditions of employment for its non-union employees as well as its unionized employees, (ii) may pursue its own payroll services separate and apart from the rest of the City, and (iii) may utilize its own Employer Identification

Number (“EIN”) if it determines that doing so would serve DWSD’s best interest”. The requests for relief in the first two subsections (i) and (ii) have already been addressed and granted in this Opinion & Order.

As to the remaining request, set forth in subsection (iii), the Court notes that the City has objected to that relief, questioning whether the DWSD, as a department of the City, may legally obtain its own EIN. (City’s Br. at 13). Moreover, the Court concludes that the DWSD’s motion does not sufficiently explain why the requested relief is necessary to comply with its NPDES Permit, the Clean Water Act, the ACO, or this Court’s November 4th Order. The Court therefore **ORDERS** that the DWSD may file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is needed. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

The DWSD also asks the Court to clarify or declare that “DWSD may (i) nominate its own Plan Administrator for implementation of the Defined Contribution Plan as required by DWSD’s collective bargaining agreements, (ii) develop the plan design and documents necessary to implement the Defined Contribution Plan for its employees, and (iii) provide for the authority of its Plan Administrator pursuant to its plan documents”. (DWSD’s Motion at 17). The City objects to this request for relief and, among other things, questions whether state law or Internal Revenue Service rules allow a department of a municipal corporation to establish a separate employee retirement benefit plan. (City’s Br. at 15). The Court concludes that supplemental briefing as to this request is also warranted. The Court therefore **ORDERS** that the DWSD may

file a supplemental brief no later than October 26, 2012, that explains precisely what the DWSD is requesting and why the requested relief is necessary for compliance with its NPDES Permit, the Clean Water Act, or this Court's Orders. No later than November 9, 2012, the City, and any other party, may file a response to any supplemental brief filed by the DWSD on this issue. No later than November 16, 2012, the DWSD may file a reply brief.

The DWSD also asks the Court to clarify or declare that, "to the extent Section 2-106.5 of the Detroit City Charter would otherwise prohibit DWSD from rehiring any DWSD employee to perform services for DWSD for a period of one-year after employment, such provision shall not apply to DWSD". (DWSD's Motion at 15-17). This Court's September 9, 2011 Opinion & Order sets forth, in detail, how human resource and succession planning problems have plagued the DWSD for decades. (*See e.g.*, D.E. No. 2397 at 9, 15, 17-18, 20-23, 26, 28, & 33-34). In short, the DWSD is at a juncture where a significant portion of its experienced staff, who have key institutional knowledge and technical expertise, are eligible for retirement and the DWSD has not had a succession plan in place to adequately account for that. It is imperative that the DWSD, if needed, be able to rehire experienced employees, on a contractual basis, following their retirement. Any Charter provision, ordinance, or resolution that prohibits the DWSD from doing so threatens the DWSD's ability to comply with its NPDES Permit, the Clean Water Act, and its current Administrative Consent Order with the MDEQ, which includes minimum staffing levels. Accordingly, the Court **GRANTS** this request and **ENJOINS** any Charter provision, ordinance, resolution, or any other rule or practice, that prohibits or restricts the DWSD's ability to rehire DWSD's employees following their retirement from the DWSD.

VII. Board of Water Commissioners

The seventh section of the pending motion relates to the Board of Water Commissioners (“BOWC”) and it includes two requests for relief.

First, it asks the Court to clarify or declare that “the current BOWC members may establish terms of office for existing members and proposed rotation schedule going forward”. (DWSD’s Motion at 18). The Court shall **GRANT** this first request for relief. As explained in this Court’s September 9, 2011 Opinion (D.E. No. 2397 at 29-30), on February 11, 2011, the City, along with the counties of Wayne, Oakland and Macomb, determined that a more empowered BOWC would enhance the DWSD’s ability to comply with its NPDES permit and the Clean Water Act, and entered into a Stipulated Order to that effect. (*See* D.E. No. 2334). That Stipulated Order provides for minimum qualifications for BOWC members and provides them with support staff. It also provides that no more than two current members of the BOWC could remain on the BOWC and that the remaining five members would be newly appointed. In compliance with the Stipulated Order, on April 1, 2011, Mayor Bing appointed a new BOWC, which consisted of two current members of the BOWC and five newly appointed members. On July 27, 2011, the BOWC amended its by-laws to incorporate the provisions of the Stipulated Order. (9/9/11 Opinion at 30).

The February 11, 2011 Stipulated Order did not address the terms for BOWC members. The City’s Charter provides that the term of membership on the BOWC is four years and that not more than two of the seven members’ terms may expire in a given year. Because the Stipulated Order provides that five new members were appointed in 2011, however, unless the terms of the existing BOWC members are adjusted, the terms of five members will expire in one given year.

This Court agrees that it would be detrimental to the BOWC and the DWSD for more than two BOWC members' terms to expire in a given year. Accordingly, the Court hereby **ORDERS** that the current BOWC members may establish terms of office for existing members and a rotation schedule.

Second, the pending motion asks the Court to clarify or declare that "DWSD may adopt an organizational structure other than one comprised of two divisions (Operations and Administration), as long as DWSD provides adequately for succession planning within them". (DWSD's Motion at 18). DWSD has not brought to the Court's attention, however, any Charter provision, or any state or local ordinances, that would prohibit the DWSD from adopting a different organizational structure. Moreover, although the Root Cause Committee's Plan of Action recommended breaking down the DWSD "into two divisions – operations and administration", it appears that it did so for purposes of making specific recommendations as to changes needed in each of the divisions. The Court does not construe the Root Cause Committee's Plan of Action, or this Court's November 4, 2011 Order adopting it, as prohibiting the DWSD's organizational structure from being modified in the future.

VIII. Michigan Employment Relations Commission Jurisdiction

The eighth section relates to the jurisdiction of the Michigan Employment Relations Commission ("MERC") and it asks the Court to: 1) clarify or declare "the scope of MERC's authority and jurisdiction to decide issues relating to DWSD consistent with the November 4 Order" and 2) clarify or declare that "MERC lacks the authority and jurisdiction to mediate and engage in fact-finding, including the requests from AFSCME requesting mediation and from both ADE and AME for fact finding related to the current round of negotiations being conducted

pursuant to the November 4 Order”. (DWSD’s Motion at 18).

In its November 4th Order, this Court enjoined “the Wayne County Circuit Court and the Michigan Employment Relations Commission from exercising jurisdiction over disputes arising from the changes ordered by this Court” and enjoined “the unions from filing any grievances, unfair labor practices, or arbitration demands over disputes arising from the changes ordered by this Court.” (11/4/11 Order at 7). Following the November 4th Order, the DWSD and several individuals and/or unions filed various petitions with MERC but MERC has declined to take action on those petitions, out of concern that doing so may violate this Court’s November 4th Order. (*See, e.g.*, D.E. No. 2469-1). MERC has directed the parties to such petitions to seek clarification from this Court as to whether MERC may proceed with the petitions in light of this Court’s November 4th Order. This Court has already acted with respect to one such request – clarifying that: 1) this Court’s November 4, 2011 Order was intended to order the severance of DWSD employees from existing bargaining units that are comprised of both DWSD and non-DWSD employees, thereby establishing separate DWSD bargaining units that cover only DWSD employees; and 2) that MERC is not enjoined from so ruling on any petitions in order to effectuate or confirm the severancing ordered by this Court.

Although unintended, it is now apparent that this Court’s November 4th Order does not provide MERC with sufficient direction as to the scope of its jurisdiction over petitions filed relating to the DWSD. The Court agrees that clarification by this Court is needed. The Court shall take this request under advisement, until the supplemental briefing on this motion has concluded, at which time it will address this issue. Any party desiring to file a supplemental brief on this issue may do so by October 26, 2012.

IX. Final Director's Compliance Report

In this Court's November 4th Order, the Director of the DWSD was ordered to file an initial compliance report by May 4, 2012, identifying any additional barriers to long-term compliance with the ACO and the Clean Water Act, and making any additional requests to this Court that are needed for compliance. The Order provides for that report to be circulated among the BOWC, the Mayor of the City of Detroit, the Detroit City Council, and the MDEQ, who could then provide comments, suggestions and recommendations to the Director before a final Director's Report of Compliance would be filed with the Court on August 4, 2012. (11/4/11 Order at 9-10).

On May 4, 2012, the DWSD filed an initial compliance report that, for several reasons, asked that the Court to extend the date for the filing of the Director's Final Compliance report to October 4, 2012. This Court granted that request in an Order issued on May 17, 2012, and, therefore, the Final Director's Report was due to be filed on October 4, 2012.

The final section of the DWSD's pending motion, however, again asks the Court to extend the date for the filing of that report. It asks the Court to "[e]xtend the date for filing the Final Director's Compliance Report from October 4, 2012 to April 4, 2013." (DWSD's Motion at 21).

The Court shall extend the filing date beyond the current deadline, which has now passed. But as to the request for additional six months to file the report, the Court shall take that request under advisement until after the supplemental briefing on this motion has concluded.

CONCLUSION & ORDER

For the reasons above, IT IS ORDERED that the DWSD's motion is GRANTED IN PART. The motion is GRANTED to the extent that the Court:

- 1) ENJOINS the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices that are inconsistent with the express terms of this Court's Orders;
- 2) ORDERS that the City and its employees and agents shall work cooperatively with the DWSD to implement this Court's Orders in a timely and efficient manner;
- 3) DECLARES that the BOWC's June 26, 2012 Resolution is in accordance with this Court's November 4th Order and shall be effective and controlling until this Court orders otherwise;
- 4) CLARIFIES that the DWSD's General Counsel, rather than the City's Corporation Counsel, may provide legal advice to the DWSD regarding implementing this Court's orders;
- 5) DECLARES that in determining whether monetary approval thresholds are triggered under the existing DWSD Procurement Policy adopted by this Court, amounts are to be determined on a fiscal year basis for multi-year contracts;
- 6) DECLARES that expert witness engagements and other expert consulting contracts on pending legal matters authorized by the DWSD's General Counsel shall be exempt from the competitive bidding requirements of the DWSD Procurement Policy;
- 7) DECLARES that the DWSD has the authority to purchase its own information technology systems which may differ from those of the City;
- 8) DECLARES that: a) the DWSD is free to establish its own sub-units and programs within its Finance Division to implement the November 4 Order, including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management, and deferred compensation; and b) the DWSD is not bound by City Finance Policies;
- 9) DECLARES that: a) the DWSD is exempt from the application of City

ordinances, the City's human resources policies and regulations, Civil Service Commission Rules, and City resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; and b) the DWSD is not bound by the Civil Service Commission as provided in Section 6-405 of the City's Charter;

- 10) ENJOINS any Charter provision, ordinance, resolution, or any other rule or practice, that prohibits or restricts the DWSD's ability to rehire DWSD's employees following their retirement from the DWSD;
- 11) ORDERS that the current BOWC members may establish terms of office for existing members and a rotation schedule; and
- 12) CLARIFIES that the Court does not construe the Root Cause Committee's Plan of Action, or this Court's November 4, 2011 Order adopting it, as prohibiting the DWSD's organizational structure from being modified in the future.

IT IS FURTHER ORDERED that the motion is DENIED IN PART. The motion is DENIED to the extent that the Court:

- 1) DENIES the DWSD's request for an order enjoining the City from applying existing or future Charter provisions, ordinance, etc. "that are inconsistent with the operational independence of DWSD necessary to achieve short and long term compliance";
- 2) DENIES any request for the Court to delegate authority to the DWSD to interpret this Court's Orders and bind the City to such interpretations;
- 3) DENIES the DWSD's request for the Court to clarify or declare that "the November 4 Order grants DWSD authority to proceed with contracts to assess outsourcing opportunities and/or to outsource functions of DWSD solely upon the approval of the BOWC and without regard to the dollar value of the contract";
- 4) DENIES the DWSD's request that the DWSD be exempted from the City of Detroit's Prevailing Wage Ordinance; and
- 5) DENIES the DWSD's request that it be granted authority to adopt additional Local Economic Development policies.

IT IS FURTHER ORDERED that supplemental briefing shall be allowed with respect to

the following issues / requests for relief:

- 1) Specific requests regarding the chargeback of transition services;
- 2) The DWSD's request that the BOWC be allowed to delegate settlement approval authority to the Director of the DWSD;
- 3) The DWSD's requests regarding Sections 7.5-208 and 7.5-209 of the Detroit City Charter;
- 4) Any requested alternative method for obtaining tax clearances;
- 5) The DWSD's request that the BOWC be granted authority to further define the DWSD Procurement Policy;
- 6) Whether the DWSD may obtain and utilize its own Employer Identification Number;
- 7) Establishing separate bank accounts and establishing a separate self-insurance fund;
- 8) Issuance and approval of debt;
- 9) Obtaining and utilizing a separate EIN; and
- 10) Requests relating to a Defined Contribution Plan.

IT IS FURTHER ORDERED that the following requests are taken under advisement by the Court:

- 1) The DWSD's request for clarification from the Court as to MERC's jurisdiction over matters relating to the DWSD;⁴ and
- 2) The DWSD's request for an additional six months to file the Director's Final Compliance Report.

⁴Any party may file a supplemental brief regarding this issue, as provided in this Opinion & Order.

IT IS SO ORDERED.

S/Sean F. Cox
Sean F. Cox
United States District Judge

Dated: October 5, 2012

I hereby certify that a copy of the foregoing document was served upon counsel of record on October 5, 2012, by electronic and/or ordinary mail.

S/Jennifer McCoy
Case Manager

December 14, 2014 Order

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

United States of America,

Plaintiff,

v.

Honorable Sean F. Cox

City of Detroit, *et al.*,

Case No. 77-71100

Defendants.

OPINION & ORDER

This matter is currently before the Court on a “Motion For Order Adopting The Root Cause Committee’s Plan of Clarification Of November 8, 2012” (D.E. No. 2507), filed by the Detroit Water and Sewerage Department (“DWSD”) on November 15, 2012. No briefs in opposition to the motion have been filed and the Court finds that oral argument would not significantly aid the decisional process. *See* Local Rule 7.1(f)(2), U.S. District Court, Eastern District of Michigan. The Court therefore orders that the motion will be decided without oral argument.

For the reasons that follow, the Court shall grant the unopposed motion to the extent that the Court shall: 1) adopt the Root Cause Committee’s Plan of Clarification as an order of the Court and **order the City of Detroit and the DWSD to immediately implement the order**; and 2) grant another extension for supplemental briefs on the DWSD’s requests for relief as to two Charter Provisions (Sections 7.5-208 and 7.5-209 of the Detroit City Charter) and requests relating to the scope of the Court’s injunction as to the Michigan Employment Relations

Commission (“MERC”). To the extent that the DWSD seeks an extension of time for filing a supplemental brief as to its request for another extension for filing the Final Director’s Report, that request is denied. The Court is prepared to rule on that request and concludes that further briefing is not warranted.

For the reasons stated below, the Court shall: 1) clarify its ruling as to “CETs”; and 2) order that the Final Director’s Report shall be submitted no later than March 15, 2013.

BACKGROUND

This action, which was filed in 1977 and has been active since that time, has an exceptionally long history that is more fully set forth in this Court’s September 9, 2011, Opinion & Order (D.E. No. 2397) and its November 4, 2011 Order. (D.E. No. 2410).

The United States Environmental Protection Agency (“EPA”) initiated this action in 1977 against the City of Detroit (“the City”) and the DWSD, alleging violations of the Clean Water Act, 33 U.S.C. § 1251 *et seq.* (“the Clean Water Act”).

The violations alleged in this case, which are undisputed, involve the DWSD’s wastewater treatment plant (“WWTP”) and its National Pollutant Discharge Elimination System (“NPDES”) permit. Although this action was initiated by the EPA, the Michigan Department of Environmental Quality (“MDEQ”) was later joined in the action and the MDEQ is the entity that now directly oversees the DWSD’s NPDES permit. As explained in this Court’s September 9, 2011, Opinion & Order:

For the more than 34 years during which this action has been pending, the City and the DWSD have remained in a recurring cycle wherein the DWSD is cited for serious violations of its NPDES permit, the City and the DWSD agree to a detailed remedial plan aimed at compliance, but the DWSD is unable to follow the plan and is again cited for the same or similar violations. Although this Court has

taken various measures, designed to eliminate the various impediments to compliance that have been identified by experts and acknowledged by the City, those measures have proven inadequate to achieve sustained compliance.

(*Id.* at 1).

