

M. Natasha Labovitz
My Chi To
DEBEVOISE & PLIMPTON LLP
919 Third Avenue
New York, New York 10022
(212) 909-6000

Attorneys for Berkshire Hathaway Assurance Corporation

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN**

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

**BERKSHIRE HATHAWAY ASSURANCE CORPORATION'S
NOTICE OF ASSERTED RIGHT TO VOTE CLAIMS**

PLEASE TAKE NOTICE that, pursuant to this Court's Order (I) Establishing Procedures for Solicitation and Tabulation of Votes to Accept or Reject Plan of Adjustment and (II) Approving Notice Procedures Related to Confirmation of the Plan of Adjustment [Docket No. 2984] and Fourth Amended Order Establishing Procedures, Deadlines and Hearing Dates Relating to the Debtor's Plan of Adjustment [Docket No. 4202], Berkshire Hathaway Assurance Corporation ("BHAC") hereby asserts its right to vote on (and make distribution elections under) the Fourth Amended Plan for the Adjustment of Debts of the City of Detroit [Docket No. 4392] with respect to all claims in Classes 1A-5 to 1A-21 (DWSD Water Bond Series 2001-C), 1A-96 to 1A-113 (DWSD Water Bond Series 2005-B) and 1A-243 (DWSD Sewer Bond Series 2001-E), for the reasons set forth in the brief in support of this notice filed concurrently herewith.



Dated: New York, New York
May 23, 2014

Respectfully submitted,

/s/ My Chi To

DEBEVOISE & PLIMPTON LLP

M. Natasha Labovitz
My Chi To
919 Third Avenue
New York, New York 10022
Telephone: (212) 909-6000
Facsimile: (212) 909-6836
nlabovitz@debevoise.com
mcto@debevoise.com

*Attorneys for Berkshire Hathaway
Assurance Corporation*

M. Natasha Labovitz
My Chi To
DEBEVOISE & PLIMPTON LLP
919 Third Avenue
New York, New York 10022
(212) 909-6000

Attorneys for Berkshire Hathaway Assurance Corporation

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN**

<hr/>)	Chapter 9
In re:)	
)	
CITY OF DETROIT, MICHIGAN,)	Case No. 13-53846
)	
Debtor.)	Hon. Steven W. Rhodes
<hr/>		

**BRIEF IN SUPPORT OF BERKSHIRE HATHAWAY ASSURANCE
CORPORATION'S NOTICE OF ASSERTED RIGHT TO VOTE CLAIMS**

TABLE OF CONTENTS

PRELIMINARY STATEMENT 1

FACTUAL BACKGROUND..... 4

 I. Insurers’ Control And Consent Rights Under Bond Documentation 4

 A. Overview Of Insurers’ Relative Rights 4

 B. BHAC’s Control And Consent Rights 5

 C. FGIC’s Control And Consent Rights, Subject To A FGIC
 Default..... 6

 II. Procedural Background..... 10

ARGUMENT 11

 I. The Bond Documentation Clearly Provides That The Insurer Of
 The FGIC/BHAC Insured Bonds Is The Holder For Purposes of
 Voting on The Detroit Plan..... 12

 II. Because FGIC Is Insolvent And Will Not Honor Its Obligations As
 A Bond Insurer, BHAC Is The Holder Of The FGIC/BHAC
 Insured Bonds Entitled To Vote. 15

 III. Neither The Nominal Holders Of The FGIC/BHAC Insured Bonds
 Nor FGIC Should Be Entitled To Vote Those Bonds Without
 BHAC’s Prior Written Consent. 18

TABLE OF AUTHORITIES

CASES

Gen. Star Nat. Ins. Co. v. Boudreau, No. 287456, 2010 WL 143475 (Mich. App. Jan. 14, 2010).....18

In re Aereosol Packaging LLC, 362 B.R. 43 (Bankr N.D. Ga. 2006)14

In re Am. Rds. LLC, 496 B.R. 727 (Bankr. S.D.N.Y. 2013).....13, 14, 20

In re Erickson Ret. Cmtys., 425 B.R. 309 (Bankr. N.D. Tex. 2010).....14

In re GSC, Inc., 453 B.R. 132 (Bankr. S.D.N.Y. 2011).....14

In re Ion Media Networks, 419 B.R. 585 (Bankr. S.D.N.Y. 2009).....14

Schroeder v. Terra Energy, 223 Mich. App. 176 (Mich. App. 1997)18

STATUTES

11 U.S.C. § 101.....3

11 U.S.C. § 901.....11

11 U.S.C. § 1126.....3, 5, 11, 15, 18

N.Y. Ins. Law Art. 742

OTHER AUTHORITIES

Black’s Law Dictionary19

Berkshire Hathaway Assurance Corporation (“BHAC”), by and through its undersigned counsel, hereby files this brief in support of its Notice of Asserted Right to Vote Claims filed concurrently herewith. BHAC respectfully submits as follows:

PRELIMINARY STATEMENT

1. BHAC is an insurer of the payment when due of regularly scheduled principal and interest payments for DWSD Water Bonds Series 2001-C and 2005-B and DWSD Sewer Bonds Series 2001(E)¹ in an aggregate principal amount of approximately \$510 million, subject to the failure of the prior insurer, Financial Guaranty Insurance Company (“FGIC”), to make these payments under the applicable primary policies (the “FGIC/BHAC Insured Bonds”). As described in detail below, it is certain that FGIC will fail to make the payments it contracted to make.

2. BHAC also is an insurer for DWSD Sewer Bonds Series 2001-C(2) and 2006-A in an aggregate principal amount of approximately \$245 million, for which National Public Finance Guarantee Corporation (“National”) is the prior insurer. Unlike FGIC, National is a solvent insurer that is honoring its policy claims in the ordinary course of business. For this reason and the reasons set forth in National’s brief in support of its notice of asserted voting rights, and without prejudice to BHAC’s right to assert that it is the holder of (or is otherwise entitled to vote on behalf of) any other bonds,

¹ The Fourth Amended Plan for the Adjustment of Debts of the City of Detroit [Docket No. 4392] (the “Detroit Plan”) classifies these bonds in Classes 1A-5 to 1A-21 (DWSD Water Bond Series 2001-C), 1A-96 to 1A-113 (DWSD Water Bond Series 2005-B), and 1A-243 (DWSD Sewer Bond Series 2001-E). See Detroit Plan Ex. I.A.110. Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Detroit Plan.

BHAC agrees that National is the holder entitled to vote on behalf of those bonds in this chapter 9 case.²

3. In contrast to National, FGIC is not a solvent insurer and will not perform its obligations under the primary policies insuring the FGIC/BHAC Insured Bonds. In June 2012, apparently as a result of the 2008 financial crisis, FGIC was put into a rehabilitation proceeding by its insurance regulator under article 74 of the New York Insurance Law. A year later, the court with jurisdiction over FGIC's rehabilitation proceeding approved the First Amended Plan of Rehabilitation of Financial Guaranty Insurance Company, *In re Fin. Guar. Ins. Co.*, No. 401265/2012 (N.Y. Sup. Ct. June 4, 2013) (available at <http://www.fgic.com/policyholderinfocenter/>) (the "FGIC Plan"), and that plan became effective and binding on FGIC in August 2013. Under the FGIC Plan, FGIC is currently limited to paying 17 cents on the dollar on any policy claims.³ Thus, FGIC is *today* an insolvent insurer, whose regulator, together with the court having jurisdiction over its rehabilitation proceeding, restricts it from fully and timely meeting its policy obligations as they become due.

4. With respect to the FGIC/BHAC Insured Bonds, this means that the nominal holders of those bonds will turn to BHAC for payment of any shortfall in interest and principal payments if and when the City of Detroit (the "City") and FGIC fail to honor their respective obligations. This is not a hypothetical scenario: it has already

² The Detroit Plan classifies those bonds in Classes 1A-233, 1A-234, 1A-235, 1A-236, 1A-237, 1A-238, 1A-239, 1A-240 and 1A-241 (DWSD Sewer Bond Series 2001-C(2)), and 1A-306 (DWSD Sewer Bond Series 2006-A).

³ FGIC Plan, Ex. B (Restructured Policy Terms) at § 1.1.A; Notice of Effective Date and Initial CPP, *In re Fin. Guar. Ins. Co.*, No. 401265/2012 (N.Y. Sup. Ct. Aug. 19, 2013) (available at <http://www.fgic.com/policyholderinfocenter/>) ("FGIC Notice of Effective Date").

occurred with respect to certain other bonds insured by both FGIC and BHAC. Specifically, as a result of the City's failure to pay interest on the Detroit Retirement Systems Funding Trust 2006 Certificates of Participation Series 2006-A ("2006-A COPs") and FGIC's court-mandated failure (consistent with the FGIC Plan) to honor its obligations as insurer of those securities, BHAC has already had to make two payments under a policy insuring approximately \$10 million of those securities.

5. It is certain, therefore, that if the City defaults under the FGIC/BHAC Insured Bonds, FGIC will pay only pennies on the dollar on any related policy claims asserted against it, and BHAC will be required to make up the shortfall for nominal holders of those bonds in accordance with the terms of its policies. For this reason, BHAC is the economic party in interest with respect to claims under the FGIC/BHAC Insured Bonds, and should be entitled to vote as the exclusive "holder" of those bonds under sections 1126(a) and 1126(c) of the United States Bankruptcy Code, 11 U.S.C. § 101, *et seq.* (the "Bankruptcy Code").⁴

6. The documentation for the FGIC/BHAC Insured Bonds is entirely consistent with the logical and equitable result that BHAC is the "holder" entitled to vote. The bond documentation unequivocally provides that FGIC is, under the applicable ordinances, the "holder" of those bonds for all enforcement and amendment purposes—which include voting rights in bankruptcy—but only so long as FGIC is in compliance with its payment obligations under the applicable policies. If FGIC fails to comply with its obligations, the documentation makes equally clear that BHAC becomes the

⁴ BHAC's asserted right to vote on the Detroit Plan with respect to the FGIC/BHAC Insured Bonds includes the right to make distribution elections under the Detroit Plan for the bonds.

designated “holder” entitled to assert those same voting rights and other remedies under the applicable ordinances.

7. The meaning and intent of the bond documentation is to treat BHAC as the holder of the bonds if and when FGIC defaults, which FGIC is certain to do. This Court should give effect to the clear terms of the bond documentation.

FACTUAL BACKGROUND

I. Insurers’ Control And Consent Rights Under Bond Documentation

A. Overview Of Insurers’ Relative Rights

8. FGIC issued financial guaranty insurance policies for the benefit of holders of the FGIC/BHAC Insured Bonds in connection with the original issuance of the bonds in 2001 and 2005. In 2008, at the time of the financial crisis, the bonds were remarketed. In that remarketing, FGIC’s policies remained in effect and BHAC—even then perceived as a more financially stable insurer than FGIC—issued additional financial guaranty insurance policies for the benefit of the same bondholders. Both the FGIC policies and the BHAC policies guarantee the scheduled payment when due of the principal of and interest on the FGIC/BHAC Insured Bonds, but BHAC’s obligations stand behind those of FGIC: only if FGIC fails to meet its obligations is BHAC required to make any payment.

9. This remarketing transaction, a product of the 2008 financial crisis, was without precedent in the municipal finance market at the time. In a typical secondary insurance arrangement, an individual bondholder purchases additional insurance protection for its insured bonds behind the scene, without the participation or even knowledge of the bond issuer or primary insurer. By contrast, the remarketing of the

FGIC/BHAC Insured Bonds was done as part of a complex, negotiated transaction in which FGIC, the City and the applicable bond trustees all participated and consented. As a condition to issuing its policies, BHAC negotiated and obtained, directly from the City and the applicable bond trustees as part of the documentation for the remarketed bonds, broad control and consent rights. Under the remarketing deal, so long as FGIC continued performing its obligations under its policies, FGIC would continue to enjoy the broad control and consent rights granted to it when the bonds were originally issued. Upon a FGIC default, however, those control and consent rights shift to BHAC together with the economic risk of loss.

B. BHAC's Control And Consent Rights

10. The documentation for the FGIC/BHAC Insured Bonds provides that BHAC is a "holder" of the FGIC/BHAC Insured Bonds for all purposes (other than receiving notices of default) under the applicable ordinances, including voting rights under Bankruptcy Code section 1126(a).⁵ See To Decl. Ex. 1 (BHAC Sewer

⁵ BHAC's rights under the FGIC/BHAC Insured Bonds are found in two substantially identical supplements to the prior sale orders for these bonds. Declaration of My Chi To in Support of Berkshire Hathaway Assurance Corporation's Notice of Asserted Right to Vote Claims, dated May 23, 2014, filed concurrently herewith ("To Decl.") Ex. 1 (Supplement to Prior Sale Orders of Finance Director of the City of Detroit with respect to \$122,905,000 Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate) Series 2001(C-2), \$136,150,000 Sewage Disposal System Second Lien Revenue Bonds (Modal Fixed Rate) Series 2001(E) and \$123,655,000 Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate) Series 2006(A), dated May 1, 2008) ("BHAC Sewer Supplement") at Ex. A (Additional Bond Insurer Requirements Berkshire Hathaway Assurance Corporation) ("BHAC Requirements"); *id.* Ex. 2 (Supplement to Prior Sale Orders of Finance Director of the City of Detroit with respect to \$190,405,000 City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C and \$194,900,000 Water Supply System Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B, dated May 6, 2008) ("BHAC Water Supplement") at Ex. A (BHAC Requirements).

Supplement) at Ex. A (BHAC Requirements) § 1(c) (“For all purposes of the Bond Ordinance except the giving of notice of default to Holders of the Bonds, BHAC shall be deemed to be a holder of the Bonds.”); *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements) § 1(c) (same).

11. The bond documentation also provides BHAC with consent rights for (i) any acceleration or annulment of the bonds and (ii) any amendment or supplement to the applicable ordinances. To Decl. Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements) § 1(a) (“Any acceleration of the Bonds or any annulment thereof is subject to the prior written consent of BHAC.”); § 2(a) (“Any amendment or supplement to the Bond Ordinance requiring consent of Holders of the Bonds is also subject to written consent of BHAC before it shall become effective.”); *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements) §§ 1(a); 2(a) (same).

12. In addition, the rights granted to BHAC under the bond documentation broadly incorporate all of FGIC’s control and consent rights, which BHAC is entitled to exercise in the event of a FGIC default. *See* To Decl. Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements), Preamble (incorporating “all terms and conditions of the requirements imposed by Financial Guaranty Insurance Company (‘FGIC’) on the Bonds when originally issued”); *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements), Preamble (same).

C. FGIC’s Control And Consent Rights, Subject To A FGIC Default

13. FGIC’s initial control and consent rights are largely the same for each series of FGIC/BHAC Insured Bonds. In each case, at the time of the original bond issue and continuing until a FGIC default, FGIC had the status of the “holder” of the bonds for

almost every purpose, including exercise of remedies, acceleration, amendment and annulment of the bonds.

14. With respect to DWSD Sewer Bond Series 2001-E,⁶ FGIC was “deemed to be the sole holder of the FGIC Insured Securities” for “all purposes of the Bond Ordinance *except* the giving of notice of default to Holders of FGIC Insured Securities[.]” To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (Sewer Financial Guaranty Insurance Supplement) § 1-1.03 (italics in original). The Sewer Financial Guaranty Insurance Supplement also provided FGIC or its successors consent rights for (i) any acceleration or annulment of the bonds and (ii) any amendment or supplement to the applicable ordinances. *Id.* at § 1-1.01 (“Any acceleration of the FGIC Insured Securities or any annulment thereof is subject to the prior written consent of [FGIC or its successor].”); *id.* at § 1-2.02(b) (“Any other amendment or supplement to the Bond Ordinance requiring consent of Holders of FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds is also subject to written consent of [FGIC or its successor] before it shall become effective as to FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien bonds, as the case may be.”).

⁶ FGIC’s rights under DWSD Sewer Bond Series 2001-E were established pursuant to a composite sale order for several different series of bonds, with specific terms for this series included in a supplement to that sale order. *See* To Decl. Ex. 3 (Composite Sale Order of the Finance Director of the City of Detroit with respect to Series 2001 Securities) (the “Sewer Composite Sale Order”); *id.* Ex. 4 (The Variable Rate Mode Supplement and Agreement among City of Detroit, as Issuer, U.S Bank Trust National Association, as Transfer Agent, and U.S Bank Trust National Association, as Tender Agent, Dated as of September 1, 2001) (the “Sewer Variable Rate Supplement”). Terms applicable to FGIC’s insurance for DWSD Sewer Bond Series 2001-E were attached as a supplement to, and incorporated in, the Sewer Composite Sale Order. *See* To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (the “Sewer Financial Guaranty Insurance Supplement”).

15. DWSD Water Bonds Series 2001-C and 2005-B provided similar control and consent rights from issuance and continuing until a FGIC default. The DWSD Water Bonds Series 2001-C⁷ state that the “Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured” for “all purposes of the Ordinance or Bond Resolution provisions governing events of default and remedies, except the giving of notice of default to Bondholders[.]” To Decl. Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) § 2(e). With respect to DWSD Water Bonds Series 2005-B,⁸ the sale order did not expressly refer to FGIC as a “holder” of the bonds, but, along with DWSD Water Bonds Series 2001-C, expressly provided FGIC and its successors with broad consent rights over amendments, acceleration and annulment of the bonds. To Decl. Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) § 2(c) (any acceleration or annulment of the bonds); § 3(a) (any amendment or supplement to the Bond Ordinance or Bond Resolution); *id.* Ex. 7 (Water 2005-B Sale Order) at § 702(i) (any amendment to the Bond Ordinance).

⁷ FGIC’s rights under DWSD Water Bonds Series 2001-C were established pursuant to a sale order and supplement, which include terms related to the bonds and their insurance. To Decl. Ex. 5 (Sale Order of Finance Director of the City of Detroit with respect to \$192,290,000 City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C, dated May 31, 2001) (the “Water 2001-C Sale Order”); *id.* Ex. 6 (Variable Rate Demand Bonds Supplement and Agreement among City of Detroit, as Issuer, U.S Bank Trust National Association, as Trustee and Transfer Agent, and U.S Bank Trust National Association, as Tender Agent, Dated as of May 31, 2001) (the “Water 2001-C Variable Rate Supplement”) at Ex. C (Bond Insurer Requirements) (the “Water 2001-C Bond Insurer Requirements”).

⁸ FGIC’s rights under DWSD Water Bonds Series 2005-B were established pursuant to a sale order. To Decl. Ex. 7 (Sale Order of Finance Director of the City of Detroit with respect \$195,000,000 City of Detroit Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B, dated March 22, 2005) (the “Water 2005-B Sale Order”).

16. Thus, the express language of the relevant bond documentation, in the first instance, provided FGIC with rights as the “holder” of the bonds. The bonds also, however, expressly provided that FGIC was to forfeit its ability to exercise these rights if it failed to comply with its payment obligations under the applicable policies. *See* To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (Sewer Financial Guaranty Insurance Supplement) § 1.02 (FGIC’s rights in effect “for only so long as Financial Guaranty Insurance Company . . . has not failed to comply with its payment obligations under the FGIC Bond Insurance Policy”); *id.* Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) § 2(c) (“Any acceleration of the Bonds or any annulment thereof shall be subject to the prior written consent of [FGIC or its successor] (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).”); *id.* at § 2(e) (“For all purposes of the Ordinance or Bond Resolution provisions governing events of default and remedies, except the giving of notice of default to Bondholders, [FGIC or its successor] shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.”).

17. The applicable bond documentation provides that BHAC becomes, for voting and other enforcement purposes, the holder of the applicable FGIC/BHAC Insured Bonds if FGIC fails to comply with its insurance obligations. *See, e.g.,* To Decl. Ex. 8 (Remarketing Circular for \$382,710,000 City of Detroit, Michigan Sewage Disposal System, Dated May 1, 2008) (“Sewer Bond Remarketing Circular”) at 22 (“So long as FGIC’s policy is in effect, FGIC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision. If FGIC’s policy is not in effect, BHAC shall be

deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision [Bondholder Rights and Remedies], so long as BHAC's policy is in effect."); *id.* Ex. 9 (Remarketing Circular for \$385,305,000 City of Detroit, Michigan Water Supply System, Dated May 6, 2008) ("Water Bond Remarketing Circular") at 21 (same).

II. Procedural Background

18. On July 18, 2013, the City filed a voluntary petition for relief with this Court under chapter 9 of the Bankruptcy Code. Since that date, the City has continued to pay debt service as and when due on the FGIC/BHAC Insured Bonds.

19. Before the applicable bar date, BHAC filed a proof of claim in this chapter 9 case setting forth the basis for its claim for (i) all of its rights to payment and other rights and claims, including, without limitation, any rights of subrogation with respect to the FGIC/BHAC Insured Bonds and (ii) all other rights and claims arising under or with respect to the applicable bond documentation [Proof of Claim #1158].

20. On February 21, 2014, the City filed a plan for the adjustment of its debts and a related disclosure statement [Docket Nos. 2708 and 2709]. The City filed amended plans and amended disclosure statements on March 31, 2014 [Docket Nos. 3380 and 3382], April 16, 2014 [Docket Nos. 4140 and 4141] and on April 25, 2014 [Docket Nos. 4271 and 4272]. On April 7, 2014, BHAC filed its Limited Objection to Motion of the City of Detroit for Approval of the Proposed Disclosure Statement [Docket No. 3856]. The Disclosure Statement and Detroit Plan were filed on May 5, 2014, and this Court approved the Disclosure Statement on May 5, 2014 [Docket No. 4401].

21. On March 11, 2014, the Court ordered parties, including bond insurers, to file notices of asserted rights to vote claims and briefs in support thereof. Order (I)

Establishing Procedures for Solicitation and Tabulation of Votes to Accept or Reject Plan of Adjustment and (II) Approving Notice Procedures Related to Confirmation of the Plan of Adjustment, at § 9.a [Docket No. 2984]. On April 21, 2014, the Court ordered that such notices and briefs be filed on May 26, 2014. Fourth Amended Order Establishing Procedures, Deadlines and Hearing Dates Relating to the Debtor's Plan of Adjustment, at § 8(b) [Docket No. 4202]. At a hearing on May 15, 2014, the Court adjusted the schedule so that the notices and briefs were to be filed on May 27, 2014.

22. On May 12, 2014, BHAC filed an Objection to Confirmation of Fourth Amended Plan for the Adjustment of Debts of the City of Detroit [Docket No. 4657].

ARGUMENT

23. Section 1126(a) of the Bankruptcy Code provides that “[t]he holder of a claim or interest allowed under section 502 of this title may accept or reject a plan.” 11 U.S.C. § 1126(a). Section 1126(c) further provides that “[a] class of claims has accepted a plan if such plan has been accepted by creditors . . . that hold at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors . . . that have accepted or rejected such plan.” 11 U.S.C. § 1126(c). Both sections are made applicable to chapter 9 by section 901(a). 11 U.S.C. § 901(a) (incorporating by reference, among others, sections 1126(a) and 1126(c)).

24. The Court should give effect to the clear terms of the bond documentation and determine that BHAC is the “holder” of the FGIC/BHAC Insured Bonds for voting purposes under section 1126(a) of the Bankruptcy Code.

25. In the alternative, if this Court finds that BHAC is not the holder, or otherwise entitled to vote on behalf, of the FGIC/BHAC Insured Bonds, no party entitled

to vote the bonds may do so without BHAC's prior written consent given that (i) the bond documentation expressly requires BHAC's consent for any annulment of the bonds (which is effectively what the Detroit Plan provides by exchanging existing bonds for new bonds with different terms), and (ii) BHAC, and not the nominal holders of the bonds (or FGIC), will bear the overwhelming share of the economic consequences of any impairment of the bonds.

I. The Bond Documentation Clearly Provides That The Insurer Of The FGIC/BHAC Insured Bonds Is The Holder For Purposes of Voting on The Detroit Plan.

26. The documentation for the FGIC/BHAC Insured Bonds clearly provides that BHAC is a holder of the bonds “[f]or all purposes of the Bond Ordinance except the giving of notice of default to Holders of the Bonds[,]” including for voting purposes in this chapter 9 case. To Decl. Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements) § 1(c); *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements) § 1(c). The documentation also reinforces BHAC's rights as a holder of the bonds by incorporating “all terms and conditions of the requirements” imposed by FGIC on the FGIC/BHAC Insured Bonds. To Decl. Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements) Preamble; *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements) Preamble.

27. FGIC's requirements in connection with the FGIC/BHAC Insured Bonds provide that FGIC was the holder of the bonds under the applicable ordinances—and therefore for voting purposes under chapter 9—so long as FGIC was able to comply with its payment obligations under the applicable policies. The Sewer Financial Guaranty Insurance Supplement provides that “[f]or all purposes of the Bond Ordinance *except* the

giving of notice of default to Holders of FGIC Insured Securities, [FGIC or its successor] shall be deemed to be the sole holder of the FGIC Insured Securities.” To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (Sewer Financial Guaranty Insurance Supplement) § 1-1.03 (italics in original). The Water 2001-C Bond Insurer Requirements provide that “for all purposes of the Ordinance or Bond Resolution provisions governing events of default and remedies, except the giving of notice of default to Bondholders, [FGIC or its successor] shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.” To Decl. Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) § 2(e).

28. Courts have given effect to “no action” clauses, such as the language recognizing BHAC or FGIC as the “holder” of the FGIC/BHAC Insured Bonds, in bankruptcy. Specifically, the agreements of nominal holders of bonds to cede their bankruptcy rights to insurers are both permissible and enforceable, in the context of the insurers’ agreement to make those nominal holders whole in the event of issuer default. *See, e.g., In re Am. Rds. LLC*, 496 B.R. 727 (Bankr. S.D.N.Y. 2013). In *American Roads*, Judge Lifland held that, where “financing documents [made] clear that the limitations on the Bondholders’ collective action rights and the delegation of authority to [the bond insurer were] substantial[,]” the bond insurer—not the bondholders—had standing as the creditor in the bankruptcy case. *Id.* at 730.

29. The bonds at issue in *American Roads* were similar to the FGIC/BHAC Insured Bonds. Specifically, the contracts in *American Roads* provided, among other things, that (i) the insurer “controls the enforcement of rights and remedies upon an event

of default” and (ii) the insurer “has been appointed as the ‘sole holder’ and the ‘sole representative’ for all purposes under the financing documents[.]” *Id.* These provisions gave the insurer exclusive standing to enforce the bonds, implicitly including the right to vote on a plan in bankruptcy, even though they did not “contain specific language barring [the bondholders’] participation in bankruptcy proceedings” because they “unambiguously prevent[ed] bondholders from asserting any claims to collateral or enforcing any rights against the Debtors, whether or not the Debtors [were] in insolvency proceedings.” *Id.* at 731.

30. One of the factors in the *American Roads* decision was that the bondholders were sophisticated investors “fully aware of the implications” of their waivers of rights. *Id.* at 732 (citing *In re Ion Media Networks*, 419 B.R. 585, 593-97 (Bankr. S.D.N.Y. 2009); *In re GSC, Inc.*, 453 B.R. 132, 164 n. 47 (Bankr. S.D.N.Y. 2011); *In re Erickson Ret. Cmtys.*, 425 B.R. 309, 314-16 (Bankr. N.D. Tex. 2010); *In re Aereosol Packaging LLC*, 362 B.R. 43, 47 (Bankr N.D. Ga. 2006)). Similarly, in this case, many—if not most—of the holders of the FGIC/BHAC Insured Bonds are sophisticated institutional investors who were undoubtedly aware of the implications of the “holder” language. *See, e.g.*, Obj. of the Ad Hoc Comm. of DWSD Bondholders to the City’s Fourth Am. Plan of Adjustment and Joinder to the DWSD Bond Trustee’s Obj. to the City’s Fourth Am. Plan of Adjustment [Docket No. 4671] at 1 n. 1 (“Ad Hoc Committee members are BlackRock Financial Management, Inc., Eaton Vance Management, Fidelity Management & Research Company, Franklin Advisers, Inc. and Nuveen Asset Management.”).

31. Therefore, as between the nominal holders of the FGIC/BHAC Insured Bonds on the one hand and FGIC and BHAC on the other, the insurers are the holders of the bonds and are entitled to vote. Before FGIC's insolvency, FGIC would have been entitled to vote. Now, because FGIC is not in a position to honor policy claims in respect of the FGIC/BHAC Insured Bonds, it should not be recognized as the holder of the bonds for purposes of sections 1126(a) and 1126(c) of the Bankruptcy Code.⁹

II. Because FGIC Is Insolvent And Will Not Honor Its Obligations As A Bond Insurer, BHAC Is The Holder Of The FGIC/BHAC Insured Bonds Entitled To Vote.

32. Upon FGIC's failure to comply with its payment obligations under the applicable policies, the bond documentation makes clear that BHAC becomes, for voting purposes, the holder of the FGIC/BHAC Insured Bonds under the applicable ordinances.

33. Under the plain meaning of the Sewer Financial Guaranty Insurance Supplement and Water 2001-C Bond Insurer Requirements, FGIC is deemed the holder of the FGIC/BHAC Insured Bonds only for so long it as complies with its payment obligations under the applicable policies. *See* To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (Sewer Financial Guaranty Insurance Supplement) § 1.02 (rights in effect "for only so long as [FGIC] . . . has not failed to comply with its payment obligations under the FGIC Bond Insurance Policy"); *id.* Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) §§ 2(c), 2(e)

⁹ BHAC joins in any additional arguments made by FGIC in its brief in support of its notice of asserted voting rights with respect to the FGIC/BHAC Insured Bonds solely to the extent that such arguments establish that the insurer, and not the nominal holders of the bonds, is entitled to vote on the Detroit Plan.

(rights contingent on FGIC “not fail[ing] to comply with its payment obligations under the Bond Insurance Policy”).

34. Upon FGIC’s failure to comply with its payment obligations under the applicable policies, however, BHAC becomes the holder of the FGIC/BHAC Insured Bonds under the applicable ordinances by virtue of the express incorporation in the BHAC Requirements of “all terms and conditions of the requirements imposed by Financial Guaranty Insurance Company (‘FGIC’) on the Bonds when originally issued[.]” To Decl. Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements), Preamble; *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements), Preamble. *See also* To Ex. 8 (Sewer Bond Remarketing Circular) at 22 (“So long as FGIC’s policy is in effect, FGIC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision. If FGIC’s policy is not in effect, BHAC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision [Bondholder Rights and Remedies], so long as BHAC’s policy is in effect.”); *id.* Ex. 9 (Water Bond Remarketing Circular) at 21 (same).

35. FGIC is an insolvent insurer operating under the constraints of a court-approved plan of rehabilitation that plainly prohibits FGIC from honoring its policy obligations relating to the FGIC/BHAC Insured Bonds. Specifically, under the FGIC Plan, FGIC is currently prohibited from paying more than 17 cents on the dollar on any policy claims and is never expected to be able to pay anywhere close to the full amount of the obligations. FGIC Plan Ex. B (Restructured Policy Terms) at § 1.1.A; FGIC Notice of Effective Date; Disclosure Statement for Plan of Rehabilitation for Financial Guaranty Insurance Company, *In re Fin. Guar. Ins. Co.*, No. 401265/2012, at 2 (N.Y.

Sup. Ct. Sept. 21, 2012) (available at <http://www.fgic.com/policyholderinfocenter/>) (“FGIC Disclosure Statement”) (projecting “the average ultimate recovery” for policyholders to be “approximately 24% to 25% of each Permitted Policy Claim”). In fact, as a result of FGIC’s failure to honor policy claims as mandated by the FGIC Plan, BHAC has already had to make two payments under a policy insuring approximately \$10 million of 2006-A COPs in respect of interest payments due on June 15, 2013 and December 15, 2013.

36. Under the terms of the bond documentation, FGIC forfeits its rights as a “holder” if BHAC is required to step in to make bondholders whole, even if FGIC makes a partial payment: FGIC’s control and consent rights are forfeited to BHAC if FGIC fails, in any way, “to comply with its payment obligations” under its insurance policies. Under the FGIC policies, FGIC is obligated to pay “that portion of the principal and interest on the . . . debt obligations . . . which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.” To Decl. Ex. 10 (Municipal Bond New Issue Insurance Policy Number 01010573) at 1; *see also id.* Ex. 11 (Municipal Bond New Issue Insurance Policy Number 05010189) at 1; *id.* Ex. 12 (Municipal Bond New Issue Insurance Policy Number 0102198) at 1. FGIC’s court-mandated prohibition, under the FGIC Plan, from paying anything beyond a fraction of scheduled amounts due on the FGIC/BHAC Insured Bonds is a failure “to comply with its payment obligations.”

37. No policy claims have been made in respect of the FGIC/BHAC Insured Bonds to date because the City has been paying debt service as and when due on these bonds. However, should the Detroit Plan be confirmed as currently proposed, these bonds will be impaired and policy claims will almost certainly be made, at a minimum,

for any reduction in scheduled interest payments between the existing bonds and the new bonds to be issued under the Detroit Plan. In that event, given the terms of the FGIC Plan, BHAC will be responsible for approximately 83% of any policy claim made (while the percentage contribution may vary, it is clear that under any scenario, FGIC will pay only a small percentage of policy claims and BHAC will be responsible for making nominal holders whole for the remainder). *See* FGIC Disclosure Statement at 2 (projecting policyholders ultimately to recover only 24%-25% of their policy claims).

38. Under these circumstances, FGIC should not be permitted to retain its rights under the FGIC/BHAC Insured Bonds, including its right as a holder of the bonds. The Court should give effect to the clear terms of the bond documentation and determine that BHAC, and not FGIC, is the holder of the FGIC/BHAC Insured Bonds for purposes of sections 1126(a) and 1126(c) of the Bankruptcy Code.¹⁰

III. Neither The Nominal Holders Of The FGIC/BHAC Insured Bonds Nor FGIC Should Be Entitled To Vote Those Bonds Without BHAC's Prior Written Consent.

39. If this Court finds that BHAC is not the holder, or otherwise entitled to vote on behalf, of the FGIC/BHAC Insured Bonds, no party entitled to vote the bonds may do so without BHAC's prior written consent given that (i) the bond documentation expressly requires BHAC's consent for any annulment of the bonds and (ii) BHAC,

¹⁰ In the event that this Court finds the bond documentation to be ambiguous, the Court still should determine that BHAC is entitled to vote on behalf of the FGIC/BHAC Insured Bonds. Under Michigan law, when a contract is capable of two different constructions, courts "prefer a reasonable and fair construction over a less just and less reasonable construction." *Gen. Star Nat. Ins. Co. v. Boudreau*, No. 287456, 2010 WL 143475, at *2 (Mich. App. Jan. 14, 2010) (quoting *Schroeder v. Terra Energy*, 223 Mich. App. 176, 189 (Mich. App. 1997)).

rather than FGIC or any nominal holders of the bonds, will bear the overwhelming share of the economic consequences of any impairment of the bonds.

40. Both the BHAC Requirements and the Sewer Financial Guaranty Insurance Supplement and Water 2001-C Bond Insurer Requirements incorporated in the bond documentation for BHAC's benefit, all of which are agreements to which the City is a party, state that any annulment of the bonds is subject to BHAC's prior written consent. *See* To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (Financial Guaranty Insurance Supplement) § 1-1.01; *id.* Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) § 2(c); *id.* Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements) § 1(a); *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements) § 1(a). They further state that any amendment or supplement to the Bond Ordinance requires BHAC's prior written consent. *See* To Decl. Ex. 3 (Sewer Composite Sale Order) at Annex E (Financial Guaranty Insurance Supplement) § 1-2.02(b); *id.* Ex. 6 (Water 2001-C Variable Rate Supplement) at Ex. C (Water 2001-C Bond Insurer Requirements) § 3(a); *id.* Ex. 1 (BHAC Sewer Supplement) at Ex. A (BHAC Requirements) § 2(a); *id.* Ex. 2 (BHAC Water Supplement) at Ex. A (BHAC Requirements) § 2(a).

41. The Detroit Plan effectively proposes cancelling existing DWSD bonds for new DWSD bonds, which would require BHAC's prior written consent. *See* Detroit Plan at II.B.3.a.ii.¹¹ BHAC's express consent rights prohibit the nominal holders of the FGIC/BHAC Insured Bonds from unilaterally voting on the Detroit Plan, and allowing

¹¹ The common understanding of the term "annulment" is that it is synonymous with "cancellation." *See* Black's Law Dictionary, annulment ("1. The act of nullifying or making void."); *Id.*, cancellation (" . . . 2. An annulment or termination of a promise or an obligation.").

these bondholders, rather than BHAC, to unilaterally vote on the Detroit Plan would defeat those rights. At a minimum, therefore, the nominal holders of the FGIC/BHAC Insured Bonds (or FGIC, if it is determined to be entitled to vote on their behalf) must obtain BHAC's written consent prior to voting.¹² *See Am. Rds.*, 496 B.R. at 730 (clause precluding bondholders from “institut[ing] or direct[ing] proceedings with respect to the enforcement of the terms of the financing documents without the consent” of insurers was a factor in determining that insurers—not bondholders—had standing in bankruptcy proceeding).

42. It is appropriate for this Court to enforce BHAC's bargained-for consent rights. Broad control rights in favor of bond insurers are important and customary terms of insured financings because the insurers, and not the insureds, bear the risk of loss associated with the bonds. In this case, given that BHAC will bear the overwhelming share of the economic consequences of any impairment of the bonds, it would be inequitable to allow either the nominal holders of these bonds or FGIC to vote on the Detroit Plan in respect of these bonds, without BHAC's prior written consent.

[Rest of page intentionally left blank]

¹² BHAC reserves the right to deny coverage to any bondholder that votes on the Detroit Plan without the prior written consent of BHAC.

WHEREFORE, BHAC respectfully requests that this Court determine that BHAC is the holder, or is otherwise entitled to vote (and make distribution elections) on behalf, of the FGIC/BHAC Insured Bonds, and grant BHAC such further relief as this Court deems just and proper.

Dated: New York, New York
May 23, 2014

Respectfully submitted,

/s/ My Chi To

DEBEVOISE & PLIMPTON LLP

M. Natasha Labovitz
My Chi To
919 Third Avenue
New York, New York 10022
Telephone: (212) 909-6000
Facsimile: (212) 909-6836
nlabovitz@debevoise.com
mcto@debevoise.com

*Attorneys for Berkshire Hathaway
Assurance Corporation*

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN**

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

**DECLARATION OF MY CHI TO IN SUPPORT OF
BERKSHIRE HATHAWAY ASSURANCE CORPORATION'S
NOTICE OF ASSERTED RIGHT TO VOTE CLAIMS**

1. I am over the age of 18 and am a partner at the law firm of Debevoise & Plimpton LLP, counsel for Berkshire Hathaway Assurance Corporation.
2. Attached hereto as **Exhibit 1** is a true and correct copy of the Supplement to Prior Sale Orders of Finance Director of the City of Detroit with respect to \$122,905,000 Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate) Series 2001(C-2), \$136,150,000 Sewage Disposal System Second Lien Revenue Bonds (Modal Fixed Rate) Series 2001(E) and \$123,655,000 Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate) Series 2006(A), dated May 1, 2008.
3. Attached hereto as **Exhibit 2** is a true and correct copy of the Supplement to Prior Sale Orders of Finance Director of the City of Detroit with respect to \$190,405,000 City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C and \$194,900,000 Water Supply System Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B, dated May 6, 2008.

4. Attached hereto as **Exhibit 3** is a true and correct copy of the Composite Sale Order of the Finance Director of the City of Detroit with respect to Series 2001 Securities.

5. Attached hereto as **Exhibit 4** is a true and correct copy of the Variable Rate Mode Supplement and Agreement among City of Detroit, as Issuer, U.S Bank Trust National Association, as Transfer Agent, and U.S Bank Trust National Association, as Tender Agent, Dated as of September 1, 2001.

6. Attached hereto as **Exhibit 5** is a true and correct copy of the Sale Order of Finance Director of the City of Detroit with respect to \$192,290,000 City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C, dated May 31, 2001.

7. Attached hereto as **Exhibit 6** is a true and correct copy of the Variable Rate Demand Bonds Supplement and Agreement among City of Detroit, as Issuer, U.S Bank Trust National Association, as Trustee and Transfer Agent, and U.S Bank Trust National Association, as Tender Agent, Dated as of May 31, 2001.

8. Attached hereto as **Exhibit 7** is a true and correct copy of the Sale Order of Finance Director of the City of Detroit with respect \$195,000,000 City of Detroit Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B, dated March 22, 2005.

9. Attached hereto as **Exhibit 8** is a true and correct copy of the Remarketing Circular for \$382,710,000 City of Detroit, Michigan Sewage Disposal System, Dated May 1, 2008.

10. Attached hereto as **Exhibit 9** is a true and correct copy of the Remarketing Circular for \$385,305,000 City of Detroit, Michigan Water Supply System, Dated May 6, 2008.

11. Attached hereto as **Exhibit 10** is a true and correct copy of FGIC Municipal Bond New Issue Insurance Policy Number 01010573.

12. Attached hereto as **Exhibit 11** is a true and correct copy of FGIC Municipal Bond New Issue Insurance Policy Number 05010189.

13. Attached hereto as **Exhibit 12** is a true and correct copy of FGIC Municipal Bond New Issue Insurance Policy Number 01012198.

14. Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct, to my personal knowledge.

Dated: New York, New York
May 23, 2014

/s/ My Chi To
My Chi To

Exhibit 1

**Supplement to Prior Sale Orders of Finance Director of the City of Detroit
with respect to**

\$122,905,000

**Sewage Disposal System
Senior Lien Revenue Refunding Bonds
(Modal Fixed Rate) Series 2001(C-2)
(the "Series 2001(C-2) Bonds")**

\$136,150,000

**Sewage Disposal System
Second Lien Revenue Bonds
(Modal Fixed Rate) Series 2001(E)
(the "Series 2001(E) Bonds")**

and

\$123,655,000

**Sewage Disposal System
Revenue Second Lien Bonds
(Fixed Rate) Series 2006(A)
(the "Series 2006(A) Bonds")
(collectively, the "Bonds")**

RECITALS

1. The Series 2001(C-2) Bonds were issued as variable rate bonds pursuant to a Resolution authorizing the issuance of the Series 2001(C-2) Bonds, adopted by the City Council on August 1, 2001, as amended October 10, 2001 (the "2001 C-2 Bond Resolution"), together with the Composite Sale Order of the Finance Director of the City dated October 1, 2001, as supplemented by a Variable Rate Mode Supplement and Agreement dated as of September 1, 2001, as amended April 23, 2008 (collectively, the "2001 C-2 Sale Order").

2. The Series 2001(E) Bonds were issued as variable rate bonds pursuant to a Resolution authorizing the issuance of the Series 2001(E) Bonds, adopted by the City Council on August 1, 2001, as amended October 10, 2001 (collectively, the "2001 E Bond Resolution"), together with the Composite Sale Order of the Finance Director of the City dated October 18, 2001, as supplemented by a Variable Rate Mode Supplement and Agreement dated as of September 1, 2001, as amended April 23, 2008 (collectively, the "2001 E Sale Order").

3. The Series 2006(A) Bond were issued as variable rate bonds pursuant to a Resolution authorizing the issuance of the Series 2006(A) Bonds, adopted by the City Council on February 15, 2006 (the "2006 A Bond Resolution and, together with the 2001 C-2 Bond Resolution and the 2001 E Bond Resolution, the "Prior Bond Resolutions"), together with the Sale Order of the Interim Finance Director of the City dated August 4, 2006, as supplemented by a Variable Rate Mode and Auction Rate Mode Supplement and Agreement dated as of August 1,

2006, as amended April 23, 2008 (collectively, the "2006 A Sale Order" and, together with the 2001 C-2 Sale Order and the 2001 E Sale Order, the "Prior Sale Orders").

4. In connection with the fixed rate remarketing of the Bonds, the Finance Director finds it necessary to supplement the Prior Sale Orders as herein provided.

Now, Therefore, the Finance Director of the City of Detroit hereby orders on behalf of the City as follows:

ARTICLE I
AUTHORITY AND DEFINITIONS

Section 101. Authority. This Supplement to Prior Sale Orders is issued under authority of the Prior Bond Resolutions and the Prior Sale Orders.

ARTICLE II
TERMS OF THE BONDS

Section 201. Captions, Purpose and Lien. The captions of the Bonds shall be as set forth above and shall include the designation of their fixed rate status, as set forth above. Neither the purpose nor the lien priority of the Bonds shall change as a result of their fixed rate conversion.

Section 202. Terms of the Bonds. The Bonds shall bear interest at fixed rates, upon the terms and conditions specified in the Remarketing Agreement entered into with UBS Securities LLC, as Remarketing Agent, of even date herewith. Such terms are set forth in Exhibit B to this Supplement to Prior Sale Orders.

Section 203. Reserve Requirement. The Senior Lien Bond Reserve Requirement after remarketing of the Bonds will be \$130,321,710 and the Second Lien Bond Reserve Requirement, after remarketing of the Bonds, will be \$83,285,401. Since each of the Reserve Accounts will be fully funded upon remarketing of the Bonds, none of the remarketing proceeds will be used to fund the Reserve Accounts.

ARTICLE III
APPROVAL OF REMARKETING AGREEMENT
AND-REMARKETING CIRCULAR

Section 301. Approval of Remarketing Agent and the Remarketing Agreement. The Bonds shall be sold to UBS Securities LLC, Remarketing Agent pursuant to the Remarketing Agreement between the City and the Remarketing Agent of even date herewith in substantially the form presented on this date to the Finance Director. The purchase prices, discounts and premiums for the Bonds, as set forth therein are hereby approved.

Section 302. Approval of Remarketing Circular. The form of the Remarketing Circular relating to the Bonds confirmed as the Remarketing Circular of the City with respect to the fixed rate remarketing of the Bonds.

ARTICLE IV SWAP AGREEMENTS

Section 401. Approval of Swap Agreements. In connection with the fixed rate remarketing of the Bonds the Finance Director has determined that to more effectively manage debt service it is in the City's best interest to not terminate the existing floating to fixed interest rate exchange agreements on the Bonds (the "Existing Swaps"), but rather to enter into fixed to floating interest rate exchange agreements with the same counterparties, which offset the Existing Swaps (the "Mirror Swaps") and leave the City with a net fixed rate payment equal to the difference between the City's fixed rate payment on the Existing Swaps and the fixed rate receipt on the Mirror Swaps (the "Net Swap Payments").

The Mirror Swap for the Series 2001(C-2) Bonds shall be with UBS AG, with a fixed rate payment to the City of 3.578% and the Mirror Swap for the Series 2006(A) Bonds shall be with Loop Financial Products I, LLC, with a fixed rate payment to the City of 3.6908%.

Section 402. Compliance With Swap Management Plan. The Finance Director hereby determines and confirms that the Mirror Swaps comply in all respects with the provisions of the City's Swap Management Plan as now in effect.

Section 403. Treatment of Net Swap Payments. Under the Bond Ordinance, payments due on the Mirror Swaps, other than payments of fees and expenses, if any, are included in the Debt Service Installment Requirement in accordance with the terms thereof. Consequently, the Net Swap Payments will be included in debt service on the Bonds under the Bond Ordinance.

ARTICLE V CREDIT ENHANCEMENT

Section 501. Acceptance of Bond Insurance Commitment.

A. The Finance Director hereby determines that the Commitment of Berkshire Hathaway Assurance Corporation (the "Insurer") to provide a separate municipal bond insurance policy for each series of the Bonds (collectively, the "Bond Policy") to secure payment of the principal of and interest on the Bonds when due, in the event that Financial Guaranty Insurance Company is unable to pay, is in the best financial interests of the City and the System. The City hereby makes the covenants and agreements contained in Exhibit A hereto for the benefit of the Insurer with respect to the Bond Policy. Capitalized terms used in Exhibit A hereof and not defined in the Bond Ordinance shall have the meanings assigned thereto in the Bond Policy or the Bond Policy Commitment. To the extent of any conflict between the provisions of this Supplement to Prior Sale Orders and the Bond Policy Commitment, the provisions of this Supplement to Prior Sale Orders shall govern and the provisions of the Bond Policy

Commitment shall be deemed to be amended as provided in this Supplement to Prior Sale Orders.

B. The agreements of the City contained in Exhibit A hereto for the benefit of the Insurer shall apply only so long as the Bond Policy remains in effect and the Insurer is not in default thereunder; provided however that the agreements of the City shall continue so long as any amounts due from the City thereunder remain outstanding.

ARTICLE VI
OTHER PROVISIONS OF GENERAL APPLICATION
UPON FIXED RATE REMARKETING OF BONDS

Section 601. Payment of Issuance Costs. The Finance Director shall pay Issuance Costs in an aggregate approximate amount of \$1,339,040.80 from the proceeds of the Bonds. In addition, the Bond Policy premium in the amount of \$12,921,428.39 shall be paid by the Remarketing Agent on behalf of the City to the Insurer. Underwriter's discount, in the amount of \$2,264,962.39, shall be paid to the Remarketing Agent in the form of a discount from the par amount of the Bonds plus the original issue premium, which the Remarketing Agent shall be required to pay upon closing

Section 602. Confirmation of Bond Counsel. The appointment of Lewis & Munday, A Professional Corporation, as sole bond counsel for the Bonds is hereby ratified and confirmed.

Section 603. Order a Contract. The provisions of this Supplement to Prior Sale Orders shall constitute a contract between the City and any Bondholder.

Section 604. Book-Entry-Only Form. The Bonds shall be held in book-entry-only form and the appointment of The Depository Trust Company, New York, New York, as depository for the Bonds pursuant to the terms of the City's Blanket Letter of Representations, dated November 26, 1996, is hereby confirmed.

Section 605. Continuing Disclosure Agreement. The Bonds shall be subject to the Master Continuing Disclosure Agreement with Respect to Sewage Disposal System Revenue Bonds and Revenue Refunding Bonds, approved October 12, 1995.

This Supplement to Prior Sale Orders shall take effect immediately.

[remainder of page intentionally left blank]

Signature Page Supplement to Prior Sale Orders

IN WITNESS WHEREOF, I have executed this Supplement to Prior Sale Orders this 1st day of May, 2008.

Norman L. White,
Finance Director

May 1, 2008

EXHIBIT A

ADDITIONAL BOND INSURER REQUIREMENTS BERKSHIRE HATHAWAY ASSURANCE CORPORATION

In addition to incorporating herein by reference all terms and conditions of the requirements imposed by Financial Guaranty Insurance Company ("FGIC") on the Bonds when originally issued in either 2001 or 2006 (and as may be amended thereafter), BHAC requires as follows:

1. Acceleration and Annulment
 - (a) Any acceleration of the Bonds or any annulment thereof is subject to the prior written consent of BHAC.
 - (b) BHAC shall receive immediate notice of any Payment Default and notice of any other Event of Default known to the Transfer/Fiscal Agent or the City of Detroit within 30 days of the Transfer/Fiscal Agent's or the City's knowledge thereof.
 - (c) For all purposes of the Bond Ordinance except the giving of notice of default to Holders of the Bonds, BHAC shall be deemed to be a holder of the Bonds.
 - (d) BHAC is a party in interest and is a party entitled to (i) notify the City and the Transfer/Fiscal Agent of the occurrence of an Event of Default and (ii) request the Transfer/Fiscal Agent to intervene in judicial proceedings that affect the Bonds or the security therefor. The Transfer/Fiscal Agent is required to accept notice of default from BHAC.

2. Amendments to Bond Ordinance
 - (a) Any amendment or supplement to the Bond Ordinance requiring consent of Holders of the Bonds is also subject to written consent of BHAC before it shall become effective.
 - (b) Any rating agency having a rating in effect with respect to the Bonds must receive notice of each such amendment or supplement to the Bond Ordinance requiring consent of Holders of the Bonds and a copy thereof at least 15 days in advance of its becoming effective.
 - (c) BHAC shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

3. Fiduciaries.
 - (a) BHAC shall be furnished with written notice of the resignation or removal of any Paying Agent or Trustee and the appointment of any successor thereto.
 - (b) No resignation or removal of any of the following with respect to the Bonds will be effective until a successor has been appointed and has accepted the duties of the respective office: Trustee; Paying Agent; Registrar.

4. Redemption, Purchase and Tender of the Bonds

- (a) Notice of any redemption of the Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.
- (b) Neither the Ordinance, nor the Bond Resolution, nor the Bonds shall include, nor shall they be amended to include, provisions allowing the City or other obligor to purchase the Bonds either outright or in lieu of redemption for purposes other than retiring Bonds, without BHAC's consent. This covenant shall be applicable so long as the Bonds remain outstanding.
- (c) Payment of the purchase price of the Bonds due as a result of mandatory or optional tender, including a mandatory tender resulting from the conversion of an interest rate mode on the Bonds, shall not be covered by BHAC's policy.

5. Reporting Requirements

BHAC shall be provided with the following information so long as the BHAC Policy is in effect:

- (a) The budget and/or financial disclosures, if any, made and adopted by the City of Detroit as respects any matters related to the Bonds;
- (b) The official statement or other disclosure document(s), if any, prepared in connection with the issuance of additional debt, whether or not on parity with the Bonds;
- (c) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the debt service reserve fund;
- (d) Notice of redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities, and CUSIP numbers thereof;
- (e) Notice of any material events pursuant to Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended; and
- (f) Such additional information as BHAC may reasonably request from time to time.

6. Notice Address

The notice address for BHAC is: Berkshire Hathaway Assurance Corporation, 100 First Stamford Place, Stamford, Connecticut 06902, Attention: General Counsel and Financial Guaranty Insurance Management.

**EXHIBIT B
BOND TERMS**

Schedule of Maturities and Interest Rates

\$122,905,000

Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate), Series 2001(C-2)

\$25,275,000 Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Yield	Maturity (July 1)	Principal Amount	Interest Rate	Yield
2008	195,000	3.50	2.00	2015	325,000	4.00	3.48
2009	245,000	3.50	2.25	2016	345,000	4.00	3.62
2010	260,000	3.50	2.55	2017	365,000	4.00	3.76
2011	270,000	3.50	2.85	2018	380,000	4.00	3.89
2012	285,000	3.50	3.08	2019	400,000	4.00	4.00
2013	295,000	4.00	3.21	2028	21,600,000	5.25	4.63*
2014	310,000	4.00	3.34				

\$4,090,000 4.50% Term Bonds due July 1, 2027 Yield 4.75%
\$93,540,000 5.25% Term Bonds due July 1, 2029 Yield 4.67%*

\$136,150,000

Sewage Disposal System Second Lien Revenue Bonds (Modal Fixed Rate), Series 2001(E)

\$136,150,000 5.75% Term Bonds due July 1, 2031 Yield 4.67%*

\$123,655,000

Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate), Series 2006(A)

\$123,655,000 5.50% Term Bonds due July 1, 2036 Yield 4.74%*

* Priced to July 1, 2018 optional redemption date.

Schedule of Term Bonds and Sinking Fund Installments

Series 2001(C-2) 2027 Term Bonds	
Redemption Date (July 1)	Principal Amount
2020	420,000
2021	440,000
2022	470,000
2023	495,000
2024	520,000
2025	550,000
2026	580,000
2027*	615,000

Series 2001(C-2) 2029 Term Bonds	
Redemption Date (July 1)	Principal Amount
2028	34,240,000
2029*	59,300,000

Series 2001(E) 2031 Term Bonds	
Redemption Date (July 1)	Principal Amount
2024	1,750,000
2025	1,870,000
2026	1,885,000
2027	1,890,000
2028	1,160,000
2029	1,100,000
2030	62,305,000
2031*	64,190,000

Series 2006(A) 2036 Term Bonds	
Redemption Date (July 1)	Principal Amount
2034	7,525,000
2035	7,880,000
2036*	108,250,000

* Final maturity.

Optional Redemption

The Fixed Rate Securities maturing on or before July 1, 2018, are not subject to redemption prior to maturity. The Fixed Rate Securities maturing on or after July 1, 2019, are subject to redemption at the option of the City in whole or in part in such order of maturity as the City shall determine and within any maturity by lot, on any date on or after July 1, 2018, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for re

Exhibit 2

**Supplement to Prior Sale Orders of Finance Director of the City of Detroit
with respect to**

\$190,405,000

City of Detroit

**Water Supply System Revenue Refunding Second Lien Bonds
(Fixed Rate), Series 2001-C
(the "Series 2001-C Bonds")**

and

\$194,900,000

**Water Supply System Revenue Senior Lien Bonds
(Fixed Rate), Series 2005-B
(the "Series 2005-B Bonds")**

(collectively, the "Bonds")

RECITALS

1. The Series 2001-C Bonds were issued as variable rate bonds pursuant to an amended and restated Resolution authorizing the issuance of the Series 2001-C Bonds, adopted by the City Council on April 25, 2001 (the "2001 C Bond Resolution"), together with the Sale Order of the Finance Director of the City May 31, 2001, as supplemented by a Variable Rate Demand Bonds Supplement and Agreement, dated as of May 31, 2001, as amended April 23, 2008 (collectively, the "2001 C Sale Order").

2. The Series 2005-B Bonds were issued as variable rate bonds pursuant to a Resolution authorizing the issuance of the Series 2005-B Bonds, adopted by the City Council on January 26, 2005 (the "2005 B Bond Resolution" and, together with the 2001 C Bond Resolution, the "Prior Bond Resolutions"), together with the Sale Order of the Finance Director of the City dated March 22, 2005, as supplemented by a Variable Rate Mode and Auction Rate Mode Supplement and Agreement, dated March 22, 2005, both as amended April 23, 2008 (collectively, the "2005 B Sale Order" and, together with the 2001 C Sale Order, the "Prior Sale Orders").

4. In connection with the fixed rate remarketing of the Bonds, the Finance Director finds it necessary to supplement the Prior Sale Orders as herein provided.

Now, Therefore, the Finance Director of the City of Detroit hereby orders on behalf of the City as follows:

ARTICLE I
AUTHORITY AND DEFINITIONS

Section 101. Authority. This Supplement to Prior Sale Orders is issued under authority of the Prior Bond Resolutions and the Prior Sale Orders.

ARTICLE II
TERMS OF THE BONDS

Section 201. Captions, Purpose and Lien. The captions of the Bonds shall be as set forth above and shall include the designation of their fixed rate status, as set forth above. Neither the purpose nor the lien priority of the Bonds shall change as a result of their fixed rate conversion.

Section 202. Terms of the Bonds. The Bonds shall bear interest at fixed rates, upon the terms and conditions specified in the Remarketing Agreement entered into with Siebert Brandford Shank & Co., LLC, as Remarketing Agent, of even date herewith. Such terms are set forth in Exhibit B to this Supplement to Prior Sale Orders.

Section 203. Reserve Requirement. The Senior Lien Bond Reserve Requirement after remarketing of the Bonds will be \$129,441,951 and the Second Lien Bond Reserve Requirement, after remarketing of the Bonds, will be \$49,414,278. Since each of the Reserve Accounts will be fully funded upon remarketing of the Bonds, none of the remarketing proceeds will be used to fund the Reserve Accounts.

ARTICLE III
APPROVAL OF REMARKETING AGREEMENT
AND REMARKETING CIRCULAR

Section 301. Approval of Remarketing Agent and the Remarketing Agreement. The Bonds shall be sold to Siebert Brandford Shank & Co., LLC, Remarketing Agent pursuant to the Remarketing Agreement between the City and the Remarketing Agent of even date herewith in substantially the form presented on this date to the Finance Director. The purchase prices, discounts and premiums for the Bonds, as set forth therein are hereby approved.

Section 302. Approval of Remarketing Circular. The form of the Remarketing Circular relating to the Bonds is hereby confirmed as the Remarketing Circular of the City with respect to the fixed rate remarketing of the Bonds.

ARTICLE IV
SWAP AGREEMENTS

Section 401. Approval of Swap Agreements. In connection with the fixed rate remarketing of the Bonds the Finance Director has determined that to more effectively manage debt service it is in the City's best interest to not terminate the following existing floating to fixed interest rate exchange agreements on the Bonds (collectively, the "Existing Swaps"), but

rather to enter into fixed to floating interest rate exchange agreements with the same counterparties, in which floating amounts payable by the City under the new swaps and the floating amounts payable by each counterparty under the related Existing Swap are equal and the City receives a lower fixed rate amount on the new swap than the City pays on the related Existing Swap, thereby partially offsetting the Existing Swaps (the "Mirror Swaps") and leaving the City with a net fixed rate payment equal to the difference between the City's fixed rate payment on the Existing Swaps and the fixed rate receipt on the Mirror Swaps (the "Net Swap Payments") on the Bonds:

Series 2001-C Bonds—current notional amount of \$113,360,000, with Morgan Stanley Capital Services, Inc.

Series 2001-C Bonds—current notional amount of \$76,510,000, with SBS Financial Products Company, LLC.

Series 2005-B Bonds— current notional amount of \$195,000,000, with Morgan Stanley Capital Services, Inc.

The Mirror Swap for the Series 2001-C Bonds in the notional amount of \$113,360,000 shall be with Morgan Stanley Capital Services, Inc., with a fixed rate payment to the City of 3.498%; the Mirror Swap for the Series 2001-C Bonds in the notional amount of \$76,510,000 shall be with SBS Financial Products Company, LLC with a fixed rate payment to the City of 3.998%; and the Mirror Swap for the Series 2005-B Bonds in the notional amount of \$195,000,000 shall be with Morgan Stanley Capital Services, Inc., with a fixed rate payment to the City of 3.652%. The Finance Director hereby determines and confirms that the Mirror Swaps are in the best interests of the City.