In September of 2009, the DWSD was again unable to maintain compliance with its NPDES permit and was again cited for violations by the MDEQ. In January of 2010, Detroit Mayor Dave Bing appointed a Chief Operating Officer who assumed the position of acting Director of the DWSD. Thereafter, the City worked with the MDEQ to develop another plan for compliance and worked with Oakland County, Wayne County and Macomb County to resolve longstanding issues regarding the DWSD.

On July 8, 2011, the City and the MDEQ entered into an Administrative Consent Order (“the ACO”), aimed at achieving long-term compliance with the DWSD’s NPDES permit and the Clean Water Act. After the ACO was executed, the City filed a motion asking the Court to order that the requirements set forth in the ACO are substituted for the requirements of the Second Amended Consent Judgment, find that the DWSD has made substantial progress toward achieving full compliance with its NPDES permit and the Clean Water Act, and dismiss this case.

This Court denied that motion. In doing so, this Court noted that, *after* executing the ACO on July 8, 2011, the DWSD self-reported serious violations of its NPDES permit to the MDEQ. Thus, the City had not established that the DWSD has achieved even short-term compliance with the ACO and the Clean Water Act. In addition, this Court concluded that the extensive record in this case establishes that, unless more fundamental corrective measures are taken to address the institutional and bureaucratic barriers to compliance, sustained compliance

with the Clean Water Act and the ACO will simply not occur.

Thus, this Court was faced with the unenviable task of determining how to remedy these ongoing and serious violations of the Clean Water Act, given the complex nature of the problem and the fact that the rather extraordinary actions taken over the past four decades have proven inadequate.

Rather than order a remedy on its own, without input from the City, this Court considered other options and ultimately decided to take an admittedly unique approach:

The Court further concludes that an effective equitable remedy to achieve sustained compliance will require this Court to order structural changes regarding the DWSD that will likely override the City of Detroit's Charter, its local ordinances, and/or some existing contracts.

This Court does not arrive at this conclusion lightly. As noted above, Judge Feikens attempted several less intrusive measures, over several decades, but those less intrusive measures have not enabled the DWSD to achieve sustained compliance. In addition, although the City has had ample opportunity to devise and implement its own solutions to the underlying causes of noncompliance that have been identified and discussed since the inception of this case, to date, it has not proposed or implemented a plan that has sufficiently addressed those root causes.

To be fair, the City has been constrained in the measures it has proposed or implemented to date because the City is bound by various provisions of the City's Charter and ordinances, and existing contracts, that prevent *the City* from making fundamental changes in the identified problem areas.

This Court, however, has broad equitable power to order any relief necessary to achieve compliance with the Clean Water Act and this Court *is not* constrained by the provisions of the City's charter or ordinances. *Weinberger*, 456 U.S. at 318; *Perkins*, 47 F.3d at 216.

This Court appreciates that its broad equitable authority is to be "tempered by precepts of comity and federalism." *Kendrick*, 740 F.2d at 437. As then-Judge (now Justice) Stephen Breyer explained in *Metropolitan District Commission*,¹ considerations of comity and federalism, however, do not give a state or municipality

¹*United States v. Metropolitan District Commission*, sometimes referred to as the Boston Harbor case, is another case involving Clean Water Act violations continuing over many years.

the legal power to violate federal law or to continue violations of the Clean Water Act over a thirty-four year period. *United States v. Metropolitan District Commission*, 930 F.2d at 136. Maintaining the status quo is not an option.

Nevertheless, this Court is mindful that remedies that override state or local law should be narrowly tailored and that, to the extent possible, local officials should at least have the opportunity to devise their own solutions to remedy a violation of federal law.

Accordingly, the Court shall ORDER the Mayor of the City of Detroit (and/or his designee), the City Council President and President Pro Tem, and a current member of the Board (to be chosen by the Board) to meet and confer and, within 60 days of the date of this order, propose a plan that addresses the root causes of non-compliance that are discussed in this Opinion & Order. In making such recommendations to the Court, these individuals *shall not* be constrained by any local Charter or ordinance provisions or by the provisions of any existing contracts.

(*Id.* at 42-43) (emphasis in original). This Court ordered the above individuals to submit their proposed plan no later than November 4, 2011. (*Id.* at 44).

Following this Court's September 9, 2011, Opinion & Order, the City official and BOWC member identified therein ("the Root Cause Committee") met to devise and propose a workable solution to remedy the underlying root causes of noncompliance.

On November 2, 2011, the Root Cause Committee (hereinafter "RCC") submitted a written proposed "Plan of Action" to the Special Master in this action, which the Special Master then submitted to the Court on that same date. (D.E. No. 2409). The RCC² spent considerable time in developing their proposed Plan of Action. The RCC's Plan of Action recommended specific structural and governance changes for the DWSD and the adoption of a separate

²The Root Cause Committee members noted that they were "permitted to solicit and receive input from various sources" with knowledge of the DWSD and utility operations and they noted that they received input from: 1) the Detroit City Council; 2) the Board of Water Commissioners; 3) DWSD Management Staff; 4) Union Representatives; 5) Management-side Labor Counsel; 6) Industry Professionals; 7) Current DWSD Vendors; 8) a Rate Consultant; and 9) Regulatory Agency Input. (D.E. No. 2409-1 at 2).

Procurement Policy for the DWSD. The RCC made clear, however, that their recommended changes “**do not contemplate DWSD becoming a separate entity**. That is to say, **DWSD, and all of the assets of the DWSD, shall remain a department of the City of Detroit**, despite any changes in structure or governance recommended by this Committee.” (D.E. No. 2410-1 at 3) (bolding in original). The RCC’s Plan of Action recognized that additional changes may need to be made in the future, as the Plan of Action is actually implemented. (*Id.* at 3) (“[W]e believe that there may need to be additional changes made in the future, possibly through a second-phase plan once we have the ability to work with the implementation of this Plan.”).

On November 4, 2011, this Court issued an Order (D.E. No. 2410), wherein this Court found that the proposed Plan of Action adequately addresses the majority of the root causes of non-compliance outlined in this Court’s September 9, 2011 Opinion & Order. This Court therefore adopted the Plan of Action (D.E. No. 2410-1), which includes a DWSD Procurement Policy (D.E. No. 2410-2), proposed by the RCC and ordered its implementation. (D.E. No. 2410).

Although the RCC agreed that certain changes to existing collective bargaining agreements (“CBAs”) need to occur, despite earnest efforts, the RCC could not agree on how to achieve the necessary changes. Because the proposed Plan of Action did not adequately address these issues, the Court considered the issue on its own and ordered specific relief relating to CBAs. Among other things, the Court ordered that “[t]he DWSD shall act on behalf of the City of Detroit to have its own CBAs that cover DWSD employees (‘DWSD CBAs’). DWSD CBAs shall not include employees of any other City of Detroit departments. The Director of the DWSD shall have final authority to approve CBAs for employees of the DWSD.” (D.E. No. 2410 at 6).

The November 4th Order also contains the following provision:

13. The Court enjoins the Wayne County Circuit Court and the Michigan Employment Relations Commission from exercising jurisdiction over disputes arising from the changes ordered by this Court. The Court also enjoins the unions from filing any grievances, unfair labor practices, or arbitration demands over disputes arising from the changes ordered by this Court.

(*Id.* at 7).

The November 4th Order provides that, until the order has been fully implemented, or this case has been dismissed, the RCC shall meet at least once a month to discuss the implementation of the plan.

Thereafter, Sue McCormick was hired as the Director of the DWSD and began work on January 1, 2012. In addition, following a request by the RCC, this Court issued an order authorizing the DWSD to hire a Chief Operating Officer / Compliance Officer. (*See* D.E. No. 2456, “the Court agrees that, given the volume and nature of the work entailed to implement this Court’s November 4, 2011 Order, and comply with the ACO, the creation of a new position at the DWSD is warranted and appropriate.”). Matt Schenk was then hired as the DWSD’s COO/CO.

The DWSD has been working toward implementing this Court’s November 4th Order, pursuant to which it was to file certain reports by specified dates. The Director was required to file an initial compliance report by May 4, 2012, identifying any additional barriers to long-term compliance with the ACO and the Clean Water Act, and making any additional requests needed for compliance. The Order provided for that report to be circulated among the BOWC, the Mayor of the City of Detroit, the Detroit City Council, and the MDEQ, who could then provide comments, suggestions and recommendations to the Director before a final Director’s Report of

Compliance would be filed with the Court on August 4, 2012. (D.E. No. 2410 at 9-10).

On May 4, 2012, the DWSD filed an initial compliance report (D.E. No. 2460) that, for several reasons, asked the Court to extend the date for the filing of the Director's Final Compliance Report to October 4, 2012. (*Id.* at 17-18). This Court granted that request in an Order issued on May 17, 2012 (D.E. No. 2461) and, therefore, the Final Director's Report was due to be filed on October 4, 2012.

On August 20, 2012, the DWSD filed a "Motion for Relief Essential to Compliance with this Court's November 4, 2011, Order Mandating DWSD-Specific Collective Bargaining Agreements." (D.E. No. 2469). This Court issued an Order that granted that motion, to the extent that it: 1) clarified that Paragraph 3 on Page 6 of this Court's November 4th Order was intended to, and shall be construed as, ordering the severance of DWSD employees from existing bargaining units that are comprised of both DWSD and non-DWSD employees, thereby establishing separate DWSD bargaining units that cover only DWSD employees; and 2) ruled that MERC is not enjoined from ruling on the DWSD's pending Clarification Petitions, in order to effectuate the above severancing ordered by this Court. (D.E. No. 2470 at 3).

On September 24, 2012, the DWSD filed a "Motion for Interim Order Clarifying November 4, 2011 Order and for Expedited Briefing Schedule." (D.E. No. 2473). The DWSD asserted that it needs an interim order to address uncertainties and ambiguities that arise out of this Court's November 4th Order, that are impeding the DWSD's ability to implement it. That motion included multiple requests for injunctive relief.

On September 25, 2012, this Court granted the request for expedited consideration and issued an order for expedited briefing.

Both Macomb County and Oakland County submitted briefs generally supporting the relief requested in the motions. (D.E. No. 2475 & 2483). No response briefs were submitted by Wayne County, the MDEQ, or the EPA. On October 1, 2012, however, the City filed a response brief opposing some requests for relief contained in the motion. (D.E. No. 2480).

On October 5, 2012, this Court issued an “Opinion & Order Regarding The DWSD’s Motion For Interim Order” (D.E. No. 2489). This Court granted the motion in part, denied it in part, took certain requests under advisement, and ordered supplemental briefing regarding certain requests.

This Court granted the motion with respect to several requests. (*See* D. E. No. 2489 at 39-40). Among other things, this Court “declared that the BOWC’s June 26, 2012 Resolution is in accordance with this Court’s November 4th Order and shall be effective and controlling until this Court orders otherwise.” (*Id.* at 39). This Court also denied the motion in several respects. (*Id.* at 40).

This Court ordered that the following two requests were taken under advisement: 1) the DWSD’s request for clarification from the Court as to MERC’s jurisdiction over matters relating to the DWSD; and 2) the DWSD’s request for an additional six months to file the Director’s Final Compliance Report. It ordered that any party could file a supplemental brief as to the MERC jurisdictional issue by October 26, 2012.

This Court ordered that supplemental briefing would be allowed with respect to the following: 1) specific requests regarding the chargeback of transition services; 2) the DWSD’s request that the BOWC be allowed to delegate settlement approval authority to the Director of the DWSD; 3) the DWSD’s requests regarding Sections 7.5-208 and 7.5-209 of the Detroit City

Charter; 4) any requested alternative method for obtaining tax clearances; 5) the DWSD's request that the BOWC be granted authority to further define the DWSD Procurement Policy; 6) whether the DWSD may obtain and utilize its own Employer Identification Number; 7) establishing separate bank accounts and establishing a separate self-insurance fund; 8) issuance and approval of debt; 9) obtaining and utilizing a separate EIN; and 10) requests relating to a Defined Contribution Plan. The Court ordered that the DWSD's supplemental brief was to be filed by October 26, 2012, and that the City, or any other party, could file a response to any supplemental brief filed by the DWSD no later than November 9, 2012.

On October 23, 2012, the DWSD filed a motion seeking an extension of time to file its supplemental brief in support of its Motion for Interim Order. (D.E. No. 2496). In that motion, the DWSD stated that, following this Court's October 5, 2012, Opinion, representatives of the DWSD have been meeting with representatives of the City to see if they could work together to resolve any of the remaining issues. That motion, and a related filing (D.E. No. 2495), reflected that the DWSD and the City had reached agreement as to some issues, but were still discussing others. As such, the DWSD requested that the Court extend the date for filing of its supplemental brief until November 16, 2012. This Court granted the requested extension. (D.E. No. 2497). Thus, the Court was expecting to receive the DWSD's supplemental brief on November 16, 2012.

Meanwhile, the RCC was still meeting on a regular basis to discuss the implementation of the November 4, 2011, Order.

On November 9, 2012, the Special Master submitted a "Root Cause Committee Plan of Action Clarification of November 8, 2012" to the Court, that had been submitted to the Special

Master on November 8, 2012. (*See* D.E. No. 2505). The document was submitted by the RCC, consisting of: 1) Charles Pugh, President of the Detroit City Council; 2) Gary Brown, Detroit City Council President Pro Tem; 3) Mayoral Representative Chris Brown, then-Chief Executive Officer of the City of Detroit; 4) James Fausone, Chairman of the Board of Water Commissioners; 5) Sue McCormick, Director of the DWSD; and 6) Matt Schenk, Chief Operating Officer/Compliance Officer for the DWSD. (*Id.* at 2).

The RCC's Plan of Action Clarification states that the RCC is aware of the pending motion seeking clarification of the November 4th Order and, because it actually devised the Plan of Action that was adopted by the Court, it "felt it was important to issue this interim report and weigh in on some of the items under consideration for the Court." (D.E. No. 2505 at 3).

The RCC notes that its original Plan of Action "recommended that DWSD's new administrative functions of Law, Human Resources, Finance, and Procurement would operate independently of the equivalent functions within the City." (*Id.* at 2). The RCC states that its original "Plan of Action was never expected to answer every operational question that could arise over time, but rather set forth a framework for the DWSD to operate in a more autonomous and Independent manner while maintaining a clear statement of City of Detroit ownership and control over the assets of DWSD." (*Id.* at 1).

The RCC stated that it "has reviewed the items that were granted within the Court's [October 5, 2012] order, and we agree with those items and the decision that was issued by the Court. The Court's order, in these areas, is fully consistent with the Root Cause Committee's Plan of Action." (*Id.* at 5). The RCC further states that "[t]here were ten specific requests for clarification sought by DWSD that the Court requested supplemental briefing to address. The

need for the supplemental briefing, we believe, was brought on by the Detroit City Law Department objecting to the specific requests, though neither the Mayor nor the City Council authorized the Law Department to file objections.” (*Id.* at 6). The RCC states that “there have been a series of meetings between DWSD and the City’s new Chief Financial Officer to discuss the specific requests that relate to finance. As a result of those meetings, most of the objections from the Law Department” have been resolved. (*Id.*). It then states:

“As a result, the Root Cause Committee would recommend the following actions with respect to the items ordered for supplemental briefing:

- (1) That the Court adopt this Root Cause Committee supplemental Plan of Action in lieu of requiring supplemental briefing on the items contained within this report.
- (2) That DWSD reimburse the City of Detroit for all actual costs, which include the indirect cost, of providing transition services to DWSD.
- (3) That the Board of Water Commissioners be authorized to delegate its final approval authority at threshold of its choosing for the settlement of litigation and for the resolution of contract claims paid by DWSD to the DWSD Director or DWSD General Counsel.
- (4) That DWSD work with the City’s Chief Financial Officer to establish a reasonable fee for access to the City’s tax system that would enable DWSD to perform its own Tax Clearances.
- (5) That the Board of Water Commissioners is authorized to amend its procurement policy upon the affirmative vote of five members provided that any amendment to the policy that changes the approval threshold limits for the Board of Water Commissioners and/or the Detroit City Council shall also require approval by a super-majority vote of an Ad Hoc Root Cause Committee consisting of the Chairman of the Board of Water Commissioners, the Director of DWSD, the President of the Detroit City Council, the Chair of the Detroit City Council’s Public Health and Safety Committee, and a representative appointed by the Mayor of the City of Detroit.
- (6) That DWSD is authorized to establish bank accounts in its own name without

the City Treasurer as a signer, provided that the City is able to obtain information on those accounts necessary for the City's external auditors to perform required work related to the Certified Annual Financial Reports ("CAFR").

- (7) That DWSD be authorized to establish its own self-insurance fund.
- (8) That DWSD be authorized to approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners unless the debt contains a full or partial general obligation pledge of the City of Detroit, in which case City Council approval would be required prior to issuance.
- (9) That DWSD be given additional time to work with the City of Detroit to better understand the financial impact, if any, that DWSD's establishment of a Defined Contribution Plan would have upon the City of Detroit's general fund. If DWSD ultimately moves forward with its request to establish its own Defined Contribution Plan or to act as its own Plan Administrator, then DWSD should be expressly authorized to obtain its own Employee Identification Number ("EIN"). If not, there is likely not a reason for DWSD to maintain its own EIN.
- (10) That DWSD should file a supplemental brief with respect to the issue of whether Corporation Counsel should be enjoined from acting under Sections 7.5-208 and 7.5-209 of the Detroit City Charter with respect to DWSD. The Root Cause Committee understands that it is inconsistent with the Plan of Action and the November 4, 2011 order for Corporation Counsel to Independently act to file suit over Court orders that expressly find certain sections of the Charter inapplicable to DWSD. Similarly, the Plan of Action has clearly contemplated operational independence for DWSD in a number of areas that could lead to inter-governmental disputes between DWSD and administrative departments of the City. We recognize that this Court, and not the Corporation Counsel's mediation dispute mechanism, is the proper forum for addressing concerns over the interpretation of this Court's Orders."

(*Id.* at 6-8).

The RCC states that "the repeal of Public Act 4 and some Charter amendments in the City of Detroit lead to some uncertainty over the future of the City's financial stability agreement and the potential impacts on imposed terms and conditions of employment that may take substantial time to resolve." (*Id.* at 2). The RCC agrees that clarification is needed as to MERC's role in

DWSD labor relations matters going forward, but offers no recommendation on that issue. (*Id.* at 6).

The RCC concludes by stating, “[w]e continue to believe that the Root Cause Committee, with its composition of City of Detroit elected officials and representatives and DWSD board and staff representatives are in a better position to recommend a workable solution to resolve the long-term compliance struggles of DWSD than a more intrusive alternative from the Court.” (*Id.* at 7).

On November 15, 2012, the DWSD filed the instant “Motion For Order Adopting The Root Cause Committee Plan Of Clarification” (D.E. No. 2507) wherein the DWSD moves the Court to: 1) adopt the RCC’s Plan of Clarification as an order of the Court; and 2) extend the time for the DWSD to file its supplemental brief until fourteen (14) days after the Court rules on the Motion to Adopt the RCC’s Plan of Clarification. The motion states:

DWSD respectfully submits that the Root Cause Committee’s Plan of Clarification provides much of the needed clarification of the November 4 Order sought by DWSD’s Verified Motion and provides an excellent resolution of issues raised by the Verified Motion, including the majority of the issues identified for supplemental briefing. Moreover, in several respects in this regard, it mirrors the agreements that DWSD has reached with the City’s Corporation Counsel (D.E. No. 2495) and Chief Financial Officer (Exhibit A). DWSD further submits that the Plan of Clarification proposed an excellent accommodation of the somewhat competing interests of achieving CWA compliance and the precepts of comity and federalism with respect to issues raised by the Verified Motion and designated for supplemental briefing. DWSD, accordingly, moves the Court to adopt the Plan of Clarification as an order of the Court in the same manner that the Court adopted the original Plan of Action in the November 4 Order.

(D.E. No. 2507 at 4).

Any party who objects to the DWSD’s November 15, 2012, Motion for Order Adopting the RCC’s Plan of Action Clarification was required to file a brief in opposition to the motion no

later November 29, 2012. (*See* Local Rule 7.1(d)(2)). As of this date, however, no party has filed any objection to the pending motion or sought an extension of time for doing so. Thus, the motion stands unopposed.³

ANALYSIS

I. The Court Shall Adopt The RCC's Plan Of Clarification As An Order Of The Court

This long-standing case was reassigned to this Court in November of 2010. As of September 9, 2011, this Court was faced with the unenviable task of determining how to remedy these ongoing and serious violations of the Clean Water Act, given the complex nature of the problem and the fact that the rather extraordinary actions taken over the past four decades proved inadequate. In addition, this Court concluded, based on the voluminous record in this action, that an effective equitable remedy to achieve sustained compliance would require this Court to order structural changes regarding the DWSD that would override the City of Detroit's Charter, its local ordinances, and some existing contracts. Yet this Court was mindful that such remedies that override state or local law should be narrowly tailored and that, to the extent possible, local

³On October 12, 2012, the EPA filed a "Notice" (D.E. No. 2492), stating that the MDEQ recently informed it about a specific contract proposal that the DWSD was considering ("the EMA proposal") and that it has not had a chance to review it. The EPA stated that it is "not taking any position on any aspect of the proposal before DWSD" but nevertheless seeks a period of forty-five (45) days "to evaluate the potential impacts of the proposal on CWA compliance and asks this Court not to take any actions that would open the way for DWSD to initiate implementation of that proposal prior to that time." (*Id.* at 2). On December 3, 2012, the EPA and MDEQ filed a Joint Statement (D.E. No. 2509) wherein they state that, after reviewing the proposal, they are not seeking any relief from the Court at this time because they believe that safeguards are already in place to minimize the risk that any reductions in staffing levels might undermine DWSD's ability to comply with its NPDES permit (i.e., the fact that the MDEQ must approve any changes to the minimum staffing levels under the ACO's approved Staffing Plan). Neither the EPA nor the MDEQ have filed any objections to the pending motions.

officials should at least have the opportunity to devise their own solutions to remedy a violation of federal law. *See, e.g., Missouri v Jenkins*, 495 U.S. 33 (1990); *Kendrick v. Bland*, 740 F.3d 432, 437 (6th Cir. 1984).

Rather than order a remedy on its own, without input from the City, this Court considered other options and ultimately took an admittedly unique approach that allowed local officials to devise and propose a workable solution:

Accordingly, the Court shall ORDER the Mayor of the City of Detroit (and/or his designee), the City Council President and President Pro Tem, and a current member of the Board (to be chosen by the Board) to meet and confer and, within 60 days of the date of this order, propose a plan that addresses the root causes of non-compliance that are discussed in this Opinion & Order. In making such recommendations to the Court, these individuals *shall not* be constrained by any local Charter or ordinance provisions or by the provisions of any existing contracts.

(*Id.* at 42-43) (emphasis in original).

Although it was far from easy, these local officials did what was asked of them and presented the Court with a detailed initial Plan of Action, and a separate Procurement Policy. In doing so, they noted their belief that there may need to be additional changes made in the future, once implementation of the plan was underway. The Court adopted the Plan of Action and ordered its implementation in its November 4, 2011 Order.

On November 8, 2012, approximately a year into the implementation of the order, the RCC submitted its Plan of Clarification and the DWSD is now asking the Court to adopt that Plan of Clarification as an order of the Court. Having carefully considered this unopposed request, the Court concludes that it is appropriate to do so because it comports with this Court's over-arching goal of allowing local officials to devise their own solution to remedy the DWSD's recurrent violations of the Clean Water Act. Accordingly, the Court shall adopt the RCC's Plan

of Clarification as an order of this Court.

II. The Court Shall Clarify Its Ruling As To CETs

As explained in this Court's October 5, 2012, Opinion & Order, when most City of Detroit CBAs expired in June 2012, the City imposed terms of employment (City Employment Terms or "CETs.") The City, however, had not applied the CETs to any DWSD personnel because of this Court's November 4th Order which required the DWSD to enter into DWSD-specific CBAs.

Thereafter, on June 26, 2012, the Board of Water Commissioners ("BOWC") passed a Resolution that CETs are applicable to DWSD unions that have not settled CBAs until such time as: (a) the relevant union signs an agreement with DWSD; or (b) negotiations reach an impasse and the DWSD imposes its own terms and conditions of employment on that union. The DWSD's September 24, 2012, Motion for Clarification asked the Court to clarify or declare that the Resolution adopted by the BOWC on June 26, 2012, implements and is consistent with the November 4th Order and is effective and controlling.

After considering the request, this Court declared that "the BOWC's June 26, 2012 Resolution is in accordance with this Court's November 4th Order and shall be effective and controlling until this Court orders otherwise." (D.E. No. 2489 at 39).

In so declaring, this Court's intent was to confirm that this Court's November 4, 2011, Order does not stand as an obstacle to the DWSD implementing the CETs for DWSD employees – if permitted to do so under otherwise applicable law. The Court's intent was to confirm that if the City of Detroit may impose the CETs on unions with CBAs with the City, pursuant to Public Act 4, the City's Financial Stability Agreement with the State of Michigan, or some other

authority, then the DWSD is not prohibited from doing so by virtue of this Court's November 4, 2011 Order. In other words, the Court's intent was to rule that, with respect to the ability to impose CETs, the DWSD-specific unions stand in the same shoes as other unions that have CBAs with the City of Detroit. At the time that the Court issued its October 5, 2012, Opinion & Order, there appeared to be no dispute that the City could impose its CETs.

After this Court's October 5, 2012 Opinion & Order was issued, however, Public Act 4 was repealed by voter referendum. As the RCC notes in its Plan of Clarification, "the repeal of Public Act 4 and some Charter amendments in the City of Detroit lead to some uncertainty over the future of the City's financial stability agreement and the potential impacts on imposed terms and conditions of employment that may take substantial time to resolve." (D.E. No. 2505 at 2).

This Court believes that it is now appropriate to clarify its ruling and shall declare that this Court's November 4, 2011 Order does not stand as an obstacle to the DWSD implementing the CETs for DWSD employees – if permitted to do so under otherwise applicable law. As to this issue, the DWSD-unions stand in the same shoes as other unions with CBAs with the City of Detroit.

III. The Court Shall Order Supplemental Briefing On The DWSD's Requests Relating To Two Specific Charter Provisions And Requests Relating To The Scope Of The Court's Injunction As To MERC

In its September 24, 2012, Motion for Clarification, the DWSD asked the Court to clarify or declare that "Sections 7.5-208 and 7.5-209 of the Detroit City Charter regarding intra-governmental disputes and enforcement of the Charter shall not apply to issues related to DWSD and the implementation of and applicability of this Court's Orders." (DWSD's Motion at 7). The DWSD's motion, however, did not discuss the substance of either of the above Charter

provisions, nor did it sufficiently explain how the DWSD believes that those provisions are impeding the DWSD from complying with its NPDES Permit, the Clean Water Act, the current ACO with the MDEQ, or this Court's orders. In addition, it was unclear to this Court as to the precise relief that the DWSD is requesting as to these two Charter provisions. This Court, therefore, ordered that DWSD could file supplemental brief relating to these requests.

The DWSD's September 24, 2012 motion also asked the Court to clarify the scope of its injunction as to MERC. This Court agreed that clarification by the Court, as to the scope of its injunction as to MERC, was needed. The Court took the request under advisement and ruled that any party could file a supplemental brief on the issue.

In the pending motion, the DWSD asks for another extension for filing its supplemental brief relating to these two Charter provisions and its requests relating to the scope of the Court's injunction as to MERC.

The Court shall grant these requests and shall order DWSD to file its supplemental brief no later than January 4, 2013. Any party that wishes to file a brief in response to that supplemental brief shall do so by January 18, 2013, and if the DWSD wishes to file a reply it must do so no later than January 25, 2013. No further extensions will be granted.

IV. The Court Shall Order The Director's Final Report To Be Filed No Later Than March 15, 2013.

In this Court's November 4th Order, the Director of the DWSD was ordered to file an initial compliance report by May 4, 2012, identifying any additional barriers to long-term compliance with the ACO and the Clean Water Act, and making any additional requests to this Court that are needed for compliance. The Order provides for that report to be circulated among

the BOWC, the Mayor of the City of Detroit, the Detroit City Council, and the MDEQ, who could then provide comments, suggestions and recommendations to the Director before a final Director's Report of Compliance would be filed with the Court on August 4, 2012. (11/4/11 Order at 9-10).

On May 4, 2012, the DWSD filed an initial compliance report that, for several reasons, asked that the Court to extend the date for the filing of the Director's Final Compliance report to October 4, 2012. This Court granted that request in an Order issued on May 17, 2012, and, therefore, the Final Director's Report was due to be filed on October 4, 2012.

The DWSD's September 24, 2012 Motion for Clarification sought yet another extension for the filing of that report and asked the Court to "[e]xtend the date for filing the Final Director's Compliance Report from October 4, 2012 to April 4, 2013." (D.E. No. 2473 at 21).

The Court shall extend the filing date beyond the current deadline, which has now passed. But the Court concludes that there is no reason why the Final Director's Report cannot be submitted by March 15, 2013. Accordingly, the Court shall order that the Final Director's Report be submitted no later than **March 15, 2013**, and shall order that no further extensions will be granted absent a very compelling reason. After the filing of the Final Director's Report, any party wishing to file a motion seeking to dismiss this action may do so.

CONCLUSION & ORDER

For the reasons set forth above, it is ORDERED that the RCC's Plan of Clarification is hereby ADOPTED AS AN ORDER OF THIS COURT and this Court therefore ORDERS that:

- 1) The DWSD shall reimburse the City of Detroit for all actual costs, which include the indirect cost, of providing transition services to DWSD;

- 2) The BOWC is hereby authorized to delegate its final approval authority at threshold of its choosing for the settlement of litigation and for the resolution of contract claims paid by DWSD to the DWSD Director or DWSD General Counsel;
- 3) The DWSD shall work with the City's Chief Financial Officer to establish a reasonable fee for access to the City's tax system that will enable DWSD to perform its own Tax Clearances;
- 4) The BOWC is authorized to amend its procurement policy upon the affirmative vote of five members provided that any amendment to the policy that changes the approval threshold limits for the Board of Water Commissioners and/or the Detroit City Council shall also require approval by a super-majority vote of an Ad Hoc Root Cause Committee consisting of the Chairman of the Board of Water Commissioners, the Director of DWSD, the President of the Detroit City Council, the Chair of the Detroit City Council's Public Health and Safety Committee, and a representative appointed by the Mayor of the City of Detroit;
- 5) The DWSD is authorized to establish bank accounts in its own name without the City Treasurer as a signer, provided that the City is able to obtain information on those accounts necessary for the City's external auditors to perform required work related to the Certified Annual Financial Reports ("CAFR");
- 6) The DWSD is authorized to establish its own self-insurance fund;
- 7) The DWSD is authorized to approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners unless the debt contains a full or partial general obligation pledge of the City of Detroit, in which case City Council approval would be required prior to issuance; and
- 8) The DWSD shall work with the City of Detroit to better understand the financial impact, if any, that DWSD's establishment of a Defined Contribution Plan would have upon the City of Detroit's general fund.

IT IS FURTHER ORDERED that **the City and the DWSD shall immediately implement this order.**

IT IS FURTHER ORDERED that this Court hereby DECLARES that this Court's November 4, 2011, Order does not stand as an obstacle to the DWSD implementing the CETs for DWSD employees – if permitted to do so under otherwise applicable law. As to this issue, the DWSD-unions stand in the same shoes as other unions with CBAs with the City of Detroit.

IT IS FURTHER ORDERED that, no later than **January 4, 2013**, the DWSD may file a supplemental brief on its requests for relief as to two Charter Provisions (Sections 7.5-208 and 7.5-209 of the Detroit City Charter) and its requests related to the scope of the Court's injunction as to MERC. If it files such a brief, any party that wishes to file a brief in response to that supplemental brief shall do so by **January 18, 2013**, and if the DWSD wishes to file a reply it must do so no later than **January 25, 2013**. IT IS FURTHER ORDERED that no further extensions will be granted.

IT IS FURTHER ORDERED that the Final Director's Report shall be submitted to the Special Master in this action no later than **March 15, 2013**. IT IS FURTHER ORDERED that no further extensions will be granted absent a very compelling reason.

IT IS FURTHER ORDERED that, after the filing of the Final Director's Report, any party wishing to file a motion seeking to dismiss this action may do so.

IT IS SO ORDERED.

S/Sean F. Cox
Sean F. Cox
United States District Judge

Dated: December 14, 2012

I hereby certify that a copy of the foregoing document was served upon counsel of record on

December 14, 2012, by electronic and/or ordinary mail.