The City shall terminate two swaps with respect to the Series 2001-C Bonds in the aggregate notional amount of \$77,270,000 with Goldman Sachs Mitsui Marine Derivative Products, L.P., and shall pay an aggregate termination payment of \$6,216,000 from the remarketing proceeds therefor.

Section 402. Compliance With Swap Management Plan; Debt Management Plan; Prior Bond Resolutions, Act 34; and the Bond Ordinance. The Finance Director hereby determines and confirms that the Mirror Swaps comply in all respects with the provisions of the City's Swap Management Plan, the City's Debt Management Plan, the Prior Bond Resolutions, Act 34, Public Acts of Michigan, 2001, as amended ("Act 34"), and City Ordinance 01-05 (the "Bond Ordinance"), as now in effect.

Section 403. Treatment of Net Swap Payments. Under the Bond Ordinance, payments due on the Mirror Swaps, other than payments of fees and expenses, if any, are included in the Debt Service Installment Requirement in accordance with the terms thereof. Consequently, the Net Swap Payments will be included in debt service on the Bonds under the Bond Ordinance.

ARTICLE V
CREDIT ENHANCEMENT

Section 501. Acceptance of Bond Insurance Commitment.

A. The Finance Director hereby determines that the Commitment of Berkshire Hathaway Assurance Corporation (the "Insurer") to provide a separate municipal bond insurance policy for each series of the Bonds (collectively, the "Bond Policy") to secure payment of the principal of and interest on the Bonds when due, in the event that Financial Guaranty Insurance Company is unable to pay, is in the best financial interests of the City and the System. The City hereby makes the covenants and agreements contained in Exhibit A hereto for the benefit of the Insurer with respect to the Bond Policy. Capitalized terms used in Exhibit A hereof and not defined in the Bond Ordinance shall have the meanings assigned thereto in the Bond Policy or the Bond Policy Commitment. To the extent of any conflict between the provisions of this Supplement to Prior Sale Orders and the Bond Policy Commitment, the provisions of this Supplement to Prior Sale Orders shall govern and the provisions of the Bond Policy Commitment shall be deemed to be amended as provided in this Supplement to Prior Sale Orders.

B. The agreements of the City contained in Exhibit A hereto for the benefit of the Insurer shall apply only so long as the Bond Policy remains in effect and the Insurer is not in default thereunder; provided however that the agreements of the City shall continue so long as any amounts due from the City thereunder remain outstanding.

ARTICLE VI
OTHER PROVISIONS OF GENERAL APPLICATION
UPON FIXED RATE REMARKETING OF BONDS

Section 601. Payment of Issuance Costs. The Finance Director shall pay Issuance Costs in an aggregate approximate amount of \$874,110.60 from the proceeds of the Bonds. In addition, the Bond Policy premium in the amount of \$11,656,855.15 shall be paid by the Remarketing Agent on behalf of the City to the Insurer. Underwriter's discount, in the amount of \$2,423,183.15, shall be paid to the Remarketing Agent in the form of a discount from the par amount of the Bonds plus the original issue premium, which the Remarketing Agent shall be required to pay upon closing

Section 602. Confirmation of Bond Counsel. The appointment of Lewis & Munday, A Professional Corporation, as sole bond counsel for the Bonds is hereby ratified and confirmed.

Section 603. Order a Contract. The provisions of this Supplement to Prior Sale Orders shall constitute a contract between the City and any Bondholder.

Section 604. Book-Entry-Only Form. The Series Bonds shall be held in book-entry-only form and the appointment of The Depository Trust Company, New York, New York,

as depository for the Bonds pursuant to the terms of the City's Blanket Letter of Representations, dated November 26, 1996, is hereby confirmed.

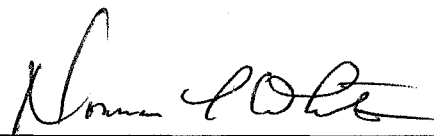
Section 605. Continuing Disclosure Agreement. The Series Bonds shall be subject to the Master Continuing Disclosure Agreement with Respect to Water Supply System Revenue Bonds and Revenue Refunding Bonds, approved October 12, 1995.

This Supplement to Prior Sale Orders shall take effect immediately.

[remainder of page intentionally left blank]

Signature Page Supplement to Prior Sale Orders

IN WITNESS WHEREOF, I have executed this Supplement to Prior Sale Orders this 6th day of May, 2008.

A handwritten signature in black ink, appearing to read "Norman L. White", written over a horizontal line.

Norman L. White,
Finance Director

May 6, 2008

EXHIBIT A

ADDITIONAL BOND INSURER REQUIREMENTS BERKSHIRE HATHAWAY ASSURANCE CORPORATION

In addition to incorporating herein by reference all terms and conditions of the requirements imposed by Financial Guaranty Insurance Company ("FGIC") on the Bonds when originally issued in either 2001 or 2005 (and as may be amended thereafter), BHAC requires as follows:

1. Acceleration and Annulment
 - (a) Any acceleration of the Bonds or any annulment thereof is subject to the prior written consent of BHAC.
 - (b) BHAC shall receive immediate notice of any Payment Default and notice of any other Event of Default known to the Transfer/Fiscal Agent or the City of Detroit within 30 days of the Transfer/Fiscal Agent's or the City's knowledge thereof.
 - (c) For all purposes of the Bond Ordinance except the giving of notice of default to Holders of the Bonds, BHAC shall be deemed to be a holder of the Bonds.
 - (d) BHAC is a party in interest and is a party entitled to (i) notify the City and the Transfer/Fiscal Agent of the occurrence of an Event of Default and (ii) request the Transfer/Fiscal Agent to intervene in judicial proceedings that affect the Bonds or the security therefor. The Transfer/Fiscal Agent is required to accept notice of default from BHAC.

2. Amendments to Bond Ordinance
 - (a) Any amendment or supplement to the Bond Ordinance requiring consent of Holders of the Bonds is also subject to written consent of BHAC before it shall become effective.
 - (b) Any rating agency having a rating in effect with respect to the Bonds must receive notice of each such amendment or supplement to the Bond Ordinance requiring consent of Holders of the Bonds and a copy thereof at least 15 days in advance of its becoming effective.
 - (c) BHAC shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

3. Fiduciaries.
 - (a) BHAC shall be furnished with written notice of the resignation or removal of any Paying Agent or Trustee and the appointment of any successor thereto.
 - (b) No resignation or removal of any of the following with respect to the Bonds will be effective until a successor has been appointed and has accepted the duties of the respective office: Trustee; Paying Agent; Registrar.

4. Redemption, Purchase and Tender of the Bonds

- (a) Notice of any redemption of the Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.
- (b) Neither the Ordinance, nor the Bond Resolution, nor the Bonds shall include, nor shall they be amended to include, provisions allowing the City or other obligor to purchase the Bonds either outright or in lieu of redemption for purposes other than retiring Bonds, without BHAC's consent. This covenant shall be applicable so long as the Bonds remain outstanding.
- (c) Payment of the purchase price of the Bonds due as a result of mandatory or optional tender, including a mandatory tender resulting from the conversion of an interest rate mode on the Bonds, shall not be covered by BHAC's policy.

5. Reporting Requirements

BHAC shall be provided with the following information so long as the BHAC Policy is in effect:

- (a) The budget and/or financial disclosures, if any, made and adopted by the City of Detroit as respects any matters related to the Bonds;
- (b) The official statement or other disclosure document(s), if any, prepared in connection with the issuance of additional debt, whether or not on parity with the Bonds;
- (c) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the debt service reserve fund;
- (d) Notice of redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities, and CUSIP numbers thereof;
- (e) Notice of any material events pursuant to Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended; and
- (f) Such additional information as BHAC may reasonably request from time to time.

6. Notice Address

The notice address for BHAC is: Berkshire Hathaway Assurance Corporation, 100 First Stamford Place, Stamford, Connecticut 06902, Attention: General Counsel and Financial Guaranty Insurance Management.

**EXHIBIT B
BOND TERMS**

Schedule of Maturities and Interest Rates

EXHIBIT B – PART 1

**City of Detroit, Michigan
Water Supply System Revenue
Refunding Second Lien Bonds (Fixed Rate)
Series 2001-C**

Maturity	Principal	Interest Rate	Yield	
07/01/2009	480,000.00	3.000%	2.080%	
07/01/2010	495,000.00	3.000%	2.550%	
07/01/2011	515,000.00	3.000%	2.880%	
07/01/2012	325,000.00	3.500%	3.120%	
07/01/2013	340,000.00	3.500%	3.250%	
07/01/2014	350,000.00	3.500%	3.370%	
07/01/2015	365,000.00	4.250%	3.510%	
07/01/2016	380,000.00	4.250%	3.650%	
07/01/2017	390,000.00	4.250%	3.790%	
07/01/2018	415,000.00	4.250%	3.920%	
07/01/2019	12,510,000.00	5.750%	4.040%	*
07/01/2020	13,235,000.00	5.750%	4.150%	*
07/01/2021	14,025,000.00	5.750%	4.250%	*
07/01/2022	14,865,000.00	5.750%	4.320%	*
07/01/2023	15,750,000.00	5.750%	4.390%	*
07/01/2024	16,690,000.00	5.750%	4.430%	*
07/01/2025	17,690,000.00	5.750%	4.470%	*
07/01/2026	18,735,000.00	5.750%	4.500%	*
07/01/2027	19,945,000.00	5.750%	4.550%	*
07/01/2028	4,000,000.00	5.750%	4.600%	*
07/01/2029	18,815,000.00	4.750%	4.900%	
07/01/2029	20,090,000.00	4.500%	4.900%	

* Priced to July 1, 2018 call date

EXHIBIT B – PART 2

**City of Detroit, Michigan
Water Supply System Revenue
Senior Lien Bonds (Fixed Rate)
Series 2005-B**

Maturity	Principal	Interest Rate	Yield	
07/01/2010	1,750,000.00	5.000%	2.550%	
07/01/2011	1,855,000.00	4.000%	2.880%	
07/01/2012	1,940,000.00	4.000%	3.120%	
07/01/2013	2,020,000.00	5.000%	3.250%	
07/01/2014	2,125,000.00	5.000%	3.370%	
07/01/2015	2,225,000.00	4.000%	3.510%	
07/01/2016	2,305,000.00	4.000%	3.650%	
07/01/2017	2,385,000.00	4.000%	3.790%	
07/01/2018	2,465,000.00	5.500%	3.920%	
07/01/2019	2,575,000.00	5.500%	4.040%	*
07/01/2020	2,690,000.00	5.500%	4.150%	*
07/01/2021	2,905,000.00	5.500%	4.250%	*
07/01/2022	3,025,000.00	5.500%	4.320%	*
07/01/2023	3,145,000.00	5.500%	4.390%	*
07/01/2024	3,270,000.00	5.500%	4.430%	*
07/01/2025	3,490,000.00	5.500%	4.470%	*
07/01/2026	3,620,000.00	5.500%	4.500%	*
07/01/2027	3,850,000.00	5.500%	4.550%	*
07/01/2028	3,980,000.00	5.500%	4.600%	*
07/01/2034	28,415,000.00	4.750%	4.940%	
07/01/2035	57,365,000.00	5.500%	4.740%	*
07/01/2035	57,500,000.00	5.250%	4.830%	*

* Priced to July 1, 2018 call date

EXHIBIT B – PART 2
Schedule of Term Bonds and Sinking Fund Installments

SERIES 2001-C 2029 4.50% TERM BONDS

Redemption Date (July 1)	Principal Amount
2028	7,090,000
2029*	13,000,000

SERIES 2001-C 2029 4.75% TERM BONDS

Redemption Date (July 1)	Principal Amount
2028	10,115,000
2029*	8,700,000

SERIES 2005-B 2034 4.75% TERM BONDS

Redemption Date (July 1)	Principal Amount
2029	4,215,000
2030	4,425,000
2031	4,630,000
2032	4,840,000
2033	5,050,000
2034*	5,255,000

SERIES 2005-B 2035 5.25% TERM BONDS

Redemption Date (July 1)	Principal Amount
2035*	57,500,000

SERIES 2005-B 2035 5.50% TERM BONDS

Redemption Date (July 1)	Principal Amount
2035*	57,365,000

* Final maturity.

Exhibit B – PART 4
Optional Redemption

The Fixed Rate Securities maturing on or before July 1, 2018, are not subject to redemption prior to maturity. The Fixed Rate Securities maturing on or after July 1, 2019, are subject to redemption at the option of the City in whole or in part in such order of maturity as the City shall determine and within any maturity by lot, on any date on or after July 1, 2018, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Exhibit 3

**Composite Sale Order of the Finance Director of the City of Detroit
with respect to
Series 2001 Securities**

Whereas, on August 1, 2001, the City Council (the *City Council*) of the City of Detroit (the *City*) adopted the resolution entitled in relevant part "Resolution Authorizing the Issuance and Sale of Sewage Disposal System Revenue and Revenue Refunding Bonds of the City of Detroit of Equal Standing with the City's Sewage Disposal System Revenue Bonds and Sewage Disposal System Revenue Refunding Bonds Now Outstanding and Which May Remain Outstanding, and Authorizing the Issuance and Sale of Sewage Disposal System Revenue Bonds of the City of Detroit of Junior Standing to the City's Sewage Disposal System Revenue Bonds and Sewage Disposal System Revenue Refunding Bonds Now Outstanding and Which Remain Outstanding, for the Collective Purposes of Defraying Part of the Cost of Acquiring and Constructing Replacements, Repairs, Extensions and Improvements to the City's Sewage Disposal System and Refunding Certain Sewage Disposal System Revenue Bonds" (as amended on October 10, 2001, the *Bond Resolution*);

Whereas, the Resolution was enacted pursuant to Ordinance No. 27-86, as amended (the *Bond Ordinance*) and Act 94, Public Acts of Michigan, 1933, as amended (*Act 94*); and

Whereas, the Resolution authorizes the Finance Director, acting on behalf of the City, to sell and deliver securities (*Series 2001 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 document (the *Sale Order*) constitutes the exercise of the authority granted to the Finance Director in the Bond Resolution;

Now, Therefore, the undersigned Finance Director of the City of Detroit **Hereby Orders** as follows:

1. Sale Order Components.

This Sale Order consists of the following:

- this document and the exhibits hereto
- the General Terms of 2001 Securities Supplement, which appears as *Annex A* hereto (the *GT Supplement*)
- [*Annex B* – Reserved]
- the Variable Rate Mode Supplement and Agreement, which appears as *Annex C* (the *VRM Supplement*)
- the Auction Rate Mode Supplement, which appears as *Annex D* hereto (the *ARM Supplement*)
- the Financial Guaranty Insurance Company Supplement, which appears as *Annex E*

Definitions.

(a) Undefined capitalized terms used herein and defined in any of the following are used herein as therein defined:

- the Preamble hereto
- the Bond Ordinance
- the GT Supplement
- the VRM Supplement
- the ARM Supplement

(b) The following terms have the following respective meanings unless the context clearly otherwise requires:

Closing means, with respect to a particular Type and Priority of Securities, the delivery of such Securities to, and payment for such Securities by, the purchasers identified in the Sale Order and the other actions in connection therewith.

Bonds to be Refunded means the Securities defined as the “Bonds to be Refunded” in the Official Statement with respect to the Series 2001 (C) Securities.

Closing Date means the date on which a Closing occurs.

Non-Provider Securities means all Series 2001 Securities *except* Securities issued to a Provider under the VRM Supplement (i.e., *Provider Securities*).

Project Securities means all Non-Provider Securities *except* Refunding Securities.

Refunding Securities means all Series 2001 Securities of each Type for which a disposition of proceeds on the signature pages hereto is indicated to be for Refunding Purposes and equal, as to each such Type, in aggregate principal amount to the principal amount under the respective caption *Disposition of Proceeds — Refunding Purposes*.

Type means the manner in which a Series 2001 Security bears interest and includes all of the attributes provided by this Sale Order for Series 2001 Securities bearing interest in that manner. The following are the Types of Series 2001 Securities authorized by this Sale Order:

- Fixed Rate Securities
- Modal Securities
- Variable Rate Securities

- Short-Term Securities
 - Daily Rate Securities
 - Weekly Rate Securities
 - Flexible Rate Securities
- Term Rate Securities
- Modal Fixed Rate Securities
 - Auction Rate Securities
 - Provider Securities

Issuance of Series 2001 Securities; Disposition of Proceeds.

(a) **Issuance.** It is hereby determined that Series 2001 Securities shall be issued in the aggregate principal amount equal to the sum of the principal amounts set forth on the signature pages hereto and of the Types and Priorities as therein set forth; *provided* that the aggregate principal amount of Series 2001 Securities shall not exceed \$850,000,000, the amount set forth in the Bond Resolution; and *provided* further:

(1) in accordance with Section 4 of the Bond Resolution, Project Securities in the total principal amount appearing in *Exhibit 3* hereto, but not more than \$400,000,000 in aggregate principal amount, which total principal amount is hereby determined to be the amount of Project Costs to be financed with Series 2001 Securities, *plus* such amounts as are necessary to pay matters ancillary thereto, such as funding Costs of Issuance and meeting Reserve Requirements; and

(2) in accordance with Section 4 of the Bond Resolution, Refunding Securities in the total principal amount appearing in *Exhibit 3* hereto, but not more than \$300,000,000 in aggregate principal amount, which total principal amount is hereby determined to be the amount necessary to refund the Bonds to be Refunded, *plus* such amounts as are necessary to pay matters ancillary thereto, such as Costs of Issuance and meeting Reserve Requirements.

(b) **Disposition of Proceeds.**

(1) Proceeds of Project Securities shall be disposed of as set forth under the respective captions *Disposition of Proceeds – New Money Purposes* on certain of the signature pages hereto.

(2) Proceeds of Refunding Securities shall be disposed of as set forth under the respective captions *Disposition of Proceeds – Refunding Purposes* on certain of the signature pages hereto.

Terms of Series 2001 Securities.

The terms of the Series 2001 Securities shall be as provided in this Sale Order.

5. Appointments.

(a) Reference is made to the appointment in the Bond Resolution of U.S. Bank Trust National Association as Trustee for the Series 2001 Securities. As provided in the Bond Resolution, its acceptance of the duties of Trustee shall be evidenced by a document filed with the Finance Director concurrently with the delivery of the Series 2001 Securities.

(b) The following appointments are made with respect to the Variable Rate Securities:

- (1) As Tender Agent U.S. Bank Trust National Association
- (2) As Remarketing Agent UBS PaineWebber Inc.

Each of the foregoing shall evidence its acceptance of the duties of office to which it was appointed by executing the VRM Supplement.

(c) The following appointments are made with respect to the Auction Rate Securities:

- (1) As Market Agent UBS PaineWebber Inc.
- (2) As Broker-Dealer UBS PaineWebber Inc.
- (3) As Auction Agent Appointed in the Auction Rate Signature Pages

Each of the foregoing shall evidence its acceptance of the duties of office to which it was appointed by delivering a written acceptance to the Finance Director concurrently with the delivery of the Series 2001 Securities.

6. Reserve Requirements; Reserve Accounts.

(a) **Reserve Requirements.** The Reserve Requirements for the Series 2001 Securities are as provided in the signature pages hereto.

(b) **Reserve Accounts.**

(1) Senior Lien Bonds. No separate Bond Reserve Account is established for the Senior Lien Bonds.

(2) Second Lien Bonds A separate Reserve Account is hereby established in the Second Lien Bond Reserve Account for each series of Second Lien Bonds as follows:

- Series 2001 (B) Second Lien Bond Reserve Account
- Series 2001 (D) Second Lien Bond Reserve Account
- Series 2001 (E) Second Lien Bond Reserve Account

(i) The Second Lien Bonds Series 2001 (D-1) and Series 2001 (D-2) are part of the same series for purposes of the Series 2001 (D) Second Lien Bond Reserve Account.

(ii) The amounts to be paid pursuant to the Bond Ordinance into the Second Lien Bond Reserve Account shall be paid into each separate Second Lien Bond Reserve Account to restore it to its respective Second Lien Bond Reserve Requirement on a parity with payments into all other Second Lien Bond Reserve Accounts and shall not exceed its Proportionate Deficit Payment in any Fiscal Year.

(iii) *Proportionate Deficit Payment* for each separate Second Lien Bond Reserve Account means an amount that bears, to the deficit in such separate Second Lien Bond Reserve Account, the same proportion that the amount available to remedy deficits in all separate Second Lien Bond Reserve Accounts bears to the aggregate deficit in all Second Lien Bond Reserve Accounts.

7. Limits.

(a) *Limitation on Amounts Coming Due in Any One Year.*

It is hereby determined that, as of the date of the execution of each signature page hereto, the aggregate amount of interest and principal becoming due in any Fiscal Year (whether at maturity or by reason of Mandatory Redemption Requirements) on the outstanding Securities and the Series 2001 Securities described on such signature page and on each signature page executed before such signature page does not exceed the amount permitted by Sections 22, 36 and 37 of the Bond Ordinance.

(b) *Sale and Interest Rate Limitation.*

It is hereby determined that, as of the date of the execution of each signature page hereto,

(1) the Series 2001 Securities described on such signature page bear interest at a rate or rates and are being sold at an aggregate net discount (distinct from any

compensation to be paid to the purchasers in the form of a discount or any other costs of issuance of such Series 2001 Securities) of not greater than 10%; and

(2) the true interest cost (TIC) of the Fixed Rate Securities is not greater than 6¾ % per annum and the maximum rate per annum on any Variable Rate Securities does not exceed the maximum rate permitted by law.

8. Continuing Disclosure.

(a) Pursuant to Section 15 of the Bond Resolution, those Series 2001 Securities for which an exemption does not exist under the Rule shall be subject to the Continuing Disclosure Agreement.

(b) Those Series 2001 Securities for which an exemption exists under the Rule may nonetheless be made subject to the Continuing Disclosure Agreement and shall be so subject when such an exemption no longer exists.

9. Establishment of Subaccount and Accounts.

(a) *Construction Fund Subaccount.*

(1) A subaccount is hereby created in the Construction Fund established by the Bond Ordinance and designated the "Construction Fund Series 2001" to be maintained as a separate depository account by the present depository of the Construction Fund.

(2) The amount identified as "Capitalized Expenses" in the Addendum to Signature Pages for Modal Securities shall be segregated in the Construction Fund Series 2001. An amount equal to the quarterly fee for the Liquidity Facility shall be transferred from the segregated Capitalized Expenses to the Operation and Maintenance Fund as of the first day of the month in which such fee becomes due. The segregated amount of Capitalized Expenses shall be applied to no other purpose.

(3) The Trustee is hereby authorized and directed to establish the following two accounts:

(i) Construction Fund Series 2001, Cost of Issuance Subaccount – into which shall be deposited the portion of the proceeds of the Series 2001 Securities designated as "Cost of Issuance" and applied as provided in the Bond Ordinance; and

(ii) Construction Fund Series 2001, Capitalized Interest Issuance Subaccount – into which shall be deposited the portion of the proceeds of the

Series 2001 Securities designated as "Capitalized Expenses" and applied as provided above.

(b) ***Sinking Fund Accounts.***

(1) Pursuant to Section 11 of the Bond Resolution, there is hereby established in the Bond Interest and Redemption Fund an account designated "Series 2001 Term Bond Sinking Fund Account" for such Senior Lien Term Bonds.

(2) Pursuant to Section 11 of the Bond Resolution, there is hereby established in the Second Lien Bond and Interest Redemption Account an account designated "Series 2001 Second Lien Term Bond Sinking Fund Account" for such Second Lien Term Bonds.

10. Refunding Determination and Instructions.

(a) It is hereby determined that upon the issuance of the Refunding Securities, the proceeds thereof (exclusive of accrued interest) are sufficient to provide the Escrow Deposit after making provision for Issuance Costs and the Reserve Requirement to be provided from such proceeds; and, it is further determined that the benefits to the City from the refunding shall be increased by depositing amounts released from the Bond Reserve Account in the Escrow Deposit in order to refund the maximum amount of Senior Lien Bonds.

(b) The Transfer Agent is hereby given irrevocable instructions to call the Bonds to be Refunded for redemption on their first available call dates or such other date as is permitted by the Escrow Agreement to be entered into for the refunding of the Bonds to be Refunded at the applicable redemption prices.

(c) U.S. Bank Trust National Association is hereby appointed as the Escrow Agent and shall evidence its acceptance of such appointment by executing the Escrow Agreement.

11. Sale of Series 2001 Securities.

The Series 2001 Securities shall be sold as provided in the signature pages hereto, and, pursuant to Section 16 of the Bond Resolution, it is hereby determined that the aggregate compensation to the purchasers named therein is not more than 1% of the original principal amount of each Type of Securities.

12. [Reserved].

13. Financial Facilities.

(a) The commitments from the following providers of Financial Facilities are hereby accepted with respect to the Series 2001 Securities set forth opposite the respective names of such providers. Each such Financial Facility is hereby determined to be in the best interest of the City and the System.

Financial Facility Provider	Applicable Series 2001 Securities
Financial Guaranty Insurance Company (Bond Insurance)	Series 2001(A)
Financial Guaranty Insurance Company (Bond Insurance)	Series 2001(B)
Financial Security Assurance Inc. (Bond Insurance) ..	Series 2001(C-1)
Dexia Credit Local, acting through its New York Agency (Liquidity Facility)	Series 2001(C-1)
Financial Guaranty Insurance Company (Bond Insurance)	Series 2001(C-2)
FGIC Securities Purchase, Inc. (Liquidity Facility) ...	Series 2001(C-2)
MBIA (Bond Insurance)	Series 2001(D) [All Tranches]
Financial Guaranty Insurance Company (Bond Insurance)	Series 2001(E)
FGIC Securities Purchase, Inc. (Liquidity Facility) ...	Series 2001(E)

(b) The City shall enter into a Financial Facility Agreement with each of the foregoing, and this Sale Order shall be supplemented to the extent required by any of the foregoing.

14. Interest Rate Exchange Agreements.

(a) It is hereby determined to be cost effective to manage debt service on the below identified Series 2001 Securities by entering into Interest Rate Exchange Agreements with the respective counterparties.

<u>Interest Rate Exchange Agreement Counterparty</u>	<u>Applicable Series 2001 Securities</u>
UBS AG	Series 2001(C-1)
UBS AG	Series 2001(C-2)

(b) Having been approved by the Treasury Department, each such Interest Rate Exchange Agreements with the respective counterparty constitutes an Approved Interest Rate Exchange Agreement in accordance with Section 9 of the Bond Resolution.

(c) In connection with the Interest Rate Exchange Agreements, it is hereby determined to be in the best interest of the City to insure against liability under certain circumstances for termination payments; accordingly, the following commitments for insurance policies (*SWAP Insurance*) are hereby accepted:

<u>Provider</u>	<u>Insuring Swap For</u>
Financial Security Assurance, Inc.	Series 2001(C-1)
Financial Guaranty Insurance Company	Series 2001(C-2)

15. Reserve Fund Valuation.

The Reserve Accounts shall continue to be valued as provided in the Bond Ordinance as in effect on the date hereof notwithstanding any amendment of the Bond Ordinance (to the extent permitted thereby) that may hereafter become effective.

16. Financial Arrangements.

Exhibit 16 hereto is a schedule of financial arrangements authorized by this Sale Order and the location in this Sale Order of the agreements required by the providers thereof.

17. Authorization of U.S. Bank Trust National Association.

(a) U.S. Bank Trust National Association, in any of its respective capacities hereunder, is hereby authorized and directed to enter into such of the Financial Facility Agreements as require it to be a party thereto in such capacity.

(b) U.S. Bank Trust National Association, in any of its respective capacities hereunder, is further authorized and directed to execute such other documents, instruments and agreements as may be deemed necessary or appropriate to consummate the transactions contemplated by this Sale Order.

[Signature Pages Follow]

Allocation of Principal Amounts

Series	Project Costs*	Amount Necessary to Refund Bonds to be Refunded*
(Fixed Rate) Series 2001(A)	\$70,000,000.00	- 0 -
(Fixed Rate) Series 2001(B)	101,000,000.00	- 0 -
(Variable Rate Demand) Series 2001(C-1)	- 0 -	\$158,228,510.89**
(Variable Rate Demand) Series 2001(C-2)	- 0 -	125,823,326.85**
(ARCs), Series 2001(D)	95,000,000.00	- 0 -
(Variable Rate Demand) Series 2001(E) ..	134,000,000.00	- 0 -
Total	<u>\$400,000,000.00</u>	<u>\$284,051,837.74</u>

* Exclusive of such amounts as are necessary to pay matters ancillary thereto, such as Costs of Issuance and meeting Reserve Requirements.

** Additional amounts of \$1,156,929.63 and \$920,035.17 were released from the Bond Reserve Account for, respectively, the Series 2001 (C-1) and the Series 2001 (C-2) Securities.

**Schedule of Financial Arrangements
and
Sale Order Provisions**

Provider	Financial Arrangement	Provisions in Sale Order
Financial Facilities		
Financial Guaranty Insurance Company	Bond Insurance Policy, Series 2001(A)	Annex E, Part 1
Financial Guaranty Insurance Company	Bond Insurance Policy, Series 2001(B)	Annex E, Part 1
Financial Security Assurance, Inc	Bond Insurance Policy, Series 2001(C-1)	VRM Supplement, Exhibit 10.01
Dexia Credit Local, acting through it New York Agency	Standby Bond Purchase Agreement, Series 2001(C-1)	None, separate agreement
Financial Guaranty Insurance Company	Bond Insurance Policy, Series 2001(C-2)	Annex E, Part 1
FGIC Securities Purchase, Inc.	Standby Bond Purchase Agreement, Series 2001(C-2)	None, separate agreement
MBIA	Bond Insurance Policy, Series 2001 (D)	ARM Supplement
Financial Guaranty Insurance Company	Bond Insurance Policy, Series 2001(E)	Annex E
FGIC Securities Purchase, Inc.	Standby Bond Purchase Agreement, Series 2001(E)	None, separate agreement
Reserve Fund Surety Policies		
Financial Guaranty Insurance Company	Debt Service Reserve Fund Policy, Senior Lien Bond Reserve Account	Annex E, Part 2
MBIA	Debt Service Reserve Fund Policy, Series 2001 (D) Second Lien Bond Reserve Account	ARM Supplement

Exh. 16 Page 1

Provider	Financial Arrangement	Provisions in Sale Order
Financial Guaranty Insurance Company	Debt Service Reserve Fund Policy, Series 2001 (E) Second Lien Bond Reserve Account	Annex E, Part 2
Interest Rate Exchange Agreement Insurance		
Financial Security Assurance, Inc.	SWAP Insurance, Series 2001(C-1)	None
Financial Guaranty Insurance Company	SWAP Insurance, Series 2001(C-2)	None

[Signature Pages to Sale Order of the Finance Director of the City of Detroit with respect to City of Detroit Sewage Disposal System Revenue and Revenue Refunding Bonds, Series 2001 relating to the below mentioned 2001 Securities.]

Signature Pages for Fixed Rate Securities

1. Reserve Requirements.

(a) Upon the issuance and delivery of the Fixed Rate Securities, the Reserve Requirements, calculated in accordance with the Bond Ordinance, are:

Bond Reserve Account Requirement*	
Before issuance of 2001 Series (A) Securities	\$77,118,105.50
Upon issuance of 2001 Series (A) Securities	<u>81,029,192.00</u>
Increase to be funded	<u>\$3,911,087.50</u>

*For all Senior Lien Bonds

Series 2001(B) Second Lien Bond Reserve Requirement . . . \$9,534,414.43

(b) The funding of each Reserve Requirement shall be as follows:

(1) The Bond Reserve Account Requirement shall be funded by a surety bond in the amount of the Bond Reserve Account Requirement to be issued by Financial Guaranty Insurance Company, and the City shall enter into a Debt Service Reserve Account Policy Agreement having customary terms.

(2) The Series 2001(B) Second Lien Reserve Account Requirement shall be funded by a deposit of proceeds of the Second Lien Bonds.

2. Sale of Fixed Rate Securities.

The Fixed Rate Securities shall be sold to UBS PaineWebber Inc., acting on behalf of themselves and the other underwriters named in the Bond Purchase Agreement, dated as of the date hereof, for the below stated purchase price plus accrued interest from the respective dates of the Fixed Rate Securities to the date of delivery, on the basis of the representations set forth therein.

	Senior Lien Bonds	Second Lien Bonds
Purchase Price	\$ 74,155,996.04	\$ 116,953,051.32
Accrued Interest	412,837.01	641,804.17
Total Purchase Price	\$ 74,568,833.05	\$ 117,594,855.49

3. **Disposition of Proceeds**


New Money Purposes

Disposition	Senior Lien Bonds Amount	Second Lien Bonds Amount
Total Purchase Price	\$74,568,833.05	\$117,594,855.49
Accrued Interest Deposit to Interest and Redemption Fund	412,837.01	641,804.17
Capitalized Interest Deposit to Interest and Redemption Fund	3,602,327.08	5,600,245.23
Reserve Account Surety Bond Premium	45,225.96	- 0 -
Reserve Account Deposit	- 0 -	9,534,414.43
Gross Amount for Deposit to Construction Fund Series 2001 Subaccount	70,504,780.37	101,818,391.66
<i>Less:</i> Bond Insurance Premium	314,427.95	529,278.29
Net Amount to be Deposited in the Construction Fund Series 2001 Subaccount	70,194,015.05	\$101,289,113.37

[Signature Appears on Fixed Rate Signature Page S-1]

*[Page Containing Signature of Finance
Director to Signature Pages with respect to
Fixed Rate Securities]*

The Schedule of Terms for Fixed Rate Securities appended hereto are part of the Fixed Rate Signature Pages.



J. Edward Hannan
Finance Director
City of Detroit

September 26, 2001

Fixed Rate Signature Page S-1

**Schedule of Terms
for
Fixed Rate Securities**

1. Interest Payment Dates, Record Dates and Day Count Convention.

(a) Interest on the Fixed Rate Securities is payable January 1, 2002, and July 1, 2002, and semi-annually thereafter on each January 1 and July 1.

(b) The record dates for Fixed Rate Securities are the 15th day of the calendar month preceding each interest payment date.

(c) The Day Count Convention for Fixed Rate Securities is 12 30-day months in a year of 360 days.

2. Senior Lien Bonds.

(a) *Principal Amount.* \$76,375,000

(b) *Priority.* Senior Lien Bonds.

(c) *Title.* City of Detroit Sewage Disposal System Senior Lien Revenue Bonds, Series 2001(A).

(d) *Maturities and Interest Rates.*

The Senior Lien Bonds shall mature on the dates and in the principal amounts and shall bear interest at the respective interest rates per annum as set forth below as provided in the GT Supplement.

July 1	Amount Maturing	Interest Rate
2022	\$ 2,505,000	5 %
2031	73,870,000	5 1/8

(e) **Senior Lien Term Bonds.**

The Senior Lien Bonds maturing on July 1, 2031, are Term Securities subject to redemption on the dates and in the amounts of respective Sinking Fund Installments set forth below except that the last such date shall not be a redemption date but shall instead be the maturity date.

July 1	Sinking Fund Installment
2023	\$ 2,750,000
2024	2,895,000
2025	3,040,000
2026	3,200,000
2027	3,365,000
2028	3,535,000
2029	3,720,000
2030	25,040,000
2031*	26,325,000

*Maturity Date

(f) **Optional Redemption**

The Senior Lien Bonds are subject to redemption at the option of the City, as a whole or in part on any date on and after July 1, 2011, at a Redemption Price of 100% of the principal amount thereof plus interest to the Redemption Date.

3. **Second Lien Bonds.**

- (a) **Principal Amount.** \$110,550,000
- (b) **Priority.** Second Lien Bonds.
- (c) **Title.** City of Detroit Sewage Disposal System Second Lien Revenue Bonds, Series 2001(B).

(d) *Maturities and Interest Rates.*

The Second Lien Bonds shall mature on the dates and in the principal amounts and shall bear interest at the respective interest rates per annum as set forth below as provided in the GT Supplement.

July 1	Amount Maturing	Interest Rate
2029	\$ 110,550,000	5 ½ %

(e) *Second Lien Term Bonds.*

The Second Lien Bonds are Term Securities subject to redemption on the dates and in the amounts of respective Sinking Fund Installments set forth below except that the last such date shall not be a redemption date but shall instead be the maturity date.

July 1	Sinking Fund Installment
2023	\$ 2,825,000
2024	15,835,000
2025	16,635,000
2026	17,480,000
2027	18,345,000
2028	19,260,000
2029*	20,170,000

*Maturity Date

(f) *Optional Redemption*

None

[End of Schedule of Terms for Fixed Rate Securities]

Signature Pages to Sale Order of the Finance Director of the City of Detroit with respect to City of Detroit Sewage Disposal System Revenue and Revenue Refunding Bonds, Series 2001 relating to the below mentioned 2001 Securities.]

Signature Pages for Modal Securities

1. Reserve Requirements.

Bond Reserve Account Requirement*

Before issuance of Series (C) Securities	\$81,029,192.00**
Upon issuance of Series (C) Securities	<u>78,952,227.20</u>
Excess to be included in Escrow Deposit	<u>\$2,076,964.80</u>

*For all Senior Lien Bonds

**Includes \$3,911,087.50 increase attributable to Series (A)

2. Initial Mode.

The Series C-1 and Series C-2 Securities shall be issued as Variable Rate Securities in the Weekly Mode, each Series bearing interest at the respective rate set forth in a certificate of the Finance Director and delivered at the Closing.

3. Sale of Modal Securities.

The Series C Securities shall be sold to UBS PaineWebber Inc., acting on behalf of themselves and the other underwriters named in the Bond Purchase Agreement, dated as of the date hereof, for the below stated purchase price plus accrued interest, if any, from the respective dates of the Modal Securities to the date of delivery, on the basis of the representations set forth therein

	Series C-1	Series C-2
Purchase Price	\$159,483,057.42	\$126,777,914.58
Accrued Interest	- 0 -	- 0 -
Total Purchase Price	<u>\$159,483,057.42</u>	<u>\$126,777,914.58</u>

Disposition of Proceeds


Refunding Purposes

Disposition	Series C-1 Amount	Series C-2 Amount
Total Purchase Price	\$159,483,057.42	\$126,777,914.58
Costs of Issuance		
Paid at Closing		
Bond Insurance Premium	706,531.31	465,481.20
Liquidity Facility Fee	25,000.00	44,341.00
Swap Termination Insurance	121,600.00	112,000.00
For Deposit to Construction Fund Series 2001 Cost of Issuance Subaccount)		
Other Costs of Issuance	401,415.22	332,765.53
Escrow Deposit		
Cash Deposit	10.52	10.02
Purchase of "Open Market" Securities	132,050,000.00	- 0 -
Purchase of SLGs	<u>27,335,430.00</u>	<u>126,743,352.00</u>

[Signature Appears on Modal Securities Signature Page S-1]

*[Page Containing Signature of Finance
Director to Signature Pages with Respect to
Variable Rate Securities]*

The Schedule of Terms for Modal Securities appended hereto are part of the Modal
Signature Pages.



J. Edward Hannan
Finance Director
City of Detroit

October 1, 2001

Modal Securities Signature Page S-1

**Schedule of Terms
for
Modal Securities**

Interest Payment Dates, Record Dates and Day Count Convention.

- (a) Interest on Modal Securities is payable on the Interest Payment Dates determined in accordance with the VRM Supplement.
- (b) The record dates for the Modal Securities are as provided in the VRM Supplement.
- (c) The Day Count Convention for Modal Securities is as provided in the VRM Supplement.

2. Terms of Modal Securities.

- (a) *Principal Amount.* As shown under "Titles".
- (b) *Priority.* Senior Lien Bonds.
- (c) *Titles as Variable Rate Securities.*
 - (1) \$159,970,000 City of Detroit Sewage Disposal System Senior Lien Revenue Refunding Bonds(Variable Rate Demand), Series 2001(C-1).
 - (2) \$127,165,000 City of Detroit Sewage Disposal System Senior Lien Revenue Refunding Bonds(Variable Rate Demand), Series 2001(C-2).
- (d) *Maturity and Interest Rate.*
 - (1) Subject to change as provided in the VRM Supplement, the Variable Rate Securities Series C-1 shall mature on July 1, 2027, in the principal amount of \$159,970,000 and shall bear interest at the rates as provided in the VRM Supplement.
 - (2) Subject to change as provided in the VRM Supplement, the Variable Rate Securities Series C-2 shall mature on July 1, 2029, in the principal amount of \$127,165,000 and shall bear interest at the rates as provided in the VRM Supplement.

(e) *Modal Term Securities.*

Subject to change as provided in the VRM Supplement, the Modal Securities are Term Securities subject to redemption on the dates and in the amounts of respective Sinking Fund Installments set forth below except that the last such date shall not be a redemption date but shall instead be the maturity date.

July 1	Series C-1 Sinking Fund Installments	Series C-2 Sinking Fund Installments
2002	\$2,765,000	\$2,205,000
2003	345,000	225,000
2004	360,000	235,000
2005	380,000	245,000
2006	400,000	255,000
2007	415,000	375,000
2008	435,000	285,000
2009	455,000	300,000
20010	475,000	315,000
2011	500,000	330,000
2012	520,000	345,000
2013	545,000	360,000
2014	575,000	375,000
2015	600,000	395,000
2016	625,000	415,000
2017	655,000	435,000
2018	690,000	455,000
2019	720,000	475,000
2020	755,000	495,000
2021	790,000	520,000
2022	10,225,000	545,000

Modal Securities Schedule Page-2

July 1	Series C-1 Sinking Fund Installments	Series C-2 Sinking Fund Installments
2023	10,150,000	570,000
2024	26,180,000	595,000
2025	27,325,000	625,000
2026	35,705,000	655,000
2027*	\$37,380,000	685,000
2028		55,910,000
2029**		\$58,540,000

*Maturity Date, Series C-1

**Maturity Date, Series C-2

[Signature Pages to Sale Order of the Finance Director of the City of Detroit with respect to City of Detroit Sewage Disposal System Revenue and Revenue Refunding Bonds, Series 2001 relating to the below mentioned 2001 Securities.]

**Addendum
to
Signature Pages for Modal Securities**

1. Separate Sale.

The Modal Securities described in this Addendum (the *Series E Securities*) were sold on the date set forth on the signature page for this Addendum and were sold separate and apart from the Modal Securities Series C-1 and Series C-2.

2. Reserve Requirements.

(a) Upon the issuance and delivery of the Series E Modal Securities, the Second Lien Bond Reserve Requirement Series 2001 (E) Second Lien Bond Reserve Account, calculated in accordance with the Bond Ordinance, is \$10,605,321.49.

(b) The Second Lien Bond Reserve Account Requirement shall be funded by a surety bond in the amount of the Bond Reserve Account Requirement to be issued by Financial Guaranty Insurance Company, and the City shall enter into a Debt Service Reserve Account Policy Agreement having customary terms.

3. Initial Mode.

The Series E Modal Securities shall be issued as Variable Rate Securities in the Flexible Rate Mode, bearing interest at the rate of 2.12% per annum during the initial Flexible Rate Period which shall end on October 3, 2002.

4. Sale of Series E Modal Securities.

The Series E Modal Securities shall be sold to UBS PaineWebber Inc., acting on behalf of themselves and the other underwriters named in the Bond Purchase Agreement, dated as of the date hereof, for the below stated purchase price plus accrued interest, if any, from the date of the Series E Modal Securities to the date of delivery, on the basis of the representations set forth therein

Purchase Price	\$138,459,940.47
Accrued Interest	- 0 -
Total Purchase Price	<u>\$138,459,940.47</u>

5. **Disposition of Proceeds**

New Money Purposes


<u>Disposition</u>	<u>Amount</u>
Total Purchase Price	\$138,459,940.47
Capitalized Interest Deposit to Second Lien Bond Redemption Fund	2,726,675.35
Reserve Account Surety Bond Premium	159,079.82
Reserve Account Deposit	- 0 -
Gross Amount for Deposit to Construction Fund Series 2001 Subaccount	135,574,185.30
Less: Bond Insurance Premium	707,577.33
Less: Liquidity Facility Fee	50,372.00
Net Amount to be Deposited in the Construction Fund Series 2001 Subaccount	<u>*\$134,816,235.97</u>

*Includes the amount of \$396,108.29 which constitutes "Capitalized Expenses" and which shall be used and applied as provided in Paragraph 9 of the Sale Order.

[Signature Appears on Modal Securities Addendum Signature Page S-1]

*[Page Containing Signature of Finance
Director to Addendum Signature Pages with
Respect to Modal Securities]*

The Schedule of Terms for Series E Modal Securities appended hereto are part of the Modal Signature Pages.



J. Edward Hannan
Finance Director
City of Detroit

October 18, 2001

Modal Securities Addendum Signature Page S-1

**Schedule of Terms
for
Series E Modal Securities**

1. Interest Payment Dates, Record Dates and Day Count Convention.

(a) Interest on Series E Modal Securities is payable on the Interest Payment Dates determined in accordance with the VRM Supplement.

(b) The record dates for the Series E Modal Securities are as provided in the VRM Supplement.

(c) The Day Count Convention for Series E Modal Securities is as provided in the VRM Supplement.

2. Terms of Series E Modal Securities.

(a) *Principal Amount.* \$139,080,000

(b) *Priority.* Second Lien Bonds.

(c) *Title as Variable Rate Securities.*

City of Detroit Sewage Disposal System Second Lien Revenue Bonds (Variable Rate Demand), Series 2001(E).

(d) *Maturity and Interest Rate.*

Subject to change as provided in the VRM Supplement, the Series E Modal Securities shall mature on July 1, 2031, and shall bear interest at the rates as provided in the VRM Supplement.

(e) *Modal Term Securities.*

Subject to change as provided in the VRM Supplement, the Series E Modal Securities are Term Securities subject to redemption on the dates and in the amounts of respective Sinking Fund Installments set forth below except that the last such date shall not be a redemption date but shall instead be the maturity date.

<u>July 1</u>	<u>Series E Sinking Fund Installments</u>
2024	\$2,015,000
2025	2,130,000

July 1	Series E Sinking Fund Installments
2026	2,145,000
2027	2,145,000
2028	1,415,000
2029	1,360,000
2030	62,565,000
2031*	\$65,305,000

*Maturity Date

Signature Pages to Sale Order of the Finance Director of the City of Detroit with respect to City of Detroit Sewage Disposal System Revenue and Revenue Refunding Bonds, Series 2001 relating to the below mentioned 2001 Securities.]

Execution Copy

Signature Pages for Auction Rate Securities (Series 2001(D))

1. Reserve Requirements.

(1) Upon the issuance and delivery of the Auction Rate Securities, the Reserve Requirement with respect to the Auction Rate Securities, calculated in accordance with the Bond Ordinance, is

Second Lien Bond Reserve Subaccount \$7,379,761.42

(2) The Second Bond Reserve Account Requirement shall be funded by the issuance of a debt service reserve surety bond (the "Reserve Policy") by MBIA Insurance Corporation.

2. Appointment of Auction Agent.

The Bank of New York is hereby appointed to be Auction Agent

3. Sale of Auction Rate Securities.

The Auction Rate Securities shall be sold to UBS PaineWebber Inc., as Underwriter under the Bond Purchase Agreement dated as of the date hereof, for the below stated purchase price plus accrued interest, if any, from the respective dates of the Auction Rate Securities to the date of delivery, on the basis of the representations set forth therein

Purchase Price:.....\$100,597,213.69
 Accrued Interest:..... 0.00
 Total Purchase Price:\$100,597,213.69

^{*}Equal to par, plus original issue premium of \$8,809,650.50 less Underwriter's discount of \$662,436.81

Disposition of Proceeds

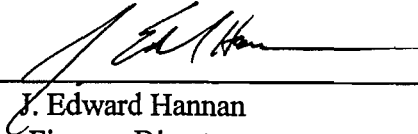
New Money Purposes

Disposition	Amount
Total Purchase Price	\$100,597,213.69
Less: Bond Insurance and Reserve Policy Premiums	(620,000.00)
Less: Deposit to Second Lien Bond Redemption Account of the Junior Lien Bond Fund for Capitalized Interest	(4,697,975.14)
Net Amount to be Deposited in the Construction Fund Series 2001 Subaccount	<u>\$ 95,279,238.55</u>

[Signature Appears on Auction Rate Signature Page S-2]

*[Page Containing Signature of Finance
Director to Signature Pages with respect to
Auction Rate Securities]*

The Schedule of Terms for Auction Rate Securities appended hereto are part of the
Auction Rate Signature Pages.



J. Edward Hannan
Finance Director
City of Detroit

October 18, 2001

Auction Rate Signature Page S-2

**Schedule of Terms
for
Auction Rate Securities**

4. Interest Payment Dates, Record Dates and Day Count Convention.

(1) Interest on Auction Rate Securities of each Tranche is payable on January 1, 2002 and semi-annually thereafter on each July 1 and January 1 to and including the first day of the Initial Auction Period applicable to such Tranche; thereafter interest on the Auction Rate Securities of such Tranche is payable on the Interest Payment Dates determined in accordance with the ARM Supplement.

(2) The record dates for the Auction Rate Securities are the 15th day of the calendar month during the Initial Interest Period for Tranche D-1 and D-2 and, thereafter, the record dates are as provided in the ARM Supplement.

(3) The Day Count Convention for Auction Rate Securities is 12 30-day months in a year of 360 days during the Initial Interest Period for Tranche D-1 and D-2 and, thereafter, the Day Count Convention is as provided in the ARM Supplement.

5. Terms of Auction Rate Securities.

(1) *Principal Amount.*

Tranche D-1	\$20,000,000
Tranche D-2	<u>72,450,000</u>
Total	<u>\$92,450,000</u>

(2) *Priority.* Second Lien Bonds.

(3) *Title.* City of Detroit Sewage Disposal System Second Lien Revenue Bonds (ARCs), Series 2001 (D-1) and Series 2001 (D-2).

(4) *Maturity and Interest Rate.*

The Auction Rate Securities in the following Tranches shall mature on the respective dates and in the respective principal amounts and shall bear interest from the date thereof (October 23, 2001), at the respective initial interest rates per annum as set forth below during the respective Initial Interest Period applicable thereto; thereafter, the Auction Rate Securities bear interest at the rates, payable on the dates as provided in the ARM Supplement:

Tranche	July 1	Amount Maturing	Initial Interest Rate	Initial Interest Period (Inclusive)
D-1.....	2032	\$20,000,000	5.50%	October 23, 2001 – June 30, 2008
D-2.....	2032	\$72,450,000	5.50%	October 23, 2001 – December 31, 2011

[End of Schedule of Terms for Auction Rate Securities]

General Terms of 2001 Securities Supplement

This **General Terms of 2001 Securities Supplement** is a supplement to the **Composite Sale Order with respect to Series 2001 Securities** executed by the Director of Finance of the City of Detroit and together therewith and with all other supplements and all exhibits constitutes the *Sale Order*.

Article I Definitions

Section 1.01. Definitions.

In addition to the terms defined in or pursuant to the Sale Order, the following terms shall have the following respective meanings for all purposes of the Sale Order *unless* the context clearly otherwise requires:

Holder and *Securityholder* means, as to any particular Security, the Person is whose name such Security is registered on the books maintained for that purpose by the Registrar.

Paying Agent means, as to any particular Security, the Person by whom such Series 2001 Security is payable in respect of interest or principal (and premium, if any), as the case may be.

Principal Installment Date means any July 1.

Registrar means, as to any particular Security, the Person who maintains the Registry therefor pursuant to the Sale Order.

Registry means as to any particular Security, the books for the registration thereof maintained by the Registrar.

Article II General Terms

Section 2.01. Numbers and Prefixes.

Series 2001 Securities shall be numbered consecutively from "1" within each Type and prefixed with the letter "R". Any Variable Rate Security issued pursuant to *Section 6.14* of the VRM Supplement shall be additionally identified as a replacement Security to distinguish it from all other Modal Securities.

Section 2.02. Form, Title and Additional Designations.

The Non-Provider Securities shall be in the form prescribed by *Exhibit 2.02* hereto and shall bear title, series designation and additional designations as provided in the respective signature pages to the Sale Order.

Section 2.03. Dating.

Upon initial issuance, all Non-Provider Securities *except* Fixed Rate Securities and CPI Securities shall be dated the Closing Date, and all Fixed Rate Securities and CPI Securities shall be dated as of September 15, 2001.

Section 2.04. Execution.

Series 2001 Securities shall be executed as provided in Section 5(j) of the Bond Resolution.

Section 2.05. Maturities and Interest Rates.

Maturities and interest rates for each Type shall be as provided in the Schedule of Terms appended to the respective signature pages to the Sale Order.

Section 2.06. Interest.

Each Security shall bear interest from its date or from the most recent Interest Payment Date on which interest has been paid or duly provided for through the day before the next Interest Payment Date, and such interest shall be payable at the rate established for such Security in or pursuant to the Sale Order, calculated at the applicable Day Count Convention and payable as provided in Section 15 of the Bond Resolution *except* that interest on Modal Securities shall be payable as provided in the VRM Supplement.

Section 2.07. Manner and Places of Payment.

(a) **Principal.** Principal and premium, if any, of Series 2001 Securities is payable as provided in Section 5(c)(1) of the Bond Resolution and in the case of Variable Rate Securities is also payable at the Tender Agent upon presentation and surrender thereof.

(b) **Interest.** Interest on Series 2001 Securities is payable as provided in Section 5(d)(2) of the Bond Resolution and in the case of Variable Rate Securities and the Auction Rate Securities is also payable as provided in, respectively, the VRM Supplement and the ARM Supplement.

Section 2.08. Limitations on Transfer.

The transfer of Auction Rate Securities is subject to such limitations as may be contained in the Auction Rate Mode Supplement in addition to any limitations otherwise applicable.

Section 2.09. Initial Issuance.

The Series 2001 Securities shall be issued in certificated form, fully registered in the name of the Securities Depository or its nominee and shall be initially issued as fewest number of certificates for each CUSIP number as are possible under the regulations of the Securities Depository governing the maximum denomination of a single certificate.

Section 2.10. Authentication after Initial Issuance.

After initial issuance, Series 2001 Securities shall be authenticated as follows:

- (1) All Fixed Rate Securities and all CPI Securities shall be authenticated by the Transfer Agent.
- (2) Auction Rate Securities shall be authenticated by the Transfer Agent.
- (3) Modal Securities:
 - (i) All Variable Rate Securities issued in transfer, exchange, redemption or purchase, and Modal Fixed Rate Securities issued on a Mode Change Date, shall be authenticated by the Tender Agent as fully to all intents and purposes as though authenticated by the Transfer Agent.
 - (ii) All Modal Fixed Rate Securities issued in transfer, exchange, redemption or purchase shall be authenticated by the Transfer Agent.
- (4) All Provider Securities in certificated form shall be authenticated by the Tender Agent.

Section 2.11. Provider Securities.

The terms of Provider Securities shall be as provided in the VRM Supplement.

Section 2.12. Term Securities and Sinking Fund Installment Redemption.

- (a) Series 2001 Securities identified in the Schedule of Terms appended to the respective signature pages to the Sale Order as *Term Securities* are subject to redemption from

Sinking Fund Installments as set forth therein. Sinking Fund Installments for Variable Rate Securities may be changed as provided in the VRM Supplement.

(b) Term Securities subject to Sinking Fund Installments are subject to redemption upon notice given as provided in this Supplement in part on each Principal Installment Date in the amount of the Sinking Fund Installment for such Principal Installment Date after giving effect to any amounts credited to such Sinking Fund Installment as a result of the redemption or purchase of Term Securities of such maturity pursuant to *Section 4.04* hereof at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

Section 2.13. Optional Redemption.

- (a) Fixed Rate Securities: As provided in the signature pages for the Fixed Rate Securities.
- (b) CPI Securities: As provided in the signature pages for the CPI Securities.
- (c) Modal Securities: As provided in the VRM Supplement.
- (d) Auction Rate Securities: As provided in the ARM Supplement.

Article III Exchange and New Certificates

Section 3.01. Exchange.

Reference is made to Section 5(f) of the Bond Resolution for provisions relating to the exchange of Series 2001 Securities; *provided* that references therein to "Transfer Agent" shall instead refer to "Tender Agent" in the case of Variable Rate Securities.

Section 3.02. New Certificates.

If a certificated Series 2001 Security bearing a particular CUSIP number (a *Predecessor Security*) is no longer fungible with all other certificated Series 2001 Securities bearing the same CUSIP number, *then* a new Series 2001 Security in the appropriate certificated form shall be executed by the City, authenticated by the Transfer Agent or Tender Agent, as the case may be, and delivered in exchange for the Predecessor Security if and when required by the Securities Depository.

Article IV Redemption

Section 4.01. Selection of Series 2001 Securities for Redemption.

(a) *Unless* required to satisfy maturing Sinking Fund Installments, maturities of Series 2001 Securities to be selected for redemption shall be selected for redemption in such manner as the Finance Director deems appropriate, and Series 2001 Securities to be selected for redemption within a maturity when less than the maturity is to be called for redemption shall be selected by lot.

(b) Of the Series 2001 Securities to be selected for redemption, such Series 2001 Securities shall be selected in multiples of the minimum Authorized Denomination thereof, and Series 2001 Securities of denominations of more than such minimum Authorized Denomination shall be treated as representing the number of Series 2001 Securities obtained by dividing the denomination of the Series 2001 Security by such minimum Authorized Denomination, and such Series 2001 Securities may be selected for redemption in part.

Section 4.02. Notice of Redemption.

(a) When Series 2001 Securities, or portions thereof, are to be redeemed, the Registrar for such Series 2001 Securities shall in its own name or in the name of the City, give notice by first class mail not less than 30 days prior to the date fixed for redemption to the registered owners of the Series 2001 Securities or portions thereof to be redeemed at their addresses set forth in the Registry.

(b) Each such notice shall specify the complete name, and the CUSIP numbers of the Series 2001 Securities to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such places) and, if less than all the Series 2001 Securities are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2001 Securities to be redeemed, and such notice shall also specify the respective portions of the principal amounts thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2001 Security, or a portion thereof to be redeemed, the redemption price thereof, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable.

(c) A copy of each notice shall be sent by the Registrar to (i) at least two of the national information services that disseminate redemption notices or redemption notice information (so long as two such services exist), and (ii) to each Provider of a Financial Facility, if any, in respect of such Series 2001 Securities *except* in the case of redemption by reason of Sinking Fund Installments.

Section 4.03. Payment of Series 2001 Securities Called for Redemption.

(a) Notice having been given in the manner herein provided, the Series 2001 Securities so called for redemption shall become due and payable on the date fixed for the redemption thereof at the applicable Redemption Price, plus interest accrued to the date of redemption and shall be paid as provided in *Section 2.07* hereof.

(b) If on the Redemption Date for any Series 2001 Securities, moneys for the payment of the Redemption Price thereof, plus interest to accrue to the Redemption Date, are held by the Paying Agent therefor so as to be available therefor on said date, and if notice of redemption shall have been given as aforesaid, then, from and after such Redemption Date such Series 2001 Securities so called for redemption shall cease to bear interest; otherwise, such Series 2001 Securities shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Section 4.04. Satisfaction of Mandatory Redemption Requirements.

Reference is made to Section 11(b) of the Bond Resolution for provisions relating to the satisfaction of Mandatory Redemption Requirements. References therein to "Mandatory Redemption Requirements" refer to Sinking Fund Installments.

Section 4.05. Redemption of Less than all of a Security.

If there shall be called for redemption less than all of a Series 2001 Security in a denomination greater than minimum Authorized Denomination thereof, the City shall execute (if not otherwise executed) and the Registrar therefor shall authenticate and deliver upon surrender of such Series 2001 Security, without charge to such Holder thereof, a Series 2001 Security or Series 2001 Securities in any Authorized Denomination specified by such Holder not in excess of the aggregate principal of the unredeemed portion of such Series 2001 Security of the same tenor bearing interest at the same rate and maturing on the same date in the amount of the unredeemed portion of the Series 2001 Security so surrendered.

**Article V
Securities Depository and Financial Facilities**

Section 5.01. Concerning the Securities Depository.

(a) Reference is made to Section 7 of the Bond Resolution for provisions concerning the Securities Depository.

(b) Section 7 is hereby modified in order to conform to current municipal finance practices:

(1) All references therein to the "Transfer Agent" shall include the Transfer Agent to the extent otherwise applicable.

(2) All references therein to a "representation letter" shall, in the absence of a representation letter in accordance with current procedures of the Securities Depository, refer to the current operational procedures between the Securities Depository and the Transfer Agent and, if applicable, the Tender Agent.

(c) All provisions of Section 7 as above modified shall govern to the extent of any conflict with other provisions of the Sale Order *except* as may be otherwise required by a Financial Facilities Agreement.

Section 5.02. Financial Facility Agreements.

So long as any Financial Facility entered into pursuant to the Sale Order is in effect, and the obligor thereunder has not failed to comply with its payment obligations, the provisions thereof shall govern to the extent of any conflict with the Sale Order.