S/Jennifer McCoy
Case Manager

APPENDIX II-G

BANKRUPTCY COURT ORDER

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**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

-----X		
	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
	:	
	:	
-----X		

ORDER PURSUANT TO (I) 11 U.S.C. §§ 105, 364(c), 364(d)(1), 364(e), 902, 904, 921, 922 AND 928 (A) APPROVING POSTPETITION FINANCING AND (B) GRANTING LIENS AND (II) BANKRUPTCY RULE 9019 APPROVING SETTLEMENT OF CONFIRMATION OBJECTIONS

THIS MATTER having come before the Court upon the motion (the “Motion”) by the City of Detroit, Michigan (the “City”), as debtor in the above-captioned chapter 9 case (the “Case”), pursuant to Sections 105, 364(c), 364(d)(1), 364(e), 902, 904, 921, 922 and 928 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the “Bankruptcy Code”) and Rules 2002, 4001, 9014 and 9019 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and Rule 4001-2 of the Local Rules for the United States

Bankruptcy Court for the Eastern District of Michigan seeking entry of an order, *inter alia*:¹

(i) authorizing the City and the Detroit Water and Sewer Department (“DWSD”), a department of the City, to:

(a) enter into and perform under:

- (1) a Bond Purchase Agreement (the “Water Bond Purchase Agreement”) for water supply system bonds by and among the Michigan Finance Authority (the “MFA”) and Citigroup Global Markets, Inc., acting on behalf of itself and as representative of the other underwriters named therein (collectively, the “Underwriter”), attached hereto as Exhibit 1A, to which is attached a Letter of Representation of the City, and pursuant to which the MFA will issue certain bonds (the “Water MFA Bonds”) to be underwritten and publicly offered by the Underwriter, the proceeds of which will be used by the MFA solely to purchase the 2014 DWSD Revenue and Revenue Refunding Bonds;
- (2) a Bond Purchase Agreement (the “Sewer Bond Purchase Agreement” and together with the Water Bond Purchase Agreement, the “Bond Purchase Agreements”) for sewage disposal system bonds by and among the MFA and the Underwriter, attached hereto as Exhibit 1B, to which is attached a Letter of Representation of the City, and pursuant to which the MFA will issue certain bonds (the “Sewer MFA Bonds” and together with the Water MFA Bonds, the “MFA Bonds”) to be underwritten and publicly offered by the Underwriter, the proceeds of which will be used by the MFA solely to purchase the 2014 DWSD Revenue and Revenue Refunding Bonds (as defined below);

¹ Capitalized terms used but not defined herein shall have the meanings given to them in the Motion.

- (3) a purchase contract for water supply system bonds between the MFA and the City (the “Water MFA Purchase Agreement”), attached hereto as Exhibit 2A;
- (4) a purchase contract for sewage disposal system bonds between the MFA and the City (the “Sewer MFA Purchase Agreement” and together with the Water MFA Purchase Agreement, the “MFA Purchase Agreements”) attached hereto as Exhibit 2B;
- (5) a bond purchase and supplemental agreement for water supply system bonds by and among the MFA, DWSD, Citibank, N.A. and certain other banks to be named, together with one or more purchasers (collectively, the “Water Direct Purchasers”) (the “Water Bond Purchase Agreement (Direct Placement)”), substantially in the form attached hereto as Exhibit 3A;
- (6) a bond purchase and supplemental agreement for sewage disposal system bonds by and among the MFA, DWSD, Citibank, N.A. and certain other banks to be named, together with one or more purchasers (collectively, the “Sewer Direct Purchasers” and together with the Water Direct Purchasers, the “Direct Purchasers”) (the “Sewer Bond Purchase Agreement (Direct Placement)” and together with the Water Bond Purchase Agreement (Direct Placement), the “Bond Purchase Agreements (Direct Placement)”), substantially in the form attached hereto as Exhibit 3B;
- (7) the Assured Insurance Commitment provided by Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. (“Assured”) on substantially the terms set forth in the term sheet attached to the Motion as Exhibit 7;
- (8) the 2014 DWSD Refunding Bonds Insurance Policies in an amount not less than the principal amount of the outstanding Assured-insured Tendered Bonds, substantially on the terms set forth in the Motion and the Assured Insurance Commitment;

- (9) the 2014 DWSD Refunding Bonds Surety Policies (and together with the 2014 DWSD Refunding Bonds Insurance Policies, collectively, the “Assured Policies”) as to reserve accounts that secure exclusively the Assured-insured 2014 DWSD Revenue and Revenue Refunding Bonds (defined below) in a principal amount equal to the DSRF requirement (subject to a limit of \$70 million of additional surety coverage) substantially on the terms set forth in the Assured Insurance Commitment; and
 - (10) a commitment provided by National Public Finance Guarantee Corporation (“National”) to insure certain of the 2014 DWSD Revenue and Revenue Refunding Bonds on the terms set forth in the summary of commitment attached hereto as Exhibit 4, and such other terms as agreed between National and the City (the “National Commitment”);
- (b) issue, via a public offering or a private placement, one or more series of Sewage Disposal System Revenue Bonds, Sewage Disposal System Revenue Refunding Bonds and Water Supply System Revenue Refunding Bonds (collectively, the “2014 DWSD Revenue and Revenue Refunding Bonds”);
- (c) as it relates to the transactions contemplated by this Order, perform under:
- (1) Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”) the relevant excerpts of which are attached hereto as Exhibit 5;
 - (2) Act 34, Public Acts of Michigan, 2001, (“Act 34”) the relevant excerpts of which are attached hereto as Exhibit 6;
 - (3) Ordinance No. 18-01 adopted by the City Council of the Debtor on October 18, 2001 (the “Sewer Ordinance”) attached to the Motion as Exhibit 11;
 - (4) Amended and Restated Bond Ordinance No. 01-05 adopted by the City Council of the Debtor on January 26, 2005 (the “Water Ordinance”) attached to the Motion as Exhibit 12, (the Water Ordinance together with the Sewer Ordinance, the “Bond Ordinances”);

- (5) a Trust Indenture by and among the City, DWSD and U.S. Bank National Association, as trustee (the “DWSD Trustee”) dated as of June 1, 2012 (the “DWSD Sewer Indenture”) and a Trust Indenture by and among the City, DWSD and the DWSD Trustee dated as of February 1, 2013 (the “DWSD Water Indenture” and together with the DWSD Sewer Indenture, collectively, the “DWSD Indentures”) attached hereto as Exhibits 7A and 7B, respectively;²

(ii) authorizing the City, acting through DWSD, to pledge and secure, by statutory lien created by the Bond Ordinances and Act 94 and the lien authorized by Sections 364(c) and 364(d) of the Bankruptcy Code on the Net Revenues (as defined in the Bond Ordinances) of the DWSD’s Sewage Disposal System and Water Supply System and, to the maximum extent permitted by law, the other Pledged Assets (as defined in the Bond Ordinances), the payment of the 2014 DWSD Revenue and Revenue Refunding Bonds in favor of the holders of the 2014 DWSD Revenue and Revenue Refunding Bonds (the “2014 DWSD Revenue and Revenue Refunding Bondholders”) pursuant to the Bond Ordinances, Act 94 and Sections 364(c) and 364(d) of the Bankruptcy Code, in each case, as, to the extent, and

² The Bond Purchase Agreements, the MFA Purchase Agreements, the 2014 DWSD Revenue and Revenue Refunding Bonds, Act 94, Act 34, the Sewer Ordinance, the Water Ordinance, the DWSD Indentures, the Bond Purchase Agreements (Direct Purchase), the Assured Insurance Commitment, the National Commitment, the policies to be issued pursuant to the National Commitment, and the Assured Policies shall be collectively referred to herein as the “Transaction Documents”.

subject to, the priorities described in the Transaction Documents and this Order;

(iii) finding that the pledge of DWSD revenues as security for such 2014 DWSD Revenue and Revenue Refunding Bonds constitutes a “lien” on “pledged special revenues” as contemplated by sections 101(37), 902(2), 922(d) and 928 of the Bankruptcy Code;

(iv) authorizing the City to pay the principal, interest, fees, expenses and other amounts payable under the Transaction Documents, including (and to the extent applicable under the Transaction Documents), National’s fees, Assured’s fees, the DWSD Trustee’s and the Underwriter’s fees, the actual fees and disbursements of the DWSD Trustee’s and the Underwriter’s attorneys, advisers, accountants, and other consultants, and the costs of issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds and the MFA Bonds, all to the extent provided in and in accordance with the terms of the Transaction Documents (as applicable) and notwithstanding Sections 943 and 1129(a)(9)(A) of the Bankruptcy Code or the confirmation of any plan of adjustment in the Case; and

(v) approving a settlement (the “Settlement”), to be effective if and when the Tender (as defined below) closes, by and among the DWSD Settlement Parties³,

³ The term “DWSD Settlement Parties” shall include National for all purposes in this Order. The City shall also include National in the Plan’s definition of “DWSD

(a) establishing the treatment of water and sewer bond claims under the City's plan of adjustment and (b) resolving the DWSD Plan Objections on the terms and conditions set forth in the Motion and in the Assured Insurance Commitment and the National Commitment; and

The Court having considered the Motion, including the Transaction Documents, the Donner Declaration, Bateson Declaration and Brownstein Declaration, and the evidence and arguments submitted at the hearing on the Motion commencing on August 25, 2014 (the "Hearing"), after due deliberation and consideration, and for good and sufficient cause appearing therefor;

AND BASED UPON THE RECORD ESTABLISHED AT THE HEARING ON THE MOTION AND ALL PLEADINGS AND DOCUMENTS FILED HEREIN, THE COURT HEREBY MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:

A. Petition Date. On July 18, 2013 (the "Petition Date"), the City filed a voluntary petition for relief under chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan (the "Court") commencing this Case. The order for relief in this Case was entered on December 5,

Settlement Parties" either by further amendment to the Plan or pursuant to this Court's order confirming the Plan.

2013.

B. Jurisdiction and Venue. This Court has jurisdiction to consider this Motion pursuant to 28 U.S.C. §§ 157 and 1334 and authority under 28 U.S.C. § 157 and Local Rule 83.50 of the United States District Court for the Eastern District of Michigan over these proceedings and over the persons and entities affected hereby. Consideration of the Motion constitutes a core proceeding under 28 U.S.C. § 157(b)(2). Venue for the Case and proceedings on the Motion is proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409.

C. Notice. Notice of the Motion and the Hearing (1) was served by the City on (a) the trustees, transfer agents or paying agents, as applicable, for the City's secured and unsecured bonds; (b) the City's largest unsecured creditors as identified on the list filed under Bankruptcy Rule 1007(d); (c) the Official Committee of Retirees appointed in this case; (d) the unions representing certain of the City's employees and retirees; (e) the four associations of which the City is aware representing certain retirees of the City; (f) the City's pension trusts; (g) the insurers of the City's bonds; (h) the insurers of the certificates of participation issued with respect to the City's pension funds (the "COPs"); (i) certain significant holders of the COPs; (j) the counterparties under the swap contracts entered into in connection with the COPs (collectively, the "Swaps"); (k) the insurers of the Swaps; (l) all entities that have requested notice pursuant to Bankruptcy Rule 2002, (m) counsel to

the Underwriter and the Direct Purchasers, (n) counsel to the DWSD Objecting Parties; (o) counsel to the State Revolving Fund and (p) Trustee for the State Revolving Fund Bonds. (2) was sufficient and proper under the circumstances; and (3) complies with Bankruptcy Rules 2002 and 4001(c) and the Local Bankruptcy Rules of the United States Bankruptcy Court for the Eastern District of Michigan. No further notice is necessary or required.

D. Sixth Amended Plan. On August 20, 2014, the City filed the Sixth Amended Plan (the “Amended Plan”), which provides that, if the City accepts some or all of the Tendered Bonds for purchase and the Settlement Date⁴ occurs, the Existing DWSD Bond Claims will be unimpaired within the meaning of Section 1124 of the Bankruptcy Code, meaning that the Amended Plan shall, among other things, not eliminate call protection or reduce the interest rates of the Existing DWSD Bonds.

E. Authorization Appropriate. The authorization granted herein will benefit the City and its citizens and is a sound exercise of the City’s business judgment, is in the best interest of the City and its citizens, and is based on good, sufficient, and sound business purposes and justifications.

⁴ “Settlement Date” shall have the same meaning as the term “DWSD Settlement Date” set forth in the Amended Plan.

F. *The City's Stipulations.* The City stipulates and acknowledges that: (1) except as provided in this Order, the Transaction Documents as of the date of entry of this Order, the Pledged Assets are not subject to any pledge, lien or security interest other than the existing liens created under the Bond Ordinances and made statutory liens by Act 94 as security for all Secured Obligations (as defined in the Bond Ordinances) heretofore issued and hereafter permitted to be issued under the Bond Ordinances; (2) the City has taken or shall take or cause to be taken all actions to obtain under non-bankruptcy law (including, but not limited to, Act 94) and the Bond Ordinances, and has received or shall have received prior to the closing, all due authorizations for the approval of the Transaction Documents, including for the issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds secured by the pledge of the Pledged Assets as set forth in the Transaction Documents; (3) subject to a determination in a Supplemental Action (as defined in the Bond Ordinances) that there will be the Required Combined Coverage (as defined in the Bond Ordinances) upon issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds (and after giving effect to the issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds), the Required Combined Coverage will not be less than 120% for the Senior Lien Bonds, 110% for the Second Lien Bonds and 100% for the SRF Junior Lien Bonds (each as defined in the Bond Ordinances), in each case when calculated in the manner and by the means prescribed by the Projected Net Revenues

Test and Historical Net Revenues Test set forth in Section 21(C)(b) and (c) of the Sewer Ordinance and Section 20(C)(2) and (3) of the Water Ordinance; and (4) the entry of this Order and the relief and orders granted herein is at the request, and upon the consent, of the City.

G. *Findings Regarding the Postpetition Financing.*

(i) *Credit Not Available on More Favorable Terms.* The City is unable to incur the indebtedness evidenced by the 2014 DWSD Revenue and Revenue Refunding Bonds without the granting of a senior or equal lien on the Pledged Assets as set forth in the Transaction Documents. The City has been unable to obtain unsecured credit allowable under Bankruptcy Code Section 503(b)(1) as an administrative expense, with priority over any or all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code; credit secured by a lien on property of the City that is not otherwise subject to a lien; or credit secured by a junior lien on property of the City that is subject to a lien. Financing on a post-petition basis is not otherwise available without granting the DWSD Trustee (1) perfected liens, equal or senior to the existing liens on the Pledged Assets securing the Existing DWSD Bonds, as security for the 2014 DWSD Revenue and Revenue Refunding Bonds with the priorities set forth herein and in the Transaction Documents, and (2) the other protections set forth in the Transaction Documents and this Order.

(ii) *Use of Proceeds of the DWSD Revenue and Revenue Refunding Financing.* The City has agreed that proceeds of the DWSD Revenue and Revenue Refunding Financing shall be used in a manner consistent with the terms and conditions of the Transaction Documents, solely for purposes permitted by law, including (a) to make essential capital improvements to the City's sewerage disposal system as required under state and federal law as more fully described in the Motion (the "DWSD Revenue Financing"); (b) to finance the City's obligations to purchase certain water and sewer bonds that have been tendered in connection with a pending invitation to tender (the "Tender") to the holders of the City's outstanding water and sewer bonds (the "Existing DWSD Bonds"), also as described in greater detail in the Motion (the "Tender Offer Financing"); and (c) to pay the principal, interest, fees, expenses and other amounts payable under the Transaction Documents (to the extent applicable).

H. *Prudent Judgment and Jurisdictional Matters.* Good cause has been shown for the entry of this Order. The terms and conditions of the Transaction Documents and the fees to be paid thereunder are fair, reasonable, and the best available to the City under the circumstances; reflect the City's exercise of prudent judgment; are supported by reasonably equivalent value and fair consideration; are at the request, and with the consent, of the City; and, with that consent, are within the

jurisdiction and powers of the Court pursuant to Section 904 of the Bankruptcy Code.