[End of General Terms of 2001 Securities Supplement]

Forms of Series 2001 Securities

The Types of the Series 2001 Securities shall be in substantially the following respective forms and tenor with such necessary or appropriate omissions, insertions and variations as are permitted or required by the Sale Order and are approved by the Persons executing the same and the Securities on behalf of the City and execution thereof by such Person shall constitute conclusive evidence of such approval.

Fixed Rate Securities

The Fixed Rate Securities shall be in substantially the following form with these particulars:

Series Designation	Priority	Aggregate Principal Amount
A	Senior	\$76,375,000
B	Second	\$110,550,000

[Form of Fixed Rate Securities begins on following page.]

[Form of Fixed Rate Securities]

R-

Notice: Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (*DTC*), to the City of Detroit or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of *DTC* (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of *DTC*), **any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful** inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

**United States of America
State of Michigan
County of Wayne**

**City of Detroit
Sewage Disposal System
[Priority] Lien Revenue Bonds
Series 2001([Series Designation])**

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Bond Date</u>	<u>CUSIP</u>
July 1 [Year of Maturity]		September 15, 2001	

Registered Holder: Cede & Co.

Principal Sum: \$

The **City of Detroit, Wayne County, Michigan** (the *City*) acknowledges itself indebted and for value received hereby promises to pay, but only from the sources hereinafter provided, to the Registered Holder named above, or registered assigns, on the Maturity Date the Principal Sum, unless redeemed prior thereto as hereinafter provided, upon presentation and surrender of this bond at the designated office of U.S. Bank Trust National Association as transfer agent or at the office of its successor as transfer agent (such transfer agent and any successor, the *Transfer Agent*) and interest on the Principal Sum from the Bond Date or from the most recent Interest Payment Date to which interest has been paid or duly provided for, until payment of the Principal Sum has been made or duly provided for, on January 1, 2002, and July 1, 2002, and semi-annually thereafter on each January 1 and July 1 at the Interest Rate shown above to the Person in whose name this bond is registered as of the 15th day of the preceding calendar month.

This bond is one of the bonds of a series of bonds designated "City of Detroit \$[Aggregate Principal Amount] Sewage Disposal System [Priority] Lien Revenue Bonds, Series 2001 [Series Designation]" (the *Bonds*). The Bonds are issued under the provisions of Act No. 94, Public Acts of Michigan, 1933, as amended (the *Act*), and pursuant to Ordinance No. 27-86 of the City, as amended and supplemented to the Bond Date (the *Bond Ordinance*), a Resolution adopted by the City on August 1, 2001, as amended (the *Resolution*), and a Composite Sale Order of the Finance Director dated, as to the Bonds, September 26, 2001 (the *Sale Order*, and together with the Bond Ordinance and the Resolution, the *Bond Documents*).

The Bonds are issued in full compliance with the Constitution and statutes of the State of Michigan, specifically including the Act, for the purposes set forth in the Bond Documents.

Pledge and Priority

For the prompt payment of principal (and premium, if any) of and interest on the Bonds, the Net Revenues of the System are irrevocably pledged and a statutory lien is hereby recognized and created. [*The following sentence to appear in only Series A Securities: 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 Bond Ordinance and secured by a first lien on Net Revenues.*] [*The following sentence to appear in only Series B Securities: Such lien is a second lien, subject to obligations heretofore and hereafter issued or incurred under the Bond Ordinance and secured by a first 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 Bond Ordinance and secured by a second lien on Net Revenues.*]

Payment in Legal Tender

The principal (and premium, if any) of, and interest on, this bond is payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Redemption

[*The following only appears in the Series A Securities:*
Optional Redemption

The Bonds maturing on and after July 1, 2012, are subject to redemption on and after July 1, 2011, upon notice given as required in the Bond Documents in whole or in part on any date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.]

Sinking Fund Redemption

[The following only appears in the Series A Securities:

The Bonds maturing on July 1, 2031, are subject to mandatory redemption prior to maturity upon notice given as required in the Bond Documents in part through the application of Sinking Fund Installments as provided in the Sale Order on each July 1, commencing July 1, 2023, at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.]

[The following only appears in the Series B Securities:

The Bonds are subject to mandatory redemption prior to maturity upon notice given as required in the Bond Documents in part through the application of Sinking Fund Installments as provided in the Sale Order on each July 1, commencing July 1, 2023, at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.]

Effect of Call for Optional or Mandatory Redemption

As of the Redemption Date, if this bond has been called for redemption, proper notice of redemption has been given and funds sufficient to pay the Redemption Price are available as provided in the Bond Documents interest will cease to accrue on this bond.

Transfer – Payments to Registered Holders

The registration of this bond is transferable only as provided in the Bond Documents. The Transfer Agent and the City may treat the Registered Holder hereof as the absolute owner hereof for all purposes, whether or not this bond shall be overdue.

Reference and Incorporation of Bond Documents

Reference is hereby made to the Bond Documents, and the provisions thereof as they relate to the Bonds are hereby made a part of this bond to the extent not in conflict with the terms stated in this bond.

Additional Obligations

[The following paragraph to appear only in the Series A Securities: The Bond Ordinance permits the issuance of additional Securities and the incurring of Ancillary Obligations secured with a lien on Net Revenues of a priority equal or lower than the priority of the lien securing this bond.]

[The following paragraph to appear only in the Series B Securities: The Bond Ordinance permits the issuance of additional Securities and the incurring of Ancillary Obligations secured

with a lien on Net Revenues of a priority senior to, equal or lower than the priority of the lien securing this bond.]

Amendment of Bond Documents.

The Bond Documents contain provisions permitting the amendment thereof, which, under certain circumstances, can become effective without any consent of registered holders of the Bonds and under other circumstances require consent of a majority of registered holder of the Bonds.

Obligation of Bonds

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 Net Revenues of the System. The principal of (and premium, if any) and interest on this bond are secured by the statutory lien of the priority described above.

Authentication Required for Validity

This bond shall not be valid until the certificate of authentication hereon shall have been signed as therein provided.

[Signatures and Certificate of Authentication follow]

In Witness Whereof, the City Council of 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 Finance Director and a facsimile of its corporate seal to be imprinted on this bond all as the Bond Date.

City of Detroit

By _____
Mayor

and _____
Finance Director

Certificate of Authentication

This bond is one of the bonds of the issue described in the within-mentioned Bond Documents.

U. S. Bank Trust National Association, Transfer Agent

By _____
Authorized Officer

Date of Authentication: _____, 2001

* * * * *

Statement of Insurance

[As required by Bond Insurer]

* * * * *

Form of Assignment

For Value Received the undersigned hereby sells, assigns and transfers unto

*[Please insert Social Security
or other identifying number
of assignee.]*

[Please print or typewrite name and address of transferee.]

the within bond and all rights thereunder and hereby irrevocably constitutes and appoints _____ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

[Bank, Trust Company or Firm]

Note: The signature to this assignment must correspond with the name as it appears on the face of the within bond in every particular, without alteration or enlargement or any change whatsoever.

Authorized Officer

Modal Securities

The Modal Securities shall be in substantially the following form with these particulars:

Series Designation	Priority	Refunding Caption	Year of Maturity	Initial Mode	Aggregate Principal Amount
C-1	Senior	Yes	2027	Weekly	\$159,970,000
C-2	Senior	Yes	2029	Weekly	\$127,165,000
E	Second	No	2031	Flexible	\$139,080,000

Series Designation	Type	Sinking Fund Year	Sale Order Date
C-1	Variable Rate Demand	2002	October 1
C-2	Variable Rate Demand	2002	October 1
E	Variable Rate Demand	2024	October 18

The Modal Securities shall have the designation of “(Variable Rate Demand)” upon initial issuance and until the mode is changed to the Auction Rate Mode or a Modal Fixed Rate Mode. Upon any such Mode change, the designation shall be respectively changed to “(ARCs)” or “(Modal Fixed Rate)” if and to the extent that new bond certificates are required by the Securities Depository.

[Form of Modal Securities begins on following page.]

R-

Notice: Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (*DTC*), to the City of Detroit or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of *DTC* (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of *DTC*), **any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.**

[The following to appear on all Modal Securities except Modal Fixed Rate Securities:
This bond is subject to mandatory tender for purchase at the time and in the manner as provided herein and must be so tendered, and if not so tendered will be deemed to have been tendered.]

**United States of America
State of Michigan
County of Wayne**

**City of Detroit
Sewage Disposal System
[Priority] Lien Revenue [Refunding] Bonds
([Type]),
Series 2001([Series Designation])**

Maturity Date	Interest Rate Mode	Bond Date	CUSIP
July 1 [Year of Maturity]	[Initial Mode]	October 23, 2001	

Registered Holder: Cede & Co.

Principal Sum: \$

The City of Detroit, Wayne County, Michigan (the *City*) acknowledges itself indebted and for value received hereby promises to pay, but only from the sources hereinafter provided, to the Registered Holder named above, or registered assigns, on the Maturity Date the Principal Sum, unless redeemed prior thereto as hereinafter provided, upon presentation and surrender of this bond as provided in the hereinafter defined VRM Supplement and interest on the Principal Sum from the Bond Date or from the most recent Interest Payment Date to which interest has

been paid or duly provided for, until payment of the Principal Sum has been made or duly provided for, on the dates (*Interest Payment Dates*) and at the rates determined as described below to the Person in whose name this bond is registered as of the record date established as provided in the VRM Supplement.

This bond is one of the bonds of a series of bonds designated "City of Detroit \$[*Aggregate Principal Amount*] Sewage Disposal System [*Priority*] Lien Revenue [*Refunding*] Bonds [*Type*], Series 2001[*Series Designation*]" (the *Bonds*). The Bonds are issued under the provisions of Act No. 94, Public Acts of Michigan, 1933, as amended (the *Act*), and pursuant to Ordinance No. 27-86 of the City, as amended and supplemented to the Bond Date (the *Bond Ordinance*), a Resolution adopted by the City on August 1, 2001, as amended (the *Resolution*), and a Composite Sale Order of the Finance Director dated, as to the Bonds, [*Sale Order Date*], 2001 (the *Sale Order*, and together with the Bond Ordinance and the Resolution, the *Bond Documents*) and particularly Annex C to the Sale Order, titled "Variable Rate Mode Supplement and Agreement", dated as of September 1, 2001 (the *VRM Supplement*), among the City, U.S. Bank Trust National Association, as trustee and transfer agent (as transfer agent, together with any successor transfer agent, the *Transfer Agent*) and U.S. Bank Trust National Association, as tender agent (together with any successors tender agent, the *Tender Agent*).

The Bonds are issued in full compliance with the Constitution and statutes of the State of Michigan, specifically including the Act, for the purposes set forth in the Bond Documents.

Pledge and Priority

For the prompt payment of principal (and premium, if any) of and interest, the Net Revenues of the System are irrevocably pledged and a statutory lien is hereby recognized and created. [*The following sentence to appear in only Series C Securities: 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 Bond Ordinance and secured by a first lien on Net Revenues.*] [*The following sentence to appear in only Series E Securities: Such lien is a second lien, subject to obligations heretofore and hereafter issued or incurred under the Bond Ordinance and secured by a first 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 Bond Ordinance and secured by a second lien on Net Revenues.*]

Interest Modes

The Bonds bear interest as modal bonds. As such, the interest mode (a *Mode*) of Bonds may be changed from one Mode to another as provided in the VRM Supplement, and while in a Mode are subject to redemption and tender particular to that Mode as provided in the VRM Supplement. [*The following sentence to appear in only Series C Securities: The VRM Supplement does not require all Bonds to be in the same Mode; consequently, the circumstances of redemption and tender may not be the same for all Bonds.*] [*The following sentence to appear*

in only Series E Securities: Except while in the Flexible Rate Mode, the VRM Supplement does not require all Bonds to be in the same Mode; consequently, while in any Mode other than the Flexible Mode, the circumstances of redemption and tender may not be the same for all Bonds. While in the Flexible Rate Mode, the VRM Supplement requires all Bonds to be in that Mode and the circumstances of redemption and tender will be the same for all Bonds.]

Interest

The interest rate of this bond is determined by the Remarketing Agent on the Rate Determination Date for the Mode in effect at the time and is effective as of the immediately following Interest Adjustment Date for such Mode and until (and excluding) the next Interest Adjustment Date *or if* such Mode includes only one Interest Adjustment Date *then* the day before such Mode is changed. Interest is calculated at the Day Count Convention for the particular Mode and is payable in the manner provided for in the VRM Supplement.

Principal

The principal (and premium, if any) of this bond at maturity or prior redemption is payable to the Registered Holder upon surrender to either the Transfer Agent or the Tender Agent.

Payment in Legal Tender

The principal (and premium, if any) of, and interest on, this bond is payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Tenders

Optional Tender

While in the Daily Mode or Weekly Mode, this bond may be tendered to the Tender Agent at the option of the Registered Holder at the Purchase Price of 100% of the principal amount thereof, plus interest accrued to the Purchase Date, upon notice given by the Registered Holder as provided in the VRM Supplement. The VRM Supplement provides that the right of the Registered Holder to tender this bond at the Registered Holder's option shall be suspended upon the occurrence of a Termination Event.

Mandatory Tender

The VRM Supplement provides that this bond is subject to mandatory tender to the Tender Agent upon the occurrence of any of certain events enumerated in the VRM Supplement upon notice as is required therein to be given at the Purchase Price of 100% of the Principal Sum plus interest accrued thereon to the Purchase Date. [*The following sentence to appear in only Series*

E Securities: When in the Flexible Rate Mode, this bond is required to be tendered to the Tender Agent on the last day of each Flexible Rate Mode without notice unless this bond is also subject to a Mode change on such date. In that case, such notice shall be given as required by the VRM Supplement for a Mode change.]

Effect of Exercise of Option for Optional Tender or Call for Mandatory Tender

If the Registered Holder of this bond shall exercise its option to tender this bond *or if* this bond is called for mandatory tender, all as provided in the VRM Supplement, *then* the Purchase Price of this bond (which includes interest accrued to the Purchase Date) shall become due and payable on the Purchase Date, and *if* on such Purchase Date the Tender Agent holds amounts sufficient to pay such Purchase Price, *then* interest on this bond shall cease to accrue; *otherwise*, this bond shall continue to bear interest as if it had not been called for tender on such Purchase Date.

Payment of Purchase Price on Tender

The VRM Supplement provides that, subject to certain exceptions, the City shall maintain a Liquidity Facility to pay the Purchase Price of this bond upon optional or a mandatory tender. The VRM Supplement further provides that the Purchase Price is payable solely from amounts made available under the Liquidity Facility and that none of the City, the Transfer Agent, the Tender Agent, the Remarketing Agent or the Bond Insurer is obligated to provide funds for the payment of the Purchase Price.

Redemption

Optional Redemption – Short-Term Mode

When in a Daily Mode or a Weekly Mode, this bond is subject to redemption prior to maturity upon notice given as required in the VRM Supplement in whole or in part on any Modal Business Day at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

[*The following paragraph to appear in only Series E Securities:* When in a Flexible Rate Weekly Mode, this bond is subject to redemption prior to maturity upon notice given as required in the VRM Supplement in whole or in part on any Interest Payment Date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.]

Optional Redemption – Fixed Rate Mode

When in the Modal Fixed Rate Mode, this bond is subject to redemption prior to maturity upon notice given as required in the VRM Supplement in whole on any date or in part on any

Interest Payment Date at the option of the City at the Redemption Prices set forth in the VRM Supplement plus interest accrued to the Redemption Date.

Sinking Fund Redemption

This bond is subject to mandatory redemption prior to maturity upon notice given as required in the VRM Supplement in part through the application of Sinking Fund Installments as provided in the Sale Order on each July 1, commencing July 1, [*Sinking Fund Year*] at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

Effect of Call for Optional or Mandatory Redemption

As of the Redemption Date, if this bond has been called for redemption, proper notice of redemption has been given and funds sufficient to pay the Redemption Price are available as provided in the Bond Documents interest will cease to accrue on this bond.

Transfer – Payments to Registered Holders

The registration of this bond is transferable only as provided in the VRM Supplement. The Tender Agent, the Transfer Agent, the Remarketing Agent and the City may treat the Registered Holder hereof as the absolute owner hereof for all purposes, whether or not this bond shall be overdue.

Reference and Incorporation of Bond Documents

Reference is hereby made to the Bond Documents, and the provisions thereof as they relate to the Bonds are hereby made a part of this bond to the extent not in conflict with the terms stated in this bond.

Additional Obligations

[The following paragraph to appear only in the Series C Securities: The Bond Ordinance permits the issuance of additional Securities and the incurring of Ancillary Obligations secured with a lien on Net Revenues of a priority equal or lower than the priority of the lien securing this bond.]

[The following paragraph to appear only in the Series D Securities: The Bond Ordinance permits the issuance of additional Securities and the incurring of Ancillary Obligations secured with a lien on Net Revenues of a priority senior to, equal or lower than the priority of the lien securing this bond.]

Amendment of Bond Documents.

The Bond Documents contain provisions permitting the amendment thereof, which, under certain circumstances, can become effective without any consent of registered holders of the Bonds and under other circumstances require consent of a majority of registered holder of the Bonds.

Obligation of Bonds

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 Net Revenues of the System. The principal of (and premium, if any) and interest on this bond are secured by the statutory lien of the priority described above.

Authentication Required for Validity

This bond shall not be valid until the certificate of authentication hereon shall have been signed as therein provided.

[Signatures and Certificate of Authentication follow]

In Witness Whereof, the City Council of 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 Finance Director and a facsimile of its corporate seal to be imprinted on this bond all as the Bond Date.

City of Detroit

By _____
Mayor

and _____
Finance Director

Certificate of Authentication

This bond is one of the bonds of the issue described in the within-mentioned Bond Documents.

U. S. Bank Trust National Association, Transfer Agent

By _____
Authorized Officer

Date of Authentication: _____, 2001

* * * * *

Statement of Insurance

[As required by Bond Insurer]

* * * * *

Form of Assignment

For Value Received the undersigned hereby sells, assigns and transfers unto

*[Please insert Social Security
or other identifying number
of assignee.]*

[Please print or typewrite name and address of transferee.]

the within bond and all rights thereunder and hereby irrevocably constitutes and appoints _____ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

[Bank, Trust Company or Firm]

Note: The signature to this assignment must correspond with the name as it appears on the face of the within bond in every particular, without alteration or enlargement or any change whatsoever.

Authorized Officer

[Annex B — Intentionally Omitted]

**[THIS ITEM – THE VARIABLE RATE SUPPLEMENT – HAS BEEN REMOVED
AND
ADDED TO NUMBER 8(A) AS INDICATED IN THE CLOSING MEMORANDUM]**

FSA Insured Securities Provisions

1. Applicability.

This Exhibit shall be in effect for only so long as Financial Security Assurance Inc, a New York stock insurance company, or any successor thereto, is the insurer of the FSA Insured Securities and has not failed to comply with its payment obligations under the FSA Bond Insurance Policy. For so long as this Exhibit is in effect, it shall be applicable in respect of the FSA Insured Securities *notwithstanding* anything to the contrary elsewhere contained in the Sale Order, including the VRM Supplement.

2. FSA Sole Holder for Purposes of Consents.

2.01. The FSA Bond Insurer shall be deemed to be the sole holder of the FSA Insured Securities 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 FSA Insured Securities are entitled to take pursuant to the Bond Ordinance or the VRM Supplement

2.02. The rights of FSA Bond Insurer to request, consent to or direct any action are rights granted to the FSA Bond Insurer in consideration of its issuance of the FSA Bond Insurance Policy. Any exercise by the FSA Bond Insurer of such rights is merely an exercise of the FSA Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Securityholders nor does such action evidence any position of the FSA Bond Insurer, positive or negative, as to whether Second Lien Bondholder consent is required in addition to consent of the FSA Bond Insurer.

3. Mode Change to Fixed Rate.

3.01. The Finance Director shall take such steps as are necessary to change the mode of any outstanding FSA Insured Variable Rate Securities to the Modal Fixed Rate Mode upon the request of the FSA Bond Insurer for any reason described below.

3.02. The FSA Bond Insurer may request the Finance Director shall take such steps as are necessary to change the mode of any outstanding FSA Insured Variable Rate Securities to the Modal Fixed Rate Mode for any of the following reasons and no other:

3.02.01. The Liquidity Provider for the FSA Insured Securities (the *FSA Related Liquidity Provider*) failed to purchase FSA Insured Variable Rate Securities when obligated by its Liquidity Facility to do so.

3.02.02. An Immediate Termination Event occurs in respect of FSA Insured Variable Rate Securities *or* a mandatory tender event occurs that is either a Last Put Termination Event or the Occurrence of Expiry Date and FSA Insured Variable Rate Securities are subject to the mandatory tender by reason of such occurrence.

3.02.03. Provider Bonds insured by FSA are held by the FSA Related Liquidity Provider for 45 days or more in any year commencing on a July 2 and ending on the following July 1 (a *Bond Year*) or there are two failed remarketings in any bond Year.

3.02.04. If Provider Bonds insured by FSA bear interest at the Legal Maximum Rate.

4. No Acceleration Except with Consent.

The maturity of FSA Insured Securities shall not be accelerated without the consent of the FSA Bond Insurer.

5. Modifications, Amendments and Supplements.

5.01. No modification, amendment or supplement to the Bond Ordinance requiring the consent of holders of FSA Insured Securities, the Bond Resolution or the Sale Order as it relates to FSA Insured Securities (each a *Related Document*) or that materially adversely affects its rights thereunder may become effective except upon obtaining the prior written consent of the FSA Bond Insurer.

5.02. Copies of any modification or amendment to the Bond Ordinance or any other Related Document shall be sent to Standard & Poor's Ratings Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof.

6. Defeasance.

6.01. Only (i) cash, (ii) non-callable direct obligations of the United States of America (*Treasuries*), (iii) 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 or (iv) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or any combination thereof, shall be authorized to be used to effect defeasance of the FSA Insured Securities *unless* the FSA Bond Insurer otherwise approves.

6.02. To accomplish defeasance of FSA Insured Securities, the City 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 FSA Bond Insurer (*Accountant*) verifying the sufficiency of the escrow established to pay the FSA Insured Securities to be defeased in full on the maturity or redemption date (*Verification*), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the FSA Bond Insurer), and (iii) an opinion of Bond Counsel to the effect that the FSA Insured Securities are no longer "Outstanding" under the Bond Ordinance; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City and the FSA Bond Insurer.

6.03. In the event a forward purchase agreement will be employed in advance refunding FSA Insured Securities, such agreement shall be subject to the approval of the FSA Bond Insurer and shall be accompanied by such opinions of counsel as may be required by the FSA Bond Insurer.

6.04. The FSA Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

7. FSA Insured Securities to Remain “Outstanding”.

To the extent not already provided elsewhere in the VRM Supplement, amounts paid by the FSA Bond Insurer under the FSA Bond Insurance Policy shall not be deemed paid for purposes of the Bond Ordinance and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Bond Ordinance.

8. Claims Upon the FSA Bond Insurance Policy; Payments by and to the FSA Bond Insurer.

8.01. *Notices Prior to Payment Date.*

8.01.01. *If, on the third Business Day (being a day on which the City, the Transfer Agent and the FSA Bond Insurer are not authorized or required to remain closed) prior to the related scheduled interest payment date or principal payment date or the date to which bond maturity has been accelerated (a Payment Date) there is not credit to the Second Lien Bond Interest and Redemption Fund moneys sufficient to pay the principal of and interest on the FSA Insured Securities due on such Payment Date, then the City shall give notice to the FSA Bond Insurer and to its designated agent (if any) (the FSA Bond Insurer's Fiscal Agent) by telephone or telecopy of the amount of such deficiency by 12:00 noon on such Business Day.*

8.01.02. *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 FSA Insured Securities due on such Payment Date, then the City shall make a claim under the FSA Bond Insurance Policy and give notice to the FSA Bond Insurer and the FSA Bond 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 FSA Insured Securities and the amount required to pay principal of the FSA Insured Securities, confirmed in writing to the FSA Bond Insurer and the FSA Bond Insurer's Fiscal Agent by 12:00 noon on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the FSA Bond Insurance Policy.*

8.02. *Registration and Replacement of FSA Insured Securities.*

8.02.01. In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Transfer Agent shall

authenticate and deliver to affected Securityholders who surrender their FSA Insured Securities a new Series C-1 Security or Series C-1 Securities in an aggregate principal amount equal to the unredeemed portion of the FSA Insured Security surrendered.

8.02.02. The Transfer Agent shall designate any portion of payment of principal on FSA Insured Securities paid by the FSA Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, in the Registry as a reduction in the principal amount of FSA Insured Securities registered to the then current Securityholder, whether Securities Depository or its nominee or otherwise, and shall issue a replacement Series C-1 Security to the FSA Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to Authorized Denominations); *provided* that the Transfer Agent's failure to so designate any payment or issue any replacement Series C-1 Security shall have no effect on the amount of principal or interest payable by the City on any Series C-1 Security or the subrogation rights of the FSA Bond Insurer.

8.03. *Policy Payments Account.*

8.03.01. Upon payment of a claim under the FSA Bond Insurance Policy the Transfer Agent shall establish a separate special purpose trust account for the benefit of Holders of FSA Insured Securities referred to herein as the *Policy Payments Account* and over which the Transfer Agent shall have exclusive control and sole right of withdrawal.

8.03.02. The Transfer Agent shall receive any amount paid under the FSA Bond Insurance Policy in trust on behalf of Holders of FSA Insured Securities 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.

8.03.03. Amounts to be paid to Holders of FSA Insured Securities shall be disbursed by the Transfer Agent to Holders of FSA Insured Securities in the same manner as principal and interest payments are to be made under the VRM Supplement with respect to the Fixed Rate Modal Securities *except* that 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.

8.03.04. The Transfer Agent shall keep a complete and accurate record of all funds deposited by the FSA Bond Insurer into the Policy Payments Account and the allocation of such funds to payment of interest on and principal paid in respect of any FSA Insured Security. The FSA Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Transfer Agent

8.03.05. Funds held in the Policy Payments Account shall not be invested by the Transfer Agent and may not be applied to satisfy any costs, expenses or liabilities of the Transfer Agent.

8.03.06. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the FSA Bond Insurer.

9. Subrogation.

To the extent not already provided elsewhere in the VRM Supplement, the FSA Bond Insurer shall, to the extent it makes any payment of principal of or interest on the FSA Insured Securities, become subrogated to the rights of the recipients of such payments in accordance with the terms of the FSA Bond Insurance Policy.

10. FSA Fee and Expenses.

10.01. The City shall pay or reimburse the FSA Bond Insurer any and all charges, fees, costs and expenses which the FSA Bond Insurer may reasonably pay or incur in connection with:

10.01.01. the administration, enforcement, defense or preservation of any rights or security in any Related Document;

10.01.02. the pursuit of any remedies under the Bond Ordinance or any other Related Document or otherwise afforded by law or equity;

10.01.03. any amendment, waiver or other action with respect to, or related to, the Bond Ordinance or any other Related Document whether or not executed or completed;

10.01.04. the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it with respect to FSA Insured Securities; or

10.01.05. any litigation or other dispute in connection with the Bond Ordinance or any other Related Document or the transactions contemplated thereby, *other* than amounts resulting from the failure of the FSA Bond Insurer to honor its obligations under the FSA Bond Insurance Policy.

10.02. The FSA Bond 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 Ordinance or any other Related Document.

11. FSA's Right to Pay.

The FSA Bond Insurer shall be entitled to pay principal of or interest on the FSA Insured Securities that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the FSA Bond Insurance Policy) and any amounts due on the FSA Insured Securities as a result of acceleration of the maturity thereof in accordance with the Bond Ordinance, whether or not the FSA Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the FSA Bond Insurance Policy) or a claim upon the FSA Bond Insurance Policy.

12. Notices to FSA.

12.01. The notice address of the FSA Bond Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director -- Surveillance; Re: Policy No. Telephone: (212) 826-0100; Telecopier: (212) 339-3529.

12.02. 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 General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

13. Reporting.

The FSA Bond Insurer shall be provided with the following information:

13.01. The budget for each Fiscal Year promptly after adoption and the Audited Sewage Disposal Fund Financial Statements (as defined in the Master Continuing Disclosure Agreement with respect to the Insured Securities) concurrently with the filing thereof with each NRMSIR and the SID pursuant to such Master Continuing Disclosure Agreement;

13.02. Notice of any draw upon the Second Lien Bond Reserve Account within two Business Days after knowledge thereof *other* than (i) withdrawals of amounts in excess of the Second Lien Bond Reserve Requirement and (ii) withdrawals in connection with a refunding of FSA Insured Securities;

13.03. Notice of any default under the Bond Ordinance known to the City within five Business Days after knowledge thereof;

13.04. Prior notice of the advance refunding or redemption of any of the FSA Insured Securities, including the principal amount, maturities and CUSIP numbers thereof;

13.05. Notice of the resignation or removal of the Transfer Agent and Registrar and the appointment of, and acceptance of duties by, any successor thereto;

13.06. Notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an *Insolvency Proceeding*);

13.07. 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 FSA Insured Securities;

13.08. A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Related Documents; and

13.09. All reports, notices and correspondence to be delivered under the terms of the

Related Documents to Holders of FSA Insured Securities.

14. Further Assurance.

The City agrees to take such action as is necessary from time to time to perfect or to otherwise preserve the priority of the pledge of the Net Revenues pledged to the Second Lien Bonds under applicable law.

15. Additional Second Lien Bonds.

Notwithstanding satisfaction of other conditions to the issuance of additional Second Lien Bonds contained in the Bond Ordinance, no such issuance may occur (unless otherwise permitted by the FSA Bond Insurer):

15.01. if any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing *unless* such default shall be cured upon such issuance or

15.02. *Unless* the Second Lien Bond Reserve Account is fully funded at its requirement (including the new issue) upon the issuance of such additional Second Lien Bonds.

16. Reserve Fund Surety Bonds.

Any debt service reserve policy or other credit instrument obtained for the Second Lien Bond Reserve Account after the issuance of the Series 2001 Securities shall be acceptable to Financial Security.

17. Enforce Rights.

The FSA Bond Insurer is a third party beneficiary of the VRM Supplement for the purpose for the purpose of enforcing the rights granted it thereunder.

[*End of Exhibit 10.01*]

Auction Rate Mode Supplement

to the

**Composite Sale Order of the Finance Director
of the
City of Detroit**

with respect to

**\$92,450,000
Sewage Disposal System Second Lien Revenue Bonds (ARCs),
Series 2001(D)**

\$20,000,000 Series 2001 (D-1)

\$72,450,000 Series 2001 (D-2)

.Dated as of October 1, 2001

This Auction Rate Mode Supplement (the *Supplement*) supplements the Composite Sale Order of the Finance Director of the City of Detroit (the *Sale Order*) dated October 18, 2001 entered into pursuant to the Bond Resolution described in the Sale Order (the *Bond Resolution*) relating to the issuance by the City of Detroit (the *City*) of its Sewage Disposal System Revenue and Revenue Refunding Bonds, Series 2001 (the *Series 2001 Securities*) under Ordinance No. 27-86, as amended (the *Bond Ordinance*).

ARTICLE I DEFINITIONS; GENERAL PROVISIONS

Section 1.1 Certain Definitions. In addition to the terms defined elsewhere in the Bond Ordinance, the Bond Resolution, the Sale Order, the preamble to this Supplement, the General Terms of Series 2001 Securities Supplement described in the Sale Order (the *General Supplement*) and the Variable Rate Mode Supplement and Agreement described in the Sale Order (the *VRM Supplement*), the following terms shall have the following meanings with respect to the Series 2001 Securities issued as (or converted to) Auction Rate Securities:

"AA" Financial Commercial Paper Rate, on any date of determination, shall mean (a) for Auction Periods of 35 days or less, the interest equivalent of commercial paper having a maturity of 30 days, (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper having a maturity of 90 days; as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/histrates.txt>, or any successor publication ("H.15(519)") under the caption "AA financial." In the event that such publication has not been published in a timely manner, the "AA" Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in the City of New York (which may include UBS PaineWebber Inc.) selected by the Market Agent, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial issuers whose bond rating is "AA" or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Market Agent are not quoting as mentioned in this sentence (and if the Market Agent, in its discretion, determines that such quotations can not be obtained from any three leading dealers of U.S. dollar commercial paper in the City of New York) such rate shall be the same rate as in effect for the immediately preceding Interest Payment Period. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (A) 100 times (B) the discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

After-Tax Equivalent Rate, on any date of determination, shall mean the interest rate per annum equal to the product of:

- i. the "AA" Financial Commercial Paper Rate on such date; and
- ii. 1.00 minus the Statutory Corporate Tax Rate on such date.

All Hold Rate on any date of determination shall mean the interest rate per annum equal to 90% (as such percentage may be adjusted pursuant to Section 1.12 of this Supplement) of the lesser on such date of:

- i. the After-Tax Equivalent Rate on such date; and
- ii. the Kenny Index on such date;

rounded to the nearest one thousandth (.001) of 1%; provided that in no event shall the All Hold Rate be more than the Maximum ARC Rate or less than zero.

Applicable ARCs Rate shall have the meaning set forth in Section 1.4(b) of this Supplement.

Applicable Number of Business Days means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

Applicable Percentage, on any date of determination, shall mean the percentage determined (as such percentage may be adjusted pursuant to Section 1.12 of this Supplement) based on the lower of the prevailing credit ratings on the ARCs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

<u>Credit Ratings</u>		
Moody's Investors Service	Standard & Poor's Corporation	Applicable Percentage
"Aaa"	"AAA"	175%
"Aa3" to "Aa1"	"AA-" to "AA+"	175%
"A3" to "A1"	"A-" to "A+"	175%
"Baa3" to "Baa1"	"BBB-" to "BBB+"	200%
Below "Baa3"	Below "BBB-"	265%

provided, that, in the event that the ARCs are not rated by any nationally recognized rating agency, the Applicable Percentage shall be 265%, and, provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%. For purposes of this definition, Standard & Poor's Corporation's rating categories of "AAA," "AA," "A" and "BBB," and Moody's Investors Service's rating categories of "Aaa," "Aa," "A" and

"Baa," refer to and include the respective rating categories correlative thereto if either or both of such rating agencies have changed or modified their generic rating categories or if Moody's Investors Service or Standard & Poor's Corporation no longer rates the ARCs and have been replaced.

ARCs shall mean the Series 2001 Securities outstanding as Auction Rate Securities under the Sale Order and this Supplement (including Series 2001 Securities converted to ARCs pursuant to the VRM Supplement).

Auction shall mean each periodic implementation of the Auction Procedures.

Auction Agency Agreement shall mean the Auction Agency Agreement relating to the ARCs between the Transfer Agent and the Auction Agent and any similar agreement with a successor Auction Agent or successor Transfer Agent, in each case as from time to time amended or supplemented.

Auction Agent shall mean any Person appointed as such pursuant to Section 1.14 of this Supplement.

Auction Agent Fee shall mean the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agency Agreement and the Broker-Dealer Agreement.

Auction Date shall mean, for each Tranche of ARCs, the Initial Auction Date and thereafter, in each instance, the Business Day immediately preceding the first day of each Interest Period, other than:

- i. each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository;
- ii. each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- iii. any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to Section 1.17 of this Supplement.

Auction Period means, for each Tranche of ARCs, each Initial Auction Period and thereafter the Interest Period applicable thereto as the same may be changed pursuant to Section 1.17 of this Supplement.

Auction Procedures shall mean the procedures set forth in Section 1.6 of this Supplement.

Auction Rate shall mean the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures, and determined as described in Section 1.6(c)(ii) of this Supplement.

Authorized Denominations shall mean \$25,000 and any integral multiple thereof.

Available ARCs shall have the meaning set forth in Section 1.6(c)(i)(A) of this Supplement.

Bid shall have the meaning set forth in Section 1.6(a)(i) of this Supplement.

Bidder shall have the meaning set forth in Section 1.6(a)(i) of this Supplement.

Bond Counsel shall mean Lewis & Munday, A Professional Corporation, and Howard and Howard Attorneys, P.C., Bond Counsel to the City with respect to the Series 2001 Securities, or such other firm or firms of national recognized standing in the field of tax-exempt municipal bonds as may be appointed by the City (with the prior written consent of the Bond Insurer, which consent shall not be unreasonably withheld) in lieu thereof.

Bond Insurance shall mean, with respect to each Tranche of ARCs, the municipal bond insurance policy of the Bond Insurer issuing the same.

Bond Insurer shall mean MBIA with respect to Tranche D-1 and Tranche D-2, shall mean FSA with respect to any future Tranche of Variable Rate Securities Series C-1 converted to the Auction Rate Mode under the VRM Supplement and shall mean FGIC with respect to any future Tranche of Variable Rate Securities Series C-2 converted to the Auction Rate Mode under the VRM Supplement.

Broker-Dealer shall mean UBS PaineWebber Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (i) is a Participant (or an affiliate of a Participant), (ii) has a capital surplus of at least \$50,000,000, (iii) has been selected by the City with the approval of the Market Agent and the Bond Insurer (which approvals shall not be unreasonably withheld) and (iv) has entered into a Broker-Dealer Agreement that remains effective.

Broker-Dealer Agreement shall mean the Broker-Dealer Agreement relating to the ARCs between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

Broker-Dealer Fee shall mean the fee to be paid to the Broker-Dealers for the services rendered by them under the Broker-Dealer Agreement.

Business Day shall mean, for purposes of any Auction, any day other than (i) April 14, April 15, December 30, December 31, and such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer, the Bond Insurer and the City, or (ii) a Saturday, Sunday, holiday or day on which banks located in the city of New York, New York, or the New York Stock Exchange, the Transfer Agent or the Auction Agent, are authorized or permitted by law or executive order to close.

Change of Preference Law shall mean, with respect to any Holder of ARCs, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under section 103 of the Code.

Commercial Paper Dealers means UBS PaineWebber Inc. or its successor or any other commercial paper dealer appointed by the City.

Default Rate, on any date of determination, shall mean the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the Kenny Index and (ii) the Maximum ARC Rate.

Existing Holder means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of ARCs.

Favorable Bond Counsel's Opinion shall mean, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Supplement, the Sale Order and the Authorizing Documents, and (ii) such action will not adversely affect the exemption of the interest on the Series 2001 Securities from federal and state income taxation (subject to customary exceptions).

FGIC shall mean Financial Guaranty Insurance Company as the insurer of the Variable Rate Securities Series C-2 initially issued pursuant to the VRM Supplement.

FSA shall mean Financial Security Assurance Inc. as the insurer of the Variable Rate Securities Series C-1 initially issued pursuant to the VRM Supplement.

Holder as used in this Supplement shall mean the beneficial owner of any ARCs.

Hold Order shall have the meaning set forth in Section 1.6(a)(i) of this Supplement.

Initial Auction Date shall mean (i) June 25, 2008, for Tranche D-1, (ii) December 28, 2011, for Tranche D-2 and (iii) the date specified by the Finance Director in the applicable Mode Change Notice for any future Tranche of Variable Rate Securities converted to the Auction Rate Mode under the VRM Supplement.

Initial Auction Period shall mean the period from and including (i) July 1, 2008, to and including August 6, 2008, for Tranche D-1, (ii) January 1, 2012, to and including February 1, 2012, for Tranche D-2 and (iii) the dates specified by the Finance Director in the

applicable Mode Change Notice for any future Tranche of Variable Rate Securities converted to the Auction Rate Mode under the VRM Supplement.

Initial Interest Payment Date shall mean (i) January 1, 2002, for Tranche D-1 and D-2 and (ii) the date specified by the Finance Director in the applicable Mode Change Notice for any future Tranche of Variable Rate Securities converted to the Auction Rate Mode under the VRM Supplement.

Initial Interest Period shall mean the period commencing on the date of delivery of the Series 2001 Securities and ending on (and including) (i) June 30, 2008, for Tranche D-1, (ii) December 31, 2011, for Tranche D-2 and (iii) the period specified by the Finance Director in the applicable Mode Change Notice for any future Tranche of Variable Rate Securities converted to the Auction Rate Mode under the VRM Supplement.

Interest Amount shall mean the amount of interest distributable in respect of each \$25,000 in principal amount (taken, without rounding, to .0001 of one cent) of ARCs for any Interest Period or part thereof, as calculated in accordance with Section 1.10 of this Supplement.

Interest Payment Date means the Initial Interest Payment Date and thereafter each July 1 and January 1 during (and the July 1 or January 1, as applicable, immediately following) an Initial Interest Period, and thereafter the Business Day following the last day of each Auction Period, except as changed as described in Section 1.17(a) of this Supplement, and in all cases on the maturity of the Series 2001 Securities, whether at stated maturity, a Redemption Date, or otherwise.

Interest Period means with respect to each Tranche of Series 2001 Securities issued as ARCs, unless otherwise changed as described in Section 1.17(a) of this Supplement, the Initial Interest Period for such Tranche, the Initial Auction Period for such Tranche and each successive period of generally 35 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case such Interest Period will end on the next succeeding day after such Wednesday that is followed by a Business Day).

Kenny Index shall mean the index most recently made available by Kenny S&P Evaluation Services (**Kenny**) or any successor thereto (the **Indexing Agent**) based upon 30-day yield evaluations at par of securities, the interest on which is excluded from gross income for federal income tax purposes under the Code, of not less than five "Intermediate Grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The securities on which the Kenny Index is based shall not include any securities the interest on which is subject to a "minimum tax" or similar tax under the Code, unless all such securities are subject to such tax. In the event that Kenny no longer publishes an index satisfying the above definition of the Kenny Index or the Market Agent reasonably concludes that the Kenny Index will not be announced in a timely manner, then the Market Agent shall announce a rate based upon the same criteria used by Kenny to determine the Kenny Index and the rate announced by the Market

Agent for each Auction Date thereafter shall be used in lieu of the Kenny Index for each Auction Date.

Market Agent shall mean the market agent or market agents appointed pursuant to Section 1.13 of this Supplement, and its or their successors or assigns.

Market Agent Agreement shall mean the Market Agent Agreement relating to the ARCs, between the Transfer Agent and the Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

Maximum Interest Rate shall mean the lesser of (a) 12% per annum or (b) the maximum interest rate permitted by the laws of the State of Michigan.

Maximum ARC Rate, on any date of determination, shall mean the interest rate per annum equal to the lesser of:

- i. the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date and (ii) the Kenny Index on such date; and
- ii. the Maximum Interest Rate;

rounded to the nearest one thousandth (.001) of 1%.

MBIA shall mean MBIA Insurance Corporation as the insurer of Tranche D-1 and Tranche D-2 of Series 2001 Securities initially issued as ARCs pursuant to this Supplement.

Order shall have the meaning set forth in Section 1.6(a) of this Supplement.

Participant shall mean a member of or participant in, the Depository.

Payment Default shall mean failure of both the City and the Bond Insurer to make payment of interest on, premium, if any, and principal of the ARCs when due.

Person means and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

Potential Holder means any Person (including an Existing Holder that is (i) a Broker-Dealer when dealing with the Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Holder thereof, an additional principal amount of ARCs).

Qualified Surety Bond means a debt service reserve surety bond, other than the Reserve Policy, satisfying the Reserve Requirement for the Second Lien Bond Reserve Account (i) issued by MBIA or by an insurance company other than MBIA which is rated in the highest category by Standard & Poor's Corporation and Moody's Investors Service, Inc. and, if rated by A.M. Best & Company, is also rated in the highest rating category by A.M. Best & Company or (ii) otherwise approved in writing by MBIA.

Rating Agency shall mean, on any date, each nationally recognized statistical rating organization (as such term is used in Rule 15c3-1 of the Securities and Exchange Commission) that has a rating in effect on the Securities on such date.

Rating Confirmation shall mean a writing from each Rating Agency stating that the rating on the Securities (without giving effect to Bond Insurance) will not be reduced or withdrawn as a result of the action proposed to be taken.

Record Date shall mean, during the Initial Interest Period for each Tranche of ARCs, each December 15 and June 15 and thereafter, so long as Interest Payment Dates are specified to occur at the end of each Auction Period as provided in this Supplement, the Applicable Number of Business Days immediately preceding each Interest Payment Date.

Redemption Date, when used with respect to any ARCs to be redeemed, shall mean the date fixed for such redemption.

Registrar shall mean the Transfer Agent or any separate registrar appointed under the Sales Order with respect to the Series 2001 Securities.

Reserve Policy means the \$7,379,761.42 Debt Service Reserve Surety Bond dated October 23, 2001 and expiring on July 1, 2032 issued by MBIA in satisfaction of the Reserve Requirement for Second Lien Bonds created by the issuance of Tranches D-1 and D-2 of ARCs pursuant to this Supplement.

SEC shall mean the Securities and Exchange Commission.

Securities Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Securityholder shall mean the registered owner of an ARC or, as applicable, any other Series 2001 Security.

Sell Order shall have the meaning set forth in Section 1.6(a) of this Supplement.

Statutory Corporate Tax Rate shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year.

Submission Deadline shall mean 1:00 p.m., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

Submitted Bid shall have the meaning set forth in Section 1.6(c)(i) of this Supplement.

Submitted Hold Order shall have the meaning set forth in Section 1.6(c)(i) of this Supplement.

Submitted Order shall have the meaning set forth in Section 1.6(c)(i) of this Supplement.

Submitted Sell Order shall have the meaning set forth in Section 1.6(c)(i) of this Supplement.

Sufficient Clearing Bids shall have the meaning set forth in Section 1.6(c)(i)(B) of this Supplement.

Tranche shall mean (i) each of the subseries of ARCs designated Series 2001 (D-1) in the aggregate principal amount of \$20,000,000 and Series 2001 (D-2) in the aggregate principal amount of \$72,450,000 and initially issued under this Supplement and (ii) each subsequent subseries of ARCs, separately designated, converted to ARCs pursuant to the VRM Supplement.

Transfer Agent shall mean U.S. Bank Trust National Association in such capacity under the Bond Ordinance, the Bond Resolution, the Sale Order and this Supplement.

Winning Bid Rate shall have the meaning set forth in Section 1.6(c)(i)(C) of this Supplement.

Section 1.2 Description of ARCs; Global Form; Depository.

(a) As provided in the Sale Order, \$92,450,000 of the Series 2001 Securities shall initially be issued as ARCs in two Tranches and shall be designated "City of Detroit Sewage Disposal System Second Lien Revenue Bonds (ARCs), Series 2001 (D-1) and Series 2001 (D-2)." Variable Rate Securities may, from time to time, be converted to additional Tranches of ARCs pursuant to the VRM Supplement with such designations as may be provided by the Finance Director in the Mode Change Notice related thereto.

(b) Except as otherwise provided in this Section 1.2, the ARCs, in the form of one or more securities, shall be registered in the name of the Depository, and ownership thereof shall be maintained in book-entry form by the Depository for the account of the Participants thereof. Initially, the ARCs shall be registered in the name of Cede & Co., as the nominee of DTC. Except as provided in subsection (c) of this Section 1.2, the ARCs of each Tranche may be transferred, in whole but not in part, only to the Depository, or to a successor to DTC selected or approved by the City (with the prior written consent of the Bond Insurer, which consent shall not be unreasonably withheld) or to a nominee of such successor Depository.

(i) None of the City, the Registrar, the Bond Insurer nor any of their respective affiliates shall have any responsibility or obligation with respect to:

(A) the accuracy of the records of the Depository or any Participant with respect to any beneficial ownership interest in the ARCs;

(B) the delivery to any Participant, any beneficial owner of the ARCs or any other person, other than the Depository, of any notice with respect to the ARCs; or

(C) the payment to any Participant, any beneficial owner of the ARCs or any other person, other than the Depository, of any amount with respect to the principal, premium, if any, or interest on the ARCs.

So long as the certificates for the ARCs are not issued pursuant to subsection (c) of this Section 1.2, the City, and the Registrar may treat the Depository as, and deem the Depository to be, the absolute owner of the ARCs for all purposes whatsoever, including without limitation:

(1) the payment of principal, premium, if any, and interest on the ARCs;

(2) giving notices of redemption and other matters with respect to the ARCs;

(3) registering transfer with respect to the ARCs; and

(4) the selection of ARCs for redemption.

(c) If at any time the Market Agent (with the prior written consent of the Bond Insurer) has notified the City that the ARCs (or any Tranche of ARCs) should not be maintained in book-entry form or the Depository notifies the City that it is unwilling or unable to continue as Depository with respect to the ARCs, or if at any time the Depository shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor Depository is not appointed by the City within 90 days after the City receives notice or becomes aware of such condition, as the case may be, then this Section 1.2 shall no longer be applicable and the City shall execute and the Registrar shall authenticate and deliver certificates representing the ARCs as provided below. Certificates for the ARCs issued in exchange for a global certificate pursuant to this subsection (c) shall be registered in such names and Authorized Denominations as the Depository, pursuant to instructions from the Participants or otherwise, shall instruct the City and the Registrar. The Registrar shall deliver such certificates representing the ARCs to the persons in whose names such ARCs are so registered on the Business Day immediately preceding the first day of an Interest Period.

Section 1.3 Limitations on Transfer. So long as the ownership of the ARCs is maintained in book-entry form by the Depository, an Existing Holder may sell, transfer or otherwise dispose of its beneficial interest in ARCs only pursuant to a Bid or Sell Order placed in any Auction or to or through a Broker-Dealer; provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer.

Section 1.4 Interest on ARCs.

(a) Interest on each Tranche of ARCs shall accrue during the Interest Period related thereto and shall be payable in arrears on each Interest Payment Date related thereto. Interest shall be calculated as provided in Section 1.10 hereof.

(b) During the Initial Interest Period applicable thereto the ARCs of Tranche D-1 shall bear interest at the per annum rate of 5.50%, the ARCs of Tranche D-2 shall bear interest at the per annum rate of 5.50% and the ARCs of any future Tranche of Variable Rate Securities converted to the Auction Rate Mode under the VRM Supplement shall be the rate specified in (or determined pursuant to procedures specified in) the applicable Mode Change Notice for such Tranche. After the Initial Interest Period, the rate of interest on the related Tranche of ARCs for each Interest Period shall be the Auction Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period for such ARCs shall equal the Maximum ARC Rate on such Auction Date. Notwithstanding the foregoing, if:

(i) the ownership of a Tranche of ARCs is no longer maintained in book-entry form by the Depository, the rate of interest on such Tranche of ARCs for any Interest Period commencing after the delivery of certificates representing ARCs pursuant to Section 1.2(c) of this Supplement shall equal the Maximum ARC Rate on the Business Day immediately preceding the first day of such Interest Period; or

(ii) if a Payment Default occurs, Auctions will be suspended and the Applicable ARCs Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate.

The rate per annum at which interest is payable on a Tranche of ARCs for any Interest Period is herein referred to as the *Applicable ARCs Rate*. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum ARC Rate.

(c) Notwithstanding anything herein to the contrary, if any ARC or portion thereof has been selected for redemption during the next succeeding Interest Period, such ARC or portion thereof, will not be included in the Auction preceding such Redemption Date, and such ARC or portion thereof, will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to such Auction.

Section 1.5 Payments. So long as the ARCs are registered in the name of the Depository or the nominee thereof, payment of interest (other than at maturity) and premium, if any, on, and of principal at redemption of, the ARCs shall be made to the Depository by wire transfer provided proper wire instructions are received. Each Holder of ARCs, by such Holder's purchase of ARCs, appoints the Transfer Agent as its agent in connection with the payment by such Holder of its share, if any, of the amounts payable to the Auction Agent and the Broker-Dealers pursuant to Section 1.8(a) of this Supplement.

Section 1.6 Auction Procedures. With respect to each Tranche of ARCs, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of such Tranche of ARCs is no longer maintained in book-entry form by the Depository; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted (for the related Tranche of ARCs and only for such Tranche) in the following manner:

(a) Orders by Existing Holders and Potential Holders.

(i) Except as provided in clause (C) below, prior to the Submission Deadline on each Auction Date:

(A) each Existing Holder of ARCs may submit to a Broker-Dealer information as to:

(1) the principal amount of Outstanding ARCs, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period;

(2) the principal amount of Outstanding ARCs, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Holder; and/or

(3) the principal amount of Outstanding ARCs, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of ARCs which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Holder.

(C) Notwithstanding the foregoing, prior to the Submission Deadline on the Initial Auction Date, (1) each Existing Holder of ARCs will be deemed to have submitted to a Broker-Dealer information as to the principal amount of Outstanding ARCs held by such Existing Holder and that such Existing Holder offers to sell all of such Outstanding ARCs without regard to Auction Rate for the Initial Auction Period, *unless*, (2) prior to the Submission Deadline, such Existing Holder shall have submitted to

a Broker-Dealer the information described in (Y) paragraph (A)(1) above or (Z) paragraph (A)(2) above.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3), (B) or (C) of this paragraph (a) is hereinafter referred to as an **Order** and collectively as **Orders** and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a **Bidder** and collectively as **Bidders**; an Order containing the information referred to in (x) clause (A)(1) or (C)(2)(Y) of this paragraph (a) is hereinafter referred to as a **Hold Order** and collectively as **Hold Orders**, (y) clause (A)(2), (B) or (C)(2)(Z) of this paragraph (a) is hereinafter referred to as a **Bid** and collectively as **Bids** and (z) clause (A)(3) or (C)(1) of this paragraph (i) is hereinafter referred to as a **Sell Order** and collectively as **Sell Orders**.

(ii) (A) Subject to the provisions of Section 1.6(b) of this Supplement, a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined as provided in this Section 1.6 of this Supplement shall be less than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in Section 1.6(d)(i)(D) of this Supplement, if the Auction Rate determined as provided in this Section 1.6 shall be equal to the rate specified in such Bid; or

(3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in Section 1.6(d)(ii)(C) of this Supplement if the rate specified shall be higher than the Maximum ARC Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of Section 1.6(b) of this Supplement, a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in Section 1.6(d)(ii)(C) of this Supplement if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of Section 1.6(b) of this Supplement, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined as provided in this Section 1.6 of this Supplement shall be higher than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in Section 1.6(d)(i)(E) of this Supplement if the Auction Rate determined as provided in this Section 1.6 of this Supplement shall be equal to the rate specified in such Bid.

(b) Submission by Broker-Dealer to Auction Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate principal amount of ARCs that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder:

(1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Holder;

(2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate and amount specified in such Potential Holder's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding ARCs held by such Existing Holder and not subject to an Order submitted to the Auction Agent except that the Auction Agent shall deem an offer to sell to have been submitted on behalf of such Existing Holder for the Initial Auction Period (as described in Section 1.6(a)(i)(C) of this Supplement).

(iv) None of the City, the Transfer Agent nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(v) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Holder, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Holder, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Holder;

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Holder over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of ARCs equal to such excess;

(3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Holder over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected.

(viii) Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate and any such Bid shall be considered as valid and shall be selected in the ascending order of the respective rates in the Submitted Bids.

(ix) An Existing Holder that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Holder.

(x) Any Bid specifying a rate higher than the Maximum Interest Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder.

(c) Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a *Submitted Hold Order*, a *Submitted Bid* or a *Submitted Sell Order*, as the case may be, or as a *Submitted Order* and collectively as *Submitted Hold Orders*, *Submitted Bids* or *Submitted Sell Orders*, as the case may be, or as *Submitted Orders*) and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the *Available ARCs*); and

(B) from such Submitted Orders whether:

(1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum ARC Rate, exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum ARC Rate; and

(3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders;

(in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (1) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as *Sufficient Clearing Bids*); and

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the *Winning Bid Rate*) such that if:

(1) (aa) each such Submitted Bid from Existing Holders specifying such lowest rate and (bb) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of ARCs subject to such Submitted Bids; and

(2) (aa) each such Submitted Bid from Potential Holders specifying such lowest rate and (bb) all other Submitted Bids from Potential Holders specifying lower rates were accepted;

the result would be that such Existing Holders described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Holders described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Transfer Agent in writing by facsimile of the Maximum ARC Rate and the All Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the *Auction Rate*) as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum ARC Rate; or

(C) if all outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All Hold Rate.

(d) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs. Existing Holders shall continue to hold the principal amount of ARCs

that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to Section 1.6(c)(i) of this Supplement, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the *remaining principal amount*) equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph

(i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum ARC Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum ARC Rate shall be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum ARC Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of ARCs purchased or sold by each Existing Holder or Potential Holder shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARCs.

Section 1.7 Certain Orders Not Permitted. The City may not submit an Order in any Auction. The Auction Agent shall have no duty or liability in monitoring or enforcing compliance with this Section 1.7.

Section 1.8 Notice of Payment Defaults and Cures; Payment of Service Charges.

(a) The City shall, from time to time and upon receipt of invoices provided therefor, pay to the Auction Agent an amount equal to the Auction Agent Fee as calculated in the Auction Agency Agreement and an amount equal to the Broker-Dealer Fee as calculated in the Broker-Dealer Agreement.

(b) By 12:30 p.m. New York City time on the Business Day immediately succeeding each Interest Payment Date, the Transfer Agent will determine if a Payment Default has occurred. If a Payment Default has occurred, the Transfer Agent shall notify the Auction Agent and Broker-Dealer by 1:00 p.m. New York City time of such Payment Default. If a Payment Default has been cured, the Transfer Agent shall so notify the Auction Agent and the Broker-Dealer by 5:00 p.m. New York City time on the day such Payment Default is cured or waived.

Section 1.9 Calculation of Maximum ARC Rate, All Hold Rate and Default Rate. The Auction Agent shall calculate the Maximum ARC Rate and the All Hold Rate on each Auction Date. If the ownership of the ARCs is no longer maintained in book-entry form by the Depository, the Transfer Agent shall calculate the Maximum ARC Rate on the Business Day immediately preceding the first day of each Interest Period commencing after the delivery of certificates representing the ARCs pursuant to Subsection 1.2(c) of this Supplement. If a Payment Default shall have occurred, the Transfer Agent shall calculate the Default Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of any Payment Default. The Auction Agent shall determine the "AA" Financial Commercial Paper Rate for each Interest Period other than the first Interest Period; provided, that if the ownership of the ARCs is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Transfer Agent shall determine the "AA" Financial Commercial Paper Rate for each such Interest Period. The determination by the Transfer Agent or the Auction Agent, as the case may be, of the "AA" Financial Commercial Paper Rate shall (in the absence of manifest error) be final and binding upon all parties. If

calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Transfer Agent of the "AA" Financial Commercial Paper Rate.

Section 1.10 Computation of Interest. The amount of interest distributable to Holders of ARCs in respect of each \$25,000 in principal amount thereof for any Interest Period or part thereof shall be calculated as follows:

(a) During the Initial Interest Period for Tranche D-1 and Tranche D-2, and for any Tranche of ARCs with an Auction Period equal to one year or more, interest shall be calculated on the basis of a 360 day year comprised of 12 30-day months.

(b) During the Initial Interest Period for any future Tranche of Variable Rate Securities converted to the Auction Rate Mode, interest shall be calculated as set forth in the Mode Change Notice applicable thereto.

(c) With respect to any Tranche of ARCs with an Auction Period of less than one year, interest on such ARCs for any Interest Period shall be calculated by applying the respective Applicable ARCs Rate for such Interest Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Interest Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on such ARCs shall be computed by the Transfer Agent on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after January 1 of any leap year through December 31 of such leap year, such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. The Transfer Agent shall make the calculation required in this Section 1.10(c) not later than the close of business on each Auction Date.

Section 1.11 Notification of Rates, Amounts and Payment Dates.

(a) The Transfer Agent shall determine the aggregate amount of interest distributable on the next succeeding Interest Payment Date to the Holders of the ARCs. So long as the ownership of the ARCs is maintained in book-entry form by the Depository, the Transfer Agent shall advise the Depository of each Record Date for the ARCs at least two Business Days prior thereto.

(b) Promptly after each Interest Payment Date for the ARCs, and in any event at least 10 days prior to each Interest Payment Date following the Initial Interest Payment Date, the Transfer Agent shall:

(i) so long as no Payment Default has occurred and is continuing and the ownership of the ARCs is maintained in book-entry form by the Depository, confirm the Auction Agent's determination of (A) the date of such next Interest Payment Date and (B) the amount payable to the Auction Agent pursuant to Section 1.8 hereof and notify the Auction Agent of any discrepancy therein; and

(ii) advise the Depository, so long as the ownership of the ARCs is maintained in book-entry form by the Depository, of the respective Applicable

ARCs Rate and the Interest Amount in respect of the next succeeding Interest Period.

In the event that any day that is scheduled to be an Interest Payment Date shall be changed after the Transfer Agent shall have given the notice referred to in clause (i) of the preceding sentence, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, the Transfer Agent shall, by such means as the Transfer Agent deems practicable, give notice of such change to the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the ARCs is maintained in book-entry form by the Depository.

Section 1.12 Adjustment in Percentages.

(a) The Market Agent shall adjust the percentage used in determining the All Hold Rate, the Applicable Percentage used in determining the Maximum ARC Rate and the percentage of the Kenny Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that ARCs paying the Maximum ARC Rate, ARCs paying the All Hold Rate and ARCs paying the Default Rate shall have equal market values before and after such Change of Preference Law. Prior to any such adjustment, the City shall give notice thereof to the Rating Agency and no such adjustment shall be made unless such adjustment will not adversely affect the rating on any of the Series 2001 Securities. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account:

- (i) short-term taxable and tax-exempt market rates and indices of such short-term rates;
- (ii) the market supply and demand for short-term tax-exempt securities;
- (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the ARCs;
- (iv) general economic conditions; and
- (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the ARCs.