I. *Good Faith Under Section 364(e)*. In respect of the DWSD Revenue and Revenue Refunding Financing authorized under section 364 of the Bankruptcy Code, the City, the MFA, the Underwriter, the Direct Purchasers, National and Assured have acted in good faith, as that term is used in section 364(e) of the Bankruptcy Code, and the Transaction Documents are the result of good faith, arms-length negotiations among the City, the MFA, the Underwriter, the Direct Purchasers, National and Assured. As of the closing date, the City's issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds and the purchase thereof by (i) the MFA, the MFA's issuance of the MFA Bonds pursuant to Executive Order 2010-2 and the Shared Credit Rating Act, Act 227, Public Acts of Michigan 1985, as amended, MCL 141.1051 *et seq.*, the Underwriter's underwriting of the MFA Bonds and the purchase of the MFA Bonds in a public offering, thereby providing funds for the purchase by the MFA of the 2014 DWSD Revenue and Revenue Refunding Bonds and (ii) the Direct Purchasers in the event of a private placement or direct purchase of the 2014 DWSD Revenue and Revenue Refunding Bonds, and the issuance of the Assured Policies by Assured and the issuance of policies by National pursuant to the National Commitment (the "National Policies") each represents an extension of credit in "good faith" within the meaning of section 364(e) of the

Bankruptcy Code. In addition, the grant by the City of a pledge and lien in the Pledged Assets to secure, and provide a source for the repayment of, the 2014 DWSD Revenue and Revenue Refunding Bonds and the MFA Bonds, is in “good faith” within the meaning of section 364(e) of the Bankruptcy Code. The Transaction Documents will be entered into in express reliance upon the protections offered by section 364(e) of the Bankruptcy Code, for purposes and uses that are permitted by law, and not in violation of the Bankruptcy Code or of applicable non-bankruptcy law, and the transactions contemplated by the Transaction Documents are not prohibited by applicable bankruptcy or non-bankruptcy law. As such, the MFA (and its assignees and transferees), the Underwriter (and its assignees and transferees), each purchaser of the MFA Bonds (and their assignees and transferees) (each, including its assignees and transferees, an “MFA Bondholder” and, collectively, the “MFA Bondholders”), each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), National and Assured therefore qualify for the full protection and benefits of sections 364(e) and 921(e) of the Bankruptcy Code and this Order and shall not be affected by any reversal or modification on appeal of this Order, nor shall the reversal on appeal of a finding of jurisdiction affect the validity of any debt incurred pursuant to this Order.

J. *Act 94 Approval.* The City has duly authorized and approved the

Transaction Documents pursuant to Act 94 (as described herein and in the Motion). The City is duly authorized to cause the execution of bond sale orders by the Director of the DWSD and by the Emergency Manager of the City upon the issuance of this Order.

K. *Adequate Protection of Existing Liens.* A determination in a Supplemental Action calculated in the manner and by the means prescribed by the Projected Net Revenues Test and the Historical Net Revenues Test set forth in the Bond Ordinances, that the resulting Required Combined Coverage, after giving effect to the issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds, is not less than 120% for the Senior Lien Bonds, not less than 110% for the Second Lien Bonds and not less than 100% for the SRF Junior Lien Bonds (the “Additional Bonds Test”), together with the Alternative Refund/Debt Service Savings Test and the City’s rate covenants made in Section 9 of the Bond Ordinances (the “Rate Covenant”), satisfies the bargained-for terms of the Existing Bond Documents that are applicable to the subsequent issuance of Secured Obligations, such as the 2014 DWSD Revenue and Revenue Refunding Bonds. After taking into account the issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds and the granting of the senior and equal liens in accordance with the Transaction Documents and the Bond Ordinances, under the circumstances and given that the Supplemental Action will support that the Additional Bonds Test and Alternative Refund/Debt

Service Savings Test, as applicable, will meet or exceed the Required Combined Coverage required under the Bond Ordinances, the Court finds that the Additional Bonds Test, the Alternative Refund/Debt Service Savings Test and the Rate Covenant constitute adequate protection of the pre-petition liens securing the Existing DWSD Bonds for purposes of section 364(d)(1) of the Bankruptcy Code. Moreover, there is no impairment to the interests of holders of Existing DWSD Bonds from the Tender Offer Financing because new bondholders will be taking the same position in the DWSD capital structure as the holders of the Existing DWSD Bonds.

L. *Special Revenues.* Net Revenues, as defined in the Bond Ordinances, constitute “special revenues” as that term is defined in Section 902(2) of the Bankruptcy Code, constitute “pledged special revenues” as that term is used in Section 922(d) of the Bankruptcy Code and are afforded the protections contemplated by Section 928 of the Bankruptcy Code, which have been validly pledged and become subject to a lien as defined in section 101(37) of the Bankruptcy Code and in accordance with Act 94 and the Bond Ordinances to secure the payment of the 2014 DWSD Revenue and Revenue Refunding Bonds issued under the DWSD Indentures, as more fully set forth in the Transaction Documents.

M. *Willingness to Provide Insurance.* Assured has indicated a willingness to issue the Assured Policies subject to: (a) the entry of this Order; (b) the approval

by this Court of the Settlement; and (c) the satisfaction of certain other commercially reasonable conditions precedent set forth in the Assured Insurance Commitment. National has indicated a willingness to issue the National Policies subject to: (a) entry of this Order; (b) the approval by this Court of the Settlement; and (c) the satisfaction of certain other commercially reasonable conditions precedent set forth in the National Commitment.

N. *The Settlement.* The Settlement was negotiated at arm's length and in good faith by the DWSD Settlement Parties and the settlements and compromises set forth in the Motion, the National Commitment and the Assured Insurance Commitment are fair, equitable and reasonable. The DWSD Settlement Parties are not "insiders" (as defined in the Bankruptcy Code) of the City.

Based upon the foregoing findings and conclusions, the Motion and the record before the Court with respect to the Motion, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED that:

1. Motion Approved. The Motion is GRANTED.
2. Objections Overruled. All objections to the Motion and to the Transaction Documents, to the extent not withdrawn, waived, or resolved by the terms hereof, and all reservations of rights included therein, are hereby denied and overruled on the merits, with prejudice.

3. Authorization of the Financing. Subject to the adoption of bond sale orders by the Director of the DWSD and by the Emergency Manager of the City, and subject to a determination in a Supplemental Action of the satisfaction of the Rate Covenant in accordance with the Bond Ordinances, the City is hereby authorized pursuant to sections 105(a), 364(c) and 364(d)(1) of the Bankruptcy Code, by and through DWSD, to enter into, incur the indebtedness evidenced by the 2014 DWSD Revenue and Revenue Refunding Bonds under, and perform pursuant to, the Transaction Documents, all of which that have been submitted to the Court are hereby approved, and to otherwise satisfy the requirements of Act 94, the Bond Ordinances, and applicable resolutions of the Board of Water Commissioners. The City is expressly authorized, without further authorization or approval of this Court, to perform all acts, make, execute and deliver all instruments and documents, which may be required for the performance by the City under the Transaction Documents and the creation and perfection of the liens described in and provided for by this Order and the Transaction Documents (including, without limitation, the execution or recordation of security agreements, mortgages and financing statements, as applicable), and to pay all fees and expenses that may be required or reasonably necessary for the City's performance of its obligations under or related to the Transaction Documents. The Net Revenues, as defined in the Bond Ordinances, and all proceeds thereof shall be deposited and applied as required by the Transaction

Documents. Upon execution and delivery, the Transaction Documents shall be valid and binding obligations of the City, enforceable against the City in accordance with their terms.

4. Authorization to Borrow. Immediately upon the entry of this Order, the City is authorized to issue the 2014 DWSD Revenue and Revenue Refunding Bonds to the MFA or, in the event of a private placement or direct purchase, to the MFA or to the Direct Purchasers, as applicable, pursuant to the terms of the Transaction Documents and is authorized to enter into and incur the obligations under the Transaction Documents.

5. 2014 DWSD Revenue and Revenue Refunding Bonds. The Transaction Documents and this Order shall evidence the validity and binding effect of the 2014 DWSD Revenue and Revenue Refunding Bonds, which shall be effective as of the date of their issuance. Upon entry of this Order, and effective as of the date of their issuance, the 2014 DWSD Revenue and Revenue Refunding Bonds will include all indebtedness or obligations, contingent or absolute, which may now or from time to time be owing (in each case, however, solely in connection with the 2014 DWSD Revenue and Revenue Refunding Bonds (and not in connection with other indebtedness, obligations or debt issuances, whether subject to the Transaction Documents or otherwise)) by the City to the MFA, the Underwriter, the Direct Purchasers, the DWSD Trustee, or any of the MFA

Bondholders under the respective Transaction Documents or this Order, including all principal, accrued interest, costs, fees, expenses and other amounts in respect of the 2014 DWSD Revenue and Revenue Refunding Bonds under the respective Transaction Documents. The 2014 DWSD Revenue and Revenue Refunding Bonds shall be due and payable, without notice or demand, in accordance with the terms of the Transaction Documents and notwithstanding Sections 943 and 1129(a)(9)(A) of the Bankruptcy Code or the confirmation of any plan of adjustment in this Case.

6. Liens. During the pendency of the Case and prior to the effective date of a plan of adjustment in this Case, upon issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds, this Order, Act 94 and the Transaction Documents shall be conclusive evidence of the validity, perfection and priority of the liens granted by the City and encumbering the Pledged Assets to secure the 2014 DWSD Revenue and Revenue Refunding Bonds (the “Liens”) under Act 94 and sections 101(37), 364(c) and 364(d) of the Bankruptcy Code without the necessity of (a) filing or recording any financing statement, mortgage, notice or other instrument or document that may otherwise be required under the law or regulation of any jurisdiction or (b) the taking of any other action (including taking possession or entering into any deposit account control agreement, mortgages or deeds of trust) to validate or perfect (in accordance with applicable non-bankruptcy law) the Liens.

7. Lien Priority - Sewage Disposal System Revenue Bonds. Pursuant to

the Sewer Ordinance and the other relevant Transaction Documents, the Liens securing the Sewage Disposal System Revenue Bonds shall be equal to the existing senior liens securing the Senior Lien Bonds, senior in priority and superior to the existing subordinate liens or any other pledge of, lien on or claim to any of the Pledged Assets under the DWSD Sewer Indenture, other than the lien securing the Senior Lien Bonds. Other than as set forth herein, the Transaction Documents and the Sewer Ordinance, the Liens securing the Sewage Disposal System Revenue Bonds shall not be made or become subject to or *pari passu* with any lien or security interest or otherwise and shall be valid, binding, fully perfected, continuing and enforceable, including against the City under sections 921(e) and 364(e) of the Bankruptcy Code, and this Order shall not be affected by any reversal or modification on appeal of this Order, nor shall the reversal on appeal of a finding of jurisdiction affect the validity of any debt incurred pursuant to this Order.

8. Lien Priority - Revenue Refunding Bonds. Pursuant to the Bond Ordinances and the Transaction Documents, the Liens securing the Sewage Disposal System Revenue Refunding Bonds and the Water Supply System Revenue Refunding Bonds (the “Refunding Bonds”) shall be equal to the existing senior liens or existing second liens, as the case may be, securing Tendered Bonds that are Senior Lien Bonds and Tendered Bonds that are Second Lien Bonds, respectively. The Liens securing Refunding Bonds that are Senior Lien Bonds shall be senior in

priority and superior to the existing subordinate liens or any other pledge of, lien on or claim to any of the Pledged Assets under the DWSD Indentures, other than the liens securing the Senior Lien Bonds. The Liens securing Refunding Bonds that are Second Lien Bonds shall be subordinate in priority to Senior Lien Bonds and superior to the existing subordinate liens or any other pledge of, lien on or claim to any of the Pledged Assets under the DWSD Indentures, other than the liens securing Second Lien Bonds and Senior Lien Bonds. Other than as set forth herein, the Transaction Documents and the Bond Ordinances, the Liens securing the Refunding Bonds shall not be made or become subject to or *pari passu* with any lien or security interest or otherwise and shall be valid, binding, fully perfected, continuing and enforceable, including against the City under sections 921(e) and 364(e) of the Bankruptcy Code, and this Order shall not be affected by any reversal or modification on appeal of this Order, nor shall the reversal on appeal of a finding of jurisdiction affect the validity of any debt incurred pursuant to this Order.

9. No Obligation to Extend Credit. None of the Direct Purchasers, the MFA or the Underwriter shall have any obligation to purchase any bond or make any other extension of credit under the Transaction Documents unless (a) all of the conditions precedent to the purchase of the 2014 DWSD Revenue and Revenue Refunding Bonds and, in the case of a public offering, the purchase of the MFA Bonds and the extension of such credit provided thereby under the Transaction

Documents and this Order have been satisfied in full or waived in accordance with the terms of the applicable Transaction Documents and (b) no stay of this Order pending appeal shall have been obtained by any party from this Court or any other court.

10. Amendment of the Transaction Documents. The City is authorized, without further approval or authorization of this Court, to perform all acts and to make, execute and deliver all instruments and documents that may be reasonably required to effect one or more amendments, modifications or supplements to any of the Transaction Documents if the amendments, modifications or supplements (a) are consistent with this Order; (b) in the good faith judgment of the City, are not amendments, modifications or supplements that are materially adverse to the interests of the holders of pre-petition liens securing the Existing DWSD Bonds under the Transaction Documents; (c) are otherwise permitted under the terms of the Bond Ordinances and the other Transaction Documents; and (d) are otherwise within the power of the City to effect without further order of the Court under Section 904 of the Bankruptcy Code or otherwise.

11. Good Faith Under Section 364(e) of the Bankruptcy Code; No Modification or Stay of this Order. Based on the findings of fact and conclusions of law set forth in this Order and the record made during the Hearing, the City, the MFA, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue

Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National and Assured have acted in good faith, as that term is used in section 364(e) of the Bankruptcy Code, in connection with the Transaction Documents, and their reliance on this Order is also in good faith. In accordance with section 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Order are hereafter reversed or modified on appeal, the MFA, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National and Assured are entitled to and hereby granted the protections provided in section 364(e) of the Bankruptcy Code. Any reversal or modification of this Order on appeal shall not affect the validity or enforceability of the 2014 DWSD Revenue and Revenue Refunding Bonds or any Lien, claim, or priority authorized or created hereby or the validity or enforceability of the Assured Policies or the National Policies. Any liens or claims granted to the MFA, the DWSD Trustee, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National or Assured hereunder arising prior to the effective date of any such reversal or modification of this Order shall be governed in all respects by the original provisions

of this Order, including entitlement to all rights, remedies, privileges and benefits granted herein.

12. Section 921(e) of the Bankruptcy Code; No Modification or Stay of this Order. In accordance with section 921(e) of the Bankruptcy Code, in the event any or all of the provisions of the order for relief or any order finding jurisdiction is reversed on appeal, the MFA, the DWSD Trustee, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National and Assured are entitled to the protections provided in section 921(e) of the Bankruptcy Code. Any such reversal shall not affect the validity or enforceability of the 2014 DWSD Revenue and Revenue Refunding Bonds or the Liens or priority authorized by this Order, or the validity or enforceability of the Assured Policies or the National Policies. Any Liens granted to the DWSD Trustee authorized hereunder arising prior to the effective date of any such reversal shall be governed in all respects by the original provisions of this Order, including entitlement to all rights, remedies, privileges and benefits granted herein.

13. Special Revenues. Any and all Net Revenues, as defined in the Bond Ordinances, shall be treated as “special revenues” as that term is defined in section 902(2) of the Bankruptcy Code and shall be treated as “pledged special revenues” as

that term is used in section 922(d) of the Bankruptcy Code and are afforded all applicable protections under the Bankruptcy Code and applicable law, including the protections contemplated in section 928 of the Bankruptcy Code, which have been validly pledged and become subject to a lien under Act 94 to secure the payment of the 2014 DWSD Revenue and Revenue Refunding Bonds issued under the DWSD Indentures, as fully set forth in the Transaction Documents.

14. No Impairment. All rights and remedies of the DWSD Trustee, MFA, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National and Assured under the Transaction Documents, as they relate to the 2014 DWSD Revenue and Revenue Refunding Bonds, shall remain effective and, except as otherwise provided in the Transaction Documents, may not be modified, impaired, or discharged, notwithstanding the authority of the Emergency Manager of City to act on behalf of and bind the City, the dismissal of this Case, or the confirmation of, or failure to confirm, any plan of adjustment in this Case. All rights and remedies of the DWSD Trustee, MFA, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National and Assured under this Order shall remain effective and may not, except as

otherwise provided herein, be modified, impaired or discharged, notwithstanding the authority of the Emergency Manager of City to act on behalf of and bind the City, during the pendency of the Case and prior to the effective date of a plan of adjustment in this Case.

15. Rights Preserved. Notwithstanding anything herein to the contrary, the entry of this Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, the rights of the DWSD Trustee, the holders of Existing DWSD Bonds, the DWSD Bond Insurers, the MFA, the Underwriter, each holder of a 2014 DWSD Revenue and Revenue Refunding Bond, including, but not limited to the Direct Purchasers (and each of their respective assignees and transferees), the MFA Bondholders, National or Assured to seek any other or supplemental relief in respect of the City.

16. No Modification of Order. Following the closing date of the 2014 DWSD Revenue and Revenue Refunding Bonds and until and unless the 2014 DWSD Revenue and Revenue Refunding Bonds have been paid in full in cash (such payment being without prejudice to any terms or provisions contained in the Transaction Documents that by their terms survive such discharge) or otherwise defeased, the City irrevocably waives the right to seek and shall not seek or consent to, directly or indirectly, without the prior written consent (not to be unreasonably withheld) of (a) Assured, National, the DWSD Trustee, the Ad Hoc Committee and,

if such action is to be taken after the issuance of the 2014 DWSD Revenue and Revenue Refunding Bonds, the MFA, and (b) in the case of a direct purchase of the 2014 DWSD Revenue and Revenue Refunding Bonds, the Direct Purchasers, in each case, in the reasonable discretion of the DWSD Trustee, the MFA and the Direct Purchasers, as applicable, any modification, stay, vacatur or amendment to this Order or the order for relief in any manner.

17. Exculpation. Except to the extent expressly set forth in the Transaction Documents, nothing in this Order, the Transaction Documents, or any other documents related to the transactions contemplated hereby shall in any way be construed or interpreted to impose or allow the imposition upon the DWSD Trustee, Assured, National, the holders of Existing DWSD Bonds, the MFA, the Underwriter, the Direct Purchasers or the MFA Bondholders any liability for any claims arising in connection with the 2014 DWSD Revenue and Revenue Refunding Bonds. In addition, with respect to the Pledged Assets (a) except as expressly set forth in the Transaction Documents, none of Assured, National, the DWSD Trustee, the holders of Existing DWSD Bonds, the MFA, the Underwriter, the Direct Purchasers or the MFA Bondholders shall, in any way or manner, be liable or responsible for (i) the safekeeping of the Pledged Assets, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof, or (iv) any act or default of any carrier, servicer, bailee, custodian,

forwarding agency, or other person, and (b) all risk of loss, damage, or destruction of the Pledged Assets shall be borne by the City.

18. Effect of Stipulations. The stipulations and admissions contained in this Order shall be binding upon the City and the DWSD Objecting Parties.

19. Order Controls (Transaction Documents). During the pendency of the Case and prior to the effective date of a plan of adjustment in this Case, in the event of any inconsistency between the terms and conditions of the Transaction Documents and this Order, the provisions of this Order shall govern and control.

20. No Third Party Rights. Except as explicitly provided for herein or in the Transaction Documents, this Order does not create any rights for the benefit of any third party who is not expressly referenced in this Order, any creditor or any direct, indirect or incidental beneficiary.

21. Survival. The Liens and indebtedness incurred under the Transaction Documents authorized by this Order and the other provisions of this Order and any actions taken pursuant hereto shall survive entry of any subsequent order that may be entered: (a) dismissing the Case; or (b) pursuant to which this Court abstains from hearing the Case.

22. No Waiver by Seeking Relief. Except to the extent this Order provides otherwise, (i) neither the filing of the Motion nor anything herein shall constitute a waiver of any right of the City to take any action, including with respect to the 2014

DWSD Revenue and Revenue Refunding Bonds, without authorization or approval of the Court, (ii) nor shall the filing of the Motion or the entry of this Order be deemed to constitute the City's consent, pursuant to Section 904 of the Bankruptcy Code, to this Court's interference with (a) any of the political powers of the City, (b) any of the property or revenues of the City or (c) the City's use or enjoyment of any income-producing property, other than as provided herein.

23. The Settlement. The Settlement as described in the Motion is approved in its entirety and all of its terms are incorporated herein by reference as if fully set forth herein, and the failure to specifically describe or include in this Order any particular provision of the Motion or the Assured Insurance Commitment or the National Commitment shall not diminish or impair the effectiveness of any such provision. The settlements and compromises set forth in the Assured Insurance Commitment, the National Commitment and in the Motion are fair and reasonable to, and in the best interests of, the City, its residents and its creditors, and in entering into the Settlement, the DWSD Settlement Parties have acted in a commercially reasonable manner and exercised their respective rights and powers, and used the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances.

24. DWSD Contribution to GRS Pension Plan. DWSD's contributions to the GRS pension plan set forth in the Plan shall be accounted for as follows: (i)

DWSD shall pay as operation and maintenance expenses, to be allocated between the Sewage Disposal System and the Water Supply System (collectively, the “Systems”) consistent with the allocation of labor costs between the two Systems, no more than the aggregate sum of (a) \$24 million per annum (which is payable monthly); and (b) DWSD’s allocable share of its annual “defined contribution” payments related to the DWSD employees; and (ii) DWSD shall pay from the Revenues of each of the Sewage Disposal System and the Water Supply System, on the same ratable basis as set forth in (i) above, the difference between the annual allocation of the Plan GRS pension contributions provided in the Plan and \$24 million in the aggregate from “pension liability payment funds” established for each of the Sewage Disposal System and the Water Supply System (such funds, the “Pension Liability Payment Funds”) that will be placed in priority of payment after all of the Interest and Redemption Funds (including the Reserve Accounts, if any, therein) and before the Extraordinary Repair and Replacement Reserve Fund (all as defined in the Existing Bond Documents) for each of the Sewage Disposal System and the Water Supply System, such that the respective Pension Liability Payment Funds will be subordinated to the 2014 DWSD Revenue and Revenue Refunding Bonds and all other existing DWSD bond debt. Sufficient funds shall be allocated to each of the Pension Liability Payment Funds on a monthly basis until such time as each System’s Pension Liability Payment Fund contains funds sufficient to pay the

difference between each System's allocable share of the annual allocation of the GRS pension contributions provided in the Plan, and each System's allocable share of \$24 million. If such amounts in a Pension Liability Payment Fund are insufficient to provide for that fiscal year's requirement for the respective System's contribution to the GRS pension plan by June 30 of that fiscal year, then any amounts or securities held in the respective System's Surplus Fund, Construction Fund, Improvement and Extension Fund, Extraordinary Repair and Replacement Reserve Fund (in excess of the Extraordinary Repair and Replacement Minimum Requirement) and any other now-existing or after arising accounts under the applicable System's Indenture to which payments are subordinate to the payments to the Interest and Redemption Funds (including the Reserve Accounts, if any, therein) as listed in Section 2.02(a) – (f) of the respective System's Indenture, shall be credited or transferred from such Funds or accounts in the priority and order listed above (after satisfaction of the transfers required by Section 2.11 of each Indenture to the Operating and Maintenance Fund and the Interest and Redemption Funds) to the respective System's Pension Liability Payment Fund; provided, however, that solely for purposes of determining the crediting or transferring of funds to the respective "Pension Liability Payment Funds": (i)(a) the formulae presently used to determine the Extraordinary Repair and Replacement Minimum Requirement and (b) the definition of "Extraordinary Repair and Replacement Minimum Requirement"

in the applicable Indentures existing as of the date of this Order will not be changed unless and until DWSD has paid in full the aggregate annual allocation of the GRS pension contributions provided in the Plan; (ii) the amount of the Extraordinary Repair and Replacement Minimum Requirement is not increased over the amount of such minimum, which as of the date of this Order is \$4,693,660 for the Water Supply System and \$6,725,917 for the Sewage Disposal System, until the GRS pension contributions provided in the Plan are paid in full; and (iii) provided such funds are not subject to restriction barring transfer under Section 2.11 of the respective Indenture existing as of the date hereof; and provided, further, that in no event shall any amounts held in a Construction Fund that are (x) the proceeds of any debt issued for such System pursuant to the applicable Bond Ordinance, as the same may be amended, modified or supplemented, or (y) otherwise lawfully restricted to use for capital improvements to a System be credited to the Pension Liability Payment Fund. Moreover, no amounts may be credited or transferred from a Construction Fund unless such credit or transfer (i) is approved by the Michigan Department of Treasury, if such approval is then required by law, and (ii) based upon an opinion of bond counsel, such credit or transfer will not adversely affect the exclusion from gross income for federal income tax purposes of securities the proceeds of which were deposited in such account. In the event there is any shortfall in the annual funding of a Pension Liability Payment Fund at the end of any fiscal year, that

shortfall shall be paid in the next fiscal year according to the payment priorities set forth in this Paragraph 24.

25. DWSD Plan Objections. Upon the occurrence of the Settlement Date and the payment by the City of all professional fees and expenses as set forth in Paragraph 27 hereof (the “Settlement Date Fee Payments”)⁵, the DWSD Plan Objections shall be deemed to be withdrawn with prejudice; provided, however, that the DWSD Plan Objection of FGIC shall only be deemed withdrawn with prejudice with respect to FGIC’s objections related to DWSD, including any matters that are the subject of the Motion and the Settlement. The accounting treatment of DWSD’s contributions to the GRS pension plan in Paragraph 24 hereof shall not constitute “impairment” of the Existing DWSD Bonds or the Existing DWSD Bond Claims in respect thereof.

26. No Amendment. From and after the occurrence of the Settlement Date, the City shall not amend, supplement or otherwise modify the Amended Plan, or participate in, support or acquiesce to any such amendment, supplement or modification (including any motion for an order seeking such amendment, supplement or modification) of the Amended Plan that would result in (i) the

⁵ The Settlement Date Fee Payments shall not include any payments on account of the DWSD Trustee Fee Claim or any other fees or expenses of the DWSD Trustee or its professionals.

impairment of any Existing DWSD Bond Claim; (ii) the alteration of the accounting treatment of DWSD's contributions to the GRS pension plan as set forth in Paragraph 24 of this Order or (iii) be inconsistent with this Order.

27. Reimbursement of Certain Professional Fees and Expenses. On the Settlement Date, the DWSD is authorized to and shall reimburse the professional fees and expenses of certain of the DWSD Settlement Parties incurred in connection with the Case, as follows: (i) to Assured, \$3,000,000; (ii) to the Ad Hoc Committee, \$1,200,000; (iii) to National, \$3,000,000 and (iv) to FGIC, \$550,000⁶. In addition, pursuant to the Assured Insurance Commitment, in the event that the City agrees, other than solely as a result of a court order or an arbitration award (i) to pay any of the DWSD Objecting Parties other than the DWSD Trustee an amount in excess of \$3 million for DWSD-related bankruptcy fees, costs and expenses or (ii) with respect to the DWSD Trustee, to establish a floor for DWSD-related bankruptcy fees, costs and expenses in excess of \$3 million, then DWSD shall be required to pay to Assured \$3 million plus such amount that is the greatest amount paid to any DWSD Objecting Party in excess of \$3 million. The City and the DWSD Trustee shall

⁶ The amounts set forth in (i)-(iv) do not contain any "success fees" for any DWSD creditor financial advisor. If any financial advisor for a non-settling bond insurer is paid a success fee, FGIC shall have the right to request the same treatment for its financial advisor. Additionally, the Fee Claim authorized to FGIC hereunder

resolve the DWSD Trustee Fee Claim in accordance with the DWSD Trustee Claim Arbitration as set forth in the Motion.

28. All Appropriate Actions. The City is authorized to execute, deliver, implement and fully perform any and all obligations, instruments, documents and papers, and to make all payments (including interest and fees, if any), and take any and all actions reasonably necessary or appropriate to consummate, complete, execute and implement the Settlement, and any actions taken heretofore in furtherance of these obligations are hereby ratified.

29. Order Controls (Settlement). Unless otherwise agreed by the Parties, to the extent of any inconsistency between (i) this Order, the Assured Insurance Commitment and the National Commitment, the terms of this Order shall govern and (ii) this Order, the Assured Insurance Commitment, the National Commitment, on the one hand, and any plan of adjustment confirmed in this chapter 9 case (other than a Specified Plan), on the other hand, the terms of this Order, the Assured Insurance Commitment and the National Commitment, as applicable, shall govern.

30. Survival. The provisions and effect of this Order, any actions taken pursuant to this Order or the Settlement and the DWSD Settlement Parties'

resolves only fees and expenses incurred through the end of June 2014 in connection with the Existing DWSD Bonds and does not include any other amounts.

respective rights, obligations, remedies and protections provided for herein shall survive the dismissal or closing of this chapter 9 case, or confirmation of a plan or plans of adjustment, and the terms and provision of this Order, the National Commitment and the Assured Insurance Commitment shall continue in full force and effect notwithstanding the entry of any such order.

31. Binding Effect of Order. This Order shall be immediately effective upon its entry. Immediately upon entry by this Court, the terms and provisions of this Order (including the Settlement) shall become valid and binding upon all parties in interest in this Case, including but not limited to, the City, the MFA, the Underwriter, the Direct Purchasers, the MFA Bondholders, the DWSD Settlement Parties, all other creditors of the City, the City's Emergency Manager, any committee appointed in the Case and all other parties in interest and their respective successors and assigns.

32. Continuing Jurisdiction. This Court shall retain continuing jurisdiction through the effective date of a plan of adjustment in this Case with respect to all matters related to or arising from this Order and the relief granted herein, the implementation of the Transaction Documents, including but not limited to compliance with the Additional Bonds Test and enforcement of the Rate Covenants required under the Ordinances, and implementation and enforcement of the terms agreed to under the Settlement.

33. Existing Bond Insurance Policies. Nothing in this Order impairs, modifies, affects or otherwise alters the rights of Bondholders or Bond Agents with respect to claims under applicable Bond Insurance Policies or against the Bond Insurers (as those terms are defined under the Plan).

Signed on August 25, 2014

/s/ Steven Rhodes
Steven Rhodes
United States Bankruptcy Judge

APPENDIX III
FORMS OF LEGAL OPINIONS

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FORM OF APPROVING OPINION OF BOND COUNSEL

_____, 2014

Michigan Finance Authority

As Bond Counsel to the Michigan Finance Authority (the “**Authority**”) we submit this opinion with respect to the issuance by the Authority of Local Government Loan Program Revenue Bonds, Series 2014D (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds) (the “**Bonds**”), being issued under the type and series designations set forth in the Official Statement for the Bonds. Capitalized terms used but not defined herein shall have the respective meanings assigned thereto in the Official Statement for the Bonds.

The Bonds are authorized to be issued pursuant to Executive Order 2010-2 and by Act No. 227, Public Acts of Michigan, 1985, as amended (the “**Act**”), and by an amended and restated bond resolution adopted by the Authority on May 15, 2014, and a supplemental resolution adopted by the Authority on August 12, 2014 (collectively, the “**Resolutions**”) and a Fourth Supplemental Indenture and a Fifth Supplemental Indenture each dated as of September 1, 2014 (the “**Supplemental Indentures**”) and each between the Authority and Wilmington Trust, National Association, as Trustee (the Supplemental Indentures collectively with the Resolutions, the “**Indenture**”).

The Bonds are being issued pursuant to the Act and the Resolutions to provide funding for the purchase of obligations (collectively, the “**Municipal Obligation**”) to be issued by the City of Detroit, County of Wayne, State of Michigan (the “**Governmental Unit**”) as set forth in the Indenture and to pay costs of issuance of the Bonds. The Bonds are subject to redemption prior to maturity as set forth in the Indenture and the Bonds.

We have examined the Constitution and statutes of the State of Michigan (the “**State**”), the Resolutions, the Supplemental Indentures, a specimen of a Bond and such other information, records and documents as we deem necessary, including a non-arbitrage and tax compliance certificate of the Authority, and based on such examination we are of the opinion under existing law that:

1. The Authority is an autonomous public body corporate and politic validly existing under the laws of the State of Michigan with the power to adopt the Resolutions and enter into the Supplemental Indentures.

2. The Resolutions have been duly adopted by the Authority and the Supplemental Indentures have been duly authorized and each constitute legal, valid and binding actions of the Authority in accordance with their terms.

3. The Bonds are valid and legally binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and accrued interest thereon solely from the security pledged therefor under the Indenture. The

Bonds are not a general obligation of the Authority. Neither the State nor any political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision of the State is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

4. The interest on the Bonds other than the Series 2014D-5 Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion in (a) above is subject to the condition that the Authority and the Governmental Unit comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds (other than the Series 2014D-5 Bonds) in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds (other than the Series 2014D-5 Bonds) to be included in gross income retroactive to the date of issuance of the Bonds (other than the Series 2015D-5 Bonds). The Authority has covenanted to comply with all such requirements to the extent permitted by law. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

5. The interest on the Series 2014D-5 Bonds is **included** in gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Series 2014D-5 Bonds and the interest thereon.

6. The Bonds and the interest thereon are exempt from all taxation of the State or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Bonds.

In rendering the foregoing opinion, no opinion is expressed as to the validity or enforceability of the Municipal Obligation, and we have, with your approval, relied upon the opinion of bond counsel to the Governmental Unit to the effect that interest on the Municipal Obligation is excluded from gross income for federal income tax purposes.