(b) The Market Agent shall effectuate an adjustment in the percentage used in determining the All Hold Rate, the Applicable Percentage used in determining the Maximum ARC Rate and the Applicable Percentage of the Kenny Index used to determine the Default Rate pursuant to Subsection (a) of this Section by delivering to the City, the Bond Insurer, the Transfer Agent and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change a Favorable Bond Counsel's Opinion and a certificate in substantially the form attached hereto as Annex I to this Supplement, authorizing the adjustment of the percentage used in determining the All Hold Rate, the Applicable Percentage

used in determining the Maximum ARC Rate and the Applicable Percentage of the Kenny Index used to determine the Default Rate, which shall be specified in such certificate.

Section 1.13 Market Agent. The Transfer Agent shall enter into a Market Agent Agreement with UBS PaineWebber Inc., as the initial Market Agent. The Market Agent shall serve as such under the terms and provisions hereof and of the Market Agent Agreement. The Market Agent, including any successor appointed pursuant hereto, shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$50,000,000, and be authorized by law to perform all the duties imposed upon it by the Sale Order and the Market Agent Agreement. The Market Agent may be removed at any time by the Transfer Agent, acting at the direction of (a) the City or (b) the Securityholders of 66-2/3% of the aggregate principal amount of the ARCs; provided, that such removal shall not take effect until the appointment of a successor Market Agent. The Market Agent may resign upon 30 days' written notice delivered to the City, the Bond Insurer and the Transfer Agent. The City shall use its best efforts to appoint a successor Market Agent that is a qualified institution, effective as of the effectiveness of any such resignation or removal. Notwithstanding that the Market Agent is the agent of the Transfer Agent under the Market Agent Agreement, the Transfer Agent shall not be liable in any way for any action taken, suffered, or omitted, or for any error of judgment made by the Market Agent, whether in the performance of its duties under the Market Agent Agreement or otherwise.

Section 1.14 Auction Agent.

(a) The Bank of New York shall serve as the initial Auction Agent for the ARCs. The Transfer Agent is hereby directed to enter into an agreement with the Auction Agent which shall provide as follows: The Auction Agent shall be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least \$15,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Sale Order by giving at least 90 days' written notice to the City, the Bond Insurer, the Transfer Agent and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Transfer Agent if the Auction Agent is an entity other than the Transfer Agent, acting at the direction of (i) the City, or (ii) the Securityholders of 66-2/3% of the aggregate principal amount of the ARCs; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Transfer Agent are the same entity, the Auction Agent may be removed as described above, with the City acting in lieu of the Transfer Agent.

(b) In the event that the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the City shall use its best efforts to appoint a successor as Auction Agent (which successor must be approved by the Bond Insurer, providing that the Bond Insurer is not then in

default on its obligations under the Bond Insurance Policy) and the Transfer Agent shall thereupon enter into an Auction Agency Agreement with such successor.

(c) The Auction Agent shall be acting as agent for the Transfer Agent in connection with Auctions. In the absence of willful misconduct or negligence on its part, the Auction Agent, whether acting directly or through its agents or attorneys, shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining the pertinent facts necessary to make such judgment.

(d) Notwithstanding that the Auction Agent is the agent of the Transfer Agent hereunder and under the Auction Agency Agreement, the Transfer Agent shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agency Agreement or otherwise, subject to Section 3.4(b) of the Auction Agency Agreement.

Section 1.15 Broker-Dealers.

(a) The Auction Agent shall enter into a Broker Dealer Agreement with UBS PaineWebber Inc., as the initial Broker-Dealer. The Market Agent may from time to time approve one or more additional persons to serve as Broker-Dealer under Broker-Dealer Agreements.

(b) Any Broker-Dealer may be removed at any time, at the request of the City, but there shall, at all times, be at least one Broker-Dealer appointed and acting as such.

Section 1.16 Redemption of ARCs.

(a) Optional Redemption. The ARCs of each Tranche shall be subject to redemption at the option of the City, in whole or in part in Authorized Denominations, at a redemption price of par plus accrued interest to the date of redemption on

- (i) the final Interest Payment Date of the Initial Interest Period; and
- (ii) the Business Day following the last day of each Auction Period.

In the event the Auction Period for the ARCs of any Tranche is changed pursuant to Section 1.17 of this Supplement, the Market Agent may, with the consent of the City and upon receipt of a Favorable Bond Counsel's Opinion in connection therewith, add additional optional redemption provisions allowing for the optional redemption of ARCs during any Auction Period at prices not exceeding 102% of the principal amount of ARCs redeemed. In connection with the conversion of any Tranche of Variable Rate Securities to a Tranche of ARCs hereunder, the Finance Director may specify optional redemption provisions in addition to the provisions specified above with the prior written consent of the Market Agent.

(b) Sinking Fund Redemption. The ARCs that are Term Securities are subject to mandatory redemption at par in Sinking Fund Installments as provided in the Sale Order and

the General Supplement. In connection with the conversion of Variable Rate Securities to the Auction Rate Mode, the Finance Director may change the Sinking Fund Installments with respect to any such Tranche in compliance with and subject to the limitations set forth in the Variable Rate Supplement.

Section 1.17 Changes in Auction Periods or Auction Date.

(a) Changes in Auction Period or Periods.

(i) While any of the Series 2001 Securities are outstanding as ARCs, the Market Agent with the written consent of the City may change, for any Tranche of ARCs, from time to time, the length of one or more Auction Periods and, in connection therewith, add additional optional redemption provisions as provided in Section 1.16 hereof and/or change Interest Payment Dates to or from Interest Payment Dates specified in the notice described below corresponding to the end of each Interest Period and Auction Period; any such change shall be considered a "change in the length of one or more Auction Periods" for the purposes of this Supplement. The Market Agent shall initiate the change in the length of one or more Auction Periods by written notice to the Transfer Agent, the Auction Agent, the City and the Depository in substantially the form of, or contain substantially the information set forth in Annex II to this Supplement at least 10 days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall not be less than seven days. No change in an Auction Period from an Auction Period of one year or less to an Auction Period of more than one year shall occur unless there shall have been delivered to the Transfer Agent a Favorable Bond Counsel's Opinion; and no change in Auction Period from an Auction Period of more than one year to an Auction Period of one year or less shall occur unless there shall have been delivered to the Transfer Agent a Favorable Bond Counsel's Opinion.

(iii) The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this Section 1.17(a) and the Auction immediately preceding the proposed change.

(iv) The change in length of one or more Auction Periods shall take effect only if (A) the Transfer Agent and the Auction Agent receive, by 11:00 a.m. New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Market Agent in substantially the form attached as, or containing substantially the same information contained in, Annex II to this Supplement, authorizing the change in the length of one or more Auction Periods specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Applicable ARCs Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to

the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Applicable ARC Rate for the next Auction Period shall be the Maximum ARC Rate and the Auction Period shall be the Auction Period determined without reference to the proposed change.

(b) Changes in the Auction Date. While any of the Series 2001 Securities are outstanding as ARCs, the Market Agent (with the consent of the City):

(i) in order to conform with then current market practice with respect to similar securities, shall; or

(ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARCs and upon receipt of a Favorable Bond Counsel's Opinion, may (with respect to any Tranche of ARCs)

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in Section 1.1 of this Supplement with respect to one or more specified Auction Periods. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Transfer Agent, the Auction Agent, the City and the Depository. Such notice shall be substantially in the form of, or contain substantially the information contained in, Annex III to this Supplement.

(c) In connection with any change described in this Section 1.17, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

(d) No change shall be made to the Auction Period or Auction Date unless the City shall have received confirmation from the Rating Agency that the rating on any of the Series 2001 Securities will not be adversely affected.

Section 1.18 Credit Ratings. The City shall take all reasonable action necessary to enable at least one nationally recognized statistical rating organization (as that term is used in the rules and regulations of the SEC under the Securities Exchange Act) to provide credit ratings for the ARCs.

Section 1.19 Certain Notices.

(a) The Market Agent shall provide the Transfer Agent, the Bond Insurer and, so long as no default under the Sale Order and/or this Supplement have occurred and are continuing and the ownership of the ARCs is maintained in book-entry form by the Depository, the Auction Agent with notice of any change in the Statutory Corporate Tax Rate.

(b) The City shall use its best efforts to provide the Transfer Agent, the Bond Insurer and, so long as no Payment Default has occurred and is continuing and the ownership of

the ARCs is maintained in book-entry form by the Depository, the Auction Agent with notice of any change in the maximum rate permitted by law on the ARCs.

Section 1.20 Purchases of ARCs. The City shall not purchase or otherwise acquire ARCs unless the City redeems or otherwise cancels such ARCs on the day of any purchase.

Section 1.21 Notice of Payment Default.

(a) If the City determines that a Payment Default has occurred the City shall promptly notify the Transfer Agent thereof.

(b) So long as the ownership of the ARCs is maintained in book-entry form by the Depository, upon the occurrence of a Payment Default, the Transfer Agent shall immediately send a notice thereof to the Auction Agent and Market Agent by telecopy or similar means.

(c) So long as the ownership of the ARCs is maintained in book-entry form by the Depository, the Transfer Agent shall immediately send notice to the Auction Agent by telecopy or similar means if a Payment Default is cured.

Section 1.22 Conversions from Variable Rate Securities to ARCs. In connection with the conversion of any Variable Rate Securities to a Tranche of ARCs the Finance Director shall include in the Mode Change Notice with respect thereto:

(a) the Initial Auction Date, Initial Auction Period, Initial Interest Payment Date and Initial Interest Period for such Tranche;

(b) the interest rate applicable to the ARCs of such Tranche during the Initial Interest Period;

(c) additional optional redemption dates and redemption prices applicable to the ARCs of such Tranche as provided in Section 1.16(a) hereof;

(d) the designation of the ARCs of such Tranche for purposes of Section 1.2(a) hereof; and

(e) such other matters as the Finance Director deems necessary or appropriate and not inconsistent with the Bond Ordinance, Bond Resolution, Sale Order, General Supplement or VRM Supplement.

Section 1.23 Termination or Suspension of Auction Procedures. With respect to a Tranche of ARCs, Auction Procedures may be terminated or suspended only if

(a) the Auction Period with respect to such Tranche has been changed pursuant to Section 1.17 hereof so that the then current Auction Period extends to the final maturity date of the ARCs of such Tranche; or

(b) as provided in the first paragraph of Section 1.6 hereof.

If the City has failed to pay any fees owing to the Auction Agent or the Broker-Dealer with respect to the ARCs of such Tranche, the Broker-Dealer or Auction Agent shall give written notice thereof to the Bond Insurer and allow the Bond Insurer 45 days after delivery of such notice to cure such failure, during which time Auction Procedures shall not be suspended or terminated.

ARTICLE II BOND INSURANCE

Section 2.1. Certain Rights of the Bond Insurer. With respect to the ARCs that it insures the Bond Insurer shall have the following rights.

(a) The Bond Insurer has the right to approve or disapprove the following matters (its approval to be indicated solely by written consent delivered prior to the applicable action):

- (i) any change in percentages by the Market Agent pursuant to Section 1.12 hereof;
- (ii) the removal of and/or the appointment of a successor to the Market Agent pursuant to Section 1.13 hereof;
- (iii) the removal of and/or appointment of a successor to the Auction Agent pursuant to Section 1.14 hereof;
- (iv) a change in one or more Auction Periods or Auction Dates as provided in Section 1.17 hereof;
- (v) any change in the Maximum Interest Rate or the method of calculating interest hereunder;
- (vi) any amendment to this Supplement permitted by Section 3.2 hereof whether requiring the consent of Securityholders; and
- (vii) any amendment to the Auction Agency Agreement or a Broker-Dealer Agreement.

(b) In addition to notice rights specifically stated elsewhere, the Bond Insurer shall have the right to receive copies of all notices required to be delivered to a Rating Agency, the City, the Auction Agent, the Market Agent or a Broker Dealer hereunder (except for notices given pursuant to the normal and regular operation of Auction Procedures hereunder).

(c) The City shall promptly provide the Bond Insurer with a copy of every filing made to a NRMSIR or the MSRB under its Continuing Disclosure Agreement (including the filing of financial information and notices of material events).

(d) The City shall promptly provide the Bond Insurer with a copy of the official statement or other disclosure documents relating to the issuance of Additional Bonds or Securities under the Bond Ordinance.

(e) The Bond Insurer, acting alone, shall have the right to direct all remedies upon the occurrence of an Event of Default with respect to the ARCs it insures hereunder. The Bond Insurer shall be recognized as the registered owner of each ARC which it insures for the purposes of exercising all rights and privileges available to Securityholders. For ARCs which it insures, the Bond Insurer shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as a Securityholder in accordance with applicable provisions (and subject to applicable limitations) of the Bond Ordinance and Act 94. Any acceleration of principal payments of the ARCs it insures in connection with an Event of Default must be subject to the Bond Insurer's prior written consent. The rights given to the Bond Insurer pursuant to this Section 2.1(e) are subject to the condition that the Bond Insurer is not in default of its obligations under its Bond Insurance.

Section 2.2. Payment Procedures for MBIA Bond Insurance. As long as the Bond Insurance issued by MBIA shall be in full force and effect, the City, the Transfer Agent and any paying agent appointed with respect to the ARCs insured by MBIA (for purposes of this Section, *MBIA Insured ARCs*) shall comply with the following provisions:

(a) In the event that, on the Business Day prior to the payment date on the MBIA Insured ARCs, the Transfer Agent has not received sufficient moneys to pay all principal of and interest on the MBIA Insured ARCs due on the following Business Day, the Transfer Agent shall immediately notify MBIA or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Transfer Agent shall so notify MBIA or its designee.

(c) In addition, if the Transfer Agent has notice that any Securityholder has been required to disgorge payments of principal or interest on the obligation 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 Securityholder within the meaning of any applicable bankruptcy laws, then the Transfer Agent shall notify MBIA or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(d) The Transfer Agent is hereby irrevocably designed, appointed, directed and authorized to act as attorney-in-fact for Securityholders of the MBIA Insured ARCs as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the MBIA Insured ARCs, the Transfer Agent shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Bond Insurance (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an

instrument appointing MBIA as agent for such Securityholders in any legal proceeding related to the payment of such interest and an assignment to MBIA of the claims for interest to which such deficiency relates and which are paid by MBIA, (b) receive as designee of the respective Securityholders (and not as Transfer Agent) in accordance with the tenor of the Bond Insurance payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Securityholders; and

- (ii) If and to the extent of a deficiency in amounts required to pay principal of the MBIA Insured ARCs, the Transfer Agent shall (a) execute and deliver to the Insurance Payment Agent in form satisfactory to the Insurance Paying Agent an instrument appointing MBIA as agent for such Securityholder in any legal proceeding relating to the payment of such principal and an assignment to MBIA of any of the MBIA Insured ARCs surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Transfer Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Securityholders (and not as Transfer Agent) in accordance with the tenor of the Bond Insurance payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Securityholders.

(e) Payments with respect to claims for interest on and principal of MBIA Insured ARCs disbursed by the Transfer Agent from proceeds of the Bond Insurance shall not be considered to discharge the obligation of the City with respect to such MBIA Insured ARCs, and MBIA shall become the owner of such unpaid MBIA Insured ARCs and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the City and the Transfer Agent hereby agree for the benefit of MBIA that:

- (i) They recognize that to the extent MBIA makes payments, directly or indirectly (as by paying through the Transfer Agent), on account of principal of or interest on the MBIA Insured ARCs, MBIA will be subrogated to the rights of such Securityholders to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in the Bond Ordinance and the MBIA Insured ARCs, and
- (ii) They will accordingly pay to MBIA the amount of such principal and interest (including principal and interest recovered under

subparagraph (ii) of the first paragraph of the Bond Insurance, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Bond Ordinance and the MBIA Insured ARCs, but only from the sources and in the manner provided herein for the payment of principal of and interest on the MBIA Insured ARCs to Securityholders, and will otherwise treat MBIA as the owner of such rights to the amount of such principal and interest.

Section 2.3. MBIA Reserve Policy Provisions.

(a) Coordination of Draws. If, in addition to the Reserve Policy for the Second Lien Reserve Account, any other Qualified Surety Bond (an *Additional Reserve Policy*) is provided for the Second Lien Reserve Account, drawings under the Reserve Policy and any such Additional Reserve Policy, and repayment of Policy Costs and reimbursement of amounts due under the Additional Reserve Policy, shall be made on a pro rata basis (calculated by reference to the maximum amounts available thereunder) after applying all available cash in such Second Lien Reserve Account and prior to replenishment of any such cash draws, respectively. "Additional Reserve Policy" does not include any reserve fund substitute instrument obtained for any reserve account created under or pursuant to the Bond Ordinance other than the Second Lien Reserve Account.

(b) Repayment.

- (i) The City shall repay MBIA from Net Revenues the principal amount of any draws under each Reserve Policy and related reasonable expenses incurred by MBIA (together with interest thereon at a rate equal to the lower of (A) the prime rate of Citibank, N.A., New York, New York in effect from time to time plus 3% per annum and (B) the highest rate permitted by law) and shall have the same priority as the obligation to maintain and refill the related Reserve Account.
- (ii) Repayment of draws, expenses and accrued interest (collectively, *Policy Costs*) shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw. If and to the extent that cash has also been deposited in a Reserve Fund, all such cash shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing under the related Reserve Policy, and repayment of any related Policy Costs shall be made prior to replenishment of any such cash amounts.
- (iii) To secure payment of Policy Costs, statutory liens upon the whole of the Net Revenues is hereby created pursuant to Section 7a of Act 94. The lien securing Policy Costs related to the Second Lien

Bond Reserve Account is of equal priority to the statutory lien on Net Revenues securing Second Lien Bonds *but* subordinate to such lien as between Second Lien Bonds and such Policy Costs. The statutory liens granted by this subsection shall remain in full force and effect until all Policy Costs are paid in full.

(c) Remedies. If the City shall fail to repay any Policy Costs in accordance with the requirements hereof, MBIA shall be entitled to exercise any and all remedies available at law or under the authorizing document other than (i) acceleration of the maturity of the MBIA Insured ARCs or (ii) remedies which would adversely affect Securityholders.

(d) Coverage Requirements. The amount of Policy Costs due and owing in any Fiscal Year shall be included in any calculation with respect to such Fiscal Year required by the Bond Ordinance to issue additional Securities or to set rates as obligations required to be covered 100%.

(e) Additional Securities.

(i) No additional Second Lien Securities may be issued without MBIA's prior written consent if any Policy Costs are past due and owing to MBIA with respect to the Reserve Account for Securities of that Priority.

(ii) Upon the issuance of additional Second Lien Bonds, the Second Lien Reserve Account shall be fully funded (at its Reserve Requirement) upon the issuance of such Securities, either with cash or permitted investments or by a Qualified Surety Bond.

Section 2.4. FSA and/or FGIC Provisions. In the event any of the Variable Rate Securities are converted to a Tranche of ARCs pursuant to the terms of the VRM Supplement, this Supplement may be amended and supplemented (without the approval of Securityholders but with the prior approval of MBIA) to conform or clarify this Supplement with respect to the rights of FSA (if the Variable Rate Securities are Variable Rate Securities Series C-1) or FGIC (if the Variable Rate Securities are Variable Rate Securities Series C-2) pursuant to its Bond Insurance securing such converted Variable Rate Securities, provided, however, that any such amendment and supplement shall be subject to the limits established by, and shall be subject to the provisions of, the Bond Ordinance and the Bond Resolution.

ARTICLE III MISCELLANEOUS

Section 3.1. Limitation on Defeasance. The City shall not defease the lien of the Bond Ordinance securing any ARCs by the deposit of funds in escrow (commonly known as a "legal defeasance") without obtaining a Rating Confirmation from each Rating Agency of ARCs so defeased.

Section 3.2. Amendments.

(a) This Supplement cannot be amended or supplemented *except* in accordance with the provisions of the Bond Ordinance and this Section.

(b) The Finance Director shall provide each Rating Agency with a copy of each amendment or supplement at least 15 days in advance of the same becoming effective.

(c) For the purpose of acquiring consent for the purposes of the Bond Ordinances or otherwise, the consent of a Securityholder acquiring a Series 2001 Security in a conversion from Variable Rate Securities to ARCs which the 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 the Bond Ordinance or otherwise, but no actual consent shall be required and no more than one such disclosure shall be required.

(d) This Supplement may be amended as provided and for the purposes set forth in Section 2.4 hereof.

Section 3.3. Notices to Rating Agencies. The Finance Director shall give notice to each Rating Agency of any of the following promptly on the occurrence thereof: (i) any optional redemption or defeasance of ARCs, (ii) any conversion of Variable Rate Securities to ARCs, (iii) any change in the Market Agent or Auction Agent and (iv) any change in the Auction Period pursuant to Section 1.17 hereof.

Section 3.4. Notices.

(a) Each notice, request or other communication given hereunder to be given to any party named below shall be in writing or otherwise given by Electronic Means (except as provided below) and given to it at its address appearing below or to such other address as it may hereafter specify for such purpose by notice to the others named below.

City of Detroit

Coleman A. Young Municipal Center
Room 1200
2 Woodward Avenue
Detroit, Michigan 48226
Attention: Finance Director

U.S. Bank Trust National Association, as Transfer Agent

535 Griswold, Suite 550
Detroit, Michigan 48226
Attention: Corporate Trust Department

FGIC

115 Broadway
New York, New York 10006
Attention: Risk Management

FSA

350 Park Avenue
New York, New York
Attention: Managing Director-Surveillance

MBIA

113 King Street
Armonk, New York 10504
Attention: Surveillance

Standard & Poor's Ratings Services

55 Water Street, 38th Floor
New York, New York 10041

Moody's Investors Services

99 Church Street
New York, New York 10007
Attention: Fully Supported Group

Fitch, Inc.

One State Street Plaza
New York, New York 10004
Attention: Municipal Structure Group

(b) Each notice, request or other communication given hereunder shall be effective, (i) if given by mail, 72 hours after it is deposited in the United States Mail with first class postage prepaid, addressed to the recipient at its Notice Address and (ii) if given by another means, when delivered at its Notice Address.

(c) Notices required to be given to the Bond Insurer hereunder shall be given only to the Bond Insurer for the Tranche or Tranches to which such notice relates.

Section 3.5. Severability. In the event that any provision of this Supplement is held to be invalid in any circumstance, such invalidity shall not affect any other provision or circumstance.

Section 3.6. Payments Due and Acts to be Performed on Non-Business Days. If a date of maturity of interest on or principal of ARCs or any redemption date, or a date fixed for the performance of any other act under this Supplement, shall not be a Business Day,

payment of such interest or principal or redemption price need not be made, and any such other act need not be performed, on such date but may be made or performed 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, *except* as otherwise herein provided, no interest on any amount so paid shall accrue for the period after such date.

Section 3.7. Captions; Table of Contents. The captions or headings in, and the table of contents for, this Supplement are for convenience only and in no way define, limit or describe the scope or content of any provision hereof.

Section 3.8. Governing Law. This Supplement shall be governed by the law of the State of Michigan exclusive of its conflicts of law.

[FORM OF NOTICE OF CHANGE IN PERCENTAGES]

**CITY OF DETROIT
SEWER DISPOSAL SYSTEM REVENUE SECOND LIEN BONDS (ARCs),
SERIES 2001 (D-)**

(Used in Determination of the Maximum ARC Rate, the All Hold Rate and the Index for Default Rate)

NOTICE IS HEREBY GIVEN that UBS PaineWebber Inc. as Market Agent for the above-identified Series 2001 Securities, hereby authorizes the adjustment in the percentages used to determine the Maximum ARC Rate, the All Hold Rate and the Index for the Default Rate to reflect a Change in Preference Law as set forth in its notice dated _____.

Notice is also hereby given that the Market Agent has obtained confirmation that Bond Counsel expects to be able to give its opinion to the effect that the adjustment in the percentages is authorized by *Section 1.12* of the Auction Rate Mode Supplement to the Sale Order relating to the Series 2001 Securities and will not have an adverse effect on the exclusion of interest on the Series 2001 Securities from gross income for federal income tax purposes.

Dated: _____

UBS PAINWEBBER INC.

By: _____

Its: _____

[FORM OF NOTICE ESTABLISHING CHANGE IN LENGTH OF ONE OR MORE AUCTION PERIODS]

CITY OF DETROIT
SEWER DISPOSAL SYSTEM REVENUE SECOND LIEN BONDS (ARCs),
SERIES 2001 (D-__)

NOTICE ESTABLISHING-CHANGE IN LENGTH OF ONE OR MORE AUCTION PERIODS

Notice is hereby given that UBS PaineWebber Inc., as Market Agent for the above-captioned Series 2001 Securities, hereby establishes new lengths for one or more Auction Periods pursuant to the Auction Rate Mode Supplement to the Sale Order therefor as follows:

1. The change shall take effect on _____, _____, the date of commencement of the next Auction Period for Tranche D-__ of the Series 2001 Securities outstanding as ARCs (the *Effective Date*).

2. Interest Payment Dates shall be (or, if applicable, remain) each _____ and _____ after the date of this Notice. For the Auction Period commencing on the Effective Date, the Interest Period (and Auction Period) shall be the period commencing on the Effective Date through and including _____, _____ (date). For Auction Periods occurring after the Auction Period commencing on the Effective Date, the Interest Period (and Auction Period) shall be the period commencing on _____, _____ (date) through and including _____, _____ (date) and each _____ (number of days) day period thereafter commencing on a _____ (day of week) and ending on (and including) a _____ (day of week); provided, however, that the length of subsequent Auction Periods shall be subject to further change hereafter as provided in Section 1.17 of the Supplement described above.

3. [Describe any special optional redemption provisions added in connection with the change.]

4. The changes described above shall take place only upon delivery of this Notice and the satisfaction of other conditions set forth in the Supplement described above and our prior notice dated _____ regarding the proposed change.

5. Terms not defined in this Notice shall have the meanings as set forth in the Supplement described above.

Dated: _____

UBS PAINWEBBER INC., as Market Agent

By: _____

Its: _____

[FORM OF NOTICE OF CHANGE
IN AUCTION DATE]

CITY OF DETROIT
SEWER DISPOSAL SYSTEM REVENUE SECOND LIEN BONDS (ARCs),
SERIES 2001 (D-__)

NOTICE OF CHANGE IN AUCTION DATE

Notice is hereby given that _____, as Market Agent for Tranche D-__ of the Series 2001 Securities outstanding as ARCs, that the Auction Date is hereby changed as follows:

1. The definition of "Auction Date" shall be deemed amended by substituting "_____" (number) Business Day" in the second line thereof and by substituting "_____" (number) Business Days" for "two Business Days" in the first line of the definition of "Applicable Number of Business Days."

2. This change shall take effect on _____ which shall be the Auction Date for the Auction Period commencing on _____.

3. The Auction Date for the Series 2001 Securities outstanding as ARCs shall be subject to further change hereafter as provided in the Auction Rate Mode Supplement to the Sale Order relating to the Series 2001 Securities.

4. Terms not defined in this Notice shall have the meanings as set forth in the Supplement described above.

Dated: _____

UBS PAINWEBBER INC., as Market Agent

By: _____

Its: _____

Financial Guaranty Insurance Company Supplement

This **Financial Guaranty Insurance Company Supplement** is a supplement to the **Composite Sales Order with respect to Series 2001 Securities** executed by the Director of Finance of the City of Detroit and together therewith and with all other supplements and all exhibits constitutes the *Sale Order*.

Article I Definitions and Applicability

Section 1.01. Definitions.

In addition to the terms defined in or pursuant to the Sale Order, the following terms shall have the following respective meanings for all purposes of the Sale Order *unless* the context clearly otherwise requires:

FGIC Bond Insurer means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

FGIC Bond Insurance Policy means the municipal bond new issue insurance policy issued by the FGIC Bond Insurer that guarantees payment of principal of and interest on the FGIC Insured Securities.

FGIC Insured Second Lien Bonds means the \$110,550,000 City of Detroit Sewage Disposal System Second Lien Revenue Bonds (Fixed Rate), Series 2001(B) and the \$139,080,000 City of Detroit Sewage Disposal System Second Lien Revenue (Variable Rate Demand) Bonds, Series 2001(E).

FGIC Insured Securities means the FGIC Insured Senior Lien Bonds and the FGIC Insured Second Lien Bonds.

FGIC Insured Senior Lien Bonds means the \$76,375,000 City of Detroit Sewage Disposal System Revenue Senior Lien Bonds (Fixed Rate), Series 2001(A) and the \$127,165,000 City of Detroit Sewage Disposal System Senior Lien Revenue Refunding (Variable Rate Demand) Bonds, Series 2001(C-2).

Financial Guaranty means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto as the issuer of the Reserve Policy.

Policy Costs has the meaning given that term in *Section 2-1.02* hereof.

Payment Default means the occurrence and continuance of the failure to pay principal (and premium, if any) or interest on any FGIC Insured Securities without giving any effect to payments made under the FGIC Bond Insurance Policy.

Reserve Policy means the Municipal Bond Debt Service Reserve Policy issued in respect of the Bond Reserve Account in connection with the issuance of the FGIC Insured Senior Lien Bonds.

Reserve Account means the Bond Reserve Account.

Section 1.02. Applicability.

(a) This Supplement consists of two parts, Part 1, concerning the Bond Insurance, and Part 2, concerning the Reserve Policy.

(1) Part 1 shall be in effect for only so long as Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto, is the FGIC Bond Insurer of the FGIC Insured Securities and has not failed to comply with its payment obligations under the FGIC Bond Insurance Policy. For so long as Part 2 is in effect, it shall be applicable in respect of the Outstanding FGIC Insured Securities *notwithstanding* anything to the contrary elsewhere contained in the Sale Order.

(2) Part 2 shall be in effect for only so long as it has not failed to comply with its payment obligations under the Reserve Policy. For so long as Part 2 is in effect, it shall be applicable in respect of the Reserve Account *notwithstanding* anything to the contrary elsewhere contained in the Sale Order.

Part 1 Bond Insurance

Article 1-I Default Related Provisions

Section 1-1.01. Acceleration and Annulment.

Any acceleration of the FGIC Insured Securities or any annulment thereof is *subject* to the prior written consent of the FGIC Bond Insurer.

Section 1-1.02. Notice of Payment Default.

The FGIC Bond Insurer shall receive immediate notice of any Payment Default and notice of any other Event of Default known to the Transfer Agent or the City within 30 days of the Transfer Agent's or the City's knowledge thereof.

Section 1-1.03. Notices Related to Events of Default and Remedies.

For all purposes of the Bond Ordinance *except* the giving of notice of default to Holders of FGIC Insured Securities, the FGIC Bond Insurer shall be deemed to be the sole holder of the FGIC Insured Securities.

Section 1-1.04. Party in Interest.

The FGIC Bond Insurer is a party in interest and is a party entitled to (i) notify the City and the Transfer Agent of the occurrence of an Event of Default and (ii) request the Transfer Agent to intervene in judicial proceedings that affect the FGIC Insured Securities or the security therefor. The Transfer Agent is required to accept notice of default from the FGIC Bond Insurer.

**Article 1-II
Miscellaneous**

Section 1-2.01. Reserve Fund Requirements.

Any credit instrument hereafter provided in lieu of a cash deposit into the Bond Reserve Account or the Second Lien Bond Reserve Account, other than one provided by the FGIC Bond Insurer, shall conform to the requirements set forth in *Exhibit 1-2.01* hereto, "Reserve Fund Surety Guidelines".

Section 1-2.02. Amendments to Bond Ordinance.

(a) The FGIC Bond Insurer hereby consents to the amendments to the Bond Ordinance contained in Ordinance No. __ 01.

(b) Any other amendment or supplement to the Bond Ordinance requiring consent of Holders of FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds is also subject to written consent of the FGIC Bond Insurer before it shall become effective as to FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds, as the case may be.

(c) Any Rating Agency having a rating in effect with respect to the FGIC Insured Securities must receive notice of each amendment supplement to the Bond Ordinance requiring consent of Holders of FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds and

a copy thereof at least 15 days in advance of its becoming effective as to FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds, as the case may be.

(d) The FGIC Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Section 1-2.03. Resignations of Fiduciaries.

(a) Any successor Trustee for FGIC Insured Securities or co-trustee must have combined capital, surplus and undivided profits of at least \$50 million, unless the FGIC Bond Insurer shall otherwise approve.

(b) No resignation or removal of any of the following with respect to the FGIC Insured Securities shall become effective until a successor has been appointed and has accepted the duties of the respective office: Trustee, Paying Agent or Registrar.

(c) The FGIC Bond Insurer shall be furnished with written notice of the resignation or removal of any Paying Agent or Trustee and the appointment of any successor thereto.

Section 1-2.04. Defeasance.

(a) Only cash, direct, non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Resolution Funding Corporation interest strips, Certificates of Accrual on Treasury Securities (commonly known as "CATS"), Treasury Investment Growth Receipts (commonly known as "TIGRS") and Separate Trading of Registered Interest and Principal of Securities (commonly known as "STRIPS"), and defeased municipal Securities rated "AAA" by S&P or "Aaa" by Moody's and such other securities as the FGIC Bond Insurer may approve (or any combination of the foregoing) shall be used to effect the defeasance of FGIC Insured Securities *unless* the FGIC Bond Insurer otherwise approves.

(b) In the event of an advance refunding of FGIC Insured Securities, the Finance Director shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

Section 1-2.05. Reporting Requirements.

The FGIC Bond Insurer shall be provided with the following information:

- (1) Notice of any drawing upon or deficiency due to market fluctuation in the amount credited to the Bond Reserve Account or the Second Lien Bond Reserve Account;
- (2) Notice of redemption, other than redemption from Sinking Fund Installments, of any FGIC Insured Securities, or of any advance refunding of FGIC Insured Securities, and identifying the principal amount, maturities and CUSIP numbers thereof;
- (3) Notice of any material events pursuant to Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended.
- (4) Such additional information as the FGIC Bond Insurer may reasonably request from time to time.

Section 1-2.06. Notice Addresses.

FGIC Bond Insurer

Financial Guaranty Insurance Company
115 Broadway
New York, New York 10006
Attention: Risk Management

Fiscal Agent

State Street Bank and Trust Company, N.A.
61 Broadway
New York, New York 10006
Attention: Corporate Trust Department

Part 2
Reserve Policy

Article 2-I
Coordination of Draws; Repayment and Security for Repayment

Section 2-1.01. Coordination of Draws.

(a) If, in addition to the Reserve Policy for the particular Reserve Account, any other reserve fund substitute instrument (*Additional Reserve Policy*) is provided for the same Reserve Fund, drawings under such Reserve Policy and any such Additional Reserve Policy, and repayment of Policy Costs and reimbursement of amounts due under the Additional Reserve Policy, shall be made on a pro rata basis (calculated by reference to the maximum amounts available thereunder) after applying all available cash in such Reserve Account and prior to replenishment of any such cash draws, respectively.

(b) *Additional Reserve Policy* does not include any reserve fund substitute instrument obtained for any reserve account created under or pursuant to the Bond Ordinance other than the Reserve Account.

Section 2-1.02. Repayment.

(a) The City shall repay Financial Guaranty from Net Revenues the principal amount of any draws under each Reserve Policy and related reasonable expenses incurred by Financial Guaranty (together with interest thereon at a rate equal to the lower of (i) the prime rate of Morgan Guaranty Trust Company of New York in effect from time to time plus 2% per annum and (ii) the highest rate permitted by law and shall have the same priority as the obligation to maintain and refill the Reserve Account.

(b) Repayment of draws, expenses and accrued interest (collectively, *Policy Costs*) shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw. If and to the extent that cash has also been deposited in a Reserve Fund, all such cash shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing under the Reserve Policy, and repayment of any related Policy Costs shall be made prior to replenishment of any such cash amounts.

(c) To secure payment of Policy Costs, statutory liens upon the whole of the Net Revenues is hereby created pursuant to Section 7a of Act 94, and is of equal priority to the statutory lien on Net Revenues securing Senior Lien Bonds *but* subordinate to such lien as between Senior Lien Bonds and such Policy Costs.

(d) The statutory lien granted by this subsection shall remain in full force and effect until all Policy Costs are paid in full.

**Article 2-II
Miscellaneous**

Section 2-2.01. Remedies

If the City shall fail to repay any Policy Costs in accordance with the requirements of *Section 2-1.02* hereof, Financial Guaranty shall be entitled to exercise any and all remedies available at law or under the authorizing document other than (i) acceleration of the maturity of the FGIC Insured Securities or (ii) remedies which would adversely affect Securityholders.

Section 2-2.02. Coverage Requirements.

The amount of Policy Costs due and owing in any Fiscal Year shall be included in any calculation with respect to such Fiscal Year required by the Bond Ordinance to issue additional Securities or to set rates as obligations required to be covered 100%.

Section 2-2.03. Additional Securities.

(a) No additional Securities of a Priority may be issued without Financial Guaranty's prior written consent if any Policy Costs are past due and owing to Financial Guaranty with respect to the Reserve Account for Securities of that Priority.

(b) Upon the issuance of additional Senior Lien Bonds or Second Lien Bonds, the respective Reserve Account shall be fully funded (at its Reserve Requirement) upon the issuance of such Securities, either with cash or permitted investments or by a reserve fund credit instrument conforming to the requirement set forth in *Exhibit 1-2.01* hereto or otherwise acceptable to Financial Guaranty.

Section 2-2.04. Reporting.

The City shall provide Financial Guaranty with the following information:

(a) The budget for each Fiscal Year promptly after adoption and the Audited Sewage Disposal Fund Financial Statements (as defined in the Master Continuing Disclosure Agreement with respect to the Insured Securities) concurrently with the filing thereof with each NRMSIR and the SID pursuant to such Master Continuing Disclosure Agreement.

(b) The official statement or similar disclosure document, if any, prepared in connection with the issuance of any Senior Lien Bonds or Second Lien Bonds.

(c) Notice of the redemption, other than from Sinking Fund Installments, of any of the Insured Securities.

(d) Such addition information as Financial Guaranty may reasonably request from time to time.

Section 2-2.05. Notice of Potential Claims.

The City shall ascertain the necessity for a claim upon the Reserve Policy and to provide notice to Financial Guaranty in accordance with the terms of the Reserve Policy at least two business days prior to each interest payment date.

Section 2-2.06. Amendments to Bond Ordinance.

(a) The Financial Guaranty hereby consents to the amendments to the Bond Ordinance contained in Ordinance No.18-01.

(b) Any other amendment or supplement to the Bond Ordinance requiring consent of Holders of FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds is also subject to written consent of Financial Guaranty before it shall become effective as to FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds, as the case may be.

Section 2-2.07. Removal of Trustee.

Financial Guaranty shall be provided with written notice of the resignation or removal of the Trustee for FGIC Insured Senior Lien Bonds or FGIC Insured Second Lien Bonds and the appointment of a successor thereto and of the issuance of additional Senior Lien Bonds or Second Lien Bonds.

Section 2-2.08. No Conflicts.

To the extent of any conflict between the provisions of this Part 2 and either Reserve Fund Policy Agreement, the provisions of this Part 2 shall prevail.

Section 2-2.09. Notice Address.

Financial Guaranty Insurance Company
115 Broadway
New York, New York 10006
Attention: Risk Management

[End of Financial Guaranty Insurance Company Supplement]

Reserve Fund Surety Guidelines

The City may satisfy the requirement (the *Reserve Fund Requirement*) to deposit a specified amount in a Reserve Account (the *Reserve Fund*) by the deposit of a surety bond, insurance policy or letter of credit as set forth below.

1. A surety bond or insurance policy issued to the City in respect of the Reserve Fund by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
2. A surety bond or insurance policy issued to the City in respect of the Reserve Fund by an entity other than a municipal bond insurer may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the form and substance of such instrument and the issuer thereof shall be approved by the FGIC Bond Insurer.
3. An unconditional irrevocable letter of credit issued to the City in respect of the Reserve Fund by a bank may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the City not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
4. If such notice indicates that the expiration date shall not be extended, the City shall deposit in the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Fund Requirement on all outstanding related Securities, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Fund credit instrument is replaced by a Reserve Fund credit instrument meeting the requirements in any of 1-3 above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The City shall draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Fund is fully funded in its required amount.

5. The use of any Reserve Fund credit instrument pursuant to this Paragraph shall be subject to receipt of an opinion of counsel acceptable to the FGIC Bond Insurer and in form and substance satisfactory to the FGIC Bond Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to FGIC Bond Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to FGIC Bond Insurer and in form and substance satisfactory to FGIC Bond Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).
6. The obligation to reimburse the issuer of a Reserve Fund credit instrument for any fees, expenses, claims or draws upon such Reserve Fund credit instrument shall be subordinate to the payment of debt service on the related Securities. The right of the issuer of a Reserve Fund credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Fund, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Fund. The Reserve Fund credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Fund credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Fund to an amount equal to the difference between the full original amount available under the Reserve Fund credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Fund credit instrument becomes insolvent or (b) the issuer of a Reserve Fund credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Fund credit instrument shall be subordinate to the cash replenishment of the Reserve Fund.
7. If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the City shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal

installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Reserve Fund credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Fund credit instrument becomes insolvent, the City shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal to Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence.

8. Where applicable, the amount available for draws or claims under the Reserve Fund credit instrument may be reduced by the amount of cash or permitted investments deposited in the Reserve Fund pursuant to clause (i) of the preceding subparagraph 6.
9. If the City chooses the above described alternatives to a cash-funded Reserve Fund, any amounts due and owing by the City in any Fiscal Year to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation with respect to such Fiscal Year required by the Bond Ordinance to issue additional Securities or to set rates as obligations required to be covered 100%.
10. The City shall ascertain the necessity for a claim or draw upon the Reserve Fund credit instrument and to provide notice to the issuer of the Reserve Fund credit instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Fund credit instrument) prior to each interest payment date.
11. Cash on deposit in the Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Fund credit instrument. If and to the extent that more than one Reserve Fund credit instrument is deposited in the Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

Exhibit 4

Variable Rate Mode Supplement and Agreement

among

City of Detroit,
as Issuer

U. S Bank Trust National Association,
as Transfer Agent,

and

U. S Bank Trust National Association,
as Tender Agent

Dated as of September 1, 2001

with respect to

City of Detroit
Sewer Disposal System Senior Lien Revenue Refunding Bonds,
Series 2001(C-1) and Series 2001(C-2)
and
Sewer Disposal System Second Lien Revenue Bonds, Series 2001(E)

Table of Contents

Article I Definitions

Section 1.01.	Definitions and Provisions of General Application	C-1
Section 1.02.	Other Definitions	C-12
Section 1.03.	Interpretation	C-13
Section 1.04.	Time	C-13

Article II Modal Securities

Section 2.01.	Title Change on Certain Mode Changes	C-14
Section 2.02.	[Reserved]	
Section 2.03.	Changes to in Connection with Mode Change	C-14
Section 2.04.	Interest	C-15
Section 2.05.	[Reserved]	
Section 2.06.	Payment of Interest	C-15

Article III Interest Rate Determinations

Section 3.01.	Manner of Determining Interest Rates; Maximum Interest Rate	C-16
Section 3.02.	Interest Rate Determinations for Flexible Mode	C-17
Section 3.03.	Interest Rate Determinations for All Other Modes	C-17
Section 3.04.	Failure of Interest Rate Determination	C-18

Article IV Modes and Periods

Section 4.01.	Modes	C-19
Section 4.02.	Duration of Modes	C-20
Section 4.03.	Length of Flexible Rate Periods	C-20
Section 4.04.	Limitations on Length of Flexible Rate Periods	C-21
Section 4.05.	Length of Term Rate Periods	C-21
Section 4.06.	Limitations on Length of a Term Rate Period	C-22
Section 4.07.	Finance Director Fails to Elect a New Term Rate Period	C-23
Section 4.08.	[Reserved]	
Section 4.09.	Effectiveness of Modes	C-23
Section 4.10.	Conditions Precedent to Mode Change	C-24
Section 4.11.	Election of Mode Change; How Effected; Irrevocability	C-25
Section 4.12.	Selection of Variable Rate Securities	C-26

Section 4.13.	Mode Change Notice	C-27
Section 4.14.	Notice to Variable Rate Securityholders and Liquidity Facility Providers	C-28

Article V
Redemption of Securities

Section 5.01.	Optional Redemption – Short-Term Securities	C-28
Section 5.02.	Optional Redemption – Modal Fixed Rate Securities	C-29
Section 5.03.	Limitation on Optional Redemption	C-30

Article VI
Right of Optional Tender
and
Mandatory Tender Events

Section 6.01.	Tender at Option of Modal Holder	C-30
Section 6.02.	Mandatory Tender Events	C-31
Section 6.03.	Mandatory Tender on Expiry Date	C-32
Section 6.04.	Suspension of Optional Tender Rights	C-32

Article VII
Tender and Purchase

Section 7.01.	Notice of Mandatory Tender	C-33
Section 7.02.	Interest to No Longer Accrue	C-34
Section 7.03.	Remarketing of Provider Securities	C-34
Section 7.04.	Remarketing Agent; Priority to Provider-Owned Securities	C-34
Section 7.05.	Draw Information to be Provided by Remarketing Agent; Transfer of Amounts	C-35
Section 7.06.	Draws on Liquidity Facility	C-35
Section 7.07.	City Not Obligated to Pay Purchase Price	C-35
Section 7.08.	Payment of Purchase Price	C-35
Section 7.09.	Tender of Less than All of Security	C-36
Section 7.10.	Notification and Delivery of Remarketed Tender Securities	C-36
Section 7.11.	Actions on Purchase Date	C-37..

Article VIII
Funds and Accounts

Section 8.01.	Creation of Funds and Accounts	C-38
Section 8.02.	“Sufficient Time” for Payments under Credit Facilities	C-39

Section 8.03.	Credit Facility Draws	C-39
Section 8.04.	Liquidity Facility Draws	C-39
Section 8.05.	Application of the Credit Facility Fund	C-40
Section 8.06.	Application of the Remarketing Fund	C-40
Section 8.07.	Subrogation Rights	C-41
Section 8.08.	Provider Securities	C-41
Section 8.09.	Investment of Moneys	C-42
Section 8.10.	No Lien or Claims	C-42
Section 8.11.	Money Held for Particular Modal Securities	C-43

Article IX
Bond Insurance and Financial Facilities

Section 9.01.	When Required	C-43
Section 9.02.	Financial Facility Principal and Interest Requirements	C-43
Section 9.03.	Terms of Conforming Financial Facilities	C-44
Section 9.04.	Substitution of Financial Facilities	C-45
Section 9.05.	Excluded Securities	C-46
Section 9.06.	Reduction and Cancellation	C-46
Section 9.07.	Termination by Provider	C-47

Article X
Bond Insurance

Section 10.01.	Location of Provisions	C-48
----------------	------------------------------	------

Article XI
Concerning the Tender Agent and the Remarketing Agent

Section 11.01.	Tender Agent; Qualifications	C-48
Section 11.02.	Responsibilities of Tender Agent	C-48
Section 11.03.	Remarketing Agent	C-49

Article XII
Miscellaneous

Section 12.01.	Limitation on Defeasance	C-50
Section 12.02.	Amendments	C-50
Section 12.03.	Notices to Rating Agencies	C-50
Section 12.04.	Notices	C-51
Section 12.05.	Severability	C-52

Section 12.06. Payments Due and Acts to be Performed on Non-Business Days C-52
Section 12.07. Captions; Table of Contents C-52
Section 12.08. Counterparts C-52
Section 12.09. Governing Law C-52

Signatures S-1

Exhibits

Ex-10.01 – FSA Insured Securities Provisions

This **Variable Rate Mode Supplement and Agreement** (the *Agreement*), dated as of September 1, 2001, among the **City of Detroit, Michigan**, (the *City*), **U. S. Bank Trust National Association**, a national banking association with its designated corporate trust office located in Detroit, Michigan, (the *Transfer Agent*), as Transfer Agent under the under the Bond Resolution with respect to the Series 2001 Securities, adopted on August 1, 2001, and amended on October _____, 2001 (the *Bond Resolution*), and **U. S. Bank Trust National Association**, a national banking association with its designated office located in New York, New York, as Tender Agent hereunder (the *Tender Agent*), is a supplement to the **Composite Sales Order with respect to Series 2001 Securities** executed by the Director of Finance of the City of Detroit and together therewith and with all other supplements and all exhibits constitutes the *Sale Order*.

Intending to be legally bound hereby, the parties hereto agree as follows:

Article I Definitions and Provisions of General Application

Section 1.01. Definitions.

(a) Unless the context clearly otherwise requires, (i) capitalized terms not defined herein and defined in the Bond Resolution or elsewhere in the Sale Order are used herein as therein defined and (ii) the following terms have the following respective meanings:

Account means any account established by *Section 8.01*.

Alternative Term Rate means, for any Term Rate Determination Date, the index published or provided by Kenny Information Systems that is based on yield evaluations at par of Securities, the interest on which is excluded from gross income for purposes of federal income taxation and are not subject to a "minimum tax" or similar tax under the Internal Revenue Code of 1986, as amended (unless all tax-exempt Securities are subject to such tax). The Securities upon which the index is based shall include not less than five "high grade" component issuers selected by Kenny Information Systems, which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time-to-time by Kenny Information Systems in its discretion. The yield evaluation period for the index shall be a one year evaluation.

Alternative Weekly Rate means the BMA Municipal Swap Index; and if the BMA Municipal Swap Index ceases to be published, then a new third-party index shall be selected in good faith by the City that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent.

Auction Rate Mode means the method by which interest is determined pursuant to the Auction Rate Mode Supplement.

Auction Rate Mode Supplement means the document so captioned annexed to the Sale Order as *Annex D*.

Auction Rate Security means a Series 2001 Security in the Auction Rate Mode.

Authorized Denominations means,

- (i) for Variable Rate Securities, \$100,000 and any multiple of \$5,000 in excess thereof;
- (ii) for Modal Fixed Rate Securities, \$5,000 and any multiple thereof.

Authorizing Documents means the Bond Ordinance, the Bond Resolution and the Sale Order.

BMA Municipal Swap Index means the index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by the 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 means Lewis & Munday, A Professional Corporation, and Howard and Howard Attorneys, P.C., Bond Counsel to the City with respect to the Series 2001 Securities, or such other firm or firms of national recognized standing in the field of tax-exempt municipal bonds as may be appointed by the City in lieu thereof.

Bond Insurance Policy: The Bond Insurance in effect on the Closing Date:

- (i) for the FSA Insured Securities is the FSA Bond Insurance Policy and
- (ii) for the FGIC Insured Securities is the FGIC Bond Insurance Policy

Bond Insurer means, for

- (i) the FSA Insured Securities, the FSA Bond Insurer and
- (ii) the FGIC Insured Securities, the FSA Bond Insurer.

Bond Resolution has the meaning given that term in the first paragraph of this instrument.

City has the meaning given that term in the first paragraph of this instrument.

Closing means, with respect to a Series of Modal Securities, the delivery of such Series of Modal Securities to, and payment for such Series of Modal Securities by, the purchasers identified in the Sale Order and the other actions in connection therewith.

Closing Date means the date on which the Closing occurs.

Conforming Financial Facility means a Financial Facility conforming to the requirements of *Section 9.03*.

Credit Enhancement means, as of any date, any Credit Facility or the Bond Insurance Policy then in effect.

Credit Enhancement Provider means any Bond Insurer and any Credit Facility Provider.

Credit Facility Provider means the obligor under a Credit Facility.

Daily Mode means the Mode that has all of the attributes provided by this Agreement for Variable Rate Securities bearing interest at a Daily Rate.

Daily Rate when used as a noun means a rate of interest determined as provided herein for the Daily Mode.

Daily Rate Security means any Variable Rate Security in the Daily Mode.

Day Count Convention means:

- (i) for any Short-Term Security, the actual number of days elapsed in the then current calendar year; and
- (ii) for any Long-Term Security, 30-day months in a 360-day year.

Dexia means Dexia Credit Local, acting through its New York Agency.

drawn means the making of funds available to the Tender Agent under a Financial Facility, whether as a purchase of Securities under a standby bond purchase agreement, a drawing under a letter of credit or otherwise. Correlatives of *drawn* have correlative meanings.

Electronic Means means (i) any means of electronically communicating by written word, such as, without limitation, telecopier or other facsimile transmission and e-mail transmission and (ii) any means of electronically communicating by spoken word, such as, without limitation, telephone; *so long as*, the mode of the

Electronic Means is acceptable to the recipient and the communication by Electronic Means is promptly confirmed by a manually signed writing or otherwise authenticated to the satisfaction of the recipient.

Excluded Security means a Modal Security that is both an Excluded Credit Enhancement Security and an Excluded Liquidity Facility Security.

Excluded Credit Enhancement Security means any Modal Security for which the Credit Enhancement was terminated pursuant to *Section 9.05*.

Excluded Credit Facility Security means any Modal Security for which the Credit Facility was terminated pursuant to *Section 9.05*.

Excluded Liquidity Facility Security means any Variable Rate Security for which the Liquidity Facility was terminated pursuant to *Section 9.05*.

Expiry Date means the date on which a Financial Facility expires by its terms and not by reason of any Termination Event.

Favorable Bond Counsel's Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement, the Sale Order and the Authorizing Documents, and (ii) such action will not adversely affect the exemption of the interest on the Series 2001 Securities from federal and state income taxation (subject to customary exceptions).

FGIC Bond Insurer means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

FGIC Bond Insurance Policy means the municipal bond new issue insurance policy issued by the FGIC Bond Insurer that guarantees payment of principal of and interest on the FGIC Insured Securities.

FGIC Insured Securities means the Series C-2 Securities and the Series E Securities.

FGIC-SPI means FGIC Securities Purchase, Inc., a Delaware corporation.

Flexible Rate means a rate of interest determined as provided herein for the Flexible Rate Mode.

Flexible Rate Mode means the Mode that has all of the attributes provided by this Agreement for Variable Rate Securities bearing interest at a Flexible Rate.

Flexible Rate Security means any Variable Rate Security in the Flexible Rate Mode.

FSA Bond Insurer means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto.

FSA Bond Insurance Policy means the municipal bond new issue insurance policy issued by the FSA Bond Insurer that guarantees payment of principal of and interest on the FSA Insured Securities.

FSA Insured Securities means the Series C-1 Securities.

Fund means any fund established by *Section 8.01*.

Immediate Termination Event means a Termination Event occurring under a Financial Facility that *does not* provide for a period after such occurrence during which the affected Modal Securities may be called for tender.

Initial Mode means the Mode identified in the Schedule of Terms for Modal Securities appended to the Sale Order as the Mode in which Modal Securities will be initially issued. It is not required that the Initial Mode be the same for all Modal Securities.

Interest Account means the account by that name established by *Section 8.01*.

Interest Adjustment Date means, for any date after the Closing Date:

- (i) for a Daily Rate Security, each Rate Determination Date for such Daily Rate Security;
- (ii) for a Weekly Rate Security, the Mode Change Date for such Weekly Rate Security and thereafter each Thursday;
- (iii) for a Term Rate Security, the Mode Change Date for such Term Rate Security and thereafter the first day of each Term Rate Period;
- (iv) for a Flexible Rate Security, each Rate Determination Date for such Flexible Rate Security; and
- (v) for a Modal Fixed Rate Security, the Mode Change Date for such Modal Fixed Rate Security.

Interest Payment Date means each date on which interest is to be paid and is:

- (i) for a Daily Rate Security, the first Modal Business Day of each calendar month;
- (ii) for a Weekly Rate Security, the first Modal Business Day of each calendar month;
- (iii) for a Flexible Rate Security, the last day of the Flexible Rate Period for the particular Flexible Rate Security;
- (iv) for a Term Rate Security, each Stated Interest Payment Date occurring after the Mode Change Date for such Term Rate Security; and
- (v) for a Modal Fixed Rate Security, each Stated Interest Payment Date occurring after the Mode Change Date for such Modal Fixed Rate Security.

Last Put Termination Date means the date on which a Financial Facility terminates by reason of a Last Put Termination Event.

Last Put Termination Event means a Termination Event occurring under a Financial Facility that provides for a period after such occurrence during which the affected Modal Securities may be called for tender.

Last Put Termination Notice means a notice from a Provider stating that it is terminating its Financial Facility by reason of a Last Put Termination Event.

Legal Maximum Rate means the maximum interest rate per annum permitted by law.

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 Variable Rate Securities in the event of a failure of the remarketing thereof but does not include any protection provided by a Credit Facility. The Liquidity Facility in effect on the Closing Date:

- (i) for the FSA Insured Securities is the Standby Security Purchase Agreement between the City and Dexia, and
- (ii) for the FGIC Insured Securities is the respective Standby Bond Purchase Agreement between the Tender Agent and FGIC-SPI for the particular Series of FGIC Insured Securities.

Liquidity Facility Provider means the obligor under a Liquidity Facility. The Provider of Liquidity Facility Provider in effect on the Closing Date:

- (i) for the FSA Insured Securities is Dexia and
- (ii) for the FGIC Insured Securities is FGIC-SPI.

Long-Term Security means a Modal Security in a Long-Term Mode.

Long-Term Mode means a Term Rate Mode and a Modal Fixed Rate Mode.

Maximum Provider Rate means 18 % per annum.

Modal Business Day means a day on which the Transfer Agent, the Tender Agent, the Remarketing Agent, each Provider and banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

Modal Fixed Rate means a rate of interest determined as provided herein for the Modal Fixed Rate Mode.

Modal Fixed Rate Security means any Variable Rate Security in the Modal Fixed Rate Mode.

Modal Fixed Rate Mode means the Mode that has all of the attributes provided by this Agreement for Variable Rate Securities bearing interest at a Modal Fixed Rate.

Modal Holder and *Modal Securityholder* means the Person in whose name a Modal Security is registered in the Registry.

Modal Maximum Rate means, as to any Modal Security, the lesser of the Stated Maximum Rate and the Legal Maximum Rate. The Modal Maximum Rate is not applicable to any Provider Security.

Modal Securities means, as of any particular date, such of the Series 2001 Securities described on the Signature Pages for Modal Securities, including the addendum thereto, that are:

- (i) Variable Rate Securities or Modal Fixed Rate Securities; and
- (ii) for purposes of Credit Enhancement, Credit Facility draws and in respect of the Credit Facility Fund,
 - (A) Provider Securities and

(B) Variable Rate Securities that have become an Auction Rate Securities *unless and until* such Auction Securities become Excluded Credit Enhancement Securities.

Mode means any of the methods of determining an interest rate for the Series 2001 Securities permitted by this Agreement.

Mode Change Date means the date on which a Mode change becomes or is intended to become effective.

Mode Change Notice means the notice from the Finance Director to the other Notice Parties of the Finance Director's intention to change a Mode.

Notice Address means the address that a Person specifies to the Notice Parties (other than itself if a Notice Party) as the address to which notices hereunder shall be addressed.

Notice Parties means the City, the Tender Agent, the Remarketing Agent, any Credit Enhancement Provider and any Liquidity Facility Provider.

Outstanding, as used in the Bond Ordinance, whether or not capitalized, *excludes* Variable Rate Securities that have been duly called for mandatory tender or as to which the Modal Holder thereof gave notice of optional tender and, in either case, for the purchase of which the Purchase Price is held by the Tender Agent for the payment thereof;

Period means a period of time determined in accordance with this Agreement during which the Mode is not permitted to be changed for Variable Rate Securities in that Mode.

Predecessor Financial Facility means the Financial Facility for which another Financial Facility is substituted or is to be substituted.

Principal Account means the account by that name established by *Section 8.01*.

Provider means a Credit Facility Provider and a Liquidity Facility Provider

Provider Securities has the meaning given such term in *Section 8.08*.

Provider-Owned Variable Rate Security has the meaning given that term in *Section 7.03*.

Provider Rate means the rate of interest borne by a Provider Security as specified in the particular Financial Facility Agreement and includes any default rate

or other rate increased by reason of the occurrence of an event or the passage of time, or both.

Purchase Date means the date on which Tender Securities or Provider-Owned Modal Securities are to be purchased pursuant to, respectively, the terms hereof or the terms of the Financial Facility Agreement for the Liquidity Facility.

Purchase Price means an amount equal to the principal amount of the Tender Securities to be purchased on a Purchase Date *plus* interest accrued to such Purchase Date.

Rate Determination Date means:

- (i) for a Daily Rate Security, each Modal Business Day;
- (ii) for a Weekly Rate Security,
 - (A) for the first Rate Determination Date,
 - (I) after the Closing, October 31, 2001; otherwise
 - (II) the Modal Business Day before the Mode change to a Weekly Mode;
 - (B) *thereafter*, each Wednesday *but if* such Wednesday is not a Modal Business Day *then* the Thursday immediately following such Wednesday.
- (iii) for a Flexible Rate Security, the first day of each Flexible Rate Period for such Flexible Rate Security;
- (iv) for a Term Rate Security, a Modal Business Day selected by the Finance Director no sooner than 30 days before and no later than the Modal Business Day immediately before the Mode Change Date; *thereafter*, the Modal Business Day immediately before the last day of each Term Rate Period for such Term Rate Security; and
- (v) for a Modal Fixed Rate Security, a Modal Business Day selected by the Finance Director no sooner than 30 days before and no later than the Modal Business Day immediately before the Mode Change Date.

Rating Agency means, on any date, each nationally recognized statistical rating organization (as such term is used in Rule 15c3-1 of the Securities and Exchange Commission) that has a rating in effect on the Securities on such date.

Rating Confirmation means a writing from each Rating Agency stating that the rating on the Securities will not be reduced or withdrawn (*other* than a withdrawal of a short term rating upon a change to a Long-Term Mode or the Auction Rate Mode) as a result of the action proposed to be taken.

Record Date means:

(i) for a Short-Term Security, the day (whether or not a Modal Business Day) immediately before each Interest Payment Date for such Security; and

(ii) for a Long-Term Security, the 15th day (whether or not a Modal Business Day) of the month immediately before each Interest Payment Date for such Security.

Registrar means the Transfer Agent in the case of Modal Fixed Rate Securities and the Tender Agent in the case of Variable Rate Securities.

Remarketing Agent means the Person appointed as Remarketing Agent in the Sale Order upon the acceptance of such office until a successor Remarketing Agent becomes such and thereafter, such successor Remarketing Agent.

Remarketing Agreement means, as of any date, an agreement then in effect between the City and the Remarketing Agent providing for the remarketing of Securities. The Remarketing Agreement in effect on the Closing Date is between the City and UBS PaineWebber Inc..

Remarketing Fund means the fund by that name created in *Section 8.01*.

Sale Order has the meaning give that term in the first paragraph of this instrument.

Security means any Modal Security *unless* the context clearly requires *Security* to mean any Series 2001 Security.

Series means the Modal Securities bearing the same series designation. When used as an adjective, the term is limited to Modal Securities of the Type that the term modifies.

Series C Securities means Series C-1 Securities and Series C-2 Securities.

Series C-1 Securities means the Modal Securities designated as "Series 2001 (C-1)" in the Signature Pages for Modal Securities to the Sale Order.

Series C-2 Securities means the Modal Securities designated as “Series 2001 (C-2)” in the Signature Pages for Modal Securities to the Sale Order.

Series E Securities means the Modal Securities designated as “Series 2001 (E)” in the Addendum to the Signature Pages for Modal Securities to the Sale Order.

Short-Term Security means a Variable Rate Security in a Short-Term Mode.

Short-Term Mode means the Daily Mode, Weekly Mode and Flexible Rate Mode.

Stated Interest Payment Date means each January 1 and July 1.

Stated Maximum Rate means 12 percent per annum, subject to change as provided in *Section 2.03*.

Suspension Date has the meaning given that term in *Section 9.08*.

Tender Agent means the Person identified as *Tender Agent* in the first paragraph of this instrument until a successor *Tender Agent* becomes such and thereafter, such successor *Tender Agent*.

Tender Securities means, as of any Purchase Date, all Modal Securities:

(i) subject to tender on such Purchase Date by reason of the Modal Holders thereof having given notice as provided in *Section 6.01* and

(ii) subject to mandatory tender on such Purchase Date pursuant to *Section 6.02*.

Term Securities means any Modal Securities identified in as “Term Securities” in the Signature Pages for Modal Securities to the Sale Order.

Term Rate Security means any Variable Rate Security in the Term Rate Mode.

Term Rate means a rate of interest determined as provided herein for the Term Rate Mode.

Term Rate Mode means the Mode that has all of the attributes provided by this Agreement for Variable Rate Securities bearing interest at a Term Rate.

Termination Date means the date on which a Financial Facility terminates by reason of a Termination Event.

Termination Event means any event that permits a Provider to terminate its Financial Facility and includes any non-reinstatement of interest drawn under such Financial Facility.

Termination Notice means a notice from a Provider stating that it is terminating its Financial Facility by reason of a Termination Event or that it is not reinstating interest drawn under such Financial Facility.

Tranche means all Modal Securities in a particular Mode that have the same Rate Determination Date.

Transfer Agent means the Person identified as *Transfer Agent* in the first paragraph of this instrument until a successor Transfer Agent becomes such and thereafter, such successor Tender Agent.

Variable Rate Mode means any Short-Term Mode or Term Rate Mode.

Variable Rate Security means a Modal Security in a Variable Rate Mode.

Weekly Mode means the Mode that has all of the attributes provided by this Agreement for Variable Rate Securities bearing interest at a Weekly Rate.

Weekly Rate means a rate of interest determined as provided herein for the Weekly Mode.

Weekly Rate Security means any Variable Rate Security in the Weekly Mode.

Section 1.02. Other Definitions.

Below are certain of the terms used herein and defined in the Bond Resolution in the Sale Order and the location of such defined terms.

<u>Term</u>	<u>Location</u>
Bond Ordinance	Bond Resolution, Preamble
Credit Facility	Bond Resolution, § 1
Financial Facility	Bond Resolution, § 1
Financial Facility Agreement	Bond Resolution, § 1
Person	Bond Resolution, § 1
Registry	GT Supplement, § 1.01
Securities Depository	Bond Resolution, § 1

Term	Location
Series 2001 Security	Bond Resolution, § 1
Type	Composite Sale Order*, ¶ 2

* References to the *Composite Sale Order* are to the Sale Order exclusive of all supplements

Section 1.03. Interpretation.

(a) The word *a* does not necessarily mean “only one” of the noun modified by *a* and, depending on the context, can mean “any particular one, without distinction, of two or more” of the noun modified by *a*.

(b) The word *and*, primarily when used in definitions, does not necessarily mean that all of the conjoined words must exist either independently or in conjunction with each other. Depending on the context, *and* can mean “as well as” as in the definition of “Provider” where “a Credit Facility and a Liquidity Provider” means a Credit Facility *or* a Liquidity Provider *or both* a Credit Facility and a Liquidity Provider, as required by the context.

(c) The period *before* a specific date excludes the specific date; i.e., “five Modal Business Day before the last day of the current Term Rate Period” excludes the “last day”.

(d) Words of the masculine gender include correlative words of the feminine and neuter genders.

(e) Unless the context otherwise indicates, words importing the singular include the plural and vice versa.

(f) Articles, Sections and Exhibits referred to by number mean the corresponding Articles, Sections and Exhibits of this Agreement.

(g) The terms *hereby*, *hereof*, *hereto*, *herein*, *hereunder* and any similar terms used in this Agreement refer to this Agreement as a whole, including the exhibits and appendices hereto.

Section 1.04. Time.

All time expressed in this Agreement is the time in New York City on the date the particular action is to be taken *unless* otherwise provided.

Article II Modal Securities

Section 2.01. Title Change on Certain Mode Changes.

Whenever the Mode of a Variable Rate Security is changed to the Modal Fixed Rate Mode or the Auction Rate Mode, the title of the resulting Series 2001 Security shall include “(Modal Fixed Rate)” or “(ARCs)”, as the case may be, in substitution for “(Variable Rate Demand)”.

Section 2.02. [Reserved].

Section 2.03. Changes in Connection with Mode Change.

(a) Any Mode Change Notice delivered to change the Mode of some or all Variable Rate Securities of a Series also may provide for:

(1) adding, deleting or otherwise modifying maturity dates of such Securities so long as any additional maturity date is a July 1 occurring no later than the first to occur of (A) a July 1 occurring no more than 35 years after the Closing Date and (B) the maximum maturity date permitted by the Bond Resolution.

(2) adding, deleting or otherwise modifying the principal of such Securities maturing on any maturity date *so long as* the entire principal amount authorized hereunder is amortized no later than the last maturity date;

(3) adding or deleting any of such Securities as Term Securities and adding, deleting or otherwise modifying Sinking Fund Installments for any such Term Securities;

(4) adding or deleting or otherwise modifying the terms hereof for optional redemption of such Securities as Modal Fixed Rate Securities and the Redemption Prices thereof; and

(5) increasing or decreasing the Maximum Stated Rate of any of such Securities.

(b) The change described in such notice shall be effective *when, but only when*, the change to the Mode change contemplated by such notice becomes effective *and only if*:

(1) any change in maturity does not exceed any limitation on maturity contained in the Act;

(2) any increase in interest rate does not exceed the Legal Maximum Rate;

(3) such Variable Rate Securities could be issued as Series 2001 Securities of the corresponding Parity and for the corresponding purpose under the Bond Ordinance (treating,

for such purpose, the Securities with the amortization to be adjusted as no longer outstanding to the extent of the adjustment) and

(4) the Provider of the Credit Enhancement for the particular Series of Modal Securities has consented to the changes contained in such Mode Change Notice.

Section 2.04. Interest.

(a) Interest on each Modal Security shall be:

(1) payable at the rate determined on each Rate Determination Date for such Mode as provided in *Article III* and effective as of the Interest Adjustment Date for which such rate was determined and effective until (and excluding) the next Interest Adjustment Date *or if* such Mode includes only one Interest Adjustment Date *then* the day before such Mode is changed;

(2) calculated at the Day Count Convention for such Mode; and

(3) payable on the Interest Payment Date for such Mode to the Modal Holder of such Variable Rate Security as of the Record Date for such Mode *provided that*:

(i) *if* any such Interest Payment Date occurs after the stated maturity of the related Modal Security *then* interest shall be paid on such stated maturity; and

(ii) *if* interest on any Modal Security shall be in default, *then* such interest shall be payable on the Special Interest Payment Date, if any, established for such Security.

Section 2.05. [Reserved].

Section 2.06. Payment of Interest.

(a) ***Modal Fixed Rate Securities.*** Interest on Modal Fixed Rate Securities shall be paid by the Transfer Agent as if such Securities were Fixed Rate Securities.

(b) ***Variable Rate Securities.*** Interest due on Variable Rate Securities on an Interest Payment Date shall be paid by the Tender Agent as follows:

(1) Modal Holders, as of the applicable Record Date, of Short-Term Securities shall be paid by wire transfer of immediately available funds to the account specified by each such Modal Holder in a writing delivered to the Tender Agent. Such writing shall remain in effect until revoked or revised by such Modal Holder in a writing delivered to the Tender Agent.

(2) Modal Holders, as of the applicable Record Date, of Term Rate Securities shall be paid by check mailed by the Tender Agent to each such Modal Holder at its address appearing in the Registry as of such Record Date *except* that any Modal Holder of \$1,000,000 or more in aggregate principal amount of Modal Fixed Rate Securities shall be paid in the same manner as Modal Holders of Short-Term Securities upon such Modal Holder delivering the writing required by *paragraph (1)*, above.

(c) ***Defaulted Interest.***

(1) *If* interest on any Variable Rate Security payable on an Interest Payment Date is not duly paid or provided for *then* such interest (*Defaulted Interest*) shall cease to be payable to the Person in whose name such Variable Rate Security (or a Predecessor Variable Rate Security) was registered on the Record Date for such Interest Payment Date.

(2) Defaulted Interest shall be payable by the Transfer Agent to the Person in whose name such Variable Rate Security is registered on a Special Record Date established by the Transfer Agent.

(3) The Transfer Agent shall establish a Special Record Date of approximately the same number of days before the day on which the Transfer Agent proposes to pay such Defaulted Interest as the number of day by which the Record Date preceded the Interest Payment Date on which such Defaulted Interest would have been payable had not the default occurred.

(4) *Predecessor Variable Rate Security* means, with respect to any Variable Rate Security, every previous Variable Rate Security evidencing all or a portion of the same as that evidenced by such Variable Rate Security; and, for this purpose, every Variable Rate Security authenticated and delivered pursuant to Section 5 of the Bond Ordinance (or any successor section to such section) in lieu of any lost, destroyed or stolen Variable Rate Security shall be deemed to evidence the same debt as such lost, destroyed or stolen Variable Rate Security.

Article III Interest Rate Determinations

Section 3.01. Manner of Determining Interest Rates.

(a) The interest rate for all Modal Securities in each Tranche, commencing with the first Rate Determination Date after the Closing Date, shall be determined by the Remarketing Agent on each Rate Determination Date as provided in this Article.

(b) *If* any interest rate determined as provided in this Article for any Tranche exceeds the Modal Maximum Rate, *then* the interest rate for such Tranche shall be the Modal Maximum Rate.

- (c) The determination of any interest rate pursuant to this Article shall be conclusive.

Section 3.02. Interest Rate Determinations for Flexible Rate Mode.

(a) Flexible Rate Securities shall bear interest at rates derived by determining the Period that, in the judgment of the Remarketing Agent, would result in the lowest interest cost for such Flexible Rate Securities as provided in this Section.

(b) On each Rate Determination Date for Flexible Rate Securities, the Remarketing Agent shall determine the Period that results in selling such Flexible Rate Securities at par in the secondary market at such rate for such Period that in the judgment of the Remarketing Agent would result in the lowest interest cost for the City under prevailing market conditions on such Rate Determination Date, *subject* to the following conditions and limitations.

(1) *If* the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Period would result in a lower interest cost on such Flexible Rate Securities, *then* the Remarketing Agent shall select such Period that in the judgment of the Remarketing Agent would result in such lowest interest cost for the City.

(2) The Remarketing Agent is subject to the limitations contained in *Section 4.04* in establishing any Flexible Rate Period.

(c) On or after 4:00 p.m. on the Business Day immediately before each Rate Determination Date for a Flexible Rate Security, any Holder of such Security may telephone the Remarketing Agent and receive notice of the anticipated next Period or Periods and the anticipated Flexible Rate for each such Period.

(d) By 12:30 p.m. on each Rate Determination Date for each Flexible Rate Security, the Remarketing Agent shall determine the Flexible Rate for the Period then selected for such Security and shall give notice by Electronic Means to the Tender Agent of the name of the new Holder, the Period, the Purchase Date and the Flexible Rate.

(e) The Remarketing Agent shall promptly notify the Financial Officer and the Trustee of each interest rate determination made under this Section.

Section 3.03. Interest Rate Determinations for All Other Modes.

(a) The interest rate for each Tranche of Modal Securities other than Flexible Rate Securities shall be determined by the Remarketing Agent on the Rate Determination Date for such

Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at par plus interest accrued to the purchase date, under prevailing market conditions on such Rate Determination Date.

(1) During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 9:30 a.m. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Modal Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date.

(2) During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 5:00 p.m. on each Rate Determination Date.

(3) The Term Rate for any Term Rate Security shall be determined by the Remarketing Agent not later than 4:00 p.m. on the Rate Determination Date for such Term Rate Security.

(4) The Remarketing Agent shall determine the Modal Fixed Rate for each Modal Fixed Rate Security not later than 4:00 p.m. on the Rate Determination Date for such Modal Fixed Rate Security.

(b) Upon making each interest rate determination pursuant to this Section, the Remarketing Agent shall give immediate notice by Electronic Means to the Finance Director, the Transfer Agent and the Tender Agent of such interest rate determination.

Section 3.04. Failure of Interest Rate Determination.

(a) Each of the following constitutes a *Rate Suspension Event*:

(1) the Remarketing Agent fails or is unable to determine the interest rate or Period for any Modal Security; or

(2) a court of law of competent jurisdiction shall hold either of the following to be unenforceable or shall stay either:

(i) the method by which the Remarketing Agent determines the interest rate with respect to a Modal Security or

(ii) the selection by the Finance Director of the Term Rate Periods.

(b) The Remarketing Agent shall notify every other Notice Party of the occurrence of any Rate Suspension Event.

(c) A Rate Suspension Event shall continue until the Remarketing Agent (or the Finance Director if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Finance Director, if applicable) shall again make such determination at

such time as there is delivered to the Remarketing Agent and the Finance Director an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations.

(d) The following rates are applicable upon the occurrence and during the continuance of a Rate Suspension Event:

(1) for a Daily Rate Security, the Alternative Weekly Rate as of each Weekly Rate Determination Date;

(2) for a Weekly Rate Security, the Alternative Weekly Rate as of each Weekly Rate Determination Date; and

(3) for a Flexible Rate Security, the Alternative Weekly Rate in effect on the Business Day that begins each Flexible Rate Period. Each such Flexible Rate Period shall be of the duration specified in *Section 4.03*;

(4) for a Term Rate Security, the Alternative Term Rate for the Term Rate Period for the Term Rate Period extended as provided in *Section 4.05*.

Article IV Modes and Periods

Section 4.01. Modes.

(a) *Modes Which Can or Cannot be Changed.*

(1) The Mode of a Modal Fixed Rate Security cannot be changed.

(2) The Mode of any Variable Rate Security, including a Variable Rate Security that has been defeased, may be changed *subject* to the following limitations:

(i) no Mode of a Series C Security may be changed to a Flexible Rate Mode;

(ii) the Mode of a Variable Rate Security may *not* be changed to the Flexible Rate Mode *unless* the Mode of all outstanding Variable Rate Securities is changed to the Flexible Rate Mode on the same Mode Change Date; and

(iii) the Mode of a Flexible Rate Security may *not* be changed *unless* the Mode of all outstanding Flexible Rate Securities is changed on the same Mode Change Date.

(3) Although the Mode of a Term Rate Security or a Flexible Rate Security may be changed, it may be changed only at the end of a Period.

(b) When Change Permitted.

(1) The Mode of a Daily Rate Security or a Weekly Rate Security may be changed on any Modal Business Day.

(2) The Mode of a Flexible Rate Security may be changed only on the last day of the Flexible Rate Period.

(3) The Mode of a Term Rate Security may be changed only on the last day of the Term Rate Period.

(c) How Changed.

(1) The Finance Director may change a Variable Rate Security from one Mode to another pursuant to a Mode Change Notice, but such change shall become effective only as provided in *Section 4.09*.

(2) Once the Mode of a Variable Rate Security is changed to the Modal Fixed Rate or an Auction Rate Security, such Security is no longer a Variable Rate Security.

(d) ***Period Changes Not Mode Changes.*** Once a Term Rate Mode or a Flexible Rate becomes effective, giving effect to one or more successive Periods for such Mode is not a Mode change.

Section 4.02. Duration of Modes.

Once a Mode is in effect for a Modal Security, that Mode continues in effect until another Mode takes effect in accordance with in *Section 4.09*.

Section 4.03. Length of Flexible Rate Periods.

(a) The length of each Flexible Rate Period is determined by the Remarketing Agent in connection with the marketing or remarketing of the respective Flexible Rate Security as provided in *Section 3.02*.

(b) Unless the Mode is changed, a new Flexible Rate Period shall commence on the last day of the current Flexible Rate Period.

(c) *If* a Rate Suspension Event prevents the Remarketing Agent from determining a Flexible Rate Period for any Flexible Rate Security, *then* the first Flexible Rate Period shall begin on the day the Remarketing Agent would have otherwise determined such Flexible Rate Period and shall end on the immediately following Interest Adjustment Date for Weekly Rate Securities and

each Flexible Rate Mode Period thereafter shall begin and end on successive Interest Adjustment Dates for Weekly Rate Securities until the Rate Suspension Event is no longer continuing.

Section 4.04. Limitations on Length of Flexible Rate Periods.

(a) The Remarketing Agent will comply with the following limitations in establishing the Flexible Rate Period for each Flexible Rate Security.

- (1) The Period shall begin and end on Modal Business Days.
- (2) The Period shall not be longer than the least of:
 - (i) Maximum Permitted Period, as defined in *subsection (b)*;
 - (ii) 365 calendar days;
 - (iii) the stated maturity of the Flexible Rate Security; and
 - (iv) unless such Flexible Rate Security is to be an Excluded Security, the last Modal Business Day occurring not less than five days before the Expiry Date for the then current Financial Facility or Facilities.

(b) *Maximum Permitted Period* means the number of days equal to

$$\frac{MMR \times Days}{Rate}$$

Where:

MMR = The Modal Maximum Rate, which on the date of this Agreement is 12%.

Days = The number of days on which was based the interest component of the Liquidity Facility for Series E Variable Rate Securities, which for the Liquidity Facility in effect on the Closing Date is 153.

Rate = The rate for the new Flexible Rate Period.

Section 4.05. Length of Term Rate Periods.

(a) The length of each Term Rate Period shall be determined by the Finance Director in his/her notice to the Remarketing Agent.

(1) The length of the initial Term Rate Period shall be set forth in the Mode Change Notice electing a change to the Term Rate Mode.

(2) The length of each successive Term Rate Period shall be set forth in a notice of the Finance Director delivered to the Remarketing Agent, and such notice shall be delivered not less than five Modal Business Days before the last day of the current Term Rate Period. *Section 4.07* provides for the action to be taken if Finance Director does not give such notice.

(3) The Finance Director shall promptly provide the Transfer Agent and the Tender Agent with a copy of each notice setting the length of a Term Rate Period.

(b) Unless the Mode is changed, a new Term Rate Period shall commence on the last day of the current Term Rate Period.

(c) *If* a Rate Suspension Event prevents the Remarketing Agent from giving effect to a successive Term Rate Period elected by the Finance Director *then* the Finance Director may elect any other Mode not subject to such Rate Suspension Event.

(1) If the Finance Director elects to make a Mode change, notice of the election shall be given in accordance with *Section 4.11* in time to effect the Mode change on the last day of the then current Term Rate Period; *provided* that, any Notice Party may waive any notice requirements with respect to notices to be given to it. The conditions to a Mode change contained in *Section 4.10* are applicable

(2) *If* the Finance Director does *not* elect to make a Mode change or *cannot* meet the requirements of *paragraph (1)*, above, *then* the current Term Rate Period of such affected Variable Rate Security shall be extended for successive Interest Payment Dates until the Rate Suspension Event is no longer continuing.

Section 4.06. Limitations on Length of a Term Rate Period.

In determining the length of a Term Rate Period the Finance Director is subject to the following limitations. *If* a Term Rate Period of the minimum length cannot meet the limitations set forth below *then* the Finance Director cannot elect a Term Rate Period.

(1) A Term Rate Period must include at least two Interest Payment Dates, the first of which must be at least 30 days after the Mode Change Date.

(2) The length of every Term Rate Period is subject to the following rules regarding Rating Confirmations.

(i) No Term Rate Period may be longer than the immediately preceding Term Rate Period without a Rating Confirmation in respect of the new Term Rate Period.

(ii) *If there is no immediately preceding Term Rate Period then a Rating Confirmation shall be obtained and the length of the new Term Rate Period cannot exceed the length permitted by such Rating Confirmation.*

(3) No Term Rate Period for a Series E Variable Rate Security may be less than 366 days.

(4) A Term Rate Period must begin on a Modal Business Day and must end on an Interest Payment Date that is either a Modal Business Day or the Interest Payment Date that is the stated maturity date of the Modal Security. The second Interest Payment Date in a Term Rate Period may be the Interest Payment Date on which the Term Rate Period ends.

(5) No Term Rate Period may extend beyond the earlier of:

(i) the stated maturity of the Term Rate Security and

(ii) *unless* such Term Rate Security is to be an Excluded Security, the Expiry Date for the required Financial Facility or Facilities.

Section 4.07. Finance Director Fails to Elect New Term Rate Period.

If the Finance Director has not provided notice in accordance with Section 4.05 by the fifth Modal Business Day before the end of the current Term Rate Period, then the Term Rate Period and the Term Rate shall be determined as if a Rate Suspension Event had occurred.

Section 4.08. [Reserved].

Section 4.09. Effectiveness of Modes.

(a) *Conditions to Effectiveness.*

(1) The Initial Mode of each Series of Modal Securities is effective on and as of the Closing Date for that Series without any further act.

(2) Other than the Initial Mode, no Mode shall become effective *unless* the conditions precedent to the change to such Mode are met on the Mode Change Date.

(3) The Mode change from a Variable Rate Mode to an Auction Rate Mode shall not become effective *unless* the conditions established by the applicable section of the Auction Rate Mode Supplement are met.

(4) Any Mode may become effective for all or some Modal Securities *if*, upon giving effect to the Mode change, the denominations of all Modal Securities are Authorized Denominations for the respective Modes.

(b) **When Effective.** A change in Mode becomes effective only on a Modal Business Day on which a change is permitted under *Section 4.01* for the particular Mode then in effect and takes effect on the Modal Business Day when changed.

Section 4.10. Conditions Precedent to Mode Change.

(a) **All Mode Changes.** It is a condition precedent to a Mode change that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date:

(1) a Favorable Bond Counsel's Opinion, addressed to the Notice Parties;

(2) *either* moneys sufficient to pay the Purchase Price of all affected Modal Securities plus interest accrued to the Mode Change Date, so as to be available for such payment *or* a Liquidity Facility with sufficient capacity to permit such amount to be drawn thereunder and under which no condition exists that would prohibit such draw;

(3) a Rating Confirmation for all Modal Securities not affected by the Mode change *if*:

(i) the Mode change involves less than all outstanding Modal Securities and

(ii) the Modal Securities affected by the Mode change will become Excluded Securities.

(b) **Change to the Auction Rate Mode.** It is a condition precedent to a Mode change to the Auction Rate Mode that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date evidence that:

(i) the conditions established by the applicable section of the Auction Rate Mode Supplement must be satisfied and

(ii) the Provider of the Credit Enhancement has consented to the Mode change.

(c) **Change Permitted by Section 2.03.** It is a condition precedent to a Mode change including any change permitted by *Section 2.03* that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date:

- (i) evidence of the satisfaction of the requirements of *Section 2.03(b)* and
- (ii) a Favorable Bond Counsel's Opinion with respect to such changes.

(d) **If Subject of a Financial Facility.** It is a condition precedent to a Mode change of any Variable Rate Security not an Excluded Security, that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date:

- (1) every required Conforming Financial Facility for such Variable Rate Securities determined as if the Mode change to be made had become effective; and
- (2) a Rating Confirmation *if* the amount of interest coverage required by *Section 9.02* to be provided by any required Financial Facility increases from the amount required for the Mode from which the change is to be made.

(e) **If Defeased.** It is a condition precedent to a Mode change of any Variable Rate Security that has been defeased that there be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date:

- (1) a Rating Confirmation with respect to such Modal Securities and
- (2) if required by any Rating Agency providing a Rating Confirmation, a verification report or other evidence of the adequacy of the escrow in respect of such defeasance.

(f) **Reliance by Tender Agent.** The Tender Agent is entitled to rely on a certificate of the Finance Director that the items delivered to it pursuant to this Section conform to the above requirements.

Section 4.11. Election of Mode Change; How Effected; Irrevocability.

(a) **Who May Elect.** The Finance Director may elect at any time and from time to time to change the Mode of any Variable Rate Security.

(b) **How Election Effected.** In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, for the proposed Mode Change Date, the

minimum number of days required by *Section 6.02* for notices given in connection with mandatory tenders *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties):

- (1) a Mode Change Notice signed by the Finance Director and
 - (2) the items required by *Section 4.10* to be held by the Tender Agent on the Mode Change Date *except* that:
 - (i) any otherwise required Conforming Financial Facility is not required *if* the current Financial Facility will be a Conforming Financial Facility after giving effect to the Mode change;
 - (ii) *if* any Conforming Financial Facility is required, the Finance Director may satisfy the requirement with a commitment of a bank or other financial institution to provide such Conforming Financial Facility not later than the Mode Change Date, and, in such situation, the Rating Confirmation may be indicative or contingent; and
 - (iii) moneys in respect of the Purchase Price are not required.
- (c) *Irrevocable.* The election shall be effective upon receipt by the Tender Agent of the foregoing and shall be irrevocable.

Section 4.12. Selection of Variable Rate Securities.

- (a) Whenever a Mode change is to be effective for less than all outstanding Variable Rate Securities of a Series, the Finance Director may select or direct the Tender Agent to select the Variable Rate Securities of that Series to be affected by whatever means or manner that the Finance Director determines to be in the best interests of the City.
- (b) *If* the Provider of a Financial Facility has requested the Finance Director to select Provider Securities held by such Provider for a Mode change in order to facilitate the remarketing of such Provider Securities, *then* the Finance Director shall direct that such Provider Securities shall be selected before any Modal Securities are selected for such Mode change.
- (c) The provisions of this Section are subject to the selection procedures, if any, of the Securities Depository.

Section 4.13. Contents of Mode Change Notice.

The notice of the Finance Director to elect a Mode change shall set forth:

- (1) the new Mode;
- (2) the Mode Change Date, which shall comply with *Section 4.01(b)*;
- (3) *if* the new Mode is to apply to less than all of the outstanding Variable Rate Securities, the means by which such Variable Rate Securities are to be selected in accordance with *Section 4.12*;
- (4) such matters that may be included pursuant to *Section 2.03* as the Finance Director may elect to include;
- (5) *if* the new Mode is a Term Rate Mode, the number of Stated Interest Payment Dates in the related Term Period *subject to Section 4.06*;
- (6) *if* the new Mode is an Auction Rate Mode, such matters as are required to be included by the Auction Rate Mode Supplement;
- (7) *if* any of the Modal Securities resulting from the Mode change are to be Excluded Securities (or either Excluded Credit Enhancement Securities or Excluded Liquidity Facility Securities), a statement that the Finance Director will terminate the relevant Financial Facility or Facilities with respect to such Modal Securities on behalf of the City;
- (8) *unless* the Modal Securities resulting from the Mode change will be Excluded Securities, the amount, each separately stated, of principal (and premium, if any) and interest required to be covered pursuant to *Section 9.02*, determined as if the Mode described in such notice were in effect and taking into account any changes contained in such notice pursuant to *Section 2.03*, and calculated in sufficient detail to permit the Tender Agent to verify the arithmetical accuracy thereof;
- (9) a statement that:
 - (i) each Financial Facility required by *Section 9.01* and then held by the Tender Agent is a Conforming Financial Facility with respect to the new Mode *or*
 - (ii) accompanying the notice is the commitment of a bank or other financial institution to issue a required Financial Facility that will:
 - (A) be a Conforming Financial Facility and

(B) be effective as of the Mode Change Date specified in the notice; and

(10) such matters deemed necessary or appropriate by the Finance Director.

Section 4.14. Notice to Variable Rate Modal Securityholders and Liquidity Facility Providers.

(a) Whenever the Tender Agent receives a Mode Change Notice, the Tender Agent shall give the notice of mandatory tender required by *Section 6.02* to the Modal Holders of the Variable Rate Securities to be affected by the Mode change, and if any Provider Securities are Outstanding, to the Liquidity Facility Provider.

(b) Such notice shall be given in advance of the Mode Change Date specified in such Mode Change Notice by at least the minimum number of days required by *Section 6.02*; *provided that*, a Liquidity Facility Provider shall always be given at least five Modal Business Days' notice.

**Article V
Redemption of Modal Securities**

Section 5.01. Optional Redemption – Short-Term and Term Rate Securities.

(a) ***Short-Term Securities.***

(1) Daily and Weekly Rate Securities. Daily Rate Securities and Weekly Rate Securities are subject to redemption upon notice given as required in the Sale Order in whole or in part on any Modal Business Day at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

(2) Flexible Rate Securities. Flexible Rate Securities are subject to redemption upon notice given as required in the Sale Order in whole or in part on any Interest Payment Date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

(b) ***Term Rate Securities.*** Term Rate Securities are subject to redemption upon notice given as required in the Sale Order in whole or in part on any Interest Payment Date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date; *provided* that the first such Interest Payment Date on which any Term Rate Securities are subject to redemption shall not be less than 5 calendar months after the calendar month in which occurred the Mode Change Date on which the Mode of such Term Rate Securities was changed to the Term Rate Mode.

(c) **Opinion Requirement.** The City shall not exercise its option to redeem any Series C Variable Rate Securities subject to optional redemption *unless* the City has received an opinion of Bond Counsel to the effect that such action will not adversely affect the exemption of the interest on the Series 2001 Securities from federal and state income taxation (subject to customary exceptions).

(d) **Preference to Provider Securities.** If any Provider Securities of a Series are outstanding, the City shall not exercise its option to redeem Variable Rate Securities of the same Series *unless* the City offers to redeem a corresponding principal amount of such Provider Securities at a price of the principal amount thereof plus interest accrued at the Provider Rate to the date of redemption and if such offer is accepted, so redeems such Provider Securities on or before the redemption date of such Variable Rate Securities.

Section 5.02. Optional Redemption – Modal Fixed Rate Securities.

Unless changed pursuant to *Section 2.03*, Modal Fixed Rate Securities are subject to redemption upon notice given as required in the Sale Order in whole on any date or in part on any Interest Payment Date at the option of the City at the Redemption Prices set forth below (expressed as a percentage of the principal amount thereof to be redeemed) for the applicable remaining term and anniversary date of the Mode Change Date, plus interest accrued to the Redemption Date.

Remaining Term	Interest Payment Date Anniversary after Mode Change Date	Redemption Price
More than 15 years	10th	101%
	11th	100½
	12 and thereafter	100

Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
More than 10 years but not more than 15 years	7th	101%
	8th	100½
	9th and thereafter	100

Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
More than 5 years but not more than 10 years	3rd	101%
	4th	100½
	5th and thereafter	100

Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
5 years or fewer years	2nd	100%

Section 5.03. Limitation on Optional Redemption.

The City shall not exercise its option to redeem any Modal Securities *unless* (i) at the time it instructs the Registrar to give notice of such redemption it has sufficient funds available to pay the Redemption Price of such Modal Securities plus interest accrued to the Redemption Date or (ii) it instructs the Registrar to make such redemption conditioned on the availability of such funds on the Redemption Date.

**Article VI
Right of Optional Tender
and
Mandatory Tender Events**

Section 6.01. Tender at Option of Modal Holder.

(a) Subject to *Section 9.08*, Daily Rate Securities and Weekly Rate Securities are subject to tender at the option of the Modal Holder on any Modal Business Day at the Purchase Price of 100% of the principal amount thereof, plus interest accrued to the Purchase Date, upon notice given by the Modal Holder as provided in this Section.

(1) In order to exercise its option to tender Daily Rate Securities, the Modal Holder shall give an irrevocable tender notice to the Remarketing Agent and the Tender Agent by Electronic Means no later than 11:00 a.m. on the Purchase Date specified in such notice, which may be the same Modal Business Day on which the notice is given.

(2) In order to exercise its option to tender Weekly Rate Securities, the Modal Holder shall give an irrevocable tender notice to the Remarketing Agent and the Tender

Agent by Electronic Means no later than 4:00 p.m. not less than seven days before the Purchase Date specified in such notice.

(b) Tender notices given pursuant to this Section shall specify the CUSIP number of the Security (or portion thereof) to be tendered and otherwise identify such Security to the satisfaction of the Tender Agent, and shall also specify the principal amount of such Security being tendered (which shall be an Authorized Denomination) and shall state in effect that:

(1) such Security (or portion thereof) shall be purchased on the Purchase Date specified therein at 100% of the principal amount thereof, plus interest accrued to Purchase Date,

(2) the Securities specified in the tender notice are all the Securities of such Tranche held by Modal Holder *or* if less than all, that after giving effect to such tender, the remaining Securities of such Tranche held by such Modal Holder are in one or more Authorized Denominations for the Mode of such Securities and

(3) such notice is irrevocable.

Section 6.02. Mandatory Tender Events.

(a) Each Variable Rate Security affected by any of the following enumerated events shall be subject to mandatory tender on the Purchase Date set opposite the respective event upon such a notice as is required to be given, all as set forth in the following table, at the Purchase Price of 100% of the principal amount thereof, plus interest accrued to the Purchase Date.

Event	Purchase Date	Tender Notice Required
End of Flexible Rate Period	Day on which the Period ends	No
End of a Term Rate Period	Day on which the Period ends	Yes, at least 15 days' notice
Mode Change	Mode Change Date	Yes, at least 15 days' notice
Occurrence of Last Put Termination Event	As provided in <i>Section 9.07</i> .	As provided in <i>Section 9.07</i>
Occurrence of Expiry Date, <i>if</i> required by <i>Section 6.03</i>	The last Modal Business Day to occur not less than 5 days before the Expiry Date	Yes, at least 15 days' notice
New Provider of a Financial Facility	As provided in <i>subsection (b)</i> below	Yes, at least 15 days' notice

(b) The Purchase Date in connection with a new Provider of a Financial Facility shall be a Modal Business Day at least 5 days before the sooner to occur of (i) the effective date of such Financial Facility and (ii) the Expiry Date of the Predecessor Financial Facility.

Section 6.03. Mandatory Tender on Expiry Date.

(a) *Except as otherwise provided in this Section, if the Tender Agent has not accepted a Conforming Financial Facility in accordance with Section 9.04 to replace an expiring Financial Facility on or before the 20th day before the Expiry Date of such Financial Facility, then the Tender Agent shall give notice to the Modal Holders of all Modal Securities subject to such Financial Facility that their Modal Securities are subject to mandatory tender on the Purchase Date specified in such notice. Such notice shall be given and such Purchase Date shall be specified in such notice as provided in Section 6.02.*

(b) *Subsection (a), above is not applicable with respect to an expiring Financial Facility if the City has given the Tender Agent the commitment of the Provider of such Financial Facility as provided in the below paragraphs.*

(1) The commitment is to provide a Conforming Financial Facility on or before the Expiry Date of such Financial Facility.

(2) The commitment expressly states that it is unconditional and irrevocable.

(3) Such commitment is given to the Tender Agent at least 20 days before the Expiry Date of such Financial Facility.

(c) *Subsection (a), above is not applicable with respect to an expiring Financial Facility if notice is given in accordance with Section 4.08 on or before the last day that notice would be otherwise required to be given by Section 6.02 with respect to such expiring Financial Facility, and such notice states that all the Modal Securities subject to such Financial Facility are intended to become Excluded Securities.*

Section 6.04. Suspension of Optional Tender Rights.

(a) For the purposes of this Section, a *Suspension Period* commences with respect to a Liquidity Facility and the Securities that have the benefit of such Liquidity Facility (the *Affected Securities*) upon (i) the occurrence of an Immediate Termination Event under such Liquidity Facility or (ii) the occurrence of a suspension of such Liquidity Facility by reason of an act, omission or condition affecting the Provider of the correlative Credit Enhancement (either (i) or (ii), a *Credit Enhancement Event*).

(b) During a Suspension Period, (i) the right of a Modal Securityholder to tender Affected Securities pursuant to Section 6.01 shall be suspended and (ii) the interest rate or rates for the Affected Securities shall be determined as if the Credit Enhancement Event were a Rate

Suspension Event *except* that two percent per annum shall be added to the applicable rate for Affected Securities in any Short-Term Mode.

Article VII Tender and Purchase

Section 7.01. Notice of Mandatory Tender.

(a) Whenever notice is required by *Section 6.02* to effect a mandatory tender on a Purchase Date, the Tender Agent shall give such notice at least the required number of days in advance of such Purchase Date.

(b) The notice of mandatory tender shall:

(1) in substance specify:

(i) the event giving rise to the mandatory tender;

(ii) the Purchase Date; and

(iii) the Modal Securities subject to mandatory tender identified in such manner as is deemed reasonable by the Tender Agent under the circumstances; and

(2) state in effect that:

(i) the identified Modal Securities are subject to mandatory tender on such Purchase Date and in order to receive payment of the Purchase Price on the Purchase Date, such Modal Holder shall transfer its Modal Securities to the Tender Agent with all necessary endorsements on or before 12:00 noon on the Purchase Date;

(ii) such Modal Securities are deemed tendered on the Purchase Date irrespective of any actual transfer to the Tender Agent and shall cease to bear interest on and after the Purchase Date; and

(iii) transfers of such Modal Securities may be made after the Purchase Date to the Tender Agent *but* no interest shall be paid for any period on and after the Purchase Date.

(3) such notice may contain such additional information as the Tender Agent believes to be necessary or appropriate.

(c) The failure to properly give notice to any Modal Holder of Securities subject to mandatory tender and entitled hereunder to notice shall not affect the validity of any other mandatory tender as to which notice, if required to be given, was properly given.

Section 7.02. Interest to No Longer Accrue.

The Purchase Price of each Tender Security shall become due and payable on its respective Purchase Date, and *if* on such Purchase Date the Tender Agent holds amounts sufficient to pay such Purchase Price, *then* interest on such Tender Security shall cease to accrue; *otherwise*, such Tender Security shall continue to bear interest as if it had not been subject to purchase on such Purchase Date.

Section 7.03. Remarketing of Provider Securities.

(a) *Predecessor Tender Security* means, as to any particular Provider Security, the Tender Security purchased by the Liquidity Facility Provider as a result of the failed remarketing of such Tender Security.

(b) Provider Securities shall be remarketed by the Remarketing Agent only as Modal Securities (*Provider-Owned Variable Rate Securities*) in the same Mode as the Predecessor Tender Securities *unless* a different Mode has become or will become effective in accordance with *Article IV*.

(c) The Finance Director shall take such steps as are necessary in sufficient time before the Purchase Date of each Provider-Owned Variable Rate Security so that such Provider-Owned Variable Rate Security will have the benefit of the Liquidity Facility of the Provider owning the correlative Provider Security upon the delivery to the purchasers thereof.

(d) No Liquidity Provider is under any obligation to transfer its Provider Securities to the Remarketing Agent in connection with a remarketing of the correlative Provider-Owned Variable Rate Securities *except* on a “delivery against payment” basis.

Section 7.04. Remarketing by Remarketing Agent; Priority to Provider-Owned Variable Rate Securities.

(a) The Remarketing Agent shall offer for sale and use its best efforts to sell on each Purchase Date all Tender Securities and all Provider-Owned Variable Rate Securities that will have the benefit of the Liquidity Facility of the Provider owning the correlative Provider Security upon the delivery to the purchasers thereof.

(b) The Remarketing Agent shall remarket all Provider-Owned Variable Rate Securities before remarketing any Tender Securities.

(c) The Remarketing Agent shall not sell any Tender Securities or Provider-Owned Variable Rate Securities at a discount from the principal amount thereof.

Section 7.05. Draw Information to be Provided by Remarketing Agent; Transfer of Amounts.

On each Purchase Date for Tender Securities of any particular Series, the Remarketing Agent shall inform the Tender Agent, on or before the time specified by the Tender Agent as the time necessary to permit a timely draw under the related Liquidity Facility, of the amount received by the Remarketing Agent as the purchase price of remarketed Tender Securities as of such time.

Section 7.06. Draws on Liquidity Facility.

(a) On each Purchase Date for Tender Securities of any particular Series, the Tender Agent shall draw on the related Liquidity Facility, in accordance with its terms and to the extent of the availability of amounts thereunder in sufficient time to have amounts available to the credit of the Remarketing Fund established for such Series on the day of the draw. The terms of the Liquidity Facility shall control the time at which the draw is to be made.

(b) The amount of such draw, to the extent of the availability under the Liquidity Facility, shall equal the Purchase Price of all such Tender Securities *less* the amount received by the Tender Agent as the Purchase Price of such Tender Securities that have been remarketed before the drawing. All Tender Securities for which the Tender Agent has *not* received the purchase price in respect of the remarketing by the time the Tender Agent reasonably believes it must draw to comply with *subsection (a)*, above, shall be deemed to have not been remarketed for the purposes of drawing under the related Liquidity Facility.

(c) The Tender Agent shall not draw to pay the Purchase Price of any Provider-Owned Variable Rate Securities or any Modal Securities owned by or held for the benefit of the City.

Section 7.07. City Not Obligated to Pay Purchase Price.

The Purchase Price is payable solely from amounts made available under the Liquidity Facility and that none of the City, the Transfer Agent, the Tender Agent, the Remarketing Agent or the Bond Insurer is obligated to provide funds for the payment of any Purchase Price.

Section 7.08. Payment of Purchase Price.

Upon the transfer of a Tender Security to the Tender Agent with all necessary endorsements, the Tender Agent shall pay the Purchase Price to the Modal Holder of such Tender Security:

(1) no later than the close of business on the Modal Business Day of transfer (*but not before the Purchase Date*) *if* such Tender Security is transferred at or before 3:00 p.m. and

(2) no later than the close of business on the Modal Business Day following the Modal Business Day of transfer (*but not before the Purchase Date*) *if* such Tender Security is transferred after 3:00 p.m.

Section 7.09. Tender of Less than all of Security.

If less than all of a Modal Holder's Variable Rate Security is subject to mandatory tender or is tendered to the Tender Agent as an optional tender permitted hereunder, *then* upon the transfer of such Variable Rate Security in whole to the Tender Agent, the City shall execute (if not already executed) and the Tender Agent shall authenticate and deliver to such Modal Holder, on the day of transfer, a Variable Rate Security or Modal Securities, registered in the name of such Modal Holder, of the same tenor and in such Authorized Denominations as specified by such Modal Holder as shall equal, in the aggregate, the balance of such Modal Holder's Variable Rate Security.

Section 7.10. Notification and Delivery of Remarketed Tender Securities.

(a) Not later than 12:30 p.m. on the Purchase Date, the Remarketing Agent shall notify the Tender Agent and the Transfer Agent of the principal amount of Tender Securities and Provider-Owned Variable Rate Securities successfully remarketed and such information as is appropriate to comply with current securities industry practices applicable to the transfer of securities of the same character, and owned in the manner, as the Modal Securities to be transferred to the purchasers of such Modal Securities.

(b) The City shall execute (to the extent not already executed) and the Tender Agent shall authenticate an aggregate principal amount of Modal Securities necessary to comply with the instructions of the Remarketing Agent even though not all Tender Securities or correlative Provider Securities have been tendered on the Purchase Date; *provided* that no Provider-Owned Variable Rate Securities shall be authenticated by the Tender Agent *unless* such Provider-Owned Variable Rate Securities have the benefit of the correlative Liquidity Facility.

(1) Such Modal Securities shall be in such Authorized Denominations and registered by the Tender Agent as Transfer Agent in such names as shall be instructed by the Remarketing Agent (but not in excess of the aggregate principal amount of Tender Securities and correlative Provider Securities) and shall be authenticated as the appropriate Modal Securities and made available for delivery to the Remarketing Agent no later than 1:30 p.m. on the Purchase Date.

(2) To the extent that any Modal Securities required to be executed and authenticated by this Section are to be held in the Book-Entry Only System maintained by the Securities Depository, then the Tender Agent shall comply with the procedures of the Securities Depository applicable to tender bonds and the transfer of interests in Securities, and no delivery of such Modal Securities in certificated form is required.

Section 7.11. Actions on Purchase Date.

(a) ***Definitions.***

City's Portion means, as to a Provider-Owned Variable Rate Security remarketed by the Remarketing Agent on a Purchase Date, an amount equal to the difference between (i) the Provider's Remarketing Portion *and* (ii) the principal amount of the correlative Provider Security *plus* interest accrued thereon at the Provider Rate to such Purchase Date *plus* any fees and expenses required to be paid by the Financial Facility Agreement.

Provider's Remarketing Portion means, as to a Provider-Owned Variable Rate Security remarketed by the Remarketing Agent on a Purchase Date, an amount equal to the principal amount of the correlative Provider Security *plus* an amount equal to the interest accrued to such Purchase Date on such Provider Security as if such bore interest at the rate borne by the Tender Securities then remarketed.

(b) ***Actions.*** The following actions shall be taken on the Purchase Date for a Series of Tender Securities.

(1) If any Provider-Owned Variable Rate Securities of the same Series were to be remarketed:

(i) The City shall pay the City's Portion to the Tender Agent for payment to the related Liquidity Facility Provider.

(ii) From amounts received from purchasers of remarketed Securities, Remarketing Agent shall pay such Provider's Remarketing Portion to the Tender Agent for payment to such Liquidity Facility Provider.

(iii) The Tender Agent shall pay the amounts received by it as such Provider's Remarketing Portion and the City's Portion to the Liquidity Facility Provider.

(2) From amounts received from purchasers of remarketed Securities the Remarketing Agent shall pay the amounts owed to the tendering Modal Holders of such Tender Securities and then shall pay the balance to the Tender Agent.

(3) The Tender Agent next shall deposit to the credit of the Remarketing Fund established for such Series of correlative Variable Rate Securities amounts received from the Remarketing Agent.

(4) The Tender Agent shall draw on the Liquidity Facility pursuant to *Section 7.02* and deposit the proceeds of such draw to the credit of such Remarketing Fund.

(5) The Tender Agent shall notify the Finance Director of any insufficiency in the amount drawn under the Liquidity Facility.

(6) All amounts not otherwise described in this Section received by the Tender Agent in respect of the remarketing of the Tender Securities shall be deposited to the credit of the Remarketing Fund.

(7) The Tender Agent shall apply amounts credited to the Remarketing Fund as provided in *Section 8.06*.

(8) Provider Securities, if any, shall be transferred to the Provider in accordance with *Section 8.08*.

(9) The Tender Agent shall notify the Finance Director and the Transfer Agent as provided in *Section 8.08*, and such notification shall include the aggregate principal amount of Provider Securities delivered to the Provider of such Liquidity Facility.

Article VIII Funds and Accounts

Section 8.01. Creation of Funds and Accounts.

(a) Whenever there is a Series of Modal Securities that has the benefit of a Credit Facility, the Tender Agent shall establish and maintain a trust fund for such Series of Modal Securities to be known as the "Credit Facility Fund [adding thereto the Series designation of such Modal Securities]" and following trust accounts within it:

- (1) Interest Account
- (2) Principal Account
- (3) Redemption Account

(b) Whenever there is a Series of Variable Rate Securities that has the benefit of a Liquidity Facility, the Tender Agent shall establish and maintain a trust fund for such Series of Variable Rate Securities to be known as the "Remarketing Fund [adding thereto the Series designation of such Variable Rate Securities]".

(c) All amounts received by the Tender Agent under a Credit Facility or a Liquidity Facility shall be held by the Tender Agent in trust and applied solely as provided in this Agreement and at all times shall be identified as being held in trust on the books of the Tender Agent for the benefit of the Provider of Credit Facility or Liquidity Facility subject to *Section 8.11*.

)

Section 8.02. "Sufficient Time" for Payments under Credit Facilities.

As used in this Article, *sufficient time* means reasonably sufficient time in which to make the amounts drawn under a Financial Facility available: (i) to the Securities Depository, in accordance with its procedures, for timely payment on the dates in respect of which such amounts are being drawn if the Modal Securities to be paid are then held in the "Book-Entry Only System" of the Securities Depository or (ii) to the Modal Holders (other than the Securities Depository or its nominee) for timely payment on the dates in respect of which such amounts are being drawn.

Section 8.03. Credit Facility Draws.

Except for Modal Securities that are Excluded Credit Enhancement Securities, the Tender Agent shall draw under each Credit Facility, if any, in sufficient time so as to have available:

(1) to the credit of the related Interest Account on the date on which interest is due on the Modal Securities (whether on an Interest Payment Date or a Redemption Date or by reason of a purchase of Term Securities in lieu of Sinking Fund Redemption), the amount of interest due on outstanding Modal Securities such date;

(2) to the credit of the related Principal Account on each Principal Installment Date, an amount equal to the Principal Installment due on outstanding Modal Securities on such Principal Installment Date;

(3) to the credit of the related Redemption Account:

(i) on each Redemption Date (other than a Redemption Date with respect to Sinking Fund Installments), an amount equal to the Redemption Price of outstanding Modal Securities called for redemption on such Redemption Date other than by reason of Sinking Fund Installments; and

(ii) on the purchase date of any Term Securities purchased pursuant to the Sale Order, an amount equal to the principal amount of the Term Securities so purchased *less* any discount; and

(4) immediately upon any acceleration of outstanding Modal Securities pursuant to the Bond Ordinance, an amount that will equal the aggregate principal of such Modal Securities plus interest accrued thereon to the Special Interest Payment Date, such amount to be credited *first* to the Interest Account in an amount equal to interest accrued on such Modal Securities to such Special Interest Payment Date and *second* to the Principal Account, the balance.

Section 8.04. Liquidity Facility Draws.

The Tender Agent shall draw under each Liquidity Facility as provided in *Section 7.06*.

Section 8.05. Application of the Credit Facility Fund.

(a) *Except* for Modal Securities that are Excluded Credit Enhancement Securities, the Tender Agent shall:

(1) as and when interest is due on outstanding Modal Securities (whether an Interest Payment Date or a Redemption Date or by reason of a purchase of Term Securities in lieu of Sinking Fund Redemption), pay the same to the Modal Holders entitled thereto from amounts credited to the related Interest Account;

(2) as and when Principal Installments are due on outstanding Modal Securities, pay the same to the Modal Holders entitled thereto from amounts credited to the related Principal Account;

(3) as and when the Redemption Price is due on outstanding Modal Securities (*other* than by reason of Sinking Fund Installments), pay the same to the Modal Holders entitled thereto from amounts credited to the related Redemption Account; and

(4) as and when the purchase price is due on any Term Securities purchased pursuant to the Sale Order, pay the same (exclusive of any accrued interest) to the Modal Holders entitled thereto from amounts credited to the related Redemption Account.

(b) No amount shall be withdrawn from the Credit Facility Fund for the purpose of paying all or any part of any Purchase Price of Tender Securities.

(c) Such payments shall be made in funds immediately available on the date of payment when required by applicable provisions of this Agreement.

Section 8.06. Application of the Remarketing Fund.

(a) As used in this Section, *Necessary Amount* means, with respect to any Purchase Date, the amount, if any, equal to the Purchase Price of Tender Securities to be purchased on such Purchase Date *less* the amount received by the Tender Agent as the purchase price of such remarketed Tender Securities.

(b) As of the close of business on each Purchase Date, the Tender Agent shall pay to the Liquidity Facility Provider from amounts credited to the related Remarketing Fund, the amount, if any, equal to the amount drawn under such Liquidity Facility *less* the Necessary Amount.

(c) The Tender Agent shall, as and when the Purchase Price is payable on Tender Securities, pay the same to the Modal Holders entitled thereto in accordance with *Section 7.12*.

(d) No amount shall be withdrawn from a Remarketing Fund *except* for the purpose of paying all or any part of the Purchase Price of related Tender Securities or to reimburse the Provider of the related Liquidity Facility as provided in *subsection (b)*, above.

Section 8.07. Subrogation Rights.

(a) No payment of any amount to a Modal Holder of a Modal Security made from any amount drawn under a Financial Facility shall discharge the City's obligation to pay such Variable Rate Security in accordance with its terms.

(b) Whenever an amount is drawn under a Financial Facility to pay an amount due any Modal Holder of a Modal Security, the Provider of such Financial Facility shall be subrogated to the rights of the Modal Holders to receive such amount and to all appurtenant rights under such Variable Rate Security, the Authorizing Documents and this Agreement, including such rights of enforcement and taking other action under the Act as would otherwise have been available to such Modal Holder in respect of such amount.

(c) The subrogation of any Provider of a Liquidity Facility to the rights of a Holder of a Modal Security is subject to any subrogation in favor of a Provider of Credit Enhancement for such Modal Security *if and to the extent* that such Liquidity Facility Provider has the same benefit of such Credit Enhancement as such Holder.

Section 8.08. Provider Securities.

(a) If a Credit Facility or a Liquidity Facility is provided pursuant to a separate Financial Facility Agreement that also provides for reimbursement and related matters (such as a letter of credit and reimbursement agreement), *then* the references in this Section to "Credit Facility" or "Liquidity Facility" refer to such Financial Facility Agreement so far as applicable.

(b) Immediately upon the receipt of a drawing under a Credit Facility or a Liquidity Facility, the Tender Agent shall notify the Finance Director and the Transfer Agent of the amount thereof, the purpose for the drawing, the numbers or other identifying marks of the Modal Securities for which the drawing was made and the subrogation rights of the Provider of such Credit Facility or a Liquidity Facility to corresponding amounts due Modal Holders of such Modal Securities and (without duplication), amounts payable to such Provider under such Credit Facility or Liquidity Facility and the due dates thereof.

(c) The following governs the terms of Provider Securities:

(1) The aggregate principal amount of Provider Securities shall not exceed the unreimbursed amount of the drawing *exclusive* of such portion thereof, if any, as shall represent interest on the related Modal Securities.

(2) The denomination or denominations shall be as specified by the Provider.

(3) The interest rate shall be as set forth in such Credit Facility or Liquidity Facility *except* that it shall not exceed the Maximum Provider Rate.

(4) The principal amount shall be payable, whether on mandatory redemption or at maturity, in such amounts and on such dates as provided in such Credit Facility or Liquidity Facility.

(5) Other terms of the Provider Securities shall be as provided in such Credit Facility or Liquidity Facility *subject* only to any limitations contained in the Authorizing Documents and this Agreement.

(6) Except as otherwise provided above or in the Financial Facility and not in conflict with this subsection, the terms of the Provider Securities shall be the same as the correlative Modal Securities.

(7) Provider Securities shall convey such appurtenant rights under the Authorizing Document and this Agreement as are conveyed by way of the Provider's right of subrogation plus such additional rights as are provided in respect of payments due under such Credit Facility or Liquidity Facility.

(d) No Provider Security shall be transferred by the Provider *except* as permitted by the Financial Facility.

Section 8.09. Investment of Moneys.

(a) Amounts credited to the Remarketing Fund or any Account shall be invested by the Tender Agent at the written direction of the Finance Director in only direct obligations of the United States of America maturing within 30 days and then at the times and in the amounts when needed to provide for payments from the Remarketing Fund or any such Account.

(b) The Remarketing Fund and each Account shall include all investments made with moneys therein and all interest realized thereon and proceeds of the sale or other disposition thereof. Investments shall be valued as provided in the Bond Ordinance for investments made with amounts credited to the Bond Redemption Account.

(c) The Tender Agent shall have no liability or responsibility for any loss resulting from an investment made in accordance with this Section, including without limitation loss resulting from the disposition of any Investment disposed of to provide moneys needed prior to the date or dates indicated by the City or needed on account of any acceleration or other requirement of early payment hereunder.

Section 8.10. No Lien or Claims.

None of the Transfer Agent, Tender Agent, Remarketing Agent, any Provider (*other* than on Provider Securities) nor any other Person *except* for Modal Securityholders shall have any claim against any Fund or Account created pursuant to this Agreement.

Section 8.11. Money Held for Particular Modal Securities.

Amounts held hereunder for the payment of principal (and premium, if any) of and interest on particular Modal Securities shall be held in trust solely for the Modal Holders thereof. As used in this Section, the meaning of *principal* and *interest* includes Purchase Price.

Article IX
Bond Insurance Policy and Financial Facilities

Section 9.01. When Required.

(a) Each Variable Rate Security shall be the subject of a Liquidity Facility *unless* such Variable Rate Security is an Excluded Liquidity Facility Security.

(b) Each Modal Security shall be the subject of Credit Enhancement *unless* such Modal Security is an Excluded Credit Enhancement Security.

(c) The City shall not be in default of its obligations contained in *subsection (a)*, above *if* a Liquidity Facility terminates by reason of a state or condition affecting the Provider of the Credit Enhancement or *if* the obligations of a Provider under its Financial Facility are subject to a stay or are otherwise affected by the insolvency or similar financial condition of such Provider *and* in any of the foregoing, the City is diligently proceeding to obtain a Substitute Financial Facility from a different Provider.

Section 9.02. Financial Facility Principal and Interest Requirements.

(a) ***Liquidity Facilities.*** Each Liquidity Facility required by *Section 9.01* for any Variable Rate Security shall have:

(1) a principal component at least equal to the principal amount of such Variable Rate Security and

(2) an interest component at least equal to such number of days' interest on such Variable Rate Security calculated at the Stated Maximum Rate using the applicable Day Count Convention as shall be necessary to obtain a Rating Confirmation for such Variable Rate Security.

(b) ***Credit Facilities.*** Each Credit Facility required by *Section 9.01* for a Modal Security shall:

(1) have a principal component at least equal the principal amount of such Modal Security *plus* (if included in the initial Credit Facility) the maximum redemption premium, if any, payable on the redemption thereof;

(2) have an interest component at least equal to such number of days' interest on such Modal Security calculated at the Stated Maximum Rate using the applicable Day Count Convention as shall be necessary to obtain a Rating Confirmation for such Modal Security; and

(3) provide that non-reinstatement of the interest component is a Termination Event.

(c) **When Requirements not Duplicative.** If a Liquidity Facility and a Credit Facility is combined in a single Financial Facility, there shall be a single principal and interest requirement of the Financial Facility.

(d) **Exclusion of Provider Securities.** No Provider Security shall be the subject of a Liquidity Facility.

Section 9.03. Terms of Conforming Financial Facilities.

A Conforming Financial Facility shall:

(1) meet the requirements of *Section 9.02* after giving effect to the purposes for which such Financial Facility is being acquired;

(2) become effective not later than the Expiry Date or the Termination Date, as applicable, of the Predecessor Financial Facility and may be conditioned on any mandatory tender draw to occur by reason of the substitution of a new Provider occurring under the Predecessor Financial Facility;

(3) have a Expiry Date that is a Modal Business Day occurring no sooner than the earlier of (i) 363 days after the date on which such Financial Facility becomes effective (i.e., such Financial Facility shall have a term of at least 364 days) and (ii) the last maturity date of the Securities for which such Financial Facility is being acquired;

(4) *if* such Financial Facility is a letter of credit, name the Tender Agent as the beneficiary and be transferrable to any successor Tender Agent;

(5) provide at least comparable notice periods and opportunities to draw funds thereunder as the Predecessor Financial Facility provided upon the occurrence of a Termination Event;

(6) provide that payments to the Tender Agent thereunder shall be paid in funds of the Provider immediately available to the Tender Agent on the day such payment is due; and

(7) provide for drawings or other payments thereunder to be made on terms otherwise at least equivalent in substance to the terms of the Predecessor Financial Facility and be in form and substance satisfactory to the Tender Agent.

Section 9.04. Substitution of Financial Facilities.

(a) *Substitute Financial Facility* means (i) a new Financial Facility (regardless of whether the Provider thereof is a new Provider or the Provider of the Predecessor Financial Facility) to be substituted for the Predecessor Financial Facility and (ii) any amendment or modification in any material adverse respect of an existing Financial Facility with respect to the Modal Securities covered by such Financial Facility. *Substitute* has the correlative meaning when used with respect to any Credit Enhancement or any Liquidity Facility.