Enforceability of the Bonds and the Indenture may be subject to the application of general principles of equity including those related to equitable subordination, and to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Dickinson Wright PLLC

FORM OF OPINION OF ATTORNEY GENERAL

September ____, 2014

Michigan Finance Authority
Richard H. Austin Building
Lansing, Michigan 48909

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Finance Authority (the “Authority”) of bonds designated MICHIGAN FINANCE AUTHORITY LOCAL GOVERNMENT LOAN PROGRAM REVENUE BONDS, SERIES, 2014D (DETROIT WATER AND SEWERAGE DEPARTMENT WATER SUPPLY SYSTEM REVENUE REFUNDING LOCAL PROJECT BONDS), (the “Bonds”), to be issued under the type and series designations set forth in the Official Statement for the Bonds in the principal amount of \$_____.

(1) Executive Order 2010-2 of the Governor, which created the Authority and transferred the powers of the Michigan Municipal Bond Authority to it;

(2) the Shared Credit Rating Act, 1985 PA 227, as amended (the “Act”), which created the Michigan Municipal Bond Authority and empowered it to issue bonds;

(3) a certified copy of Resolution No. 2014-07 adopted by the Authority on May 15, 2014, as amended and supplemented, and a supplemental resolution adopted by the Authority on August 12, 2014, authorizing the issuance of the Bonds (the “Authorizing Resolutions”) and a Fourth Supplemental Indenture and a Fifth Supplemental Indenture each dated as of September 1, 2014 (the “Supplemental Indentures”) and each between the Authority and Wilmington Trust, National Association, as Trustee;

(4) a Non-Arbitrage and Tax Compliance Certificate of the Authority; and

(5) one Bond, as executed, or a specimen thereof;

The Bonds are being issued for the purpose of providing funds which will be used to purchase the obligations (collectively, the “Municipal Obligation”) of a governmental unit, the City of Detroit, County of Wayne, (the “Governmental Unit”), within the State of Michigan (the “State”), and to pay costs of issuance of the Bonds.

In rendering this opinion, no opinion is expressed as to the validity or enforceability of the Municipal Obligation and I have relied upon the opinion of

Dykema Gossett PLLC, bond counsel to the Governmental Unit, to the effect that interest on the Municipal Obligation is excluded from gross income for federal tax purposes and as to other matters set forth in that opinion.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Act.

2. The Authority has the power under the laws of the State to adopt the Resolutions. The Resolutions have been duly adopted by the Authority, are in full force and effect in the form adopted, the Supplemental Indentures have been duly authorized and the Authorizing Resolutions and Supplemental Indentures are valid and binding actions of the Authority.

3. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute a valid and binding limited obligation of the Authority enforceable in accordance with its terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Resolutions and the Supplemental Indentures, which security includes the Municipal Obligation.

4. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

5. The interest on the Bonds (other than the Series 2014D-5 Bonds) (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion in (a) above is subject to the condition that the Authority and the Governmental Unit comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds (other than the Series 2014D-5 Bonds) in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds (other than the Series 2014D-5 Bonds) to be

included in gross income retroactive to the date of issuance of the Bonds (other than the Series 2014D-5 Bonds). The Authority has covenanted to comply with all such requirements to the extent permitted by law. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Resolutions and the Supplemental Indentures may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or whether the facts, figures, or financial information or other statements made respecting the Governmental Unit or the State contained any untrue statement of material fact or omitted to state a material fact necessary in order to make those statements, in the light of the circumstances under which they were made, not misleading.

Sincerely,

BILL SCHUETTE
Attorney General

Assistant Attorney General

FORM OF APPROVING OPINION OF BOND COUNSEL TO THE DEPARTMENT

September 4, 2014

Detroit Water and Sewerage Department
City of Detroit
Detroit, Michigan 48226

U.S. Bank National Association, as Trustee

The City of Detroit, County of Wayne, State of Michigan (the “Issuer”), upon authorization from (i) the Board of Water Commissioners (the “Board of Water Commissioners”) of the Detroit Water and Sewerage Department (the “DWSD”) and (ii) Kevyn D. Orr, emergency manager of the City of Detroit, is issuing the following bonds in the following principal amounts (collectively, the “Bonds”):

<u>Principal Amount</u>	<u>Title of Bonds</u>
\$206,540,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A
\$188,455,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014B
\$62,700,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014C
\$307,645,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014D
\$9,270,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E
\$65,425,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014F
\$14,815,000	City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014G

We have acted as bond counsel to the Issuer in connection with the issuance of the Bonds. In such capacity, we have examined the law and the transcript of proceedings relating to the issuance of the Bonds and such other proceedings, opinions, certifications and documents as we have deemed necessary to render this opinion.

The Bonds are issued as one fully registered bond for each series, each bearing original issue date of September 4, 2014. The Bonds are payable as to principal and interest as provided

in the Bonds, subject to redemption prior to maturity in the manner, at the times and at the prices specified in the Bonds.

The Bonds are issued pursuant to (i) the provisions of Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”), (ii) Ordinance No. 30-02 as amended and restated, adopted by the City Council of Detroit on January 26, 2005, as thereafter amended (the “Bond Ordinance”), (iii) the Orders of the United States District Court in United States v. City of Detroit, et al., 77-71100, E.D. Michigan, (iv) the Resolution and Ordinance Authorizing the Issuance and Sale of Water Supply System Revenue Refunding Senior Lien Bonds of the City of Detroit, and/or Water Supply System Revenue Refunding Second Lien Bonds of the City of Detroit adopted by the Board of Water Commissioners on August 13, 2014 and approved by the emergency manager of the City of Detroit (the “Emergency Manager”) on August 16, 2014 (the “Bond Resolution”), (v) a Trust Indenture by and among the City of Detroit (the “City”), the DWSD and U.S. Bank National Association, as trustee (the “Trustee”) dated as of February 1, 2013, as amended (the “Indenture”), and (vi) a Sale Order of the Director of the DWSD dated August 27, 2014 and approved by the Emergency Manager on August 27, 2014 (the “Sale Order,” and, collectively with the Bond Ordinance, the Bond Resolution and the Indenture, the “Authorizing Documents”).

As to certain facts material to this opinion, we have relied upon the accuracy of representations of one or more officers or other employees of the City and the DWSD. In addition, we have assumed that communications of public officials and their assistants concerning the content of public files and records and actions taken by them in their public capacities are accurate, that all documents submitted to us as copies are true and correct copies of the originals thereof, and that all factual information submitted to us was accurate and complete.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The City is duly organized and validly existing as a city under the laws of the State of Michigan. The DWSD is a department of the City.

2. The Bond Resolution has been duly adopted by the Board of Water Commissioners. The Sale Order has been duly authorized by the Board of Water Commissioners and has been duly executed and delivered by the Director of the DWSD. The Bond Resolution and the Sale Order are in full force and effect. The Indenture has been duly authorized, executed and delivered by the City and the DWSD and, assuming due authorization, execution and delivery thereof by the parties thereto other than the City and the DWSD (as to which no opinion is expressed), is the valid and legally binding agreement of the City and the DWSD enforceable in accordance with its terms.

3. The Bonds have been duly authorized and executed by the Issuer and are valid and binding obligations of the Issuer, secured by and payable solely from the Net Revenues (as defined in the Indenture) as provided by the Authorizing Documents. The Bonds and the interest thereon do not constitute a debt of the State of Michigan or a general obligation of the Issuer or a pledge of the faith and credit of the State of Michigan or the Issuer.

4. Pursuant to Act 94, the Authorizing Documents create a valid statutory lien on Net Revenues as security for the Bonds, on a senior lien basis, parity lien basis or junior lien basis, with other bonds previously issued, currently being issued, and to be issued hereafter, as described in the Bonds.

5. Except for the Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E, the interest on the Bonds (a) is excludable from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion in (a) above is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds (other than for the Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E) in order that interest thereon be (or continue to be) excludable from gross income for federal and Michigan income tax purposes. The requirements include rebating certain earnings to the United States. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the Bonds (other than for the Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E) to be included in gross income retroactively to the date of issuance of the Bonds.

6. The Bonds and the interest thereon are exempt from all taxation by the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

7. The interest on the Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E is included in gross income for federal income tax purposes.

Except as stated in paragraphs 5, 6 and 7 above, we express no opinion regarding other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The rights or remedies of the owners of the Bonds and the enforceability of the Bonds may be affected by bankruptcy, insolvency, fraudulent transfer or other laws affecting creditors' rights and remedies generally, now existing or hereafter enacted, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases, including those equitable remedies relating to equitable subordination.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Sincerely,
DYKEMA GOSSETT PLLC

APPENDIX IV

FORMS OF CONTINUING DISCLOSURE UNDERTAKING

**Michigan Finance Authority
Local Government Loan Program
Revenue Bonds, Series 2014D
(Detroit Water and Sewerage Department Water Supply System
Revenue Refunding Local Project Bonds)**

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by the Michigan Finance Authority (the “Issuer”) in connection with the issuance of its Local Government Loan Program Revenue Bonds, Series 2014D (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds) (the “Bonds”). The Bonds are being issued pursuant to an amended and restated resolution adopted by the Board of Directors of the Issuer on May 15, 2014, as supplemented, by a supplemental resolution adopted by the Authority on August 12, 2014 (together “Resolution”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Undertaking. This Undertaking is being executed and delivered by the Issuer for the benefit of the Bondholders. The Issuer acknowledges that the State of Michigan (the “State”) has undertaken no responsibility with respect to any notices or disclosures provided or required under this Undertaking and has no liability to any person, including any Bondholders, with respect to any such notices or disclosures. The Issuer acknowledges that this Undertaking does not address the scope of any application of Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act to the notices of the Listed Events provided or required to be provided by the Issuer pursuant to this Undertaking.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Undertaking unless otherwise defined in this Undertaking, the following capitalized terms shall have the following meanings:

“Audited Financial Statements” means annual financial statements, if any, of a Material Obligated Person, audited by such auditor as shall then be required or permitted by State law, and prepared in accordance with GAAP applied on a consistent basis provided, however, that the Material Obligated Person may from time to time in accordance with GAAP and subject to applicable federal or State legal requirements modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to the MSRB.

“Bondholders” shall mean the registered owner of any Bond and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB. As of the date of this Undertaking, the EMMA Internet Web site address is <http://www.emma.msrb.org>.

“GAAP” means generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board and in effect from time to time.

“Listed Events” shall mean any of the events listed in Section 3(a) of this Undertaking.

“Material Obligated Person” shall mean a Governmental Unit meeting the objective criteria established by the Issuer as provided in Section 4 of this Undertaking.

“MSRB” shall mean the Municipal Securities Rulemaking Board. As of the date of this Undertaking, the address and telephone and telecopy numbers of the MSRB are as follows:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314
Tel: (703) 797-6600
Fax: (703) 797-6700

“1934 Act” shall mean the Securities Exchange Act of 1934, as amended.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the original offering of the Bonds.

“Rule” shall mean Rule 15c2-12 promulgated by the SEC pursuant to the 1934 Act, as the same may be amended.

“SEC” shall mean the United States Securities and Exchange Commission.

“Unaudited Financial Statements” means the same as Audited Financial Statements except that they shall not have been audited.

SECTION 3. Reporting of Significant Events.

(a) The Issuer agrees to provide, or cause to be provided, in a timely manner notice of the occurrence of any of the following events in a timely manner not in excess of ten (10) business days after the occurrence of the event and, in accordance with the Rule:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Bondholders, if material;
- (8) Bond calls, if material;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Tender offers;
- (13) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (14) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (15) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws. The Issuer covenants that its determination of materiality will be made in conformance with federal securities laws.

(c) If the Issuer determines that (i) a Listed Event described in subsection (a)(1), (3), (4), (5), (6), (9), (11), (12) or (13) has occurred or (ii) the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15) would be material under applicable federal securities laws, the Issuer shall cause a notice of such occurrence to be filed with the MSRB within ten (10) business days of the occurrence of the Listed Event. In connection with providing a notice of the occurrence of a Listed Event described in subsection (a)(9), the Issuer shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

SECTION 4. Obligated Persons.

(a) The Issuer hereby determines that for bonds issued under the Resolution as Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds that the City of Detroit, County of Wayne, State of Michigan (the “City”) is a Material Obligated Person.

(b) The Issuer agrees for the benefit of the Bondholders that it shall cause the City to enter into an undertaking to disclose information with respect to the City and the Municipal Obligations issued by the City and acquired by the Issuer with proceeds of the Bonds.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Undertaking shall terminate upon the legal defeasance of the Bonds or upon the payment in full of all of the Bonds. Notwithstanding the foregoing, (i) if the Rule shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder and the Issuer has received an opinion of legal counsel experienced in the area of federal securities law to that effect, then such information shall no longer be required to be provided hereunder, and (ii) if and to the extent the Rule or any provision thereof shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of the Rule so declared, shall no longer be required to be provided hereunder.

SECTION 6. Mandatory Electronic Filing with EMMA. All filings with the MSRB under this Undertaking shall be made by electronically transmitting such filings through the EMMA Dataport at <http://www.emma.msrb.org> as provided by the amendments to the Rule adopted by the SEC in Securities Exchange Act Release No. 59062 on December 5, 2008.

SECTION 7. Dissemination Agent. The Executive Director on behalf of the Issuer, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment. Notwithstanding any other provision of this Undertaking, this Undertaking may be amended, without the consent of any Bondholder, if the Issuer receives an opinion of legal counsel experienced in the area of federal securities law to the effect that:

(i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Issuer, or types of activities in which the Issuer or the State is engaged;

(ii) this Undertaking, as so amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) such amendment does not materially impair the interests of the Bondholders.

SECTION 9. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 10. Failure to Comply. In the event of a failure of the Issuer to comply with any provision of this Undertaking, any Bondholder may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Undertaking. A failure to comply with this Undertaking shall not be deemed an Event of Default under the Resolution. The sole remedy under this Undertaking in the event of any failure of the Issuer comply with this Undertaking shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Undertaking.

SECTION 12. Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter, and the Bondholders, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. To the extent not governed by federal law, this Undertaking shall be governed by the law of the State.

MICHIGAN FINANCE AUTHORITY

Dated: _____, 2014

By: _____
Authorized Officer

**CITY OF DETROIT,
COUNTY OF WAYNE, STATE OF MICHIGAN
CONTINUING DISCLOSURE UNDERTAKING**

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by the City of Detroit, County of Wayne, State of Michigan (the “Governmental Unit”) in connection with bonds issued by the Governmental Unit (the “Local Project Municipal Obligations”) and purchased with funds from the Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014D (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds), of the Type designated Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds by the Michigan Finance Authority (the “MFA”). The Governmental Unit covenants and agrees as follows:

Section 1. Purpose of the Undertaking.

(a) This Undertaking is being executed and delivered by the Governmental Unit for the benefit of the Bondholders and the Beneficial Owners and in order to assist the Participating Underwriter in complying with subsection (b)(5) of the Rule.

(b) In consideration of the purchase and acceptance of any and all of the MFA Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Undertaking shall be deemed to be and shall constitute a contract between the Governmental Unit and the Bondholders and Beneficial Owners from time to time of the MFA Bonds, and the covenants and agreements herein set forth to be performed on behalf of the Governmental Unit shall be for the benefit of the Bondholders and Beneficial Owners of any and all of the MFA Bonds.

Section 2. Definitions. The following capitalized terms shall have the following meanings:

“1934 Act” shall mean the Securities Exchange Act of 1934, as amended.

“Annual Report” shall mean any Annual Report of the Governmental Unit provided by the Governmental Unit pursuant to, and as described in, Sections 3 and 4 of this Undertaking.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any MFA Bonds (including any person holding MFA Bonds through nominees, depositories or other intermediaries).

“Bondholder” shall mean the MFA and the registered owner of any MFA Bonds.

“Dissemination Agent” shall mean the Governmental Unit or any successor Dissemination Agent appointed in writing by the Governmental Unit and which has filed with the Governmental Unit a written acceptance of such appointment. In order to provide continuing disclosure with respect to the MFA Bonds in accordance with the Rule in connection with the issuance of the MFA Bonds, the City will enter into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) for the benefit of the Bondholders with Digital Assurance Certification, L.L.C. (“DAC”), under which the City has designated DAC as Disclosure Dissemination Agent.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB. As of the date of this Undertaking, the EMMA Internet Web site address is <http://www.emma.msrb.org>.

“GAAP” shall mean generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Governmental Accounting Standards Board and in effect from time to time.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Undertaking.

“MFA Bond” means any bond issued by the MFA which is secured in whole or in part by payments to be received on the Local Project Municipal Obligations.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the 1934 Act. As of the date of this Undertaking, the address and telephone and telecopy numbers of the MSRB are as follows:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314
Tel: (703) 797-6600
Fax: (703) 797-6700

“Official Statement” shall mean the final Official Statement for the MFA Bonds dated _____, 2014.

“Participating Underwriter” shall mean any of the original underwriters of the MFA Bonds required to comply with the Rule in connection with the primary offering of the MFA Bonds.

“Rule” shall mean Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) promulgated by the SEC pursuant to the 1934 Act, as the same may be amended from time to time, together with all interpretive guidances or other official interpretations or explanations thereof that are promulgated by the SEC.

“SEC” shall mean the United States Securities and Exchange Commission.

“Securities Counsel” shall mean legal counsel expert in federal securities law.

“State” shall mean the State of Michigan.

Section 3. Provision of Annual Reports.

(a) Each year, the Governmental Unit shall provide, or shall cause the Dissemination Agent to provide, not later than 270 days after the last day of the Governmental Unit’s fiscal year, commencing with the Governmental Unit’s Annual Report for its fiscal year ended June 30, 2014, to the MSRB an Annual Report for the preceding fiscal year which is consistent with the requirements of Section 4 of this Undertaking. Not later than 15 business days (or such lesser number of days as is acceptable to the Dissemination Agent) prior to said date, the Governmental Unit shall provide the Annual Report to the Dissemination Agent (if other than the Governmental Unit). Currently, the Governmental Unit’s fiscal year commences on July 1. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information as provided in Section 4 of this Undertaking; provided, however, that if the audited financial statements of the Governmental Unit

are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements in a format similar to the audited financial statements then most recently prepared for the Governmental Unit shall be included in the Annual Report.

(b) If the Governmental Unit is unable to provide to the MSRB an Annual Report of the Governmental Unit by the date required in subsection (a), the Governmental Unit shall file a notice, in a timely fashion, with the MSRB, in substantially the form attached as Exhibit A.

(c) If the Governmental Unit's fiscal year changes, the Governmental Unit shall file written notice of such change with the MSRB, in substantially the form attached as Exhibit B.

(d) Whenever any Annual Report or portion thereof is filed as described above, it shall be attached to a cover sheet in substantially the form attached as Exhibit C.

(e) If the Dissemination Agent is other than the Governmental Unit, the Dissemination Agent shall file a report with the Governmental Unit certifying that the Annual Report has been provided pursuant to this Undertaking, stating the date it was provided.

(f) In connection with providing the Annual Report, the Dissemination Agent (if other than the Governmental Unit) is not obligated or responsible under this Undertaking to determine the sufficiency of the content of the Annual Report for purposes of the Rule or any other state or federal securities law, rule, regulation or administrative order.

Section 4. Content of Annual Reports. The Governmental Unit's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Governmental Unit for its fiscal year immediately preceding the due date of the Annual Report.

(b) An update of the financial information and data contained in the tables under the headings: "THE WATER SUPPLY SYSTEM," "DEPARTMENT FINANCIAL PROCEDURES" (excluding the rate comparison information), "DEPARTMENT FINANCIAL OPERATIONS" (excluding any projections included therein) and "PENSION PLAN CONTRIBUTIONS," together with Audited Financial Statements, appearing in the Official Statement.

The Governmental Unit's financial statements shall be audited and prepared in accordance with GAAP with such changes as may be required from time to time in accordance with State law.

Any or all of the items listed above may be included by specific reference to other documents available to the public on the MSRB's Internet Web site or filed with the SEC. The Governmental Unit shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The Governmental Unit covenants to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Local Project Municipal Obligations in a timely manner not in excess of ten (10) business days after the occurrence of the event and in accordance with the Rule:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Local Project Municipal Obligations, or other material events affecting the tax status of the Local Project Municipal Obligations;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Local Project Municipal Obligations, if material;
- (11) Rating changes;
- (12) Tender offers;
- (13) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (14) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (15) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Governmental Unit obtains knowledge of the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15), the Governmental Unit shall as soon as possible determine if such Listed Event would be material under applicable federal securities laws. The Governmental Unit covenants that its determination of materiality will be made in conformance with federal securities laws.

(c) If the Governmental Unit determines that (i) a Listed Event described in subsection (a)(1), (3), (4), (5), (6), (9), (11), (12) or (13) has occurred or (ii) the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15) would be material under applicable federal securities laws, the Governmental Unit shall cause a notice of such occurrence to be filed with the MSRB within ten (10) business days of the occurrence of the Listed Event, together with a cover sheet in substantially the form attached as Exhibit D. In connection with providing a notice of the occurrence of a Listed Event described in subsection (a)(9), the Governmental Unit shall include in the notice explicit disclosure as to whether the Local Project Municipal Obligations have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) In connection with providing a notice of the occurrence of a Listed Event, the Dissemination Agent (if other than the Governmental Unit), solely in its capacity as such, is not obligated or responsible under this Undertaking to determine the sufficiency of the content of the notice for purposes of the Rule or any other state or federal securities law, rule, regulation or administrative order.

(e) The Governmental Unit acknowledges that the “rating changes” referred to in subsection (a)(11) above may include, without limitation, any change in any rating on the Local Project Municipal Obligations or other indebtedness for which the Governmental Unit is liable.

(f) The Governmental Unit acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the MFA Bonds, the Governmental Unit does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

Section 6. Mandatory Electronic Filing with EMMA.

All filings with the MSRB under this Undertaking shall be made by electronically transmitting such filings through the EMMA Dataport at <http://www.emma.msrb.org> as provided by the amendments to the Rule adopted by the SEC in Securities Exchange Act Release No. 59062 on December 5, 2008.

Section 7. Termination of Reporting Obligation.

(a) The Governmental Unit’s obligations under this Undertaking shall terminate if and when the Governmental Unit is no longer an “obligated person” with respect to the MFA Bonds within the meaning of the Rule, including upon the legal defeasance or the prior redemption or payment in full of all of the MFA Bonds. If the Governmental Unit’s obligation to pay the principal of and interest on the Local Project Municipal Obligations is assumed in full by some other entity, such entity shall be responsible for compliance with this Undertaking in the same manner as if it were the Governmental Unit, and the Governmental Unit shall have no further responsibility hereunder.

(b) This Undertaking, or any provision hereof, shall be null and void in the event that the Governmental Unit (i) receives an opinion of Securities Counsel, addressed to the Governmental Unit, to the effect that those portions of the Rule, which require such provisions of this Undertaking, do not or no longer apply to the MFA Bonds, whether because such portions of the Rule are invalid,

have been repealed, amended or modified, or are otherwise deemed to be inapplicable to the MFA Bonds, as shall be specified in such opinion, and (ii) files notice to such effect with the MSRB.

Section 8. Dissemination Agent. The Governmental Unit, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. Except as otherwise provided in this Undertaking, the Dissemination Agent (if other than the Governmental Unit) shall not be responsible in any manner for the content of any notice or report prepared by the Governmental Unit pursuant to this Undertaking.

Section 9. Amendment; Waiver.

(a) Notwithstanding any other provision of this Undertaking, this Undertaking may be amended, and any provision of this Undertaking may be waived, provided that the following conditions are satisfied:

(i) if the amendment or waiver relates to the provisions of Section 3(a), (b), (c), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Governmental Unit, or type of business conducted by the Governmental Unit;

(ii) this Undertaking, as so amended or taking into account such waiver, would, in the opinion of Securities Counsel, have complied with the requirements of the Rule at the time of the original issuance of the MFA Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders.

(b) In the event of any amendment to, or waiver of a provision of, this Undertaking, the Governmental Unit shall describe such amendment or waiver in the next Annual Report and shall include an explanation of the reason for such amendment or waiver. In particular, if the amendment results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Undertaking, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

(c) If the amendment results in a change to the accounting principles to be followed in preparing financial statements as set forth in Section 4 of this Undertaking, the Annual Report for the year in which the change is made shall include a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in

accounting principles shall be filed by the Governmental Unit or the Dissemination Agent (if other than the Governmental Unit) at the written direction of the Governmental Unit with the MSRB.

Section 10. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Governmental Unit from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Governmental Unit chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Governmental Unit shall have no obligation under this Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Failure to Comply. In the event of a failure of the Governmental Unit or the Dissemination Agent (if other than the Governmental Unit) to comply with any provision of this Undertaking, any Bondholder or Beneficial Owner may bring an action to obtain specific performance of the obligations of the Governmental Unit or the Dissemination Agent (if other than the Governmental Unit) under this Undertaking, but no person or entity shall be entitled to recover monetary damages hereunder under any circumstances, and any failure to comply with the obligations under this Undertaking shall not constitute a default with respect to the MFA Bonds. Notwithstanding the foregoing, if the alleged failure of the Governmental Unit to comply with this Undertaking is the inadequacy of the information disclosed pursuant hereto, then the Bondholders and the Beneficial Owners (on whose behalf a Bondholder has not acted with respect to this alleged failure) of not less than a majority of the aggregate principal amount of the then outstanding MFA Bonds must take the actions described above before the Governmental Unit shall be compelled to perform with respect to the adequacy of such information disclosed pursuant to this Undertaking.

Section 12. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Undertaking.

Section 13. Beneficiaries. This Undertaking shall inure solely to the benefit of the Governmental Unit, the Dissemination Agent, the Participating Underwriter, the Bondholders and the Beneficial Owners, and shall create no rights in any other person or entity.

Section 14. Transmission of Information and Notices. Unless otherwise required by law or this Undertaking, and, in the sole determination of the Governmental Unit or the Dissemination Agent, as applicable, subject to technical and economic feasibility, the Governmental Unit or the Dissemination Agent, as applicable, shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of such information and notices.

Section 15. Additional Disclosure Obligations. The Governmental Unit acknowledges and understands that other State and federal laws, including, without limitation, the Securities Act of 1933, as amended, and Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act, may apply to the Governmental Unit, and that under some circumstances, compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of the Governmental Unit under such laws.

Section 16. Governing Law. This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall

be instituted in a court of competent jurisdiction in the State. Notwithstanding the foregoing, to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed and interpreted in accordance with such federal securities laws and official interpretations thereof.

**CITY OF DETROIT, COUNTY OF WAYNE,
STATE OF MICHIGAN**

By:_____

Its: Finance Director, City of Detroit

By:_____

Its: Director, Detroit Water and Sewerage
Department

Dated: _____, 2014

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: City of Detroit, County of Wayne, State of Michigan (the “City”)

Name of Bond Issue: \$_____ Michigan Finance Authority Local Government Loan
Program Revenue Bonds, Series 2014D (Detroit Water and
Sewerage Department Water Supply System Revenue Refunding
Local Project Bonds)

Date of Bonds: _____, 2014

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Undertaking with respect to the Bonds. The City anticipates that the Annual Report will be filed by .
_____.

**CITY OF DETROIT, COUNTY OF WAYNE,
STATE OF MICHIGAN**

By: _____
Its _____

Dated: _____

EXHIBIT B

NOTICE OF CHANGE IN CITY'S FISCAL YEAR

Name of Obligated Person: City of Detroit, County of Wayne, State of Michigan (the "City")

Name of Bond Issue: \$_____ Michigan Finance Authority Local Government Loan
Program Revenue Bonds, Series 2014D (Detroit Water and
Sewerage Department Water Supply System Revenue Refunding
Local Project Bonds)

Date of Bonds: _____, 2014

NOTICE IS HEREBY GIVEN that the City's fiscal year has changed. Previously, the
City's fiscal year ended on _____. It now ends on _____.

**CITY OF DETROIT, COUNTY OF WAYNE,
STATE OF MICHIGAN**

By: _____
Its _____

Dated: _____

EXHIBIT C

ANNUAL REPORT COVER SHEET

This cover sheet and the attached Annual Report or portion thereof should be filed electronically with the Municipal Securities Rulemaking Board through the EMMA Dataport at <http://www.emma.msrb.org> pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(A) and (B).

Obligated Person's Name: City of Detroit, County of Wayne, State of Michigan

Obligated Person's Six-Digit CUSIP Number(s): _____

or Nine-Digit CUSIP Number(s) to which the attached Annual Report relates: _____

Number of pages of the attached Annual Report or portion thereof: _____

Name of Bond Issue to which the attached Annual Report relates: \$ _____
Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014D
(Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project
Bonds)

Date of such Bonds: _____

I hereby represent that I am authorized by the Obligated Person or its agent to distribute this information publicly:

Signature: _____

Name: _____

Title: _____

Employer: _____

Address: _____

City, State, Zip Code: _____

Voice Telephone Number: _____

EXHIBIT D

EVENT NOTICE COVER SHEET

This cover sheet and the attached Event Notice should be filed electronically with the Municipal Securities Rulemaking Board through the EMMA Dataport at <http://www.emma.msrb.org> pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name: City of Detroit, County of Wayne, State of Michigan
Issuer's and/or Other Obligated Person's Six-Digit CUSIP Number(s): _____

or Nine-Digit CUSIP Number(s) to which the attached Event Notice relates: _____

Number of pages of the attached Event Notice: _____

Description of the attached Event Notice (Check One):

- | | | |
|-----|-------|--|
| 1. | _____ | Principal and interest payment delinquencies |
| 2. | _____ | Non-Payment related defaults |
| 3. | _____ | Unscheduled draws on debt service reserves reflecting financial difficulties |
| 4. | _____ | Unscheduled draws on credit enhancements reflecting financial difficulties |
| 5. | _____ | Substitution of credit or liquidity providers, or their failure to perform |
| 6. | _____ | Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security |
| 7. | _____ | Modifications to rights of securities holders |
| 8. | _____ | Bond calls |
| 9. | _____ | Defeasances |
| 10. | _____ | Release, substitution, or sale of property securing repayment of the securities |
| 11. | _____ | Rating changes |
| 12. | _____ | Tender offers |
| 13. | _____ | Bankruptcy, insolvency, receivership or similar event of an obligated person |
| 14. | _____ | The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms |
| 15. | _____ | Appointment of a successor or additional trustee, or the change of name of a trustee |
| 16. | _____ | Failure to provide annual financial information as required |
| 17. | _____ | Other material event notice (specify) _____ |

I hereby represent that I am authorized by the Obligated Person or its agent to distribute this information publicly:

Signature: _____
Name: _____ Title: _____
Employer: _____
Address: _____
City, State, Zip Code: _____
Voice Telephone Number: _____

Please format the Event Notice attached to this cover sheet in 10 point type or larger. Contact the MSRB at (202) 223-9503 with questions regarding this form or the dissemination of this notice.

APPENDIX V

BOOK-ENTRY ONLY SYSTEM

Book-Entry-Only System

The information in this Appendix “Book-Entry-Only System” has been furnished by The Depository Trust Company (“DTC”). No representation is made by the Authority, the State, the Trustee or the Underwriters as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Authority, the State, the Trustee or the Underwriters to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Authority, the State nor the Trustee will have any responsibility or obligation to DTC Direct Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Series 2014D Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC will act as securities depository for the Series 2014D Bonds. The Series 2014D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each Type of the Series 2014D Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2014D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014D Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Series 2014D Bonds, except in the event that use of the book-entry system for the Series 2014D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014D Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014D Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014D Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2014D Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014D Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Series 2014D Bonds may wish to ascertain that the nominee holding the Series 2014D Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2014D Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014D Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participant's accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2014D Bonds at any time by giving reasonable notice to the Authority or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2014D Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2014D Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the Underwriters take any responsibility for the accuracy thereof. The Authority and the Underwriters cannot and do not give any assurances that DTC, the Direct and Indirect Participants or others will distribute payments of principal and interest with respect to the Series 2014D Bonds paid to Cede & Co. or another DTC nominee as the Owner, or will distribute any redemption or other notices to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority and the Underwriters are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2014D Bonds or an error or delay relating thereto.

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APPENDIX VI

SPECIMEN AGM MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

APPENDIX VII

SPECIMEN NATIONAL FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY
National Public Finance Guarantee Corporation
Armonk, New York 10504

Policy No. [POLICY #]

National Public Finance Guarantee Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT], [PAYING AGENT CITY & STATE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR AMOUNT]
[FIRST LINE OF LEGAL TITLE]
[SECOND LINE OF LEGAL TITLE]
[THIRD LINE OF LEGAL TITLE]
[FOURTH LINE OF LEGAL TITLE]

Upon receipt of telephonic or electronic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH], [YEAR].

**National Public Finance
Guarantee Corporation**

President

Attest:

Secretary

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MICHIGAN FINANCE AUTHORITY • LOCAL GOVERNMENT LOAN PROGRAM REVENUE BONDS, SERIES 2014D
(DETROIT WATER AND SEWERAGE DEPARTMENT WATER SUPPLY SYSTEM REVENUE REFUNDING LOCAL PROJECT BONDS)



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