(b) The City shall not execute any Substitute Financial Facility *unless*:

(1) the City determines that such Substitute Financial Facility is a Conforming Financial Facility;

(2) it has obtained, as applicable:

(i) in the case of a Substitute Liquidity Facility, the consent of the Provider of any Credit Enhancement covering Modal Securities that are also the subject of such Substitute Liquidity Facility or

(ii) in the case of Substitute Credit Enhancement, the consent of the Provider of any Liquidity Facility covering Modal Securities that are also the subject of such Substitute Credit Enhancement; and

(3) the City has obtained a Rating Confirmation.

(c) At the direction of the Finance Director, the Tender Agent shall accept any Substitute Financial Facility in substitution for its Predecessor Financial Facility *if*

(1) the Tender Agent has received and then holds:

(i) a certificate of the Finance Director that the City has determined that such Substitute Financial Facility is a Conforming Financial Facility

(ii) a Favorable Bond Counsel's Opinion with respect to such Substitute Financial Facility and

(iii) such consents as are required by *subsection (b)(2)*, above and

(iv) the Rating Confirmation required by *subsection (b)(3)* and

(2) *if* the Provider of such Substitute Financial Facility is a new Provider the Finance Director has given the Tender Agent notice of such substitution not later the minimum number of days required by *Section 6.02* for notices given in connection with mandatory tender by reason of a new Provider *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the Tender Agent).

Section 9.05. Excluded Securities.

(a) No Variable Rate Security shall be excluded from the benefits of a Financial Facility *except* in accordance with this Section.

(b) Modal Securities that:

(1) have the benefit of a Liquidity Facility is eligible to be excluded by the Finance Director from the benefits of Credit Enhancement *only* to the extent that the Finance Director is permitted to do so by the Provider of such Liquidity Facility and

(2) have the benefit of Credit Enhancement is eligible to be excluded by the Finance Director from the benefits of a Liquidity Facility *only* to the extent that the Finance Director is permitted to do so by the Provider of such Credit Enhancement.

(c) In connection with any Mode change, any Modal Security eligible under *subsection (b)*, above, to be excluded from the benefits of a Financial Facility may be excluded by the Finance Director *only* to the extent the Finance Director is permitted to do so by the terms of such Financial Facility *and only if*:

(1) the Rating Agencies were given notice of the City's intention to exclude such Securities when such Mode change becomes effective and

(2) the Modal Holders of such Modal Securities were given notice, in accordance with *Section 4.09*, of the Finance Director's intention to exclude such Securities when such Mode change becomes effective.

Section 9.06. Reduction and Cancellation.

(a) The Finance Director may direct the Tender Agent to reduce the principal and interest components of the relevant Financial Facility to take into account Excluded Securities (or either Excluded Credit Enhancement Securities or Excluded Liquidity Facility Securities), *but* such reduction shall not take effect until the related Mode change has become effective.

(b) The Finance Director may direct the Tender Agent to reduce the principal and interest components of the Financial Facility to take into account any Securities that are no longer "outstanding".

(c) Whenever, with reference to any particular Financial Facility, all outstanding Modal Securities are Excluded Securities as to such Financial Facility, the Finance Director may direct the Tender Agent to cancel such Financial Facility.

(d) Whenever no Modal Securities are outstanding, the Finance Director may direct the Tender Agent to cancel each Financial Facility to the extent it may be canceled.

(e) The Tender Agent shall reduce or cancel Financial Facilities as directed by the Finance Director in accordance with this Section.

Section 9.07. Termination by Provider.

(a) Each Notice Party shall give every other Notice Party notice of every Termination Notice received by it and of its contents within two Modal Business Days of its receipt.

(b) As soon as practicable, the Tender Agent shall give notice to the Modal Holders of Securities affected by a Termination Event of such Termination Event and, if such Termination is a Last Put Termination Notice, of the Purchase Date.

(c) In the case of a Last Put Termination and in order to give the Modal Holders of affected Securities as much advance notice of the Purchase Date to be established in respect thereof as possible under the circumstances, the Tender Agent shall establish such Purchase Date as long after the date on which the Tender Agent gives notice to the Modal Holders of Securities affected by the Last Put Termination as it can *subject* to the following:

(1) No advance notice of such Purchase Date is required if the Tender Agent cannot give such advance notice in the exercise of reasonable diligence.

(2) In all events the Purchase Date shall be a Modal Business Day at least five days before the Last Put Termination Date *unless* the Tender Agent cannot so provide in the exercise of reasonable diligence *provided* that the Purchase Date shall be the date set by the Provider *if* the Liquidity Facility provides in effect that:

The obligation of the Provider to purchase Tender Securities shall terminate upon the purchase by the Provider of all Tender Securities tendered or deemed tendered pursuant to the Last Put Termination Notice.

(d) For the purposes of this Section:

(1) *As soon as practicable* means, with reference to any act to be performed by the Tender Agent, such Modal Business Day on which the Tender Agent can perform such act in the exercise of reasonable diligence.

(2) *Reasonable diligence* means, with respect to the Tender Agent performing any act, performing such act within three Modal Business Days, after the Tender Agent receives a Termination Notice from the Provider or another Notice Party.

Article X Bond Insurance

Section 10.01. Location of Provisions.

Terms and provisions relating to the *FSA Insured Securities* appear in *Exhibit 10.01*, and terms and provisions relating to *FGIC Insured Securities* appear in the Financial Guaranty Insurance Company Supplement.

Article XI Concerning the Tender Agent and the Remarketing Agent

Section 11.01. Tender Agent; Qualifications.

(a) For so long as there are any Variable Rate Securities outstanding, there shall be a Tender Agent, and no resignation of a Tender Agent shall become effective unless a successor has accepted its appointment and the Financial Facilities then in effect have been transferred to it.

(b) Any Person serving as Tender Agent shall be a commercial bank with trust powers or a trust company.

Section 11.02. Responsibilities of Tender Agent.

(a) As regards this Agreement:

(1) The Tender Agent undertakes to perform such duties and only such duties as are specifically set forth herein, and no implied covenants or obligations shall be read into this Agreement against the Tender Agent.

(2) The Tender Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificates, Statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document believed by it to be genuine and to have been signed or presented by the proper parties.

(3) Whenever in the administration of this Agreement the Tender Agent shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, it may (unless other evidence is herein specifically prescribed), in the

absence of bad faith on its part, request and rely on a certificate executed by the Finance Director.

(4) The Tender Agent may consult with counsel and the written advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon.

(5) The Tender Agent is bound to make any investigation into the facts or matters City in any resolution, certificates, Statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document, *but* it may make such further inquiry into such facts or matters as it may see fit.

(b) In the absence of bad faith on its part, Tender Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certifications and opinions furnished to it and conforming to the requirements of this Agreement; *but*, in the case of any certificates or opinions that by any provision hereof are specifically required to be furnished to Tender Agent, it shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(c) No provision of this Agreement shall require the Tender Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate assurance against such risk or liability is not reasonably assured to it.

Section 11.03. Remarketing Agent.

(a) The Remarketing Agent shall have such rights, duties, privileges and immunities as are contained in the Remarketing Agreement and not inconsistent with this Agreement; *provided* that in all events the Remarketing Agent is obligated to perform such duties as are herein set forth to be performed by the Remarketing Agent notwithstanding any thing to the contrary contained in the Remarketing Agreement.

(b) Each Liquidity Provider shall have the right to remove the Remarketing Agent in the event of a material breach by the Remarketing Agent of its duties hereunder or under the Remarketing Agreement and to consent to any successor Remarketing Agent.

Article XII Miscellaneous

Section 12.01. Limitation on Defeasance.

The City shall not defease the lien of the Bond Ordinance securing any Short-Term Securities by the deposit of funds in escrow (commonly known as a "legal defeasance") without obtaining a Rating Confirmation from each Rating Agency of the Short-Term Securities so defeased.

Section 12.02. Amendments.

(a) This Agreement cannot be amended or supplemented *except* in accordance with this Section.

(b) No amendment of, or supplement to, this Agreement shall become effective without the consent of the Transfer Agent and Tender Agent (which shall be evidenced by the execution of such amendment), each Bond Insurer and Provider and the Remarketing Agent. Every other subsection of this Section is subject to the limitations contained in this subsection.

(c) The Finance Director shall provide each Rating Agency with a copy of each amendment or supplement at least 15 days in advance of the same becoming effective.

(d) For the purpose of acquiring consent for the purposes of the Bond Ordinances or otherwise, the consent of a Modal Securityholder acquiring a Modal Security in a remarketing in which the 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 the Bond Ordinance or otherwise, but no actual consent shall be required and no more than one such disclosure shall be required.

(e) If an amendment by its terms affects only a Series, the consent of Modal Holders of other Series is not required.

(f) Upon any amendment or supplement becoming effective, each Provider shall be provided with a copy of such amendment or supplement.

Section 12.03. Notices to Rating Agencies.

The Finance Director shall give notice to each Rating Agency of any the following promptly on the occurrence thereof: (i) the expiration, termination, extension or substitution of any Liquidity Facility or any amendment or modification of, or any material change to, any Liquidity Facility, (ii) any redemption or defeasance of Series 2001 Securities, (iii) any Mode change, (iv) any mandatory tender of Modal Securities, (v) any change in the Transfer Agent, Remarketing Agent or Tender Agent, (vi) any amendment of this Agreement and (vii) any issuance of additional Securities that on a parity with any Modal Securities.

Section 12.04. Notices.

(a) Each notice, request or other communication given hereunder to be given to any Person named below shall be in writing or otherwise given by Electronic Means (except as provided below) and given to it at its address appearing below or to such other address as it may hereafter specify for such purpose by notice to the others named below.

City of Detroit

Coleman A. Young Municipal Center
Room 1200
2 Woodward Avenue
Detroit, Michigan 48226
Attention: Finance Director

U. S. Bank Trust National Association, as Transfer Agent

535 Griswold, Suite 550
Detroit, Michigan 48226
Attention: Corporate Trust Services

U. S. Bank Trust National Association, as Tender Agent

100 Wall Street
New York, New York 10005
Attention: Corporate Trust Services

Financial Security Assurance, as Bond Insurer

As provided in *Exhibit 10.01*.
Electronic Means requires prior consent

Dexia Credit Local, New York Agency, as Liquidity Facility Provider

445 Park Avenue
New York, New York 10022
Attention: General Manager
Electronic Means requires prior consent.

Standard & Poor's Ratings Services

55 Water Street, 38th Floor
New York, New York 10041

Moody's Investors Services

99 Church Street
New York, New York 10007
Attention: Fully Supported Group

Fitch, Inc.

One State Street Plaza
New York, New York 10004
Attn: Municipal Structure Group

(b) Each notice, request or other communication given hereunder shall be effective, (i) if given by mail, 72 hours after it is deposited in the United States Mail with first class postage prepaid, addressed to the recipient at its Notice Address and (ii) if given by another means, when delivered at its Notice Address.

Section 12.05. Severability.

In the event that any provision of this Agreement is held to be invalid in any circumstance, such invalidity shall not affect any other provision or circumstances.

Section 12.06. Payments Due and Acts to be Performed on Non-Modal Business Days.

If a date of maturity of interest on or principal of the Securities or any Redemption Date or Purchase Date, or a date fixed for the performance of any other act under this Agreement, shall not be a Modal Business Day, payment of such interest or principal, Redemption Price or Purchase Price need not be made, and any such other act need not be performed, on such date but may be made or performed on the next succeeding Modal Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and, *except* as otherwise herein provided, no interest on any amount so paid shall accrue for the period after such date.

Section 12.07. Captions; Table of Contents.

The captions or headings in, and the table of contents for, this Agreement are for convenience only and in no way define, limit or describe the scope or content of any provision hereof.

Section 12.08. Counterparts.

This Agreement 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.

Section 12.09. Governing Law.

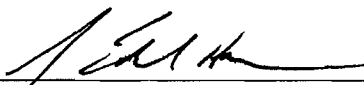
This Agreement shall be governed by the law of the State exclusive of its conflicts of law.

[Signatures follow beginning with page S-1]

[Signature Page to the Variable Rate Mode Supplement and Agreement, dated as of - September 1, 2001, among the City of Detroit, U. S. Bank Trust National Association, as Transfer Agent, and U. S. Bank Trust National Association, as Tender Agent]

In Witness Whereof, the City of Detroit has caused these presents to be signed by its Finance Director, U. S. Bank Trust National Association, as Transfer Agent under the Sale Order and U. S. Bank Trust National Association, as Tender Agent, to evidence its acceptance of the duties of Tender Agent has caused these presents to be executed in its behalf by its authorized representative, all as of the date first above written.

City of Detroit

By: 

J. Edward Hannan
Finance Director


[Signatures of Transfer Agent and Tender Agent follow on page S-2]

S-1

*Signature Page to the Variable Rate Mode
Supplement and Agreement, dated as of -
September 1, 2001, among the City of Detroit,
U. S. Bank Trust National Association, as
Transfer Agent, and U. S. Bank Trust
National Association, as Tender Agent]*

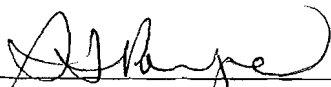
U. S. Bank Trust National Association,

as Transfer Agent

By: 
Susan T. Payne
Its: Vice President

U. S. Bank Trust National Association,

as Tender Agent

By: 
Susan T. Payne
Its: Vice President

Signature Page to the Variable Rate Mode Supplement and Agreement, dated as of - September 1, 2001, among the City of Detroit, U. S. Bank Trust National Association, as Transfer Agent, and U. S. Bank Trust National Association, as Tender Agent]

Acceptance of Remarketing Agent

UBS PaineWebber Inc. hereby accepts the duties of Remarketing Agent contained in the Agreement and agrees to the removal provisions contained in Section 11.03.

UBS PaineWebber Inc.,
as Remarketing Agent

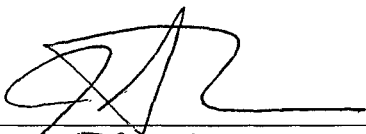
By: 
Name: Jeffrey Schreyers
Its: Managing Director

Exhibit 5

**Sale Order of Finance Director of the City of Detroit
with respect to
\$192,290,000
City of Detroit Water Supply System Revenue Refunding Second Lien Bonds
(Variable Rate Demand), Series 2001-C**

Whereas, on January 31, 2001 the City Council (the *City Council*) of the City of Detroit (the City) adopted a resolution captioned in relevant part *A Resolution Authorizing the Issuance and Sale of Water Supply System Revenue Bonds of the City of Detroit of Equal Standing with the City's Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds Now Outstanding and Which May Remain Outstanding*, which was amended on April 25, 2001 (as amended, the *Bond Authorizing Resolution*), pursuant to the provisions of Ordinance No. 30-95 as amended by Ordinance No. Ordinance No. 34-95, Ordinance No. 23-97, and Ordinance No. 34-99 (the *Ordinances* and, together with the Bond Authorizing Resolution, the *Bond Resolution*), and Act 94, Public Acts of Michigan, 1933, as amended (*Act 94*); and

Whereas, the City, under the provisions of the Bond Resolution, is authorized to sell and deliver Bonds in series pursuant to an order of the Finance Director of the City (the *Sale Order*), within the parameters established by the Bond Authorizing Resolution; and

Whereas, the City desires to issue a series of Bonds under the Bond Resolution (the *Series 2001-C Bonds*) for the purpose of refunding certain Series 1999A Term Bonds (2022, 2026 and 2029) (the *Bonds to be Refunded*) issued previously to defray the cost of constructing certain, repairs, extensions and improvements to the City's Water Supply System (the *System*); and

Whereas, pursuant to the terms of the Bond Resolution the City intends to obtain a policy of municipal bond insurance to insure and a liquid financial facility to support the Series 2001-C Bonds; and

Whereas, the City desires to sell the Series 2001-C Bonds to the purchasers thereof (the *Underwriters*) pursuant to a Bond Purchase Agreement (the *Bond Purchase Agreement*) between the City and the Underwriters, dated the date of this Sale Order, in the amounts, at the prices, with the variable interest rates and other terms, specified in the Bond Authorizing Resolution and in this Sale Order; and

Whereas, the Bond Authorizing Resolution authorized the form of bonds to be approved in this Sale Order; and

Whereas, the terms not otherwise defined in this Sale Order shall have the meanings ascribed thereto in the Bond Resolution.

Now, Therefore, the Finance Director of the City of Detroit hereby orders as follows:

1. The offer by the Underwriters to purchase the Series 2001-C Bonds upon the terms and conditions contained in the Purchase Contract, is approved and accepted, and the Series 2001-C Bonds are hereby authorized to be issued and shall be sold to the Underwriters in accordance with the terms and conditions contained in the Bond Resolution, this Sale Order and the Purchase Contract.

2. The Series 2001-C Bonds shall be issued as Second Lien Bonds under the Ordinances for the purpose of refunding the Bonds to be Refunded. Their title, nature, denominations, aggregate original principal amount, variable interest rate, dated date, final maturity date and related terms shall be as set forth in the Variable Rate Demand Bonds Supplement and Agreement attached hereto and incorporated herein by this reference (the "Supplement") and the purchase price, transfer agent, underwriters and underwriters' discount shall be as follows:

Purchase Price: \$192,290,000 (consisting of the original principal amount of \$192,290,000).

Transfer Agent: U.S. Bank Trust National Association, Detroit, Michigan

Underwriters: Siebert, Brandford Shank & Co., LLC
Goldman, Sachs & Co.

3. The commitments ("Commitment") (i) from FGIC Securities Purchase, Inc. ("FGIC-SPI") for liquidity support with respect to the Series 2001-C Bonds, pursuant to the Supplement, a Liquidity Facility, and (ii) from Financial Guaranty Insurance Company ("FGIC" or the "Bond Insurer") for bond insurance with respect to the Series 2001-C Bonds, pursuant to the Supplement Bond Insurance, are hereby accepted. The Finance Director hereby determines that the Liquidity Facility and the Bond Insurance are in the best interests of the City and the System.

In accordance with the terms of the Commitment for the Liquidity Facility, the City hereby makes the following covenants and agreements for the benefit of FGIC-SPI, to be applicable so long as any Series 2001-C Bond supported by the Liquidity Facility is outstanding:

(a) The Liquidity Facility applicable upon delivery of the Series 2001-C Bonds shall be a standby bond purchase agreement substantially in the customary form utilized by FGIC-SPI ("Standby Bond Purchase Agreement") which agreement shall have the benefit of a standby loan agreement from General Electric Capital Corporation. The Standby Bond Purchase Agreement shall be in a form acceptable to the City.

(b) FGIC-SPI shall be paid by the City fees and expenses required of the City in the Commitment.

(c) The City shall execute and deliver a payment agreement ("Payment Agreement") substantially in the customary form utilized by FGIC-SPI which shall be a form acceptable to the City. The liability of the City to make all payments under the Payment Agreement shall be secured on a parity with or on such other basis with the Bonds to the extent provided by the provisions of the Bond Resolution.

(d) The preliminary official statement and the official statement for the Series 2001-C Bonds shall include the disclosure language for the Liquidity Facility and Bond Insurance as specified by FGIC-SPI and FGIC, respectively with only such other references to FGIC-SPI and FGIC as FGIC-SPI and FGIC, respectively, shall approve. The interest rate exchange agreement or interest rate swap agreement entered into by the City with (i) Goldman Sachs & Co. and (ii) Morgan Stanley (the "Swap Agreement"), in connection with the issuance of the Series 2001-C Bonds, and any other swap agreement to be entered into by the City with the same or other parties in the future must adhere to the Swap Provider Guidelines attached as an exhibit to the Supplement. There shall be prepared and distributed to holders of the Series 2001-C Bonds an appropriate SEC Prospectus Supplement relating to the obligations of FGIC-SPI under the Liquidity Facility. The cost of printing the SEC Prospectus Supplement shall be borne by the City.

(e) The City agrees that FGIC-SPI shall not release any Series 2001-C Bond held by FGIC-SPI as a result of a drawing under the Liquidity Facility (Provider Bonds), to the Remarketing Agent unless it is paid concurrently the principal amount of such Provider Bonds, plus interest accrued thereon at the Provider Rate or the Default Rate (each as defined in the Standby Bond Purchase Agreement) plus any unpaid fees and expenses.

(f) No substitute Liquidity Facility may replace the Standby Bond Purchase Agreement executed and delivered by FGIC-SPI in support of the Series 2001-C Bonds unless all amounts owed to FGIC-SPI by the City in respect of Provider Bonds and under the Payment Agreement are totally paid.

(g) The Remarketing Agent during the term of the FGIC-SPI Liquidity Facility shall at all times be acceptable to FGIC-SPI and the Bond Insurer. FGIC-SPI and the Bond Insurer shall receive notice of the removal or resignation of the Remarketing Agent. The Remarketing Agreement shall be in form and substance satisfactory to FGIC and FGIC-SPI.

(h) Any Substitute Liquidity Facility shall not be substituted for a predecessor Liquidity Facility unless the liquidity facility requirements ("Liquidity Facility Requirements") attached as an exhibit to the Supplement are satisfied.

4. U.S. Bank Trust National Association, Detroit, Michigan, is hereby confirmed as Trustee and Transfer Agent under the Bond Resolution and is hereby appointed Transfer Agent for the Series 2001-C Bonds, and U.S. Bank Trust National Association, Detroit, Michigan, shall accept its duties as Trustee and Transfer Agent by execution of a written acceptance thereof.

U. S. Bank Trust National Association, New York, New York is hereby appointed Tender Agent under the Supplement. Goldman, Sachs & Co. or an affiliate of Goldman, Sachs & Co. is hereby appointed Remarketing Agent under the Supplement. Both shall accept their duties, respectively, by execution of a written acceptance thereof.

5. The Swap Agreements attached to the Supplement as Exhibit ___ are hereby approved.
5. Proceeds of the Series 2001-C Bonds, shall be applied as follows: [To come]
6. This Order shall take effect immediately.

J. Edward Hannan
Finance Director
City of Detroit

May 31, 2001

[The Variable Rate Supplement is included under Item 8(a)]

Exhibit 6

Variable Rate Demand Bonds Supplement and Agreement

among

City of Detroit,
as Issuer

U. S Bank Trust National Association,
as Trustee and Transfer Agent,

and

U. S Bank Trust National Association,
as Tender Agent

Dated as of May 31, 2001

with respect to

City of Detroit
\$000,000,000

Water Supply System Revenue Refunding Second Lien Bonds
(Variable Rate Demand), Series 2001-C

Variable Rate Demand Bonds Supplement and Agreement (the *Agreement*), dated as of May 31, 2001, among the **City of Detroit, Michigan**, as Issuer, **U. S. Bank Trust National Association**, a national banking association with its designated corporate trust office located at Suite 740, Buhl Building, 535 Griswold, Detroit, Michigan 48226, (the *Trustee, Paying Agent and Transfer Agent*), under a Bond Authorizing Resolution, adopted January 25, 2001 and amended April 25, 2001, by the Issuer (the *Bond Authorizing Resolution*), and U.S. Bank Trust National Association, a national banking association, with its designated office located at 100 Wall Street, in New York, New York, 10005 as Tender Agent and Paying Agent thereunder (the *Tender Agent*)

TABLE OF CONTENTS

**Article I
Definitions**

Section 1.01	Definitions	2
Section 1.02	Interpretation.....	11
Section 1.03	Time.....	11

**Article II
The Bonds**

Section 2.01	Authorization, Designation	11
Section 2.02	Terms of the Bonds.....	12
Section 2.03	Adjustment of Amortization, Sinking Fund Installments and Redemption	13
Section 2.04	Interest.....	14
Section 2.05	Appointment of Paying Agent and Registrar.....	14
Section 2.06	Payment of Interest.....	14
Section 2.07	Authentication after Initial Issuance.....	15
Section 2.08	New Certificates.....	15

**Article III
Interest Rate Determinations**

Section 3.01	Manner of Determining Interest Rates; Interest Rate.....	16
Section 3.02	Interest Rate Determinations.....	16

**Article IV
Modes and Periods**

Section 4.01	Modes.....	17
Section 4.02	Duration of Modes.....	17
Section 4.03	Rule 15c2-12 Compliance	17
Section 4.04	Effectiveness of Modes	17
Section 4.05	Conditions Precedent to Mode Change.....	18
Section 4.06	Election of Mode Change; How Effected; Irrevocability	18
Section 4.07	Mode Change Notice	19
Section 4.08	Notice to Modal Bondholders	20

**Article V
Redemption of Bonds**

Section 5.01	Optional Redemption – Short-Term Bonds.....	20
Section 5.02	Optional Redemption – Fixed Rate Bonds	20
Section 5.03	Mandatory Redemption – Sinking Fund Installments.....	21
Section 5.04	General Provisions Regarding Redemption of Bonds.....	22

**Article VI
Tender and Purchase**

Section 6.01 Tender at Option of Holder.....	22
Section 6.02 Mandatory Tender.....	24
Section 6.03 Notice of Mandatory Tender.....	25
Section 6.04 Interest to No Longer Accrue	26
Section 6.05 Remarketing by Remarketing Agent; Priority to Provider Bonds.....	26
Section 6.06 Draws on Liquidity Facility.....	26
Section 6.07 Source of Funds to Purchase Bonds.....	27
Section 6.08 Tender of Less than all of Bond.....	27
Section 6.09 Notifications; Execution and Authentication of Bonds.....	27
Section 6.10 Actions on Purchase Date.....	28
Section 6.11 Tender Agent to Hold Bonds and Moneys in Trust.....	29

**Article VII
Funds and Accounts**

Section 7.01 Creation of Funds and Accounts	29
Section 7.02 Sufficient Time" for Payments under Credit Facilities	30
Section 7.03 Credit Facility Draws	30
Section 7.04 Liquidity Facility Draws.....	30
Section 7.05 Application of the Credit Facility Fund	31
Section 7.06 Application of the Remarketing Fund	31
Section 7.07A Reimbursement of Provider	32
Section 7.08 Provider Bonds	32
Section 7.09 Investment of Moneys.....	34
Section 7.10 No Lien or Claims	34
Section 7.11. Money Held for Particular Bonds.....	35

**Article VIII
Bond Insurance and Financial Facilities**

Section 8.01 When Required	35
Section 8.02 Financial Facility Required Amounts	35
Section 8.03 Terms of Conforming Financial Facilities.....	35
Section 8.04 Substitution of Financial Facilities	36
Section 8.05 Reduction and Cancellation	37
Section 8.06 Termination by Provider	37

**Article IX
Concerning the Bond Insurer**

Section 9.01 Terms and Conditions of Bond Insurance.....	38
--	----

**Article X
Concerning the Trustee, Transfer Agent, Tender Agent and the Remarketing Agent**

Section 10.01. Trustee, Transfer Agent, Tender Agent, and Remarketing Agent	39
Section 10.02. Responsibilities of Trustee and Tender Agent	39
Section 10.03. Remarketing Agent	40
Section 10.04. Removal or Resignation of Trustee, Transfer Agent, Tender Agent or Remarketing Agent	40

**Article XI
Miscellaneous**

Section 11.01. Limitation on Defeasance	40
Section 11.02. Amendments	40
Section 11.03. Notices to Rating Agencies	41
Section 11.04. Notices	41
Section 11.05. Severability	43
Section 11.06. Payments Due and Acts to be Performed on Non-Business Days	43
Section 11.07. Captions; Table of Contents	43
Section 11.08. Counterparts	43
Section 11.09. Governing Law	43

Signatures	S-1
------------------	-----

Exhibits

- 2.01 – Form of Variable Rate Bond
- 2.02(b) – Principal Installment Dates and Maturities
- 2.02(g) – Sinking Fund Installments
- Exhibit A – Liquidity Facility Requirements
- Exhibit B – Swap Provider Guidelines
- Exhibit C – Bond Insurer Requirements

Intending to be legally bound hereby, the parties hereto agree as follows for the benefit of each Provider of a Financial Facility and the respective holders of the Bonds:

Article I
Definitions

Section 1.01. Definitions.

(a) Unless the context clearly otherwise requires, (i) capitalized terms not defined herein and defined in the Bond Authorizing Resolution are used herein as therein defined and (ii) the following terms have the following respective meanings:

Account means any account established by *Section 7.01*.

Alternative Rate means the BMA Municipal Swap Index; and if the BMA Municipal Swap Index ceases to be published, then a new third-party index shall be selected in good faith by the City that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent.

Authorized Denominations means,

- (1) for Modal Bonds in a Daily Mode or a Weekly Mode, \$100,000 and any multiple of \$5,000 in excess thereof, and
- (2) for Modal Bonds in the Fixed Rate Mode, \$5,000 and any multiple thereof.

BMA Municipal Swap 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 means Lewis & Munday, A Professional Corporation, bond counsel to the City with respect to the Bonds, or such other firm or firms of nationally recognized standing in the field of tax-exempt municipal bonds as may be appointed by the City in lieu thereof.

Bond Insurance means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

Bond Insurer means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

Bonds means the Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C issued pursuant to the Ordinances (defined in the Sale Order), Bond Authorizing Resolution, the Sale Order for the Bonds and this Agreement. When "Bonds" is modified by the name

of a Mode, then, in that particular context, *Bonds* only refers to Bonds in that Mode.

Bond Authorizing Resolution means the instrument defined as the "Bond Authorizing Resolution" in the first paragraph of this Agreement, as such instrument may be amended in accordance with the provisions thereof.

Business Day means a day on which the Trustee, any Paying Agent, the Tender Agent, the Remarketing Agent, each Provider and banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

Closing means the delivery of the Bonds to, and payment for the Bonds by, the Underwriters and the other actions in connection therewith.

Closing Date means the date on which the Closing occurs.

Conforming Financial Facility means a Financial Facility conforming to the requirements of Section 8.03.

Credit Facility means any letter of credit, line of credit, purchase agreement, or other financial arrangement intended to protect Holders from loss arising from a failure of the City to timely pay principal (and premium, if any) of and interest on the Bonds *other* than Bond Insurance.

Daily Mode means the Mode that has all of the attributes provided by this Agreement for Modal Bonds bearing interest at a Daily Rate, including, without limitation, Day Count Convention, Rate Change Date, manner of determining interest rate and Rate Determination Date.

Daily Rate when used as a noun means a rate of interest determined as provided in Section 3.02 for the Daily Mode.

Daily Rate Bond means any Modal Bond in the Daily Mode.

Day Count Convention means:

- (i) for any Short-Term Bond, the actual number of days elapsed in the then current calendar year in a year of 365 or 366 days, whichever is applicable; and
- (ii) for any Fixed Rate Bond, 30-day months in a 360-day year.

Drawn means the means the making of funds available to the Tender Agent under a Financial Facility, whether as a purchase of Bonds under a standby bond purchase agreement, a drawing under a letter of credit or otherwise. Correlatives of *drawn* have correlative meanings.

Electronic Means means (i) any means of electronically communicating by written word, such as, without limitation, telecopier, telegraph, telex, facsimile transmission, e-mail transmission (but only if e-mail transmission is specifically authorized by the recipient) and (ii) any means of electronically communicating by spoken word, such as, without limitation, telephone, *so long as*, the Electronic Means is acceptable to the recipient and the communication by Electronic Means is promptly confirmed by a manually signed writing or otherwise authenticated to the satisfaction of the recipient.

Expiry Date means the date on which a Financial Facility expires by its terms *and not* by reason of any Termination Event.

Favorable Bond Counsel's Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement, the Bond Authorizing Resolution, the Ordinances and the Act, and (ii) such action will not adversely affect the exemption of the interest on the Bonds from federal and state income taxation (subject to customary exceptions).

Financial Facility means any Bond Insurance, Credit Facility, Liquidity Facility or a combined Credit and Liquidity Facility which is a "Credit Support Instrument" for purposes of the Ordinances.

Financial Facility Agreement means an agreement with the City or the Trustee and a Provider providing for a Financial Facility.

Fixed Rate means a rate of interest determined as provided in Section 3.02 for the Fixed Rate Mode.

Fixed Rate Bond means any Modal Bond in the Fixed Rate Mode.

Fixed Rate Mode means the Mode that has all of the attributes provided by this Agreement for Modal Bonds bearing interest at a Fixed Rate, including, without limitation, Day Count Convention, Interest Adjustment Date, manner of determining interest rate and Rate Determination Date.

Fund means any fund established by *Section 7.01*.

Holder, Bondholder and *Holder of Bonds* each mean the Person in whose name a Bond is registered in the Registry.

Initial Mode means the Mode identified in *Section 2.02* as the Mode in which the Bonds will be initially issued.

Interest Account means the account by that name established by *Section 7.01*.

Interest Adjustment Date means

- (i) for a Daily Rate Bond, each Rate Determination Date for such Daily Rate Bond;
- (ii) for a Weekly Rate Bond, each Wednesday and each Mode Change Date; and
- (iii) for a Fixed Rate Bond, the Mode Change Date for such Fixed Rate Bond.

Interest Payment Date means each date on which interest is to be paid and is:

- (i) for a Daily Rate Bond, the first Business Day of each calendar month;
- (ii) for a Weekly Rate Bond, the first Business Day of each calendar month;
- (iii) for a Fixed Rate Bond, each Stated Interest Payment Date occurring after the Mode Change Date for such Fixed Rate Bond.

Last Put Termination Date means the date on which a Financial Facility terminates by reason of a Last Put Termination Event.

Last Put Termination Event means a Termination Event occurring under a Financial Facility that provides for a period during which the affected Modal Bonds may be called for tender.

Last Put Termination Notice means a notice from a Provider stating that it is terminating its Financial Facility by reason of a Last Put Termination Event.

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 Bonds in the event of a failure of the remarketing thereof but does not include any protection provided by a Credit Facility. The Liquidity Facility in effect on the Closing Date is the Standby Bond Purchase Agreement between the Trustee and FGIC Securities Purchase, Inc., dated as of May 31, 2001.

1974114.0038.328331.djs.rsn-DET

Liquidity Facility Bond means any Modal Bond that is the subject of a Liquidity Facility.

Liquidity Facility Requirements means the requirements for a certain Substitute Financial Facility in Section 8.04 specified by the Bond Insurer as part of the initial issuance of the Bonds and attached to this Agreement as Exhibit A.

Maximum Rate means the *lesser of* the Stated Maximum Rate and the maximum interest rate per annum permitted by applicable law.

Modal Bonds means, as of any particular date, such of the Bonds that are not Provider Bonds.

Mode means any of the methods of determining an interest rate for the Bonds permitted by this Agreement.

Mode Change Date means any date on which the Bonds are converted, or are proposed to be converted, from Daily Rate Mode to Weekly Rate Mode or from Weekly Rate Mode to Daily Rate Mode or to Fixed Rate Mode designated in the manner set forth in this Supplement.

Mode Change Notice means the notice from the City to the other Notice Parties of the Board's intention to change a Mode.

Notice Address means (i) for any Notice Party, the address that it specifies to the other Notice Parties and any other Person as the address to which notices shall be addressed and (ii) for any other Person, the address that it specifies as the address to which notices shall be addressed as set forth in Section 11.05 of this Agreement.

Notice Parties means the City, the Bond Insurer, the Provider, the Trustee, the Tender Agent and the Remarketing Agent.

Ordinances means the ordinances of the City adopted from time to time providing for the issuance of Bonds under Act 94 for the benefit of the System on a senior lien, second lien or junior lien basis.

Outstanding, outstanding, Outstanding Bonds and *Bonds outstanding* mean, as of any date, all Bonds delivered under the Bond Resolution, *except*

(i) Bonds theretofore paid or redeemed or acquired by the Board and surrendered to the Trustee for cancellation,

(ii) Bonds 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) Bonds that have been duly called for mandatory tender and for the purchase of which amounts, together with any unpaid interest are held by the Tender Agent for the payment thereof;

(vi) Bonds paid or deemed paid in accordance with Bond Resolution; and

(v) Bonds in exchange for or replacement of which other Bonds have been authenticated and delivered pursuant to the Bond Authorizing Resolution;

provided that, any Bond paid with funds provided pursuant to a Financial Facility shall remain Outstanding for purposes of the subrogation rights of the Provider providing such funds *unless and until* such Provider is paid in accordance with such Financial Facility.

Paying Agent means the Tender Agent acting as such pursuant to its appointment in this Agreement and the Trustee.

Period means a period of time determined in accordance with this Agreement during which a Mode is not permitted to be changed for Bonds in that Mode.

Person means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

Predecessor Financial Facility means the Financial Facility for which another Financial Facility is substituted or is to be substituted as provided in Section 8.04.

Principal Account means the account by that name established by Section 7.01.

Principal Installment for any Fiscal Year means, as of any date of computation and with respect to any Outstanding Bonds of a series, the sum of:

(i) the principal amount of such Bonds maturing in such Year other than Term Bonds; and

(ii) the amount of any Sinking Fund Installments coming due in such Debt Service Year, including any Sinking Fund Installment due at the maturity of any Term Bond of such series in such Debt Service Year less the amounts credited to such Sinking Fund Installments as the result of partial redemptions of any Term Bonds for which such Sinking Fund Installments were established or purchase of any such Term Bonds.

Provider means the Person obligated under a Financial Facility to provide its own funds to be used to pay Holders upon the occurrence of certain events specified therein. The City is not a Provider.

Provider Bonds means Bonds purchased or held by or on behalf of the Provider pursuant to a draw under a Financial Facility.

Provider Rate means the rate of interest per annum on the Provider Bonds while held for or on behalf of the Provider as defined in the Financial Facility.

Purchase Date means the date on which Tender Bonds are to be purchased pursuant to the terms hereof.

Purchase Price means an amount equal to 100% of the principal amount of the Tender Bonds to be purchased on a Purchase Date plus interest accrued to such Purchase Date.

Rate Change Date means (a) for each Rate Period during any Daily Mode, each Business Day, (b) for each Rate Period during any Weekly Mode, Wednesday, and (c) each Mode Change Date.

Rate Determination Date means (a) for each Rate Period during any Daily Mode, each Business Day, (b) for each Rate Period during any Weekly Mode, Tuesday, or if such day is not a Business Day, then the immediately preceding Business Day, and (c) each Mode Change Date.

Rate Period means, with respect to each Bond, each period commencing on a Rate Change Date for such Bond to and including the day immediately preceding the immediately succeeding Rate Change Date for such Bond (or the Maturity Date or date of redemption of such Bonds), during which period such Bond bears interest at one specific interest rate.

Rating Agency means, on any date, each nationally recognized statistical rating organization (as such term is used in Rule 15c3-1 of the Securities and Exchange Commission) that has a rating in effect on the Bonds on such date.

1974114.0038.328331.djs.rsn-DET

Rating Confirmation means a writing from each Rating Agency stating that the rating on the Bonds will not be reduced or withdrawn (other than a withdrawal of a short term rating upon a change to a Fixed Rate Mode) as a result of the action proposed to be taken.

Record Date means:

- (i) for a Short-Term Bond, the day (whether or not a Business Day) immediately before each Interest Payment Date for such Bond; and
- (ii) for a Fixed Rate Bond, the 15th day (whether or not a Business Day) of the month immediately before each Interest Payment Date for such Bond.

Redemption Date means the date fixed for redemption of Bonds subject to redemption.

Redemption Price means an amount equal to the principal of and premium, if any, on the Bonds and interest to be paid on the Bond to the Redemption Date.

Remarketing Agent means Goldman, Sachs & Co., until a successor Remarketing Agent becomes such pursuant to applicable provisions hereof and thereafter, such successor Remarketing Agent.

Remarketing Agreement means, as of any date, an agreement then in effect between the City and the Remarketing Agent providing for the remarketing of Bonds. The Remarketing Agreement in effect on the Closing Date is between the City and Goldman, Sachs & Co.

Remarketing Fund means the fund by that name created in *Section 7.01*.

Reimbursement Obligation means an obligation incurred under a Credit Facility or a Liquidity Facility to repay amounts disbursed thereunder to pay, or make payments in respect of, Bonds. Commitment or facility fees under a Financial Facility are not Reimbursement Obligations.

Securities Depository means The Depository Trust Company until the City designates a new securities depository by notice to each of the other Notice Parties, and thereafter, such new securities depository.

Short-Term Bond means a Modal Bond in a Short-Term Mode.

Short-Term Mode means the Daily Mode or Weekly Mode.

Stated Interest Payment Date means each July 1 and January 1.

Stated Maximum Rate means the lesser of (i) eighteen percent (18%) per annum and (ii) with respect to the Provider Bonds, the Provider Rate while the Financial Facility is effective.

Substitute Financial Facility means a Financial Facility meeting the requirements of Section 8.04. Any Substitute Liquidity Facility shall satisfy the requirements of the Liquidity Facility Requirements.

Swap Provider Guidelines means the guidelines specified by the Bond Insurer as part of the initial issuance of the Bonds and attached to this Agreement as Exhibit C.

Tender Agent means the Person named as *Tender Agent* in the first paragraph of this instrument until a successor Tender Agent becomes such pursuant to applicable provisions hereof and thereafter, such successor Tender Agent.

Tender Bonds means, as of any Purchase Date, all Modal Bonds except Provider Bonds:

- (i) subject to tender on such Purchase Date by reason of the Holders thereof having given notice as provided herein;
- (ii) subject to mandatory tender on such Purchase Date without notice pursuant hereto; and
- (iii) subject to mandatory tender on such Purchase Date by reason of notice having been given as required hereby.

Term Bond means any maturity of the Bond for which mandatory redemption requirement have been established in Exhibit 2.02(c) of this Agreement.

Termination Date means the date on which a Financial Facility terminates by reason of a Termination Event.

Termination Event means any event listed in a Financial Facility Agreement that permits the Provider to terminate its Financial Facility and includes any non-reinstatement of interest drawn under such Financial Facility.

Termination Notice means a notice from a Provider stating that it is terminating its Financial Facility by reason of a Termination Event or that it is not reinstating interest drawn under such Financial Facility.

Transfer Agent means the Person which is appointed as the initial registrar and transfer agent in the Bond Authorizing Resolution and the Sale Order until a successor Transfer Agent becomes such pursuant to the applicable provisions of the Bond Authorizing Resolution and Sale Order.

Weekly Mode means the Mode that has all of the attributes provided by this Agreement for Modal Bonds bearing interest at a Weekly Rate, including, without limitation, Day Count Convention, Rate Change Date, manner of determining interest rate and Rate Determination Date.

Weekly Rate means a rate of interest determined as provided in Section 3.02 for the Weekly Mode.

Weekly Rate Bond means any Modal Bond in the Weekly Mode.

Section 1.02 Interpretation.

(1) Words of the masculine gender include correlative words of the feminine and neuter genders.

(2) Unless the context otherwise indicates, words importing the singular include the plural and vice versa.

(3) Articles, Sections and Exhibits referred to by number mean the corresponding Articles, Sections and Exhibits of this Agreement.

(4) The terms *hereby*, *hereof*, *hereto*, *herein*, *hereunder* and any similar terms used in this Agreement refer to this Agreement.

Section 1.03. Time.

All time expressed in this Agreement is the time in New York City on the date the particular action is to be taken *unless* otherwise provided.

Article II The Bonds

Section 2.01 Authorization, Designation.

The Bonds are hereby authorized to be issued and shall be designated *Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C* and shall be in the form prescribed by *Exhibit 2.01*.

Section 2.02 Terms of the Bonds.

Bonds are authorized to be initially issued in the aggregate principal amount of \$192,290,000.

The date, the maturity date or dates and the interest payment dates of Modal Bonds are as follows:

Upon initial issuance, Modal Bonds shall be dated the Closing Date; thereafter, Modal Bonds shall be dated the date of authentication,

Modal Bonds shall mature or have sinking fund installments which are paid on July 1 in each year set forth in *Exhibit 2.02(b)* (each of which is a Principal Installment Date) in the respective principal amount set forth opposite each such year *unless* changed pursuant to *Section 2.03*, and

the interest payment dates for Modal Bonds are as defined in the definition of "Interest Payment Dates".

The Bonds shall be initially issued as Modal Bonds:

(1) as a single Modal Bond for each maturity fully registered in the name of the Securities Depository or its nominee;

(2) in the Weekly Mode (Initial Mode) and

(3) initially bearing interest at the rate for such Mode set forth in the Bond; thereafter, interest rates to be borne by Modal Bonds shall be determined in accordance with *Article III*.

(d) Modal Bonds shall be initially issued in book-entry only form registered with The Depository Trust Company ("DTC") and shall be numbered consecutively from "1" and prefixed with the letter "R" and any Modal Bond issued in respect of a Tender Bond not tendered to the Tender Agent pursuant to *Section 6.11* shall be additionally identified as a replacement bond to distinguish it from all other Modal Bonds and

(e) The Modal Bonds are subject to redemption prior to maturity as provided in *Article V*.

(f) The Modal Bonds identified in *Exhibit 2.02(c)* are Term Bonds and are subject to redemption from Sinking Fund Installments as set forth therein *unless* changed pursuant to *Section 2.03*.

(g) The principal and Redemption Price of Bonds bearing interest at a Daily Rate or a Weekly Rate will otherwise be payable at the principal office of the Tender Agent in New York, New York, upon presentation and surrender of such Bonds. Any payment of the Purchase Price of a Modal Bond (described in Article VI under the optional and mandatory tender provisions)

1974114.0038.328331.djs.rsn-DET

will be payable at the designated corporate trust office of the Tender Agent (or at such other office as may be designated by the Tender Agent), upon presentation and surrender of such tendered Bond.

Fixed Rate Bonds are payable as to principal (premium, if any) and interest at the designated corporate trust office of the Trustee.

The terms of Provider Bonds shall be as provided in *Section 7.08*.

The principal, Redemption Price and purchase price of, premium, if any, and interest on the Bonds will be payable in any coin or currency of the United States of America which, at the respective dates of payment of such Bonds, is legal tender for the payment of public and private debts. So long as the Bonds remain in book-entry only form, payments of the principal, Redemption Price and Purchase Price (with respect to Tender Bonds will be made by the Trustee or Tender Agent to DTC for subsequent credit to direct participants and disbursement to beneficial owners through DTC.

Section 2.03. Adjustment of Amortization, Sinking Fund Installments and Redemption.

(a) Any Mode Change Notice delivered to change all of the Modal Bonds to the Fixed Rate Mode may provide for adjustment of the amortization of such Modal Bonds by:

(1) adding, deleting or otherwise modifying maturity dates so long as any additional maturity date is a July 1 no later than July 1 of the year of the original maturity date of the Bonds;

(2) adding, deleting or otherwise modifying the amount of principal maturing on any maturity date *so long as* the entire principal amount authorized hereunder is amortized no later than the last year of the original maturity date of the Bonds;

(3) adding or deleting any Term Bonds and adding, deleting or otherwise modifying Sinking Fund Installments for any Term Bonds even though not then Fixed Rate Bonds and adding Sinking Fund Installments for any such Modal Bonds therein designated as Term Bonds; and

(4) adding or deleting or otherwise modifying the terms hereof for optional redemption of Fixed Rate Bonds and the Redemption Prices thereof.

(b) The Modal Bonds described in such notice shall be subject to the amortization described therein and subject to any optional redemption described therein *when, but only when*, the change to the Fixed Rate Mode contemplated by such notice becomes effective *and only if*:

(1) Such Modal Bonds do not exceed any limitation on term contained in the Act.

(2) Such Modal Bonds could be issued as Parity Obligations under the Bond Authorizing Resolution (treating, for such purpose, the Modal Bonds with the amortization to be adjusted as no longer outstanding to the extent of the adjustment).

(3) The Tender Agent has received and then holds a Favorable Bond Counsel's Opinion with respect to the matters permitted by this Section and included in such Mode Change Notice.

Section 2.04. Interest.

(a) Each Bond in a particular Mode shall bear interest from the Closing Date or from the most recent Interest Payment Date on which interest has been paid or duly provided for through the day before the Interest Payment Date, and such interest shall be:

(1) payable at a rate determined on the Rate Determination Date for such Mode as provided in *Article III* and effective as of the immediately following Rate Change Date for such Mode and effective until (and excluding) the next Rate Change Date *or if* such Mode includes only one Rate Change Date *then* the day before such Mode is changed;

(2) calculated at the Day Count Convention for such Mode for the period commencing on the Rate Change Date for such Mode and ending on (and including) the day before the next Rate Change Date *or if* such Mode includes only one Rate Change Date *then* the day before such Mode is changed; and

(3) payable on the Interest Payment Date for such Mode to the Holder of such Modal Bond as of the Record Date for such Mode *provided that*:

- (i) *if* any such Interest Payment Date occurs after the stated maturity of the related Modal Bond *then* interest shall be paid on such stated maturity; and
- (ii) *if* interest on any Modal Bond shall be in default, *then* such interest shall be payable on the special interest payment date set for such purpose, if any.

Section 2.05. Appointment of Paying Agent and Registrar.

The Tender Agent shall serve as a Paying Agent and shall also serve as the Transfer Agent for Modal Bonds in any Mode other than the Fixed Rate Mode. The Trustee shall serve as Paying Agent and Transfer Agent for all Fixed Rate Bonds.

Section 2.06. Payment of Interest.

(a) Interest on Fixed Rate Bonds shall be paid by the Trustee as provided herein and in the Bond Authorizing Resolution.

(b) Interest due on Modal Bonds other than Fixed Rate Bonds on an Interest Payment Date shall be paid by the Tender Agent acting as Paying Agent or the Trustee acting as Paying Agent as follows:

(1) during the Daily Mode or the Weekly Mode by wire transfer of immediately available funds to the account specified by each Holder in writing to the Tender Agent. Such writing shall remain in effect until revoked or revised by such Holder in a writing delivered to the Tender Agent.

(2) during the Fixed Rate Mode by check mailed by the Trustee acting as Paying Agent on the applicable Interest Payment Date to each Holder appearing on the Registry as of such Record Date or at the option of any Holder of at least \$1,000,000 aggregate principal amount of Fixed Rate Bonds by wire transfer of immediately available funds in the same manner as Holders of Daily Rate Bonds or Weekly Rate Bonds upon such Holder delivering to the Trustee acting as Paying Agent (rather than the Tender Agent) the writing required by *paragraph (1)*, above.

Section 2.07. Authentication after Initial Issuance.

(a) After initial issuance, Bonds shall be authenticated as follows:

(1) All Daily Rate Bonds and Weekly Rate Bonds issued in transfer, exchange, redemption or purchase shall be authenticated by the Tender Agent pursuant to the power granted in Section 2.05.

(2) All Fixed Rate Bonds issued in transfer, exchange, redemption or purchase shall be authenticated by the Trustee.

(3) All Provider Bonds in certificated form shall be authenticated by the Tender Agent.

(b) The Tender Agent shall have power to act on behalf of the Trustee and subject to its direction in the authentication and delivery of Bonds in connection with transfers and exchanges under the Bond Authorizing Resolution as fully to all intents and purposes as though the authentication had been expressly authorized by the Bond Authorizing Resolution.

Section 2.08. New Certificates.

Modal Bonds in certificated form and reflecting each change in a Mode shall be executed by the City, authenticated by the Tender Agent and delivered on the Mode Change Date in exchange for the Modal Bonds in their previous certificated form:

(1) if and when required by the Securities Depository and

(2) whenever Modal Bonds are held in certificated form by a Holder other than the Securities Depository.

Article III
Interest Rate Determinations

Section 3.01. Manner of Determining Interest Rates; Interest Rate.

(a) The interest rate for all Bonds, commencing with the first Rate Determination Date after the Closing Date, shall be determined by the Remarketing Agent on each Rate Determination Date as provided in this Article.

(b) *If any interest rate determined as provided in this Article exceeds the Maximum Rate, then the interest rate shall be the Maximum Rate.*

(c) The determination of any interest rate pursuant to this Article shall be conclusive.

Section 3.02. Interest Rate Determinations.

(a) The interest rate for all Bonds in each Mode shall be determined by the Remarketing Agent on the Rate Determination Date for such Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Bonds to be sold at par plus accrued interest, under prevailing market conditions on such Rate Determination Date.

(1) For each Rate Period during the Daily Mode, the Remarketing Agent will determine, and is required to give notice (by electronic means or by facsimile) to the Tender Agent of the Daily Rate no later than 10:00 a.m. on each Rate Determination Date. In the event that the Daily Rate is not determined by the Remarketing Agent as provided herein, the rate of interest borne by the Bonds bearing interest at the Daily Rate will be equal to the Alternative Rate until the Remarketing Agent next determines the Daily Rate as required herein. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date.

(2) For each Rate Period during the Weekly Mode, the Remarketing Agent will determine the Weekly Rate for the period commencing on the immediately succeeding Wednesday or the Mode Change Date and ending on the next succeeding Tuesday no later than 4:00 p.m. New York time on each Rate Determination Date. In the event that the Weekly Rate is not determined by the Remarketing Agent on the Rate Determination Date, the rate of interest borne by the Bonds bearing interest at a Weekly Rate will be equal to the Alternative Rate until the Remarketing Agent next determines the Weekly Rate as required herein.

(3) The Remarketing Agent shall determine the Fixed Rate on the Rate Determination Date for such Fixed Rate Bond.

(b) Upon making each interest rate determination pursuant to this Section, the Remarketing Agent shall give notice as soon as possible and not later than the end of the

Business Day to the Finance Director, the Trustee and the Tender Agent of such interest rate determination by electronic means or by facsimile.

Article IV Modes and Periods

Section 4.01. Modes.

The Finance Director may designate a different Mode for all Bonds during a Daily Mode or a Weekly Mode pursuant to a Mode Change Notice, on any Interest Payment Date, but such change shall become effective only as provided in *Section 4.09*. All Bonds must bear interest in the same Mode.

Section 4.02 Duration of Modes.

(a) Once a Mode is in effect for a Modal Bond, that Mode continues in effect until another Mode takes effect.

(b) The Mode of a Fixed Rate Bond cannot be changed.

Section 4.03. Rule 15c2-12 Compliance.

If a change in Mode will make a Bond subject to Rule 15c2-12 promulgated under the Securities Act of 1934, as amended, and the City has not already done so, the City shall enter into a continuing disclosure undertaking with the Trustee satisfying the requirements of such Rule.

Section 4.04. Effectiveness of Modes.

The following rules govern the effectiveness of Modes:

- (1) The Initial Mode is effective on and as of the Closing Date without any further act.
- (2) The Mode of a Daily Rate Bond or a Weekly Rate Bond may be changed on any Interest Payment Date.
- (3) Any Mode shall be effective for all Modal Bonds.
- (4) The Mode of a Fixed Rate Bond cannot be changed.
- (5) Other than the Initial Mode, no Mode shall become effective *unless* the conditions precedent to the change to such Mode are met on the Mode Change Date.
- (6) If the conditions precedent required to effect a Mode change in Section 4.05 are not satisfied by the Mode Change Date, the Modal Bond will continue to be subject to mandatory tender and will continue to bear interest in the Mode in effect prior to the proposed Mode Change Date.

1974114.0038.328331.djs.rsn-DET

Section 4.05. Conditions Precedent to Mode Change.

(a) It is a condition precedent to a Mode change for any Modal Bond that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date:

(1) a Favorable Bond Counsel's Opinion, addressed to the Notice Parties;

(2) *either* (i) moneys sufficient to pay the Purchase Price of all affected Modal Bonds plus interest accrued to the Mode Change Date, from proceeds of the remarketing of such Modal Bonds so as to be available for such payment *or* (ii) a Liquidity Facility with sufficient capacity to permit such amount to be Drawn thereunder and under which no condition exists that would prohibit such draw; and

(b) It is a condition precedent to a Mode change for any Modal Bond required by *Section 8.01* to be the subject of either Credit Enhancement or a Liquidity Facility, or both Credit Enhancement and a Liquidity Facility, that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date every required Conforming Financial Facility for such Modal Bonds determined as if the Modal change to be made had become effective.

(c) The Tender Agent is entitled to rely on a certificate of the Finance Director that the items delivered to it pursuant to this Section conform to the above requirements.

Section 4.06. Election of Mode Change; How Effectuated; Irrevocability.

(a) The Finance Director may elect at any time and from time to time to change any Mode to any other Mode (other than a Mode change from the Fixed Rate), *but* no such Mode shall become effective *except* as provided in *Section 4.09*. (408?)

(b) In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, fifteen (15) days prior to the Mode Change Date, the minimum number of days required by *Section 6.02* for notices given in connection with mandatory tenders *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties):

(i) a Mode Change Notice signed by the Finance Director and

(ii) the items required by *Section 4.05* to be held by the Tender Agent on the Mode Change Date *except* that:

(A) any otherwise required Conforming Financial Facility is not required *if* the current Financial Facility will be a Conforming Financial Facility after giving effect to the Mode change;

- (B) *if* any Conforming Financial Facility is required, the Finance Director may satisfy the requirement with a commitment of a bank or other financial institution to provide such Conforming Financial Facility not later than the Mode Change Date, and, in such situation, the Rating Confirmation may be indicative or contingent; and
- (C) moneys in respect of the Purchase Price are not required.

(c) The election shall be effective upon receipt by the Tender Agent of the foregoing and shall be irrevocable.

Section 4.07. Mode Change Notice.

The notice of the Finance Director to elect a Mode change shall set forth:

- (1) the new Mode;
- (2) the Mode Change Date, which shall comply with *Section 4.04(2)*;
- (3) *if* the new Mode is the Fixed Rate Mode, such matters that may be included pursuant to *Section 2.03* as the Finance Director may elect to include.
- (4) the amount, each separately stated, of principal (and premium, if any) and interest required to be covered pursuant to *Section 8.02*, determined as if the Mode described in such notice were in effect and taking into account any scheduled maturities and Sinking Fund Installments contained in such notice, and calculated in sufficient detail to permit the Tender Agent to verify the arithmetical accuracy thereof;
- (5) a statement that:
 - (i) each Financial Facility required by *Section 8.01* and then held by the Tender Agent is a Conforming Financial Facility with respect to the new Mode *or*
 - (ii) accompanying the notice is the commitment of a bank or other financial institution to issue a required Financial Facility that will:
 - (A) be a Conforming Financial Facility and
 - (B) be effective as of the Mode Change Date specified in the notice; and
- (6) such other matters deemed necessary or appropriate by the Finance Director.

Section 4.08. Notice to Modal Bondholders

(a) Whenever the Tender Agent receives a Mode Change Notice, the Tender Agent shall give the notice of mandatory tender required by *Section 6.02* to the Holders of all of the Modal Bonds at least 15 days prior to the Mode Change Date. The Tender Agent will give written notice of such election by the City to the Holders of the Modal Bonds, which notice shall contain the information required by *Section 6.04*.

(b) Such notice shall be given in advance of the Mode Change Date specified in such Mode Change Notice by at least the minimum number of days required by *Section 6.02*.

(c) The City will evidence such designation of a subsequent Mode and Mode Change Date for the Bonds by giving written notice to the Trustee, the Tender Agent, the Remarketing Agent, the Provider, the Insurer and each Rating Agency then maintaining a rating on the Bonds, specifying the Mode in which such Bonds will operate and the Mode Change Date. Upon receipt of such notice from the City, the Tender Agent, at least 15 days prior to each Mode Change Date, will give notice to each Holder of Bonds of the mandatory tender for purchase of the Bonds on the Mode Change Date.

Article V Redemption of Bonds

Section 5.01. Optional Redemption – Short-Term Bonds.

Bonds in a Daily Mode or a Weekly Mode will be subject to redemption prior to their maturity date at the option of the Issuer, in whole on any Business Day or in part (and, if in part, in an Authorized Denomination) on any Interest Payment Date during such Daily Mode or Weekly Mode at a Redemption Price equal to 100 percent of the principal amount of such Bonds, plus accrued interest, if any, to the redemption Date.

Section 5.02. Optional Redemption – Fixed Rate Bonds.

Unless changed pursuant to *Section 2.03*, Fixed Rate Bonds are subject to redemption upon notice given as required in the Bond Authorizing Resolution in whole on any date or in part on any Interest Payment Date at the option of the City at the Redemption Prices set forth below (expressed as a percentage of the principal amount thereof to be redeemed) for the applicable remaining term and anniversary date of the Mode Change Date, plus interest accrued to the Redemption Date.

Remaining Term	Interest Payment Date Anniversary after Mode Change Date	Redemption Price
More than 15 years	10 th	101%
	11 th	100½
	12 and thereafter	100
Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
More than 10 years but not more than 15 years	7 th	101%
	8 th	100½
	9 th and thereafter	100
Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
More than 5 years but not more than 10 years	3 rd	101%
	4 th	100½
	5 th and thereafter	100

Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
5 years or fewer years	2 nd	100%

Section 5.03. Mandatory Redemption – Sinking Fund Installments.

The Bonds are subject to mandatory sinking fund redemption prior to maturity in part, by lot, at a Redemption Price equal to 100 percent of the principal amount of such Bonds to be redeemed, without premium, plus accrued interest to the date of redemption, on July 1 in each of the years and in the amounts set forth in the schedule included in Exhibit 2.02(b) for the mandatory sinking fund redemption of the Bonds.

1974114.0038.328331.djs.rsn-DET

Section 5.04 General Provisions Regarding Redemption of Bonds

(a) *Notice of Redemption.* Whenever Bonds are to be redeemed, the Trustee will give notice of the redemption of the Bonds, which notice will specify, among other things, the Redemption Date, the Redemption Price, the place and manner of payment and that from the redemption date interest will cease to accrue on the Bonds which are the subject of such notice.

(i) the notice of redemption of Bonds pursuant to Section 5.01 or Section 5.02 shall state that such notice is conditional and that the redemption of such Bonds is conditioned upon the availability of money to pay the Redemption Price; provided that such money shall not constitute "property of the City" for the purposes of Section 547 of the United States Bankruptcy Code if and is the extent that such Section is applicable to entities such as the City under the United States Bankruptcy Code.

(ii) Notice of the redemption of Bonds will be given by first class mail, postage prepaid, not less than 30 days or more than 60 days prior to the Redemption Date, to the registered owners of the Bonds to be redeemed. So long as all Bonds are in book-entry only form with DTC, redemption notices shall be sent to DTC only. Failure to give notice to a particular Holder or a defect in the notice will not affect the validity of any proceedings for redemption as to any other Bond.

(b) *Selection of Bonds to be Redeemed.* The Bonds to be called must be in Authorized Denominations. In all cases, Provider Bonds will be selected for redemption before other Bonds. If less than all of the Bonds are called for redemption the particular Bonds (or portions thereof) to be redeemed will be selected by lot in such manner as the Trustee may determine among such Bonds. So long as all Bonds are in book-entry only form with DTC, DTC shall select the Bonds to be redeemed. If a Bond is redeemed in part, new Bonds representing the unredeemed balance shall be issued to the Holder thereof without charge therefor.

(c) *Effect of Redemption.* Interest will not accrue after the redemption date on any Bond called for redemption if notice has been given and if sufficient moneys have been deposited with the Trustee to redeem such Bonds.

Article VI Tender and Purchase

Section 6.01. Tender at Option of Holder.

(a) *Purchase on Demand of Holder While Bonds Bear Interest at the Daily Rate.* While the Daily Rate Bonds are in the Daily Mode, each Daily Rate Bond (or portion of such Daily Rate Bond in an Authorized Denomination) will be purchased on any Business Date upon the demand of the Holder of such Daily Rate Bond, at the Purchase Price to such Purchase

1974114.0038.328331.djs.rsn-DET

Date, upon irrevocable telephonic or spoken or written notice (which telephonic or other spoken notice will be confirmed in writing, and which written notice may be given by telecopy or other Electronic Means) to the Tender Agent. Such notice must be received not later than 11:00 a.m. (or such other time as may be agreed to by the Provider, the Tender Agent and the Remarketing Agent), provided, however, such other later time is subject to Rating Confirmation before such later time is implemented, New York time, on a Business Day in order to be effective on that date. Any notice received after such time will be deemed given on the next succeeding Business Day. Such notice must specify (i) the principal amount and number of such Daily Rate Bond, and the principal amount of such Daily Rate Bond being tendered, and (ii) the Purchase Date on which such Daily Rate Bond is to be purchased. The Tender Agent shall immediately notify the Trustee and the Remarketing Agent upon receipt of such irrevocable tender notice.

(b) *Purchase on Demand of Holder While Bonds Bear Interest at the Weekly Rate.* While the Weekly Rate Bonds are in the Weekly Mode, each Weekly Rate Bond (or portion of such Bond in an Authorized Denomination) will be purchased on any Business Day, which will be not less than seven calendar days after the date such notice is received in the manner described herein, at the Purchase Price to such Purchase Date. To effect such purchase during a Weekly Mode, a Holder must deliver, on any Business Day, to the Tender Agent, irrevocable written notice (which may be given by telecopy). Such notice must be received by the Tender Agent not later than 4:00 p.m., New York time, on a Business Day in order to be effective on that day. Any notice received after such time, will be deemed given on the next succeeding Business Day. Such notice must specify (i) the principal amount and number of such Weekly Rate Bond, and the principal amount of such Weekly Rate Bond being tendered, and (ii) the Purchase Date on which such Weekly Rate Bond is to be purchased. The Tender Agent shall immediately notify the Trustee and the Remarketing Agent upon receipt of such irrevocable tender notice.

(c) Tender notices given pursuant to this Section shall specify the CUSIP number of the Bond (or portion thereof) to be tendered and otherwise identify such Bond to the satisfaction of the Tender Agent, and shall also specify the principal amount of such Bond being tendered (which shall be an Authorized Denomination) and shall state in effect that such Bond (or portion thereof) shall be purchased on the Purchase Date specified therein at 100% of the principal amount thereof, plus interest accrued to Purchase Date, and that such notice is irrevocable.

(d) *Effect of Tender Notice.* Each tender notice will automatically constitute (A) an irrevocable offer to sell the Modal Bond or portion thereof to which the notice relates on the date the Modal Bonds are purchased to any purchaser selected by the Remarketing Agent, at the Purchase Price, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Modal Bond or portion thereof upon payment of such Purchase Price to the Tender Agent on the date the Modal Bonds are purchased, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Modal Bond to be purchased in whole or in part for other Bonds evidencing principal in an equal aggregate amount so as to facilitate the sale of such Modal Bond or portion thereof, and (D) an acknowledgment that such Holder will have no further rights with respect to such Modal Bond or portion thereof upon payment of the Purchase Price by the Tender Agent on the date the Modal Bonds are purchased, except for the right of such Holder to receive such Purchase Price upon surrender of such Modal Bond to the Tender Agent.

1974114.0038.328331.djs.rsn-DET

Section 6.02. Mandatory Tender.

(a) Bonds bearing interest in the Daily Mode or the Weekly Mode (other than Provider Bonds) are subject to mandatory tender by the Holders thereof to the Tender Agent on each date described below at the Purchase Price to the Purchase Date therefor (unless purchased on an Interest Payment Date):

- (i) on each Mode Change Date and any proposed Mode Change Date, including, without limitation, a proposed Fixed Rate Conversion Date;
- (ii) while a Financial Facility is required, at least two Business Days prior to the last day on which funds will be available under the Financial Facility following notice by the Provider to the Trustee and the Tender Agent of the occurrence and continuation of a default under the Financial Facility;
- (iii) while a Liquidity Facility is required, on the second Business Day preceding the expiration date of a Liquidity Facility if by the 20th day preceding such expiration date, a notice of extension of the current Liquidity Facility or a commitment to deliver an alternate liquidity facility has not been delivered;
- (iv) on the effective date of an alternate liquidity facility if the Provider of such alternate liquidity facility is not the initial Provider; and
- (v) pursuant to Section 8.06(c) of this Agreement.

A Holder of a Bond subject to mandatory tender may not elect to retain its Bonds.

With respect to a mandatory tender described in clause (i) above of Bonds bearing interest at a Daily Rate or a Weekly Rate, the Tender Agent is required to give notice to the Holders of such Bonds not later than the 15th day next preceding the Mode Change Date to Daily Rate or Weekly Rate and not later than the 30th day next preceding the Mode Change Date to Fixed Rate Mode stating the Mode Change Date and that such Bonds are required to be purchased on such Mode Change Date.

With respect to a mandatory tender described in clauses (ii) through (iv) above, the Tender Agent is required to give the Holders of such Bonds at least 15 days prior to the date of mandatory tender.

(b) The Purchase Date in connection with a new Provider of a Financial Facility shall be sooner to occur of (i) the effective date of such Financial Facility and (ii) at least two Business Days before the Expiry Date of the Predecessor Financial Facility.

Section 6.03. Notice of Mandatory Tender.

(a) Whenever notice is required by *Section 6.02* to effect a mandatory tender on a Purchase Date, the Tender Agent shall give such notice at least fifteen (15) of days in advance of such Purchase Date.

(b) The notice of mandatory tender shall:

(1) in substance specify:

- (i) the event giving rise to the mandatory tender;
- (ii) the Mode Change Date, if applicable;
- (iii) the Mode to become effective, if applicable;
- (iv) the Purchase Date; and
- (v) that all of the Modal Bonds will be subject to mandatory tender.;
and

(2) state in effect that:

- (i) all of the Modal Bonds are subject to mandatory tender on such Purchase Date and in order to receive payment of the Purchase Price on the Purchase Date, such Holder shall transfer its Modal Bonds to the Tender Agent with all necessary endorsements on or before 12:00 noon, New York time, on the Purchase Date;
- (ii) such Modal Bonds are deemed tendered on the Purchase Date irrespective of any actual transfer to the Tender Agent and shall cease to bear interest from and after the Purchase Date; and
- (iii) transfers of such Modal Bonds may be made after the Purchase Date to the Tender Agent *but* no interest shall be paid for any period after the Purchase Date.

(3) such notice may contain such additional information as the Tender Agent believes to be necessary or appropriate.

(c) The failure to properly give notice to any Holder of Bonds subject to mandatory tender and entitled hereunder to notice shall not affect the validity of any other mandatory tender as to which notice, if required to be given, was properly given.

Section 6.04. Interest to No Longer Accrue.

The Purchase Price of each Tender Bond shall become due and payable on its respective Purchase Date, and *if* on such Purchase Date the Tender Agent holds amounts sufficient to pay such Purchase Price, *then* interest on such Tender Bond shall cease to accrue; *otherwise*, such Tender Bond shall continue to bear interest as if it had not been subject to purchase on such Purchase Date.

Section 6.05. Remarketing by Remarketing Agent; Priority to Provider Bonds.

(a) The Remarketing Agent shall offer for sale and use its best efforts to sell by each Purchase Date all Tender Bonds and all Provider Bonds.

(b) The Remarketing Agent shall remarket all Provider Bonds before remarketing any Tender Bonds.

(c) The Remarketing Agent shall not sell any Tender Bonds or Provider Bonds at a discount from the principal amount thereof.

(d) The Remarketing Agent shall pay to the Tender Agent amounts received from such sales of Tender Bonds and Provider Bonds and the Tender Agent must advise the Trustee of the amounts received no later than 11:00 a.m., New York time.

(e) The Remarketing Agent shall pay to the Provider directly or pay to the Tender Agent who will pay the Provider, the proceeds of the remarketing of Provider Bonds provided that Provider Bonds will not be released until the Provider is paid in full for such Provider Bonds, including interest accrued thereon at the Provider Rate.

Section 6.06. Draws on Liquidity Facility.

(a) On each Purchase Date the Tender Agent, after giving notice to the Provider that Tender Bonds are to be purchased by the Provider in accordance with the Liquidity Facility, shall direct the Trustee to draw on the Liquidity Facility in accordance with its terms and to the extent of the availability of amounts thereunder, in sufficient time to have amounts available to the credit of the Remarketing Fund.

(b) The Tender Agent shall give notice of the necessity of a draw to the Trustee by 11:15 a.m. New York time and the Trustee shall draw by 11:30 a.m., New York time under the Liquidity Facility by such means and in such form specified by the Provider in order for the Provider to pay under the Liquidity Facility by the time on the Purchase Date specified by the Trustee such amounts in available funds equal to the Purchase Price of the Tender Bonds in accordance with Subsection (c).

(c) The amount of such draw, to the extent of the availability under the Liquidity Facility, shall equal the Purchase Price of all Tender Bonds *less* the amount received by the Tender Agent as the purchase price of remarketed Tender Bonds before the drawing. All Tender Bonds for which the Tender Agent has *not* received the purchase price in respect of the

remarketing by the time the Tender Agent reasonably believes it must draw to comply with *subsection (b)*, above, shall be deemed to have not been remarketed for the purposes of drawing under the Liquidity Facility.

(d) The Trustee shall not draw under the Liquidity Facility to pay the Purchase Price of any Provider Bonds or any Bonds owned by or held for the benefit of the City.

Section 6.07. Source of Funds to Purchase Bonds.

Upon the transfer of a Tender Bond to the Tender Agent with all necessary endorsements, the Tender Agent shall pay the Purchase Price. On each date that Bonds are to be purchased, the Tender Agent will purchase, but only from the funds listed below, such Bonds from their Holders at a purchase price equal to the principal amount of such Bonds, plus accrued interest, if any, to the date of purchase. Funds for the payment of such purchase price will be derived from the following sources in the order of priority indicated:

1. proceeds of the remarketing of such Bonds by the Remarketing Agent to the extent such funds are then available to the Tender Agent;

2. moneys representing proceeds of a Drawing by the Trustee at the direction of the Tender Agent under the Liquidity Facility.

The Tender Agent is required to pay the Purchase Price of each Tendered Bond to the Holder of such Tendered Bond by the 3:00 p.m., New York time, on the Purchase Date, provided that such Holder has delivered such Tendered Bond with any necessary endorsements to the designated office of the Tender Agent:

(1) no later than noon, New York time, on such date.

(2) no later than the close of business on the Business Day following the Business Day of transfer *but* not before the Purchase Date) *if* such Tender Bond is transferred after noon, New York time.

Section 6.08. Tender of Less than all of Bond.

If less than all of a Holder's Bond is subject to mandatory tender or is tendered to the Tender Agent as an optional tender permitted hereunder, *then* upon the transfer of such Bond in whole to the Tender Agent, the City shall execute (if not already executed) and the Tender Agent shall authenticate and deliver to such Holder, on the day of transfer, a Bond or Bonds, registered in the name of such Holder, of the same tenor and in such Authorized Denominations as specified by such Holder as shall equal, in the aggregate, the balance of such Holder's Bond.

Section 6.09. Notifications; Execution and Authentication of Bonds.

(a) Not later than 11:15 a.m., New York time, on the Purchase Date, the Remarketing Agent shall notify the Tender Agent and the Trustee of the amount of Tender Bonds successfully remarketed, the names of the tendering Holders and the registration

instructions (i.e., the names, addresses and taxpayer identification numbers of the purchasers and the specified Authorized Denominations, if any) with respect thereto.

(b) Bonds purchased in accordance with the provisions of this Agreement will be delivered as follows:

(1) Bonds purchased with moneys representing the proceeds of sale of such Tender Bonds will be delivered to the Remarketing Agent no later than 1:30 p.m., New York City time on the date of purchase against payment therefor in immediately available funds in an amount equal to the Purchase Price therefor and will be registered in the name of the respective purchasers of such Tender Bonds; and

(2) Tender Bonds purchased with moneys drawn under the Financial Facility will be registered in the name of the Provider or its nominee and delivered to the Tender Agent and held by the Tender Agent in accordance with the terms of this Agreement and the Financial Facility.

(c) The City shall execute (to the extent not already executed) and Tender Agent shall authenticate an aggregate principal amount of Bonds necessary to comply with the instructions of the Remarketing Agent even though not all Tender Bonds have been tendered on the Purchase Date.

(1) Such Bonds shall be in such principal amounts and registered by the Tender Agent as Registrar in such names as shall be instructed by the Remarketing Agent (but not in excess of the aggregate principal amount of Tender Bonds) and shall be authenticated as the appropriate Modal Bonds and made available for pick-up by the Remarketing Agent no later than 1:30 p.m., New York time, on the Purchase Date.

(2) To the extent that any Bonds required to be executed and authenticated by this Section are to be held in the Book-Entry Only System maintained by the Securities Depository, then the Tender Agent shall comply with the procedures of the Securities Depository applicable to tender bonds and the transfer of interests in bonds, and no delivery of such Bonds in certificated form is required.

Section 6.10. Actions on Purchase Date.

The following actions shall be taken on the Purchase Date:

(1) From proceeds received from purchasers of remarketed Tender Bonds the Remarketing Agent shall turn over the proceeds received from such remarketing to the Tender Agent for delivery to the person who delivered such Tender Bonds to the Tender Agent. The proceeds of the sale by the Remarketing Agent of any Provider Bonds will be paid to the Provider in accordance with the terms of the Financial Facility.

(2) The Tender Agent shall deposit to the credit of the Remarketing Fund proceeds received from the Remarketing Agent.

(3) The Trustee, if necessary, shall draw on the Liquidity Facility pursuant to *Section 6.06* and deposit the proceeds of such draw to the credit of the Remarketing Fund.

(4) All amounts not otherwise described in this Section received by the Tender Agent in respect of the remarketing of Tender Bonds shall be deposited to the credit of the Remarketing Fund.

(5) Apply amounts credited to the Remarketing Fund as provided in *Section 7.06*.

(6) Provider Bonds, if any, shall be transferred to the Provider in accordance with *Section 7.08*.

(7) The Tender Agent shall notify the Finance Director and the Trustee as provided in *Section 7.08*, and such notification shall include the aggregate principal amount of Provider Bonds delivered to the Provider of such Liquidity Facility.

Section 6.11. Tender Agent to Hold Bonds and Moneys in Trust.

The Tender Agent will:

(a) hold all Bonds delivered to it in trust for the benefit of their respective Holders which will have so delivered such Bonds until moneys representing the purchase price of such Bonds will have been delivered to or for the account of or to the order of such Holders; and

(b) hold all moneys delivered to it under the Bond Resolution for the purchase of Bonds in trust for the benefit of the person or entity which will have so delivered such moneys, and not invest such funds or commingle such funds with its general funds, until the Bonds purchased with such moneys will have been delivered to or for the account of such person or entity.

**Article VII
Funds and Accounts**

Section 7.01. Creation of Funds and Accounts.

(a) There is hereby established with the Tender Agent a trust fund to be known as the "Credit Facility Fund" together with the following trust accounts within it:

- (1) Interest Account
- (2) Principal Account
- (3) Redemption Account

(b) The Tender Agent is not required to create the Credit Facility Fund unless and until there is a Credit Facility.

(c) There is hereby established with the Tender Agent a trust fund to be known as the "Remarketing Fund".

(d) All moneys received by the Tender Agent hereunder shall be held by the Tender Agent in trust and applied solely as provided in this Agreement and at all times shall be identified as being held in trust for the Bondholders on the books of the Tender Agent subject to the limitations contained in *Section 7.11*.

Section 7.02 "Sufficient Time" for Payments under Credit Facilities.

As used in this Article, *sufficient time* means reasonably sufficient time in which to make the amounts drawn under a Financial Facility available: (i) to the Securities Depository, in accordance with its procedures, for payment on the dates in respect of which such amounts are being drawn if the Bonds to be paid are then held in the "Book-Entry Only System" of the Securities Depository or (ii) to the Holders (other than the Securities Depository or its nominee) for timely payment on the dates in respect of which such amounts are being drawn.

Section 7.03 Credit Facility Draws.

(a) The Tender Agent shall draw under any Credit Facility in sufficient time so as to have available:

(1) to the credit of the Interest Account on the date on which interest is due on the Modal Bonds (whether on an Interest Payment Date or a Redemption Date or by reason of a purchase of Term Bonds to satisfy Sinking Fund Installments), the amount of interest due on outstanding Modal Bonds on such date;

(2) to the credit of the Principal Account on each Principal Installment Date, an amount equal to the Principal Installment due on outstanding Modal Bonds on such Principal Installment Date;

(3) to the credit of the Redemption Account:

(i) on each Redemption Date (other than a Redemption Date with respect to Sinking Fund Installments), an amount equal to the Redemption Price of outstanding Modal Bonds called for redemption on such Redemption Date other than by reason of Sinking Fund Installments; and

(ii) on the purchase date of any Modal Bonds purchased as "open market purchases" pursuant Section 5.5(a) of the Bond Authorizing Resolution, an amount equal to the principal amount of the Modal Bonds so purchased less any discount; and

Section 7.04 Liquidity Facility Draws.

The Trustee shall draw under each Liquidity Facility as provided in *Section 6.06*.

1974114.0038.328331.djs.rsn-DET

Section 7.05 Application of the Credit Facility Fund.

(a) As Paying Agent, the Tender Agent shall:

(1) as and when interest is due on outstanding Modal Bonds (whether an Interest Payment Date or a Redemption Date or by reason of a purchase of Term Bonds to satisfy Sinking Fund Installments), pay the same to the Holders entitled thereto from amounts credited to the Interest Account;

(2) as and when Principal Installments are due on outstanding Modal Bonds, pay the same to the Holders entitled thereto from amounts credited to the Principal Account; and

(3) as and when the Redemption Price is due on outstanding Modal Bonds (*other* than by reason of Sinking Fund Installments), pay the same to the Holders entitled thereto from amounts credited to the Redemption Account; and

(4) as and when the purchase price is due on any Modal Bonds purchased pursuant Section 3.03(b) of the Bond Authorizing Resolution, pay the same (exclusive of any accrued interest) to the Holders entitled thereto from amounts credited to the Redemption Account.

(b) No amount shall be withdrawn from the Credit Facility Fund for the purpose of paying all or any part of any Purchase Price of Tender Bonds.

(c) Such payments shall be made in funds immediately available on the date of payment when required by applicable provisions of this Agreement.

Section 7.06. Application of the Remarketing Fund.

(a) As used in this Section, *Necessary Amount* means, with respect to any Purchase Date, the amount, if any, equal to the Purchase Price of Tender Bonds to be purchased on such Purchase Date *less* the amount received by the Tender Agent as the purchase price of such remarketed Tender Bonds.

(b) As of the close of business on each Purchase Date, the Tender Agent shall pay to the Provider of the Liquidity Facility from amounts credited to the Remarketing Fund, the amount, if any, equal to the amount drawn under such Liquidity Facility *less* the Necessary Amount.

(c) The Tender Agent shall, as and when the Purchase Price is payable on Tender Bonds, pay the same to the Holders entitled thereto in accordance with *Section 6.07*.

Section 7.07. Subrogation Rights.

(a) No payment of any amount to a Holder of a Modal Bond made from any amount drawn under a Financial Facility shall discharge the City's obligation to pay such Modal Bond in accordance with its terms.

(b) Whenever an amount is drawn under a Financial Facility to pay an amount due any Holder of a Modal Bond, the Provider of such Financial Facility shall be subrogated to the rights of the Holders to receive such amount and to all appurtenant rights under such Modal Bond, the Bond Authorizing Resolution and this Agreement, including such rights of enforcement and taking other action under the Bond Authorizing Resolution as would otherwise have been available to such Holder in respect of such amount.

Section 7.07A. Reimbursement of Providers.

(a) For the purposes of this Section:

Amended and Restated Ordinance means Ordinance No. 32-85 as amended and restated by Ordinance No. 06-01 of the City of Detroit.

Current Ordinance means Ordinance No. 30-95 as amended by Ordinance No. 34-95, Ordinance No. 23-97 and Ordinance No. 34-99 of the City of Detroit.

(b) Whenever an amount is drawn under a Credit Facility or a Liquidity Facility and *except* as otherwise provided therein, on the day of such draw:

the City shall reimburse the Provider of such Credit Facility or Liquidity Facility such amount as is due thereunder on the date of the drawing and the interest portion of the Purchase Price of Tender Bonds paid with amounts drawn under the Liquidity Facility from Net Revenues remaining after meeting the requirements of Section 5 of the Current Ordinance; provided that when the Amended and Restated Ordinance becomes effective, such amounts constitute Ancillary Subordinated Obligations and shall be paid from the Ancillary Subordinated Obligations Account established in respect of Second Lien Bonds; and

to the extent such Provider is not reimbursed for an amount drawn thereunder, the City shall execute (if not already executed) and deliver Bonds to such Provider, authenticated by the Fiscal Agent, as provided in the Credit Facility or Liquidity Facility in accordance with *Section 7.08*.

Section 7.08 Provider Bonds.

(a) *If* a Credit Facility or a Liquidity Facility is provided pursuant to a separate Financial Facility Agreement that also provides for reimbursement and related matters (such as a letter of credit and reimbursement agreement), *then* the references in this Section to "Credit Facility" or "Liquidity Facility" refer to such Financial Facility Agreement so far as applicable.

(b) Immediately upon the receipt of a drawing under a Credit Facility or a Liquidity Facility, the Tender Agent shall notify the Finance Director and the Trustee of the amount thereof, the purpose for the drawing, the numbers or other identifying marks of the Modal Bonds for which the drawing was made and the subrogation rights of the Provider of such Credit Facility or a Liquidity Facility to corresponding amounts due Holders of such Modal Bonds and (without duplication), amounts payable to such Provider under such Credit Facility or Liquidity Facility and the due dates thereof.

(c) The following governs the terms of Provider Bonds:

(1) The aggregate principal amount of Provider Bonds shall not exceed the unreimbursed amount of the drawing *exclusive* of such portion thereof, if any, as shall represent interest on the related Modal Bonds.

(2) The denomination or denominations shall be as specified by the Provider.

(3) The interest rate shall be as set forth in such Credit Facility or Liquidity Facility.

(4) The principal amount shall be payable, whether on mandatory redemption or at maturity, on such dates as provided and or in such Credit Facility or Liquidity Facility.

(5) Other terms of the Provider Bonds shall be as provided in such Credit Facility or Liquidity Facility *subject* only to any limitations contained in the Act, the Bond Authorizing Resolution and this Agreement.

(6) Except as otherwise provided above, the terms of the Provider Bonds shall be the same as other Bonds.

(7) Provider Bonds shall convey such appurtenant rights under the Bond Authorizing Resolution and this Agreement as are conveyed by way of the Provider's right of subrogation plus such additional rights as are provided in respect of payments due under such Credit Facility or Liquidity Facility.

(8) Tender Bonds purchased by the Provider constitute Provider Bonds which will, immediately, upon receipt thereof by the Tender Agent, be registered in the name of the Provider or its nominee and held by the Tender Agent for the benefit of the Provider.

(9) To the extent amounts are due and owing the Provider under the Financial Facility, the proceeds of the remarketing of Provider Bonds will be held by the Tender Agent for the account of, and in trust solely for, the Provider, will not be commingled with any other moneys held by the Tender Agent, and will be paid over immediately to the Provider.

(10) Prior to the release of Provider Bonds to the Remarketing Agent (provided that the Tender Agent has received written notice that amounts available under the

Financial Facility have been reinstated in full), the Trustee will, on the dates determined in accordance with the Financial Facility, apply the moneys in the Remarketing Fund established under the Bond Resolution and this Agreement to the payment of principal of, and interest on, amounts owed to reimburse the Provider for paying a Drawing for the Purchase Price of Tender Bonds in the manner provided in this Agreement and the Financial Facility, but the Trustee will not draw on the Financial Facility to purchase Provider Bonds.

(d) No Provider Bonds shall be transferred by the Provider *except* as Modal Bonds in any denomination authorized for Modal Bonds of the denomination being transferred and only as otherwise having terms herein permitted for Modal Bonds.

(e) Provider Bonds shall be (i) remarketed prior to any Tender Bonds and (ii) in the case of any redemption, redeemed prior to any other Bond.

Section 7.09. Investment of Moneys.

(a) Amounts credited to the Remarketing Fund or any Account shall be invested by the Tender Agent at the written direction of the Finance Director in Government Obligations maturing on such dates and in such amounts as will permit the Tender Agent to timely make the payments required hereunder from such Fund or Account.

(1) The Finance Director may direct the Tender Agent to acquire any such Government Obligations under agreements requiring the seller thereof to reacquire Government Obligations on such dates and in such amount as will permit the investment to meet the above maturity limitations *if* (i) such agreements are permitted by law and (ii) entering into such an agreement will not result in a reduction of the rating of Modal Bonds as evidenced in writing by each Rating Agency.

(b) The Remarketing Fund and each Account shall include all investments made with moneys therein and all interest realized thereon and proceeds of the sale or other disposition thereof. Investments shall be valued as provided in the Bond Authorizing Resolution for investments made thereunder.

(c) The Tender Agent shall have no liability or responsibility for any loss resulting from an investment made in accordance with this Section, including without limitation loss resulting from the disposition of any Investment disposed of to provide moneys needed prior to the date or dates indicated by the City or needed on account of any acceleration or other requirement of early payment hereunder.

Section 7.10. No Lien or Claims.

None of the Trustee, Tender Agent, Paying Agents, Remarketing Agent, any Provider (*other* than as a Holder) nor any other Person *except* for Bondholders shall have any lien or claim against any Fund or Account created pursuant to this Agreement.

Section 7.11. Money Held for Particular Bonds.

Amounts held hereunder for the payment of principal (and premium, if any) of and interest on particular Modal Bonds shall be held in trust solely for the Holders thereof. Any such amounts remaining unclaimed after six years after the same shall have become due shall be applied as provided in the terms of the Bond Authorizing Resolution. As used in this Section, the meaning of *principal* and *interest* includes Purchase Price.

**Article VIII
Bond Insurance and Financial Facilities**

Section 8.01 When Required.

(a) A Modal Bond that is in a Mode that provides for either optional or mandatory tenders shall be the subject of a Liquidity Facility.

(b) A Modal Bond shall be the subject of Credit Enhancement.

Section 8.02. Financial Facility Required Amounts.

(a) Each Financial Facility required by *Section 8.01* for any Bond in a Short-Term Mode shall meet the following requirements:

(1) the principal component of such Financial Facility shall equal the principal amount of such Modal Bond; and

(2) the interest component of such Financial Facility shall equal 34 days' interest on such Modal Bond calculated at the Maximum Rate using the applicable Day Count Convention.

(b) No Provider Bond shall be the subject of a Credit Facility.

Section 8.03. Terms of Conforming Financial Facilities.

A Conforming Financial Facility shall:

(1) meet the requirements of *Section 8.02* after giving effect to the purposes for which such Financial Facility is being acquired;

(2) become effective not later than at least two (2) Business Days before the Expiry Date or the Termination Date, as applicable, of the Predecessor Financial Facility; *provided* that any mandatory tender draw to occur by reason of the substitution of a new Provider shall occur under the Predecessor Financial Facility;

(3) have a Expiry Date that is a Business Day occurring not sooner than the earlier of (i) the first anniversary of date on which such conforming Financial Facility

becomes effective and (ii) the last maturity date of the Bonds for which such Financial Facility is being acquired;

(4) *if* such Financial Facility is a letter of credit, name the Trustee as the beneficiary and be transferable to any successor Trustee;

(5) provide at least comparable notice periods and opportunities to draw funds thereunder as the Predecessor Financial Facility provided upon the occurrence of a Termination Event;

(6) provide that payments to the Tender Agent thereunder shall be paid in funds of the Provider immediately available to the Tender Agent on the day such payment is due; and

(7) provide for drawings or other payments thereunder to be made on terms otherwise at least equivalent in substance to the terms of the Predecessor Financial Facility and be in form and substance satisfactory to the Tender Agent.

(8) be assigned the highest short-term ratings of Moody's Investor Service, Fitch, Inc. and Standard & Poor's for Bonds in the Short Term Mode.

Section 8.04. Substitution of Financial Facilities.

(a) *Substitute Financial Facility* means (i) a new Financial Facility (regardless of whether the Provider thereof is a new Provider or the Provider of the Predecessor Financial Facility) to be substituted for the Predecessor Financial Facility and (ii) any amendment or modification in any material adverse aspect of an existing Financial Facility with respect to the Bonds covered by such Financial Facility. *Substitute* has the correlative meaning when used with respect to any Credit Facility or any Liquidity Facility.

(b) The City shall not execute any Substitute Financial Facility *unless*:

(1) the Finance Director determines that such Substitute Financial Facility is a Conforming Financial Facility and

(2) the City has obtained, as applicable:

(i) in the case of a Substitute Liquidity Facility, the consent of the Bond Insurer or

(ii) in the case of Substitute Credit Facility, the consent of the Bond Insurer; and

(3) the City has obtained a Rating Confirmation unless the Substitute Financial Facility is a Liquidity Facility in which case a Rating Confirmation shall not be required.

(4) the City has paid all amounts due under the predecessor Financial Facility.

(c) At the direction of the Finance Director, the Tender Agent shall accept any Substitute Financial Facility in substitution for a Predecessor Financial Facility

(1) if the Tender Agent has received and then holds:

(i) a certificate of the Finance Director that such Substitute Financial Facility is a Conforming Financial Facility, and

(ii) a Favorable Bond Counsel's Opinion with respect to such Substitute Financial Facility, and

(iii) such consents as are required by *subsection (b)(2)*, above, and

(iv) the Rating Confirmation required by *subsection (b)(3)*, and

(2) if the Provider of such Substitute Financial Facility is a new Provider, the Finance Director has given the Tender Agent notice of such substitution not later than the minimum number of days required by *Section 6.02* for notices given in connection with mandatory tender by reason of a new Provider *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the Tender Agent), and

(3) if the Substitute Financial Facility is a liquidity support facility, meets the Liquidity Facility Requirements and such requirements are incorporated at the time of such substitution into this Agreement by amendment.

Section 8.05. Reduction and Cancellation.

(a) The Finance Director may direct the Tender Agent to reduce the principal and interest components of the Financial Facility to take into account any Bonds that are no longer "outstanding" within the meaning of that term as used in the Bond Authorizing Resolution.

(b) Whenever no Modal Bonds are outstanding or when the Bonds are converted to Fixed Rate Mode, the Finance Director may direct the Tender Agent to cancel each Financial Facility to the extent it may be canceled.

(c) The Tender Agent shall reduce or cancel Financial Facilities as directed by the Finance Director in accordance with this Section.

Section 8.06. Termination by Provider.

(a) Each Notice Party shall give every other Notice Party notice of every Termination Notice received by it and of its contents within two Business Days of its receipt.

(b) As soon as practicable, the Tender Agent shall give notice to the Holders of Bonds affected by a Termination Event of such Termination Event and, if such Termination Notice is a Last Put Termination Notice, of the Purchase Date.

(c) In the case of a Last Put Termination Notice and in order to give the Holders of affected Bonds as much advance notice of the Purchase Date to be established in respect thereof as possible under the circumstances, the Tender Agent shall establish such Purchase Date as long after the date on which the Tender Agent gives notice to the Holders of Bonds affected by the Last Put Termination Notice as it can *subject* to the following:

(1) No advance notice of such Purchase Date is required if the Tender Agent cannot give such advance notice in the exercise of reasonable diligence.

(2) In all events the Purchase Date shall be a Business Day (i) subject to (ii) below, set by the Provider *if* the Liquidity Facility provides in effect that the obligation of the Provider to purchase Tender Bonds shall terminate upon the purchase by the Provider of all Tender Bonds tendered or deemed tendered pursuant to the Last Put Termination Notice or (ii) at least two Business Days before the expiration or termination of the Liquidity Facility.

(d) For the purposes of this Section:

(1) *As soon as practicable* means, with reference to any act to be performed by the Tender Agent, such Business Day on which the Tender Agent can perform such act in the exercise of reasonable diligence.

(2) *Reasonable diligence* means, with respect to the Tender Agent performing any act, performing such act within three Business Days, after the Tender Agent receives a Termination Notice from the Provider or another Notice Party.

(e) If the Liquidity Facility is about to expire or terminate by its terms and has not theretofore been extended or replaced by a Substitute Financial Facility satisfactory to the Bond Insurer, the City and the Remarketing Agent shall use their best efforts to convert all outstanding Bonds to Fixed Rate not later than 90 days prior to the scheduled expiration dated of the Liquidity Facility or, in the event of termination, as soon as possible (but in no event more than 180 days) thereafter.

Article IX Concerning the Bond Insurer

Section 9.01 Terms and Conditions of Bond Insurance

Covenants or agreements required by the Bond Insurer pursuant to its commitment for issuance of the Bond Insurance are set forth in Exhibit C, which is attached hereto and is incorporated herein by reference.

1974114.0038.328331.djs.rsn-DET

Article X
Concerning the Trustee, Transfer Agent, Tender Agent and the Remarketing Agent

Section 10.01. Trustee, Transfer Agent , Tender Agent, and Remarketing Agent.

The Trustee, Transfer Agent, Tender Agent and Remarketing Agent have been appointed by the Finance Director in the Sale Order.

Section 10.02. Responsibilities of Trustee and Tender Agent.

(a) As regards this Agreement:

(1) The Trustee and Tender Agent each undertakes to perform such duties and only such duties as are specifically set forth herein, and no implied covenants or obligations shall be read into this Agreement against either the Trustee or the Tender Agent.

(2) Each of the Trustee and the Tender Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificates, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document believed by it to be genuine and to have been signed or presented by the proper parties.

(3) Whenever in the administration of this Agreement the Trustee or the Tender Agent shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, it may (unless other evidence is herein specifically prescribed), in the absence of bad faith on its part, request and rely on a certificate executed by the Finance Director.

(4) Each of the Trustee and Tender Agent may consult with counsel and the written advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon.

(5) Neither the Trustee nor the Tender Agent is bound to make any investigation into the facts or matters in any resolution, certificates, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document, *but* it may make such further inquiry into such facts or matters as it may see fit.

(b) In the absence of bad faith on its part, each of the Trustee and Tender Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certifications and opinions furnished to it and conforming to the requirements of this Agreement; *but*, in the case of any certificates or opinions that by any

1974114.0038.328331.djs.rsn-DET

provision hereof are specifically required to be furnished to the Trustee or the Tender Agent, it shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(c) No provision of this Agreement shall require the Trustee or the Tender Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate assurance against such risk or liability is not reasonably assured to it.

Section 10.03. Remarketing Agent.

The Remarketing Agent shall have such rights, duties, privileges and immunities as are contained in the Remarketing Agreement and not inconsistent with this Agreement; *provided* that in all events the Remarketing Agent shall be obligated by the Remarketing Agreement to perform such duties as are herein set forth to be performed by the Remarketing Agent.

Section 10.04 Removal or Resignation of Trustee, Transfer Agent, Tender Agent or Remarketing Agent

The Trustee, Transfer Agent, Tender Agent or Remarketing Agent may be removed by the City or may resign by notice in writing not less than thirty (30) days before such removal or resignation shall take effect. Such removal or resignation shall not take effect until a successor Trustee, Transfer Agent, Tender Agent or Remarketing Agent is duly appointed and qualified to serve in such capacity. Any successor Trustee, Transfer Agent, Tender Agent or Remarketing Agent shall have the same qualifications as the initial Trustee, Transfer Agent, Tender Agent or Remarketing Agent. The Provider and the Bond Insurer shall receive notice of the removal or resignation of the Trustee and the Remarketing Agent. The Remarketing Agent shall at all times be acceptable to the Provider and the Bond Insurer.

Article XI Miscellaneous

Section 11.01 Limitation on Defeasance.

The City shall not defease the lien of the Bond Authorizing Resolution securing any Bonds by the deposit of funds in escrow (commonly known as a "legal defeasance") without obtaining a Rating Confirmation from each Rating Agency of the Bonds so defeased.

Section 11.02. Amendments.

(a) This Agreement cannot be amended or supplemented *except* in accordance with this Section.

(b) No amendment of, or supplement to, this Agreement shall become effective without the consent of the Trustee and the Tender Agent (which shall be evidenced by the

1974114.0038.328331.djs.rsn-DET

execution of such amendment and which, as to each of them, shall include all of the capacities in which it acts hereunder), each Provider, the Bond Insurer and the Remarketing Agent. Every other subsection of this Section is subject to the limitations contained in this subsection.

(c) The City shall provide each Rating Agency with a copy of each amendment or supplement at least 15 days in advance of the same becoming effective.

(d) The provisions of the Bond Authorizing Resolution relating to amendments and consent of Bondholders (the *Consent Provisions*), are hereby incorporated by reference in full as though set forth in full herein as if all references therein to "Ordinance" referred to this Agreement; "Bonds" referred to the Bonds issued hereunder; and "Holders" referred to the Holders of Bonds issued hereunder.

(e) For the purpose of acquiring consent for the purposes of the Consent Provisions, as incorporated by reference or otherwise, the consent of a Bondholder acquiring a Bond in a remarketing in which the 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 hereunder or under the Consent Provisions, but no actual consent shall be required and no more than one such disclosure shall be required.

(f) Before any amendment or supplement shall become effective, the Bond Insurer shall be provided with a copy of such amendment or supplement and the Bond Insurer shall have given its prior written consent.

Section 11.03. Notices to Rating Agencies.

The City shall give notice to each Rating Agency of any of the following promptly on the occurrence thereof: (i) the expiration, termination, extension or substitution of any Liquidity Facility or any amendment or modification of, or any material change to, any Liquidity Facility, (ii) any redemption, mandatory tender or defeasance of Bonds, (iii) any Mode change to the Fixed Rate Mode and (iv) any change in the Trustee, Remarketing Agent or Tender Agent.

Section 11.04. Notices.

(a) Each notice, request or other communication given hereunder to be given to any Person named below shall be in writing or otherwise given by Electronic Means (except as provided below) and given to it at its address appearing below or to such other address as it may hereafter specify for such purpose by notice to the others named below.

City of Detroit, as Issuer
Coleman A. Young Municipal Center
Room 1200
2 Woodward Avenue
Detroit, MI 48226
Attention: Finance Director
Telephone: (313) 224-3490

1974114.0038.328331.djs.rsn-DET

U. S. Bank Trust National Association, as Trustee
Suite 740, Buhl Building
535 Griswold
Detroit, MI 48226
Attn: Corporate Trust Services
Telephone: (313) 963-9428
Fax: (313) 963-9428

U.S. Bank Trust National Association, as Tender Agent
100 Wall Street
New York, New York 10005
Attn: Corporate Trust Services
Telephone: (212) 361-2505
Fax: (212) 509-4529

Financial Guaranty Insurance Company, as Bond Insurer
115 Broadway
New York, New York 10006
Attn: Risk Management

Electronic Means requires prior consent.

Financial Guaranty Insurance Company, as Liquidity Facility Provider
115 Broadway
New York, New York 10006
Attn: Senior Counsel

Fitch, Inc.
One State Street Plaza
New York, New York 10004
Attn: Municipal Structure Group
Telephone: (212) 908-0500

Standard & Poor's Ratings Services
55 Water Street, 38th Floor
New York, New York 10041

Moody's Investors Services
99 Church Street
New York, New York 10007
Attention: Fully Supported Group

Each notice, request or other communication given hereunder shall be effective as provided in the Bond Authorizing Resolution.

1974114.0038.328331.djs.rsn-DET

Section 11.05. Severability.

In the event that any provision of this Agreement is held to be invalid in any circumstance, such invalidity shall not affect any other provision or circumstances.

Section 11.06. Payments Due and Acts to be Performed on Non-Business Days.

If a date of maturity of interest on or principal of the Bonds or any Redemption Date or Purchase Date, or a date fixed for the performance of any other act under this Agreement, shall not be a Business Day, payment of such interest or principal, Redemption Price or Purchase Price need not be made, and any such other act need not be performed, on such date but may be made or performed 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, *except* as otherwise herein provided, no interest on any amount so paid shall accrue for the period after such date.

Section 11.07. Captions; Table of Contents.

The captions or headings in, and the table of contents for, this Agreement are for convenience only and in no way define, limit or describe the scope or content of any provision hereof.

Section 11.08. Counterparts.

This Agreement 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.

Section 11.09. Governing Law.

This Agreement shall be governed by the law of the State exclusive of its conflicts of law.

[Signatures appear on page S-1.]

[Signature Page to the Variable Rate Demand Bonds Supplement and Agreement, dated as of May 31, 2001, among the City of Detroit, U. S. Bank Trust National Association, as Trustee and Transfer Agent, and U.S. Bank Trust National Association, as Tender Agent]

In Witness Whereof, the **City of Detroit, U. S. Bank Trust National Association**, as Trustee and Transfer Agent under the Bond Authorizing Resolution and **U.S. Bank Trust National Association**, as Tender Agent, have caused these presents to be executed in their behalf by their respective authorized representatives, all as of the date first above written.

City of Detroit

By: _____
J. Edward Hannan
Finance Director

U. S. Bank Trust National Association,
as Trustee and Transfer Agent

By: _____
Its: _____

U.S. Bank Trust National Association,
as Tender Agent

By: _____
Its: _____

1974114.0038.328331.djs.rsn-DET

S-1

Form of Variable Rate Bond

The Bonds shall be in substantially the following form and tenor with such necessary or appropriate omissions, insertions and variations as are permitted or required hereby and by the Indenture and are approved by the Authorized Officers executing the same and the Bonds on behalf of the City and execution thereof by such Authorized Officers shall constitute conclusive evidence of such approval.

R-__

NOTICE: Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the City of Detroit or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

THIS BOND IS SUBJECT TO MANDATORY TENDER FOR PURCHASE
AT THE TIME AND IN THE MANNER HEREINAFTER DESCRIBED,
AND MUST BE SO TENDERED OR WILL BE DEEMED TO HAVE BEEN SO TENDERED
UNDER CERTAIN CIRCUMSTANCES AS DESCRIBED HEREIN.

UNITED STATES OF AMERICA
STATE OF MICHIGAN
COUNTY OF WAYNE
CITY OF DETROIT

CITY OF DETROIT WATER SUPPLY SYSTEM
REVENUE REFUNDING SECOND LIEN BONDS
(VARIABLE RATE DEMAND), SERIES 2001-C

<u>Interest Rate Mode</u>	<u>Maturity Date</u>	<u>Original Issue Date</u>	<u>CUSIP</u>
_____	July 1, 20__	_____, 2001	251255__

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: .***\$_____***

The CITY OF DETROIT, Wayne County, Michigan (the "City"), for value received, hereby promises to pay the Principal Amount specified above to the Registered Owner specified above, or registered assigns, but only from the sources referred to herein, on the Maturity Date specified above, unless prepaid prior thereto as hereinafter provided, and to pay interest thereon, but solely from the sources hereinafter referred to, at the rate determined as herein provided from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for, or from the date of authentication hereof if such date is on an Interest Payment Date to which interest has been paid or duly provided for, or from the Issue Date specified above if no interest has been paid or duly provided for, such payments of interest to be made on each Interest Payment Date until the principal or redemption price hereof has

been paid or duly provided for as aforesaid. The principal or redemption price of and interest on this Bond may be paid in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public or private debts. The principal or redemption price of this Bond (or of a portion of this Bond, in the case of a partial redemption) is payable to the registered owner hereof in immediately available funds or next day funds, depending on the applicable Rate Period (as defined below) and the instructions of the registered owner upon presentation and surrender hereof at the principal corporate trust office of US Bank Trust National Association, Detroit, Michigan or its successor, as Trustee (the "Trustee"), under the Ordinance, as hereinafter defined, securing the Series of Bonds of which this Bond is one. Interest shall be paid to the registered owner hereof whose name appears on the registration books kept by the Trustee as of the close of business on the applicable regular or special record date by check mailed to such registered owner, provided that interest for any Daily or Weekly Rate Period (as described herein) shall be paid in immediately available funds by wire transfer to a bank within the continental United States or by deposit to the account of the registered owner hereof if such account is maintained by the Trustee as specified by the Remarketing Agent (as defined below) or as otherwise directed by the registered owner hereof five Business Days prior to the time for payment with respect to Bonds accruing interest at a Flexible Rate or two Business Days prior to the Interest Payment Date with respect to Bonds accruing interest at the Initial Rate or Daily or Weekly Rates; provided further that interest accrued during any Flexible Rate Period at the maturity of this Bond shall be paid only upon delivery of this Bond. The regular record date for any Interest Payment Date shall be the close of business on the day immediately preceding the Interest Payment Date, except that, while this Bond accrues interest at the Term Rates (as described herein), the regular record date shall be the close of business on the 15th day of the calendar month immediately preceding such Interest Payment Date. If sufficient funds for the payment of interest becoming due on any Interest Payment Date are not on deposit with the Trustee on such date, the Trustee may establish a special interest payment date on which such overdue interest shall be paid and a special record date relating thereto. This Bond is registered as to both principal and interest on the registration books kept with the Trustee and may be transferred or exchanged, subject to the further conditions specified in the Ordinance, only upon surrender hereof at the principal corporate trust office of the Trustee.

This Bond shall be purchased on demand of the registered owner hereof, as hereinafter described.

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 second lien thereon is recognized and created, subject only to the lien as to the Net Revenues created in favor of holders of the City's (a) \$54,230,000 original aggregate principal amount Water Supply System Revenue Bonds, Series 1990; (b) \$269,440,000 original aggregate principal amount Water Supply System Revenue and Revenue Refunding Bonds, Series 1992; (c) \$193,805,000 original aggregate principal amount Water Supply System Revenue and Revenue Refunding Bonds, Series 1993; (d) \$60,485,000 original aggregate principal amount Water Supply System Revenue Refunding Bonds, Series 1995-B; (e) \$215,300,000 original aggregate principal amount Water Supply System Revenue (Senior Lien) Bonds, Series 1997-A; (f) \$30,555,000 original aggregate principal amount Water Supply System Revenue Refunding (Senior Lien) Bonds, Series 1997-B; (g) \$256,340,000 original aggregate principal amount Water Supply System Revenue Bonds, Series 1999-A; (h) \$302,485,000 original aggregate principal amount Water Supply System Revenue Bonds, Series 2001-A (i) \$108,985,000 original aggregate principal amount Water Supply System Revenue Second Lien Bonds, Series 2001-B; (j) any other bonds on a parity with the foregoing bonds issued hereafter pursuant to the Bond Ordinance (hereinafter

defined); and (k) Junior Lien Bonds (as defined in the Bond Ordinance) which shall have acceded to parity status with the foregoing bonds pursuant to the terms of the Bond Ordinance.

This Bond is one of a series of Bonds of even Original Issue Date aggregating the principal sum of \$_____ (collectively the "Bonds" and each a "Bond") issued pursuant to Ordinance No. 32-85, as supplemented and amended by Ordinance No. 33-85, Ordinance No. 23-88, Ordinance No. 8-92, Ordinance No. 30-95, Ordinance No. 34-95, Ordinance No. 23-97, Ordinance No. 34-99 and Ordinance No. 06-01 and by a Resolution of the City Council adopted on January 31, 2001, and amended on April 25, 2001, and a Sale Order of the City's Finance Director, dated _____, 2001 (as supplemented and amended, collectively, the "Bond Ordinance"), 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 the purpose of providing funds for refunding \$_____ principal amount of previously issued bonds, and paying costs of issuance of the Bonds.

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 Additional Bonds (as defined in the Bond Ordinance) of equal standing and Additional Second Lien Bonds (as defined in the Bond Ordinance) of junior standing may hereafter be issued and the general covenants and provisions pursuant to which this Bond is issued, reference is made to the Bond Ordinance.

The Bonds are issued as modal bonds. As such, the Bonds may be successively changed from one interest rate mode (a "Mode") to another, and while in a particular Mode, are subject to redemption and tender under certain conditions, all as provided in the Sale Order, certain portions of which are summarized below. The Sale Order requires all of the Bonds to be in the same Mode. This Bond is in a Short Term Mode when it bears interest as provided for the Daily Mode or the Weekly Mode, and is in the Long Term Mode when it bears interest as provided for the Fixed Rate Mode. This Bond is a Bank Bond when it is owned by the Provider of the Liquidity Provider as described below under "Liquidity Facility".

Definitions

Undefined capitalized terms used herein and defined in the Sale Order are used herein as therein defined.

Interest

Interest is payable on the Principal Sum of this bond payable at a rate determined on the Rate Determination Date for then applicable Mode and effective as of the immediately following Interest Adjustment Date for such Mode and effective until (and excluding) the next Interest Adjustment Date or if such Mode includes only one Interest Adjustment Date then the day before such Mode is changed.

Calculation of Interest

Interest shall be calculated at the Day Count Convention for the applicable Mode for the period commencing on the Interest Adjustment Date for such Mode and ending on (and including) the day before the next Interest Adjustment Date or if such Mode includes only one Interest Adjustment Date then the day before such Mode is changed.

Mode	Day Count Convention	Rate Determination Date	Interest Adjustment Date	Date
Daily	Same as Commercial Paper Mode	Each Business Day	Rate Determination Date	First Business Day of each calendar month
Weekly	Same as Commercial Paper Mode	Each Tuesday except as provided in the Sale Order in certain circumstances	The first day immediately following the initial Rate Determination Date and thereafter each Wednesday	Same as Daily Mode
Fixed Rate . .	Same as Term Mode	Same as Term Mode	Same as Term Mode	Same as Term Mode

Determination of Interest

The interest rate shall be determined by the Remarketing Agent on each Rate Determination Date for this bond while in such other Mode as the interest rate that, in the judgment of the Remarketing Agent, would allow this bond to be sold at par plus accrued interest, under prevailing market conditions when taking into consideration all other, if any, the Bonds in the same Mode being remarketed on such Rate Determination Date.

The Sale Order provides for alternative rates upon the occurrence of certain events therein defined as Rate Suspension Events or during a Suspension Period.

Mode Changes

The Mode of this bond may be changed from time to time as provided in the Sale Order, and each such Mode shall be effective as therein provided.

Payment of Interest

Interest is payable on the Interest Payment Date for the applicable Mode to the registered holder of this bond as shown on the Registry (the Holder) as of the Record Date for such Mode provided that: (i) if any such Interest Payment Date occurs after the stated maturity of this bond then interest shall be paid on such stated maturity; and (ii) if interest on this bond shall be in default, then such interest shall be payable on the Special Interest Payment Date, if any, established as provided in the Sale Order.

Mode

Record Date

Daily Mode and Weekly Mode

The day (whether or not a Business Day) immediately before each Interest Payment Date.

Fixed Rate

The fifteenth day (whether or not a Business Day) of the month immediately before each Interest Payment Date for such Bond

The principal (and premium, if any) of, and interest on Bonds shall be payable in lawful money of the United States of America.

Interest shall be paid by the Fiscal Agent acting as Paying Agent on the respective Interest Payment Dates to the Holder entitle thereto as follows:

- (i) while in any Short Term Mode, by wire transfer of immediately available funds to the account specified by such Holder in a writing delivered to the Fiscal Agent. Such writing shall remain in effect until revoked or revised by such Holder in a writing delivered to the Fiscal Agent; and
- (ii) while in any Long Term Mode, by check mailed by the Fiscal Agent to each such Holder at its address appearing in the Registry as of the applicable Record Date except that if such Holder holds \$1,000,000 or more in aggregate principal amount of the Bonds in the Long Term Mode, payment shall be made in the same manner as provided in Paragraph (i), above.

Payment of Principal and any Redemption Premium

The principal (and premium, if any) of this bond is payable to the Holder upon surrender to either the Trustee or the Fiscal Agent acting as Paying Agent.

Payment in Legal Tender

The principal (and premium, if any) of, and interest on, this bond is payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Tenders

Optional Tender

While in the Daily Mode or Weekly Mode, this bond is subject to tender at the option of the Holder at the Purchase Price of 100% of the principal amount thereof, plus interest accrued to the Purchase Date, upon notice given by the Holder as provided in the Sale Order. The Sale Order provides that the right of the Holder to tender this bond at the Holder's option shall be suspended upon the occurrence of an Immediate Termination Event.

Mandatory Tender

The Sale Order provides that this bond is subject to mandatory tender upon the occurrence of any of certain events enumerated in the Sale Order upon notice as is required therein to be given at the Purchase Price of 100% of the Principal Sum plus interest accrued thereon to the Purchase Date.

Effect of Exercise of Option for Optional Tender or Call for Mandatory Tender

If the Holder of this bond shall exercise its option to tender this bond or this bond is called for mandatory tender, all as provided in the Sale Order, then the Purchase Price of this bond (which includes interest accrued to the Purchase Date) shall become due and payable on the Purchase Date, and if on such Purchase Date the Fiscal Agent holds amounts sufficient to pay such Purchase Price, then interest on this bond shall cease to accrue; otherwise, this bond shall continue to bear interest as if it had not been subject to purchase on such Purchase Date.

Redemption

Optional Redemption -Short Term Mode

When in a Short Term Mode, this bond is subject to redemption upon notice given as required in the Sale Order in whole on any Business Day and in part on any Interest Payment Date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

Optional Redemption--Fixed Rate Mode

When in the Fixed Rate Mode, this bond is subject to redemption upon notice given as required in the Sale Order in whole on any date or in part on any Interest Payment Date at the option of the City at the Redemption Prices set forth in the Sale Order plus interest accrued to the Redemption of Date.

Mandatory Redemption - Amortization Requirements

This bond is subject to mandatory redemption by reason of the Amortization Requirements established pursuant to the Sale Order upon notice given as required in the Sale Order in part on each Principal Installment Date in the amount of the Amortization Requirement for such Principal Installment Date after giving effect to any amounts credited to such Amortization Requirement as a result of the redemption or purchase of other the Bonds of the same maturity as this bond, pursuant to _____ of the _____, at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

Effect of Call for Optional or Mandatory Redemption

As of the Redemption Date, if this bond has been called for redemption, proper notice of redemption has been given and funds sufficient to pay the Redemption Price are available as provided in the Sale Order, interest will cease to accrue on this bond.

Liquidity Facility

The Bonds are initially issued subject to a Liquidity Facility and while subject to a Liquidity Facility (whether the initial Liquidity Facility or a Substitute Liquidity Facility) are subject to optional tender and certain mandatory tender events and if acquired by the Provider of such Liquidity Facility pursuant thereto are Provider Bonds and shall bear interest, be subject to redemption and contain such other terms as provided in such Liquidity Facility, the payment agreement related thereto and/or the Sale Order. The Liquidity Facility may be terminated with respect to all of the Bonds as provided in the Sale Order. The Liquidity Facility in effect on the date of issuance of the Bonds is the Standby Bond Purchase Agreement, dated as May 31,

2001 (the Initial Liquidity Facility), between the Trustee and FGIC Securities Purchase, Inc. (the Provider), and the Provider's commitment to purchase the Bonds thereunder expires on May 31, 2006, unless extended as provided therein.

Further Information

Reference is hereby made to the Act and the Sale Order for a description of the funds pledged thereunder, the nature and extent of the security thereby created, and the rights, limitation of rights, obligations, duties and immunities of the City, the Trustee, the Fiscal Agent and the Holders of the Bonds. Certified copies of the Sale Order are on file in the office of the Trustee, the office of the Fiscal Agent and in the office of the City Treasurer.

Additional Bonds

Except as otherwise provided in the Act, the aggregate principal amount of Second Lien Bonds which may be issued under the Sale Order and secured thereby is not limited, and such Second Lien Bonds constitute or may constitute one or more Bonds in various principal amounts and of varying denominations, dates, maturities, interest rates and other provisions as provided in the Sale Order, including Bonds issued for the refunding of the Bonds or any other series of Second Lien Bonds prior to their respective maturities.

Subordinate Lien Obligations

The Sale Order permits the issuance, without limit or other restriction, of bonds, notes, certificates, warrants and other evidences of indebtedness payable from the assets pledged to secure the Second Lien Bonds on a junior and inferior basis to the pledge securing the Second Lien Bonds.

Amendment of Sale Order

The Sale Order contains provisions permitting the amendment thereof, which in certain cases do not require the consent of the Holders of Second Lien Bonds or, in the case of amendments to only second lien ordinances, the Holders of the Bonds. In certain instances, amendments are subject to the consent of providers of Credit Facilities (which includes a Liquidity Facility under the Sale Order).

Transfer

This bond is transferable as provided in the Sale Order, only upon the books of the City kept for that purpose by the Fiscal Agent as the Registrar and Transfer Agent under the Second Supplemental Indenture, by the Holder hereof in person or by his attorney duly authorized. The Fiscal Agent, the Trustee, the Remarketing Agent and the City may treat the Holder hereof as the absolute owner hereof for all purposes, whether or not this bond shall be overdue, and the Fiscal Agent, the Trustee, the Remarketing Agent and the City shall not be affected by any knowledge or notice to the contrary.

Anything herein to the contrary notwithstanding, so long as all the Bonds are held by The Depository Trust Company (DTC or its nominee Cede & Co. pursuant to a Letter of Representations among the City, DTC and the Trustee, as the same may be amended (the Letter of Representations), which was entered into to effect a Book-Entry System to evidence ownership and transfer of the Bonds, if any terms of the Bonds (other than the Principal Sum, Interest Rate, Maturity Date, Record Date or payment dates) are inconsistent with the terms of the Letter of Representations, then the terms of the Letter of Representations shall prevail. The right of DTC to discontinue providing services as Securities Depository, the right of the City to

discontinue the Book-Entry System with DTC and the terms and condition of the obligation of the City to deliver replacement bonds to the beneficial owners of the Bonds, are all set forth in the Letter of Representations, counterparts of which are on file with the Trustee and DTC.

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 Net Revenues of the System. The principal of and interest on this Bond are secured by the statutory first lien 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 Net Revenues 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 of this issue and any other bonds of equal or junior standing payable from the Net Revenues 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 as are required by the Bond Ordinance.

This Bond is transferable only upon the books of the City kept for that purpose at the office of the 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 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 Ordinance 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 of which this 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 Transfer Agent's Certificate of Authentication on the Bond has been executed by the Transfer Agent.

IN WITNESS WHEREOF, the City Council of 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 Finance Director and a facsimile of its corporate seal to be printed hereon, all as of the Original Issue Date.

CITY OF DETROIT

(Seal)

By: _____
Mayor

Countersigned:

By: _____
Finance Director

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in the within-mentioned Bond Ordinance.

U.S. BANK TRUST NATIONAL ASSOCIATION,
Transfer Agent

By: _____

Date of Authentication: _____

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto _____ (Please print or typewrite name and address of transferee) the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney 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 effect 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: _____

(Include information for all joint owners if the bond is held by joint account.)

(Insert number for first named transferee if held by joint account)

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C (the "Bonds"), such policy being on file at the principal office of U.S. Bank Trust National Association, as paying agent (the "Paying Agent"):

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to principal, 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 the payment of principal of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal or interest has not been made by the Issuer to the Paying Agent, Financial Guaranty 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 State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer or the borrower(s) of bond proceeds who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancelable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

Principal Installment Dates and Maturities

1974114.0038.328331.djs.rsn-DET

Exh. 2.02(b) - Page 1

Sinking Fund Installments

The Bonds identified below are designated as Term Bonds. Sinking Fund Installments are hereby established for such Term Bonds, and, unless changed pursuant to *Section 2.03*, such Sinking Fund Installments shall become due and shall be applied to the redemption or payment at maturity of such Term Bonds on the dates and in the respective amounts shown below.

1974114.0038.328331.djs.rsn-DET

Exh. 2.02(c) - Page 1

LIQUIDITY FACILITY REQUIREMENTS

1. **Credit Ratings:** The provider of a liquidity facility to be used to pay the purchase price of tendered variable rate bonds (“Bonds”) shall be rated by both Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Corporation (“S&P”), shall be of sufficient strength to cause the liquidity facility for the Bond issue to be rated at least A-1+ by S&P and at least VMIG-1 by Moody’s and shall be approved by Financial Guaranty. Such ratings of the liquidity facility for the Bond issue must be obtained and paid for by the underwriter, issuer and/or the liquidity provider and will not be obtained or paid for by Financial Guaranty. The Policy will not be delivered until both such ratings have been released. Any provider whose ratings drop below A- or A3 shall be replaced at the request of Financial Guaranty.
2. **Initial Term of Liquidity Facility:** Initial term of five (5) years.
3. **Renewal of Liquidity Facility Beyond Initial Term:** Any renewal beyond the initial term shall be subject to the prior written consent of Financial Guaranty.
4. (a) **Events Permitting Termination by the Liquidity Provider Prior to the Stated Expiration Date of the Obligation to Purchase Bonds Without Offering Bondholders a Last Opportunity to Tender the Bonds to the Liquidity Provider for Purchase:** Such events shall be limited to the following:
 - (i) Policy Default. Failure by Financial Guaranty to pay principal and interest when, as and in the amounts required under the Policy, including interest at the “bank rate” due the liquidity provider on disbursements under the liquidity facility if such amount is included as interest on the Bonds under the terms of the Bonds;
 - (ii) Surety Bond Default as to Additional Interest.
 - (x) If the additional interest due the liquidity provider for amounts drawn under the liquidity facility is not, by the terms of the Bonds, included as interest on the Bonds,
 - (y) The issuer shall fail to pay the difference between (A) the amount received by the liquidity provider as interest on the Bonds held by it as a result of a payment made under the liquidity facility and (B) the amount of interest due the liquidity provider under the liquidity facility on account of such payment (which amount of interest shall not include “increased costs”), and

- (z) Such failure is covered by a Surety Bond issued by Financial Guaranty to the liquidity provider,*

failure by Financial Guaranty to pay such difference pursuant to its Surety Bond within five (5) business days following receipt of notice from the liquidity provider of nonpayment thereof by the issuer or by any other party obligated to pay such difference;

(iii) Surety Bond Default as to Certain Bank Fees.

- (x) If the issuer of the Bonds or other obligated party shall fail to pay when due the liquidity provider's commitment fee and any other liquidity provider fee the payment of which Financial Guaranty has agreed to insure through the issuance of a Surety Bond, and

- (y) Such failure is covered by a Surety Bond issued by Financial Guaranty to the liquidity provider,**

failure by Financial Guaranty to pay the same pursuant to the Surety Bond within five (5) business days following receipt of notice from the liquidity provider;

- (iv) Payment Default Under Other Insurance. Any default by Financial Guaranty in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of any other municipal bond insurance policy or surety bond issued by Financial Guaranty;

- (v) Nullity of Policy or Surety Bond. The Policy or the Surety Bond, if any, issued by Financial Guaranty to the liquidity provider for any reason ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, or Financial Guaranty denies that it has any further liability under the terms thereof; and

- (vi) Insolvency Proceeding Against FGIC. A proceeding has been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of Financial Guaranty under Article 74 of the Insurance Law of the State of New York or any successor provision thereto and such

* Such coverage is provided by Financial Guaranty, at the option of the liquidity provider, pursuant to a Surety Bond, with a maximum payment liability equal to the maximum amount payable to the liquidity provider during the term of the Surety Bond in respect of the fees and other amounts that are insured, subject to applicable statutory risk limits. A separate premium will be charged for the Surety Bond. If such coverage is not provided, failure of the issuer to pay such amounts may not result in termination of the purchase obligation of the liquidity provider.

** If the liquidity facility is in the form of the Credit Agreement described in 6(iii), Financial Guaranty shall receive an opinion of counsel to the debtor to the effect that the Credit Agreement has been duly authorized, executed and delivered by the debtor and constitutes a legal, valid and binding obligation of the debtor enforceable in accordance with its terms.

proceeding is not terminated for a period of 60 consecutive days or such court enters an order granting the relief sought in such proceeding.

- (b) **Events Permitting Termination by the Liquidity Provider Prior to the Stated Expiration Date of the Obligation to Purchase Bonds if the Liquidity Provider Agrees That All Bondholders Shall Have One Last Opportunity to Tender Their Bonds to the Provider for Purchase Prior to Termination.** Such events shall be limited to the following: the claims-paying rating assigned to Financial Guaranty or the rating assigned to securities insured by Financial Guaranty, as applicable, is withdrawn, suspended or reduced to "A" or below by any two of the following rating agencies: Standard & Poor's, Moody's or Fitch.
- (c) **Breaches by Issuer Do Not Permit Termination.** The only events permitting termination of the liquidity facility by the liquidity provider prior to its stated expiration date are as specified in 4(a) and 4(b) above. In particular, neither failure by the issuer to comply with any covenants made by it in the liquidity agreement nor breach by the issuer of any representation or warranty made by it in the liquidity agreement nor continuation of such failure or breach following receipt by the issuer of notice thereof is a permissible event of termination. The sole remedy allowed to the liquidity provider upon such an event of default shall be the ability to sue for specific performance.
- (d) **Events Permitting Acceleration by the Liquidity Provider.** Upon the occurrence of an event described in 4(a)(i), (ii), (iii), (iv), (v) or (vi), the liquidity provider may tender its Bonds to the issuer for immediate repurchase, and no limitations shall be imposed on the exercise by the liquidity provider of any remedies available to it against the issuer (e.g., causing the issuer to accelerate its loan to the ultimate borrower of Bond proceeds) should the issuer default on any such repurchase obligation to the liquidity provider.

5. **Permitted Conditions to Effectiveness of the Liquidity Agreement:**

- (a) With regard to Financial Guaranty, an opinion as to the matters set forth below may be required (Financial Guaranty will not provide a letter of representation):
- (i) Financial Guaranty is a stock insurance corporation validly existing and in good standing under the laws of the State of New York and qualified to do business therein and is licensed and authorized to issue the Policy under the laws of [state of issuance of the Policy] and the Surety Bond under the laws of the State of New York.
- (ii) The Policy and the Surety Bond are valid and binding upon Financial Guaranty and enforceable in accordance with their respective terms, subject to applicable laws affecting creditors' rights generally.

(iii) Financial Guaranty, as an insurance company, is not eligible for relief under the Federal Bankruptcy Laws. Any proceedings for the liquidation, conservation or rehabilitation of Financial Guaranty would be governed by the provisions of the Insurance Law of the State of New York.

(iv) The statements in the Official Statement relating to Financial Guaranty, the Policy and the Surety Bond accurately and fairly present the summary information set forth therein and do not omit any material fact with respect to the description of Financial Guaranty relative to the material terms of the Policy and the Surety Bond, respectively, or the ability of Financial Guaranty to meet its obligations under the Policy and the Surety Bond.

(b) Financial Guaranty shall require as a condition to the issuance of the Policy and Surety Bond an opinion of counsel to the liquidity provider regarding, as to the liquidity provider, the matters set forth in (i) above. Such opinion shall be addressed to Financial Guaranty or Financial Guaranty shall receive a reliance letter with respect thereto.

6. **Form of Liquidity Facility:** (i) Letter of Credit, (ii) Bond Purchase Agreement or (iii) Credit Agreement with single purpose bankruptcy-proof corporation, or the Trustee, as debtor.*

7. **Increased Costs; Parity Payments:** The liquidity provider may charge "increased costs" to the issuer pursuant to a provision, to be inserted in the liquidity facility agreement, substantially in the form attached hereto as Appendix A. The liquidity facility agreement shall provide that only the following amounts are payable on a parity with principal and interest on the Bonds: (i) the liquidity provider's periodic commitment fee, (ii) interest on the Bonds held by the liquidity provider calculated at the "bank rate" and (iii) the interest due on amounts drawn under the liquidity facility to the extent the same is not included as interest borne by the Bonds and is covered by a Surety Bond issued by Financial Guaranty to the liquidity provider. All other amounts (e.g., "increased obligation of the debtor enforceable in accordance with its terms costs," uninsured "claw-back" amount, penalty interest charges and indemnification amounts) shall be payable on a subordinated basis to payment of principal and interest on the Bonds, replenishment of any debt service reserve fund and payment of the fees of the Trustee, and both the liquidity facility agreement and the Bond trust indenture or Bond resolution shall specifically so provide.

8. **Notice by Liquidity Provider of Termination:** The liquidity provider shall be required to give not less than two years' notice prior to the expiration date of the liquidity facility of its intention not to renew or extend the liquidity facility. Early termination pursuant to paragraph 4(a) above requires no prior notice. Early

* If the liquidity facility is in the form of the Credit Agreement described in 6(iii), Financial Guaranty shall receive an opinion of counsel to the debtor to the effect that the Credit Agreement has been duly authorized, executed and delivered by the debtor and constitutes a legal, valid and binding obligation of the debtor enforceable in accordance with its terms.

termination pursuant to paragraph 4(b) above requires 45 days' prior notice by the liquidity provider to the Trustee (in order to permit timely notification by the Trustee to Bondholders of their right to tender their Bonds to the liquidity facility). Upon the earlier of notice to the Trustee (where required) of nonrenewal or termination and the termination of the facility, a best efforts attempt will be made by the issuer to find a substitute liquidity facility. If, by one year prior to the expiration date of the liquidity facility, a substitute liquidity facility satisfactory to Financial Guaranty has not been executed and delivered and has not obtained the requisite ratings from S&P and Moody's, the Trustee shall so notify Financial Guaranty and, within 365 days prior to the termination of the liquidity facility, the Trustee shall, in each case of nonrenewal or termination that requires notice to the Trustee, mail a notice to each bondholder informing him of the date of termination of the liquidity facility and that unless such bondholder desires to retain his Bonds despite the absence of a liquidity facility, such Bonds shall be deemed tendered for payment.

9. **Take-Out of Liquidity Provider Through Mandatory Conversion to a Fixed Rate:** On or as soon as practicable after the termination date of the liquidity facility, in the case of a termination pursuant to paragraph 4(a) or 4(b), and 365 days prior to the termination or expiration date of the liquidity facility, in the case of all other terminations or nonrenewals where a substitute liquidity facility satisfactory to Financial Guaranty has not been executed and delivered and has not obtained the requisite ratings from Moody's and S&P at or prior to such time, the Trustee shall commence the process required by the bond trust indenture to effect the mandatory conversion of the interest rate on the Bonds to a fixed rate sufficient to accomplish the complete remarketing at par of all Bonds then held by the liquidity provider. A fixed rate conversion shall be deemed feasible if the fixed rate required in order to accomplish conversion of all the Bonds does not exceed (i) the prevailing rate borne by United States Treasury obligations with a comparable maturity of (ii) if the liquidity has expired or terminated or will expire or terminate in six months or less, the applicable legal limit. If such a remarketing cannot be effected at any fixed rate, the Bonds shall continue to bear interest the variable rate and the remarketing agent shall attempt at least weekly to convert the Bonds to a fixed interest rate sufficient to effect the remarketing at par of all Bonds then held by the liquidity provider.
10. **Take-Out of Liquidity Provider by the Issuer:** Subsequent to the termination of the liquidity facility, the liquidity provider shall not be permitted to put to the issuer Bonds that have not been remarketed and shall be required to continue to hold Bonds not remarketed for a period determined in accordance with the following formula:

$$10 \text{ years} - \text{LFT} = \text{HP}$$

where LFT = the liquidity term (in years, measured from the beginning of the liquidity facility), and

HP = holding period,

except that a six month holding period is required with respect to a liquidity facility having a liquidity term equal to or in excess of ten years.

At the end of the required holding period, the liquidity provider may tender the Bonds to the issuer for immediate repurchase, and no limitations shall be imposed on the exercise by the liquidity provider of any remedies available to it against the issuer (e.g., causing the issuer to accelerate its loan to the ultimate borrower of Bond proceeds) should the issuer default on any such repurchase obligation to the liquidity provider. Regardless of whether or not the underlying loan is caused to be accelerated as a result of any such default by the issuer, Financial Guaranty shall pay only principal and interest on the Bonds as scheduled, in accordance with the terms of the Policy.

In the event of a termination of the facility pursuant to 4(b) hereof, the holding period shall be equal to one year, at which time the provider shall have the remedies described above. In the event of a termination of the facility pursuant to 4(a) hereof, no holding period is required.

11. **Maximum Bond and Bank Rates:** The maximum rate payable for any interest payment period on the Bonds, whether or not held by or pledged to the liquidity provider at such time, shall be the lesser of 25% per annum and the maximum rate permitted by applicable law (the "Cap Rate").

APPENDIX A

SECTION ____ Increased Costs. If any change in any law or regulation or in the interpretation thereof by any court or administrative or governmental authority charged with the administration thereof shall impose, increase or deem applicable any reserve, special deposit or similar requirement against the obligations of the Bank or any Participant hereunder (other than as a result of the acts, omissions or financial condition of the Bank or such Participant) and the result of any such event above shall be to increase the cost to the Bank or such Participant of its obligations hereunder (which increase in cost shall be the result of the Bank's or such Participant's pro rata allocation of the aggregate of such cost increases resulting from such events), then, upon written demand by the Bank to the Issuer, the Issuer shall pay to the Bank within forty-five (45) days of such demand, the amount of such increased costs from the date of such change. A certificate of the Bank setting forth in reasonable detail such increased costs as a result of any such event, submitted by the Bank to the Trustee and the Issuer, shall be conclusive, absent manifest error, as to the amount thereof. The Bank shall notify the Issuer of any such impending or announced change in law, regulation or interpretation promptly upon receipt by it of actual notice of such change.

If the demand by the Bank for the payment of increased costs is due primarily to the effect of the events set forth above on a particular Participant, or set of Participants, and not on the Bank, then the Bank shall use its reasonable best efforts to replace such Participant or Participants with other Participants on whom the effect of such events are not more adverse than on the Bank. The failure of the Bank so to replace such Participant or Participants shall not in any manner relieve the Issuer or the Bank of their obligations under this Agreement.

The Bank agrees that the obligation of the Issuer to make payment to the Bank of the amounts described in this Section is subordinate to the obligation of the Issuer to make payment of principal of and interest on the Bonds, to restore, to the extent necessary, any amounts withdrawn from the Debt Service Reserve Fund and to pay the fees of the Trustee.

SWAP PROVIDER GUIDELINES

Any Swap entered into in connection with the issuance or incurrence by the Issuer of variable rate indebtedness secured with the Bonds by a parity lien on Net Revenues shall meet the following guidelines and, for purposes of calculating "Debt Service" and establishing compliance with financial covenants under the Authorizing Document shall be treated as follows:

A. Long - Dated Swaps - Term or Weighted Average Maturity of Ten Years or More.

1. The Swap provider must be rated at least A-/A3 or better by Standard & Poor's and Moody's (the "Initial Rating Requirement").
2. Assuming satisfaction of the Initial Rating Requirement, and thereafter as long as the long term indebtedness of the Swap provider or the claims paying ability of the Swap provider does not fall below Baa2 or BBB by either Standard & Poor's or Moody's (the "Minimum Rating Requirement"), all interest rate assumptions for purposes of establishing or demonstrating compliance with a financial covenant (e.g., rate covenant, reserve requirement, additional bonds test, asset transfer test, etc.) may be based upon the synthetic fixed interest rate under the Swap.

Failure to maintain a Swap provider holding the Minimum Rating Requirement or, if the issuer elects, failure to replace any such Swap provider by another Swap provider which holds the Initial Rating Requirement within ten business days, will have the following effects: (1) compliance with any required rate covenant for the preceding Fiscal Year will be based on the actual interest paid on the Variable Rate Indebtedness during such Fiscal Year without regard to the Swap; (2) in the case of any required debt service reserve fund, the amount required to be on deposit therein will be re-calculated based on the formula described in Section 7(a) of the exhibit entitled "Bond Insurer Requirements," calculated as of the date of original issuance of the variable rate indebtedness and any resulting deficiency will be restored within the same one year restoration period established in the bond documentation for curing Debt Service Reserve Fund deficiencies; and (3) any "forward-looking" financial covenant based upon "Debt Service", "Annual Debt Service" or "Maximum Annual Debt Service" will be based upon the formula described in Section 7(a) of the exhibit entitled "Bond Insurer Requirements," calculated as of the date the required calculation is made.

B. Short Dated Swaps Having Terms or Weighted Average Maturities of Ten Years or Less, Whereupon Related Bonds Automatically Convert to a Pre-Set Fixed Rate.

The embedded Swap provider must meet the Initial Rating Requirement. With respect to financial covenants, the synthetic fixed rate based on the Swap may be utilized for purposes of demonstrating or establishing compliance with the applicable covenant. Failure to maintain a Swap provider holding the Minimum Rating Requirement during the embedded Swap period will require replacement of the Swap provider within ten business days. Failure to replace will require re-calculation of the applicable financial covenants in the manner outlined in A.2 above.

BOND INSURER REQUIREMENTS

1. Redemption Notices

- (a) Notice of any redemption of Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.

2. Default-Related Provisions

- (a) The Trustee shall, to the extent there are no other available funds held under the Ordinance or Bond Resolution, use the remaining funds in the construction fund to pay principal of or interest on the Bonds in the event of a payment default.
- (b) In determining whether a payment default has occurred or whether a payment on the Bonds has been made under the Ordinance or Bond Resolution, no effect shall be given to payments made under the Bond Insurance Policy.
- (c) Any acceleration of the Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).
- (d) The Bond Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee or the Issuer within 30 days of the Trustee's or the Issuer's knowledge thereof.
- (e) For all purposes of the Ordinance or Bond Resolution provisions governing events of default and remedies, except the giving of notice of default to Bondholders, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.
- (f) The Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the Issuer, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Bond Insurer.
- (g) If, on the third day preceding any interest payment date for the Bonds there is not on deposit with the Transfer Agent sufficient moneys available to pay all principal of and interest on the Bonds due on such date, the

Transfer Agent shall immediately notify the Bond Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the Issuer has not provided the amount of such deficiency, the Transfer Agent shall simultaneously make available to the Bond Insurer and to the Fiscal Agent the registration books for the Bonds maintained by the Transfer Agent. In addition:

- (i) The Transfer Agent shall provide the Bond Insurer with a list of the Bondholders entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and shall make arrangements for the Bond Insurer and its Fiscal Agent (1) to mail checks or drafts to Bondholders entitled to receive full or partial interest payments from the Bond Insurer and (2) to pay principal of the Bonds surrendered to the Fiscal Agent by the Bondholders entitled to receive full or partial principal payments from the Bond Insurer; and
- (ii) The Transfer Agent shall, at the time it makes the registration books available to the Bond Insurer pursuant to (A) above, notify Bondholders entitled to receive the payment of principal of or interest on the Bonds from the Bond Insurer (1) as to the fact of such entitlement, (2) that the Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (ii) below, in the event that any Bondholder is entitled to receive full payment of principal from the Bond Insurer, such Bondholder must tender his Bond with the instrument of transfer in the form provided on the Bond executed in the name of the Bond Insurer, and (4) that, except as provided in paragraph (ii) below, in the event that such Bondholder is entitled to receive partial payment of principal from the Bond Insurer, such Bondholder must tender his Bond for payment first to the Transfer Agent, which shall note on such Bond the portion of principal paid by the Transfer Agent, and then, with an acceptable form of assignment executed in the name of the Bond Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Bondholder subject to the terms of the Bond Insurance Policy.
- (h) In the event that the Transfer Agent has notice that any payment of principal of or interest on a Bond has been recovered from a Bondholder 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 shall, at the time it provides notice to the Bond Insurer, notify all Bondholders that in the event that any Bondholder's payment is so recovered, such Bondholder will be entitled to payment from the Bond Insurer to the extent of such recovery, and the Transfer Agent shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Transfer Agent and subsequently recovered from Bondholders, and the dates on which such payments were made.

- (i) The Bond Insurer shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Transfer Agent shall note the Bond Insurer's rights as subrogee on the registration books maintained by the Transfer Agent upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Bondholders of such Bonds and (B) in the case of subrogation as to claims for past due principal, the Transfer Agent shall note the Bond Insurer's rights as subrogee on the registration books for the Bonds maintained by the Transfer Agent upon receipt of proof of the payment of principal thereof to the Bondholders of such Bonds. Notwithstanding anything in the Ordinance or Bond Resolution or the Bonds to the contrary, the Transfer Agent shall make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto.

3. Amendments and Supplements

- (a) Any amendment or supplement to the Ordinance or Bond Resolution or any other principal financing documents shall be subject to the prior written consent of the Bond Insurer. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

4. Defeasance Provisions

- (a) Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing) shall be used to effect defeasance of the Bonds unless the Bond Insurer otherwise approves. In the event of an advance refunding, the Issuer shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

5. Variable Rate Indebtedness

- (a) For all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, 125% of the average daily rate over the twelve months immediately preceding the date of calculation.
- (b) In the case of variable rate issues in which financial covenants are based on the synthetic fixed rate under a swap, utilization of the synthetic fixed rate under a Swap for purposes of performing any required calculations under the applicable legal documentation shall be permitted only if such documentation and the applicable Swap satisfy the requirements of the exhibit attached hereto entitled "Swap Provider Guidelines."

6. Reporting Requirements

- (a) The Bond Insurer shall be provided with the following information:
 - (i) Within 120 days after the end of each of the Issuer's, and, if applicable, the Borrower's, fiscal years, the budget for the succeeding year, the annual audited financial statements, a statement of the amount on deposit in the debt service reserve fund as of the last valuation, and, if not presented in the audited financial statements, a statement of the revenues pledged to payment of Bonds in each such fiscal year;
 - (ii) The official statement or other disclosure document, if any, prepared in connection with the issuance of additional debt, whether or not on parity with the Bonds within 30 days after the sale thereof;
 - (iii) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the debt service reserve fund;
 - (iv) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;
 - (v) Simultaneously with the delivery of the annual audited financial statements, a statement of:
 - (A) The number of system users as of the end of the fiscal year;
 - (B) Notification of the withdrawal of any system user comprising 5% or more of system sales measured in terms of revenue dollars since the last reporting date;
 - (C) Any significant plant retirements or expansions planned or undertaken since the last reporting date;

- (D) Maximum and average daily usage for the fiscal year;
 - (E) Updated capital plans for expansion and improvement projects; and
 - (F) Results of annual engineering inspections, if any, occurring at the end of the fiscal year; and
- (vi) Such additional information as the Bond Insurer may reasonably request from time to time.

7. Payments Unconditional

- (a) In the case of bond issues payable from amounts received under a loan agreement, lease, or other payment contract ("Payment Agreement"), the payment obligations under said Payment Agreement shall be absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever.

8. Notice Addresses

- (a) The notice addresses for the Bond Insurer and the Fiscal Agent shall be included in the authorizing document as follows: Financial Guaranty Insurance Company, 115 Broadway, New York, New York 10006, Attention: Risk Management; and State Street Bank and Trust Company, N.A., 61 Broadway, New York, New York 10006, Attention: Corporate Trust Department.

9. Pledge, Rate Covenant, Additional Bonds Test

- (a) The definition of "revenues" or "pledged revenues" shall include all revenues generated by the enterprise. The definition must exclude non-recurring revenues such as grants. Rate stabilization funds and prior year surpluses may be incorporated into the definition of "revenues" or "pledged revenues" but, as noted in (c) below, all non-recurring revenues will be limited or subject to a cap in the required computation of revenues for purposes of determining compliance with the rate covenant.
- (b) Either a "net" or "gross" revenue pledge may be specified, however, a "net" pledge is preferred. Net revenues shall be defined as gross revenues less operating expenses. Operating expenses shall reflect all operating and maintenance expenses related to the operations of the water supply system, excluding depreciation.
- (c) Net revenues in each fiscal year shall provide coverage at least equal to 110% of annual debt service requirements on all outstanding long term indebtedness, including the Bonds. If rate stabilization funds and prior year surpluses are included in the definition of revenues, then their inclusion in the required computation of "revenues" shall be limited to demonstrating satisfaction only of that portion of the required coverage ratio which exceeds 100% (e.g., 10% in the case of the 110% rate covenant). In this situation, recurring operating revenues less operating expenses (excluding all rate stabilization fund transfers and prior year

surpluses) must provide coverage at least equal to 100% of annual debt service requirements for all outstanding long term indebtedness, including the Bonds.

- (d) Completion bonds to complete the project financed by the Bonds may be issued without meeting the foregoing tests in an amount not to exceed 15% of the original principal amount of Bonds originally issued for the related project.

10. Reserve Fund Requirements

The Issuer may satisfy the requirement (the "Reserve Fund Requirement"), to deposit a specified amount in the debt service reserve fund (the "Reserve Fund"), if any, by the deposit of a surety bond, insurance policy or letter of credit as set forth below. The following requirements are hereby incorporated in the authorizing document for the Bonds (the "Authorizing Document") in the event the Reserve Fund Requirement is fulfilled by a deposit of a credit instrument (other than a credit instrument issued by Financial Guaranty) in lieu of cash:

- (a) A surety bond or insurance policy issued to the entity serving as trustee or paying agent (the "Fiduciary"), as agent of the bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
- (b) A surety bond or insurance policy issued to the Fiduciary, as agent of the bondholders, by an entity other than a municipal bond insurer may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the form and substance of such instrument and the issuer thereof shall be approved by Financial Guaranty.
- (c) An unconditional irrevocable letter of credit issued to the Fiduciary, as agent of the bondholders, by a bank may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Issuer and the Fiduciary, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
- (d) If such notice indicates that the expiration date shall not be extended, the Issuer shall deposit in the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Fund Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining

term of the letter of credit, unless the Reserve Fund credit instrument is replaced by a Reserve Fund credit instrument meeting the requirements in any of subparagraphs (a)–(c) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Authorizing Document shall, in turn, direct the Fiduciary to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Fund is fully funded in its required amount.

- (e) The use of any Reserve Fund credit instrument pursuant to this Paragraph shall be subject to receipt of an opinion of counsel acceptable to Financial Guaranty and in form and substance satisfactory to Financial Guaranty as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to Financial Guaranty. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to Financial Guaranty and in form and substance satisfactory to Financial Guaranty to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).
- (f) The obligation to reimburse the issuer of a Reserve Fund credit instrument for any fees, expenses, claims or draws upon such Reserve Fund credit instrument shall be subordinate to the payment of debt service on the bonds. The right of the issuer of a Reserve Fund credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Fund, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Fund. The Reserve Fund credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Fund credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Fund to an amount equal to the difference between the full original amount available under the Reserve Fund credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Fund credit instrument becomes insolvent or (b) the issuer of a Reserve Fund credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Fund credit instrument shall be subordinate to the cash replenishment of the Reserve Fund.
- (g) If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims

paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of subparagraphs (a)–(c) above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Reserve Fund credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Fund credit instrument becomes insolvent, the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal to Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of subparagraphs (a)–(c) above within six months of such occurrence.

- (h) Where applicable, the amount available for draws or claims under the Reserve Fund credit instrument may be reduced by the amount of cash or permitted investments deposited in the Reserve Fund pursuant to clause (i) of the preceding subparagraph g.
- (i) If the Issuer chooses the above described alternatives to a cash-funded Reserve Fund, any amounts owed by the Issuer to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to the Authorizing Document for any purpose, *e.g.*, rate covenant or additional bonds test.
- (j) The Authorizing Document shall require the Fiduciary to ascertain the necessity for a claim or draw upon the Reserve Fund credit instrument and to provide notice to the issuer of the Reserve Fund credit instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Fund credit instrument) prior to each interest payment date.
- (k) Cash on deposit in the Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Fund credit instrument. If and to the extent that more than one Reserve Fund credit instrument is deposited in the Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

**AMENDMENT NO. 1 TO VARIABLE RATE DEMAND BONDS
SUPPLEMENT AND AGREEMENT**

Whereas, the parties hereto entered into the Variable Rate Demand Bonds Supplement and Agreement, dated as of May 31, 2001 (the "Supplement") in connection with the issuance by the City of Detroit (the "City") of \$192,290,000 Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C (the "Bonds");

Whereas, the Liquidity Facility entered into in connection with the Bonds is expiring and the City is in the process of obtaining a Substitute Liquidity Facility;

Whereas, in the process of obtaining the Substitute Liquidity Facility, a Rating Agency requested that the Supplement be amended as herein provided in order to maintain the rating on the Bonds;

Whereas, the Supplement makes provision for the amendment thereof provided that certain conditions have been met.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Amendment to Section 8.04, Substitution of Financial Facilities. Section 8.04(b)(2) is hereby amended to state as follows:

The City shall not execute any Substitute Financial Facility *unless*:

(2) the City has obtained, as applicable:

(i) in the case of a Substitute Liquidity Facility, the consent of the Provider of any Bond Insurance or Credit Facility covering Bonds that are also the subject of such Substitute Liquidity Facility or

(ii) in the case of Substitute Bond Insurance or Credit Facility, the consent of the Provider of any Liquidity Facility covering Bonds that are also the subject of such Substitute Bond Insurance or Credit Facility; and

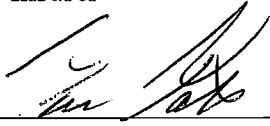
2. Consent to Amendment Required.

(a) As provided in Section 11.02 of the Supplement, the consent of each Provider, the Bond Insurer, and the Remarketing Agent shall be obtained to this amendment.

(b) In order to obtain Bondholder consent to this amendment, this amendment shall be disclosed in the Remarketing Circular for the Bonds, dated the date hereof.

ACCEPTED AND AGREED AS OF JUNE 5, 2006:

FINANCIAL GUARANTY INSURANCE COMPANY,
As Bond Insurer

By:  _____

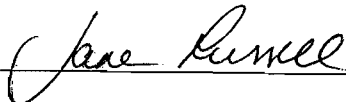
Its: Managing Director

ACCEPTED AND AGREED AS OF JUNE 5, 2006:

DEPFA BANK PLC, NEW YORK BRANCH,
As Provider

By: 

Its: **David D. Park**
Managing Director

By: 

Its: **Jane Russell**
Director

S-2

(c) Rating Agency waiver of 15 days notice may be sought in lieu of making this amendment effective 15 days after notice thereof is sent to Rating Agencies. If such waiver is not obtained, this amendment shall become effective 15 days after notice thereof is sent to the Rating Agencies, which notice shall be sent on the date of this Amendment No. 1 set forth below.

3. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Supplement.

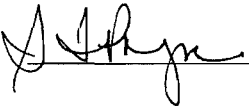
4. Counterparts. This Amendment No. 1 may be signed in counterparts, all of which, taken together, shall constitute a single document.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Variable Rate Demand Bonds Supplement and Agreement as of the 5th day of June, 2006.

CITY OF DETROIT

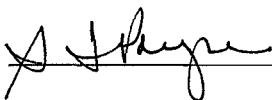
By: _____
Roger Short, Interim Finance Director

U.S. BANK NATIONAL ASSOCIATION,
As Trustee and Transfer Agent

By:  _____

Its: _____

U.S. BANK NATIONAL ASSOCIATION,
As Tender Agent

By:  _____

Its: _____

(c) Rating Agency waiver of 15 days notice may be sought in lieu of making this amendment effective 15 days after notice thereof is sent to Rating Agencies. If such waiver is not obtained, this amendment shall become effective 15 days after notice thereof is sent to the Rating Agencies, which notice shall be sent on the date of this Amendment No. 1 set forth below.

3. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Supplement.

4. Counterparts. This Amendment No. 1 may be signed in counterparts, all of which, taken together, shall constitute a single document.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Variable Rate Demand Bonds Supplement and Agreement as of the 5th day of June, 2006.

CITY OF DETROIT

By: 

Roger Short, Interim Finance Director

U.S. BANK NATIONAL ASSOCIATION,
As Trustee and Transfer Agent

By: _____

Its: _____

U.S. BANK NATIONAL ASSOCIATION,
As Tender Agent

By: _____

Its: _____

ACCEPTED AND AGREED AS OF JUNE 5, 2006:

GOLDMAN, SACHS & CO.,
As Remarketing Agent

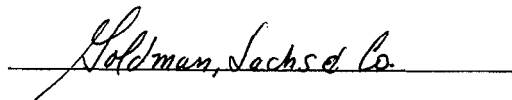
A handwritten signature in cursive script, reading "Goldman Sachs & Co.", is written over a horizontal line.

Exhibit 7

**Sale Order of Finance Director of the City of Detroit
with respect to
\$195,000,000
City of Detroit Water Supply System
Revenue Senior Lien Bonds
(Variable Rate Demand),
Series 2005-B**

Whereas, on January 26, 2005 the City Council (the "City Council") of the City of Detroit (the "City") adopted an amended and restated resolution captioned in relevant part "Amended and Restated Resolution Authorizing the Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds of the City of Detroit of Equal Standing with the City's Senior Lien Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds Now Outstanding and Which May Remain Outstanding, and Authorizing the Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds of the City of Detroit of Junior Standing to the City's Senior Lien Water Supply System Revenue Bonds and Water Supply System Senior Lien Revenue Refunding Bonds Now Outstanding and Which Remain Outstanding..." (the "Bond Resolution"), pursuant to the provisions of Ordinance No. 01-05 adopted by the City Council on January 26, 2005 (the "Ordinance"), and Act 94, Public Acts of Michigan, 1933, as amended; and

Whereas, under the provisions of the Bond Resolution, the City is authorized to sell and deliver one or more Series of Series 2005 Securities in series pursuant to one or more orders of the Finance Director of the City (each, a "Sale Order") in an aggregate principal amount not to exceed \$583,775,000, within the parameters established by the Bond Resolution; and

Whereas, the City desires to issue three Series of Series 2005 Senior Lien Bonds under the Bond Resolution, including one Series of 2005 Senior Lien Project Bonds designated as Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B (the "Series 2005-B Bonds") for the purpose of paying a portion of the costs of the Project; and

Whereas, the Bond Resolution authorizes the Finance Director, among other things, to determine and establish the aggregate principal amount, purchase price, interest rates and maturities for the Series 2005-B Bonds, the designations and types of Series 2005-B Bonds to be issued, the dates for payment of principal of, premium, if any, and interest on the Series 2005-B Bonds, the Mandatory Redemption Requirements and other redemption provisions for the Series 2005-B Bonds, and make such other determinations with respect to the Series 2005-B Bonds as confirmed in this Sale Order; and

Whereas, the City intends to relate the Transaction dated January 29, 2004 pursuant to the ISDA Master Agreement dated as of May 22, 2003 (Water System Transactions), as amended and supplemented, between the City and Morgan Stanley Capital Services Inc. (the "Morgan Stanley Swap Agreement") to the Series 2005-B Bonds; and

Whereas, pursuant to the terms of the Bond Resolution the City intends to obtain a policy of municipal bond insurance to insure payment of the principal of and interest on the Series 2005-B Bonds when due and a Liquidity Facility to provide for the payment of the

purchase price of 2005-B Bonds tendered for purchase but not remarketed, and to pay a portion of the cost to obtain a Credit Facility to fund the Reserve Requirement in respect of the Series 2005-B Bonds; and

Whereas, the City desires to sell the Series 2005-B Bonds to the purchasers thereof pursuant to a bond purchase agreement between the City and such purchasers of even date herewith, in the amounts, at the prices, with the interest rates and other terms, specified in the Bond Resolution and in this Sale Order.

Now, Therefore, the Finance Director of the City of Detroit hereby orders on behalf of the City as follows:

ARTICLE I AUTHORITY AND DEFINITIONS

Section 101. Authority. This Sale Order of the Finance Director authorizing the sale and delivery of the City's Series 2005-B Bonds is issued in accordance with the provisions of the Bond Resolution. This Sale Order shall include a Variable Rate Mode and Auction Rate Mode Supplement and Agreement of even date herewith City and U.S. Bank National Association, as Transfer Agent and as Tender Agent (the "Agreement").

Section 102. Definitions. Capitalized terms used herein and not otherwise defined or modified by this Sale Order shall have the meanings ascribed thereto in the Bond Resolution and the Ordinance.

ARTICLE II TERMS OF THE SERIES 2005-B BONDS

Section 201. Designation of Series and Principal Amounts. The Series 2005-B Bonds shall be designated as "Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B." No other bonds shall be issued as Additional Securities bearing such designation.

The Series 2005-B Bonds are intended at the time of issuance to be Series 2005 Senior Lien Project Bonds and are secured on parity with all other outstanding Senior Obligations and Additional Securities and Ancillary Obligations of equal Priority of Lien as to the Pledged Assets of the System with Senior Obligations. The rights of owners of the Series 2005-B Bonds to the Pledged Assets of the System are superior to the rights of the owners of all Second Lien Bonds, Ancillary Obligations on a parity therewith, and Junior Lien Obligations.

Section 202. Purpose of Series 2005-B Bonds. The Series 2005-B Bonds shall be issued as Additional Securities for purposes of obtaining funds to finance a portion of the Project pursuant to the authority contained in Section 20(C)(2) of the Ordinance.

The proceeds of the Series 2005-B Bonds will be used for paying a portion of the costs of the Project; paying a portion of the cost of a Credit Facility in order to fund the Series 2005

Senior Lien Project Bond Reserve Requirement allocated to the Series 2005-B Bonds; and paying a portion of the Issuance Costs allocated to the Series 2005-B Bonds.

Section 203. Terms of Series 2005-B Bonds.

The Series 2005-B Bonds shall bear interest at variable rates, subject to conversion to a fixed rate, upon the terms and conditions specified in the Agreement. The Series 2005-B Bonds shall initially be issued in the Weekly Mode (such interest rate Mode and all such other interest rate Modes described herein, as defined in the Agreement), but may be converted to and from the Daily Mode, the Weekly Mode, the Commercial Paper Rate Mode, the Auction Rate Mode, and the Term Rate Mode, or may be converted to the Fixed Rate Mode until maturity. The form of the Agreement is hereby approved with such changes, additions, deletions and modifications as subsequently approved by the Finance Director and the execution of the Agreement by the Finance Director shall constitute conclusive evidence of such approval.

As the result of the application of the Morgan Stanley Swap Agreement, the Series 2005-B Bonds will be treated as Fixed Rate Securities under the Ordinance with an interest rate of 4.71%.

Certain terms relating to the Series 2005-B Bonds and the purchase thereof shall be as follows:

Type:	Current Interest Variable Rate Term Bond
Authorized Denominations:	\$100,000 or integral multiples of \$5,000 in excess thereof
Aggregate Original Principal Amount:	\$195,000,000.00
Capitalized Interest:	\$0
Issuance Costs:	\$2,119,542.29
Dated Date:	March 23, 2005
Final Maturity Date:	July 1, 2035
Net Original Issue Discount/Premium:	\$0
Interest Payment Dates (Weekly Mode):	First Business Day of each month, commencing April 1, 2005
Interest Payment Dates (Other Modes):	As provided in the Agreement
Regular Record Date:	As provided in the Agreement under the definition of Record Date

Purchase Price: \$194,571,750.00 (consisting of the original principal amount of \$195,000,000.00 less Underwriters' discount of \$428,250.00).

Transfer Agent: U.S. Bank National Association, Detroit, Michigan

Underwriters: Siebert, Brandford Shank & Co., LLC
Bear, Stearns & Co. Inc.
Lehman Brothers, Inc.

Underwriters' Discount: \$428,250.00

Numbering: From RB-1 upward

Section 204. Maturity Schedule. The Series 2005-B Bonds shall mature on July 1 of the year, shall bear interest from their dated date to date of payment and shall be sold at the prices or yields as follows:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate Per Annum</u>	<u>Price or Yield</u>
2035	\$195,000,000	Variable	100%

Interest shall be calculated as provided in the Agreement.

Section 205. Redemption of Series 2005-B Bonds. The Series 2005-B Bonds shall be subject to optional redemption and mandatory sinking fund redemption upon the terms and conditions set forth in the Bond Resolution and in this Sale Order as provided below and in the Agreement:

(A) The Series 2005-B Bonds shall be subject to optional redemption upon the terms and conditions set forth in the Agreement.

(B) Notice of redemption shall be given to the registered owners of the Series 2005-B Bonds or portions of Series 2005-B Bonds to be redeemed by mailing of such notice by first class mail prior to the date fixed for redemption in accordance with the schedule set forth below to the registered owners at the addresses of the registered owners as shown on the registration books as of the date of such mailing kept by the Transfer Agent. Series 2005-B Bonds called for redemption shall not bear interest after the date fixed for redemption, whether presented for redemption or not, provided that funds are on hand with the Transfer Agent to redeem the Series 2005-B Bonds or portions of Series 2005-B Bonds called for redemption. Provider Securities shall be redeemed prior to any other Series 2005-B Bonds.

<u>Mode</u>	<u>Maximum Days Notice Before Redemption</u>	<u>Minimum Days Notice Before Redemption</u>
Daily Rate	30	15
Weekly Rate	30	15
Commercial Paper Rate	30	15
Term Rate	30	15
Auction Rate	45	15
Fixed Rate	45	30

In case less than the full amount of an outstanding Series 2005-B Bond is called for redemption, the Transfer Agent, upon presentation of the Series 2005-B Bond called in part for redemption, shall register, authenticate, and deliver to the registered owner, a new Series 2005-B Bond of the same type and the same maturity, in the principal amount of the portion of the original Series 2005-B Bond not called for redemption.

(C) Mandatory Sinking Fund Redemption of the Series 2005-B Bonds. The Series 2005-B Bonds shall be subject to mandatory sinking fund redemption by lot, from monies on deposit in the Series 2005 Senior Term Bond Sinking Fund Account, on July 1 of each of the years set forth below at the redemption price of 100% of the principal amount of Series 2005-B Bonds to be so redeemed plus accrued interest on the principal amount of the Series 2005-B Bonds to be so redeemed to the date fixed for redemption, without premium, with the Mandatory Redemption Requirements set forth below.

\$195,000,000 Series 2005-B Bonds Maturing July 1, 2035			
<u>July 1</u>	<u>Mandatory Redemption Requirement</u>	<u>July 1</u>	<u>Mandatory Redemption Requirement</u>
2010	\$1,800,000	2023	\$ 3,200,000
2011	1,900,000	2024	3,300,000
2012	2,000,000	2025	3,500,000
2013	2,100,000	2026	3,600,000
2014	2,200,000	2027	3,800,000
2015	2,300,000	2028	3,900,000
2016	2,400,000	2029	4,100,000
2017	2,500,000	2030	4,300,000
2018	2,600,000	2031	4,500,000
2019	2,700,000	2032	4,700,000
2020	2,800,000	2033	4,900,000
2021	3,000,000	2034	5,100,000
2022	3,100,000	2035	114,700,000*

* Final maturity.

The City will receive a credit with respect to any Mandatory Redemption Requirement on account of Term Bonds of the same maturity 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 described below and that have not been applied as a credit against any other Mandatory Redemption Requirements. Not less than 40 days prior to any Mandatory Sinking Fund Redemption Date for Term Bonds, the City shall give notice to the Transfer Agent that such Term Bonds are to be so credited. Each such Term Bond 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 Bonds to be redeemed on such Mandatory Sinking Fund 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 City shall elect; provided, however, that any excess resulting from the purchase, at less than par, of Term Bonds may be transferred to the Receiving Fund. Mandatory Redemption Requirements may also be satisfied as provided in Section 13(C)(2) of the Ordinance.

Notice of redemption shall be given to the registered owners of the Series 2005-B Bonds or portions of Series 2005-B Bonds to be redeemed by mailing of such notice by first class mail not less than 30 days prior to the date fixed for redemption to the registered owners at the addresses of the registered owners as shown on the registration books as of the date of such mailing kept by the Transfer Agent. Series 2005-B Bonds called for redemption shall not bear interest after the date fixed for redemption, whether presented for redemption or not, provided that funds are on hand with the Transfer Agent to redeem the Series 2005-B Bonds or portions of Series 2005-B Bonds called for redemption.

In case less than the full amount of an outstanding Series 2005-B Bond is called for redemption, the Transfer Agent, upon presentation of the Series 2005-B Bond called in part for redemption, shall register, authenticate, and deliver to the registered owner, a new Series 2005-B Bond of the same type and the same maturity, in the principal amount of the portion of the original Series 2005-B Bond not called for redemption.

(D) Special mandatory redemption of Provider Securities shall be as provided in the Agreement and in the applicable Liquidity Facility.

Section 206. Reserve Requirement. The Senior Lien Bond Reserve Requirement, after issuance of the Series 2005 Bonds, will be \$109,825,665.63. Of this amount, \$4,000,000 will be funded by the Credit Facility described in Section 702 hereof and the balance will be funded by cash and Credit Facilities already on deposit in the Senior Lien Bond Reserve Account.

ARTICLE III APPROVAL OF BOND PURCHASE AGREEMENT AND OFFICIAL STATEMENT

Section 301. Approval of Underwriters and the Bond Purchase Agreement. The Series 2005-B Bonds shall be sold to Siebert Brandford Shank & Co., LLC, as representative of the underwriters listed herein (the "Underwriters") pursuant to the Bond Purchase Agreement between the City and the Underwriters of even date herewith (the "Bond Purchase Agreement"),

relating to the Series 2005-B Bonds in substantially the form presented on this date to the Finance Director. The purchase prices, discounts and premiums for the Series 2005-B Bonds, as set forth therein and herein are hereby approved.

Section 302. Approval of Official Statement. The form of the Official Statement relating to the Series 2005-B Bonds and the City's Water Supply System Revenue Senior Lien Bonds, Series 2005-A, Water Supply System Revenue Refunding Senior Lien Bonds, Series 2005-C, and Water Supply System Revenue Refunding Second Lien Bonds, Series 2005-D (collectively, the "Series 2005 Bonds") dated March 11, 2005, is ratified and confirmed as the Official Statement of the City with respect to the Series 2005 Bonds.

ARTICLE IV TRUSTEE, TRANSFER AGENT, AND TENDER AGENT

Section 401. Trustee and Tender Agent. U.S. Bank National Association, is hereby confirmed as Trustee, Transfer Agent, and Tender Agent for the Series 2005 Bonds. U.S. Bank National Association, shall signify its acceptance of the duties and obligations imposed upon it under the Agreement by its execution thereof in each capacity on the date of delivery of the Series 2005 Bonds. Any successor Trustee, Transfer Agent and Tender Agent must agree to accept the duties of the Trustee, Transfer Agent, and Tender Agent. The Trustee, Transfer Agent, and Tender Agent shall not be removed or resign in any of such capacities until a successor in such capacity has been appointed.

ARTICLE V LIQUIDITY FACILITY

Section 501. The Liquidity Facility. A. Execution and delivery of the Standby Bond Purchase Agreement (the "Liquidity Facility") among the City, U.S. Bank National Association, and Dexia Credit Local, acting through its New York Branch (the "Bank") for liquidity support with respect to the Series 2005-B Bonds under the Agreement, on file with the Finance Director, is hereby approved, with such changes, additions, modifications and deletions as evidenced by the Finance Director's execution thereof.

B. All fees and expenses payable by the City to the Bank under the Liquidity Facility shall be payable from the Operation and Maintenance Fund as Ancillary Obligation Fee and Expenses to the extent provided by the provisions of the Ordinance.

C. The Bank shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the City's audited financial statements and Annual Budget.

D. Any notice that is required to be given to a holder of the Series 2005-B Bonds or to the Trustee shall also be given to the Bank.

E. The Bond Insurer (hereinafter defined) may not be substituted as insurer of the Series 2005-B Bonds, and the Bond Insurance Policy (hereinafter defined) may not be surrendered, canceled, or terminated, or amended or modified in any material respect, without (i)

the prior written consent of the Bank and (ii) a Rating Confirmation (as defined in the Agreement).

ARTICLE VI
APPLICATION OF SWAP AGREEMENT AND
CLARIFICATION OF PAYMENTS UNDER ORDINANCE

Section 601. Application of Swap Agreement. The Morgan Stanley Swap Agreement is hereby applied to the Series 2005-B Bonds, effective as of April 1, 2005.

Section 602. Compliance With Swap Management Plan. The Finance Director hereby determines and confirms that the Morgan Stanley Swap Agreement complies in all respects with the provisions of the City's Swap Management Plan as now in effect.

Section 603. Swap Provider Guidelines. The Morgan Stanley Swap Agreement is, and any other Hedge to be entered into by the City with respect to Outstanding Securities or Additional Securities must be, a Qualified Derivative Agreement as defined in and satisfying the requirements set forth on Exhibit A attached hereto and incorporated herein by this reference.

Section 604. Clarification of Definitions. For purposes of interpreting and clarifying the meanings of the following terms under the Ordinance, the Finance Director on behalf of the City and with the concurrence of legal counsel states and avers that:

"Ancillary Obligation Fees and Expenses" includes, but is not limited to, commitment fees, indemnification costs, tax or other cost gross-up expenses and attorney fees and expenses owing to a Hedge or Financial Facility provider by the City.

"Interest Installment Requirement" includes (i) regularly scheduled payments on Hedge Obligations of the same Priority of Lien as the Securities to which they relate; (ii) Reimbursement Obligations of the same Priority of Lien to the Securities to which they relate, and (iii) the amount of interest accrued and to accrue to and including the last day of the month on Reimbursement Obligations of the same Priority of Lien to the Securities to which they relate.

"Principal Installment Requirement" includes (i) the amount of redemption premiums, payable within such month on Outstanding Securities of the same Priority of Lien; (ii) Reimbursement Obligations in respect of principal payments on related Securities of the same Priority of Lien; and (iii) Hedge Termination Payments on Hedges related to Securities of the same Priority of Lien.

Section 605. Priority of Payments on Ancillary Obligations. For purposes of interpreting the Priority of Lien of Ancillary Obligations under the Ordinance, the Finance Director on behalf of the City and with the concurrence of legal counsel states and avers that:

Anything in the Ordinance to the contrary notwithstanding, the City acknowledges and agrees that any provider of Hedges or Financial Facilities having Parity Ancillary Obligations

may agree to subordinate its payment rights to other payments of the same or a lower Priority of Lien under the Ordinance.

ARTICLE VII CREDIT ENHANCEMENT

Section 701. Bond Insurance. The commitment dated February 7, 2005 from Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto (the "Bond Insurer") for a municipal bond new issue insurance policy with respect to the Series 2005-B Bonds (the "Bond Insurance Policy") is hereby accepted. The Finance Director hereby determines that the Bond Insurance Policy is in the best financial interests of the City and the System. The following shall govern claims procedures under the Bond Insurance Policy:

(a) If, on the third day preceding any interest payment date for the Series 2005-B Bonds there is not on deposit with the Transfer Agent sufficient moneys available to pay all principal of and interest on the Series 2005-B Bonds due on such date, the Transfer Agent shall immediately notify the Bond Insurer and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the City has not provided the amount of such deficiency, the Transfer Agent shall simultaneously make available to the Bond Insurer and to the Fiscal Agent the registration books for the Series 2005-B Bonds maintained by the Transfer Agent. In addition:

(i) The Transfer Agent shall provide the Bond Insurer with a list of the Series 2005-B Bondholders entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and shall make arrangements for the Bond Insurer and its Fiscal Agent (1) to mail checks or drafts to Series 2005-B Bondholders entitled to receive full or partial interest payments from the Bond Insurer and (2) to pay principal of the Series 2005-B Bonds surrendered to the Fiscal Agent by the Series 2005-B Bondholders entitled to receive full or partial principal payments from the Bond Insurer; and

(ii) The Transfer Agent shall, at the time it makes the registration books available to the Bond Insurer pursuant to (i) above, notify Series 2005-B Bondholders entitled to receive the payment of principal of or interest on the Series 2005-B Bonds from the Bond Insurer (1) as to the fact of such entitlement, (2) that the Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (b) below, in the event that any Series 2005-B Bondholder is entitled to receive full payment of principal from the Bond Insurer, such Series 2005-B Bondholder must tender his Series 2005-B Bond with the instrument of transfer in the form provided on the Series 2005-B Bond executed in the name of the Bond Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Series 2005-B Bondholder is entitled to receive partial payment of principal from the Bond Insurer, such Series 2005-B Bondholder must tender his Series 2005-B Bond for payment first to the Transfer Agent, which shall note on such Series 2005-B Bond the portion of principal paid by the Transfer Agent, and then, with an acceptable form of assignment executed in the name of the Bond Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Series 2005-B Bondholder subject to the terms of the Bond Insurance Policy.

(b) In the event that the Transfer Agent has notice that any payment of principal or interest on a Series 2005-B Bond has been recovered from a Series 2005-B Bondholder 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 Transfer Agent shall, at the time it provides notice to the Bond Insurer, notify all Series 2005-B Bondholders that in the event that any Series 2005-B Bondholder's payment is so recovered, such Series 2005-B Bondholder will be entitled to payment from the Bond Insurer to the extent of such recovery, and the Transfer Agent shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the Series 2005-B Bonds which have been made by the Transfer Agent and subsequently recovered from Series 2005-B Bondholders, and the dates on which such payments were made.

(c) The Bond Insurer shall, to the extent it makes payment of principal or interest on the Series 2005-B Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Transfer Agent shall note the Bond Insurer's rights as subrogee on the registration books maintained by the Transfer Agent upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Series 2005-B Bondholders of such Series 2005-B Bonds and (ii) in the case of subrogation as to claims for past due principal, the Transfer Agent shall note the Bond Insurer's rights as subrogee on the registration books for the Series 2005-B Bonds maintained by the Transfer Agent upon receipt of proof of the payment of principal thereof to the Series 2005-B Bondholders of such Series 2005-B Bonds. Notwithstanding anything in this authorizing document or the Series 2005-B Bonds to the contrary, the Transfer Agent shall make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto.

Section 702. Credit Facility. As described in Section 206 hereof, a portion of the Senior Lien Bond Reserve Requirement shall be funded by a Municipal Bond Debt Reserve Fund Policy (the "Reserve Policy") purchased from the Bond Insurer, which shall be applicable to all Senior Lien Bonds. The amount of the Reserve Surety in respect of the 2005 Senior Lien Project Bond Reserve Requirement allocable to the Series 2005-B Bonds is \$2,600,000.00. The Finance Director hereby determines that the Reserve Policy is in the best financial interests of the City and the System. The commitment dated February 7, 2005 from the Bond Insurer for the Reserve Policy is hereby accepted. The Finance Director is hereby authorized to execute the Debt Service Reserve Fund Policy Agreement with the Bond Insurer (the "Reserve Policy Agreement"), generally in the form provided in the commitment for the Reserve Policy.

In accordance with the terms of the commitment for the Reserve Policy, the City hereby makes the following covenants and agreements for the benefit of the Bond Insurer, to be applicable so long as the Reserve Policy remains in effect; provided, however, if there is a conflict between the terms of the Reserve Policy Agreement and the provisions of this Sale Order with respect to the following covenants and agreements, the provisions of this Sale Order shall govern:

(a) The City shall repay the Bond Insurer the principal amount of any draws under the Reserve Policy and related reasonable expenses incurred by the Bond Insurer and shall pay interest thereon at a rate equal to the lower of (i) the prime rate of Morgan Guaranty Trust

Company of New York in effect from time to time plus 2% per annum and (ii) the highest rate permitted by law.

(b) Repayment of draws, expenses and the interest thereon (collectively, "Policy Costs") shall enjoy the same priority of payment as the City's obligation to make deposits to the Senior Lien Bond Reserve Account.

(c) Payment of Policy Costs shall commence in the first month following each draw and each such monthly payment shall be in the amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw.

(d) Amounts paid to the Bond Insurer shall be credited first to interest due under the Reserve Policy and under the Reserve Policy Agreement, then to the expenses due under the Reserve Policy Agreement and then to principal due under the Reserve Policy and under the Reserve Policy Agreement. As and to the extent that payments are made to the Bond Insurer on account of principal due under the Reserve Policy and under the Reserve Policy Agreement, the coverage under the Reserve Policy will be increased by a like amount.

(e) If the City shall fail to repay the Policy Costs in accordance with the requirements of the Bond Resolution and the Reserve Policy Agreement, the Bond Insurer shall be entitled to exercise any and all remedies available at law or under the Bond Resolution other than (i) acceleration of the maturity of the Senior Lien Bonds or (ii) remedies which would adversely affect Holders of Senior Lien Bonds.

(f) The City shall ascertain the necessity for a claim upon the Reserve Policy and provide notice to the Bond Insurer in accordance with the terms of the Reserve Policy at least two business days prior to each date upon which interest or principal is due on any Senior Lien Bonds.

(g) All cash and investments in the Senior Lien Bond Reserve Account shall be utilized for making required transfers to the Senior Lien Bond Interest and Redemption Fund for payment of debt service on the Senior Lien Bonds before making any draws under the Reserve Policy. Draws on all alternative credit instruments on which there is available coverage shall be made on a pro rata basis (calculated by reference to coverage then available under each such alternative credit instrument) after applying available cash and investments in the Senior Lien Bond Reserve Account. Repayment of Policy Costs and reimbursement of amounts with respect to alternative credit instruments shall be made on a pro rata basis (calculated by reference to the coverage then available under each such alternative credit instrument) prior to replenishment of any cash draws on the Senior Lien Bond Reserve Account.

(h) The Bond Insurer shall be given notice of any amendments to the Ordinance not requiring Senior Lien Bondholder consent.

(i) The Bond Insurer's consent shall be required to any amendments to the Ordinance requiring Senior Lien Bondholder consent.

(j) The Ordinance shall not be discharged until all Policy Costs owing to the Bond Insurer shall have been paid in full.

(k) As security for the City's repayment obligations with respect to the Reserve Policy, the City hereby pledges and creates a lien in favor of the Bond Insurer (subordinate only to that of its obligation to make deposits to the Operation and Maintenance Fund and the Senior Lien Bond Interest and Redemption Fund Debt Service Account) in all revenues and collateral pledged as security for the Senior Lien Bonds.

(l) In addition to the requirements of the rate covenant applicable to Senior Lien Bonds and test for issuance of Additional Senior Lien Bonds set forth in the Ordinance, the City shall also be required to maintain Net Revenues projected to equal at least one times coverage of the City's obligation to repay Policy Costs then due and owing for purposes of such rate covenant and the issuance of Additional Senior Lien Bonds. Furthermore, no Additional Senior Lien Bonds may be issued under the Ordinance without the Bond Insurer's prior written consent if any Policy Costs are past due and owing to the Bond Insurer.

(m) In the event there has been a draw under the Reserve Policy, the City shall be required to replenish the Senior Lien Bond Reserve Account so that the amount therein equals the Senior Lien Bond Reserve Requirement no later than the end of the twelfth month after such draw.

Section 703. Other Provisions Applicable to the Bond Insurer.

(A) Reporting Requirements. The Bond Insurer shall be provided with the following information:

- (a) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the Senior Lien Bond Reserve Account;
- (b) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Series 2005-B Bonds, or of any advance refunding of the Series 2005-B Bonds, including the principal amount, maturities and CUSIP numbers thereof;
- (c) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934; and
- (d) Such additional information as the Bond Insurer may reasonably request from time to time.

(B) Notice Addresses. The notice addresses for the Bond Insurer and the Fiscal Agent is as follows: Financial Guaranty Insurance Company, 125 Park Avenue, New York, New York 10017, Attention: Risk Management; and U.S. Bank Trust National Association, 100 Wall Street, 19th Floor, New York, New York 10005, Attention: Corporate Trust Department.

ARTICLE VIII
REMARKETING AGENT AND REMARKETING AGREEMENT

Section 801. Appointment of Remarketing Agent. Lehman Brothers, Inc. is hereby appointed as initial Remarketing Agent for the Series 2005-B Bonds, the acceptance of which appointment shall be conclusively evidenced by the execution by Lehman Brothers, Inc. of the Remarketing Agreement, as hereinafter defined.

Section 802. Approval of Remarketing Agreement. The form of the Remarketing Agreement (the "Remarketing Agreement") between the City and Lehman Brothers, Inc. , as Remarketing Agent on file with the Finance Director is hereby approved with such changes, additions, deletions and modifications as are subsequently approved by the Finance Director, such subsequent approval to be conclusively evidenced by his execution and delivery thereof. The Finance Director hereby determines that the Remarketing Agreement is in the best interest of the City and the System.

ARTICLE IX
OTHER PROVISIONS OF GENERAL APPLICATION
UPON ISSUANCE OF BONDS

Section 901. Application of Series 2005-B Bond Proceeds. The amount of \$565,000.00 shall be deposited in the Construction Fund Series 2005 established under Section 11(e) of the Bond Resolution and shall be used to pay Issuance Costs allocable to the Series 2005-B Bonds, other than the allocable portions of Underwriters' discount in the amount of \$428,250.00, the Reserve Policy premium in the amount of \$32,500.00, and the Bond Insurance Policy premium of \$1,093,792.29, which shall be deemed to be deposited in the Construction Fund Series 2005, but which shall be paid as provided in Section 902 hereof. Capitalized interest in the amount of \$16,096,578.34 shall be deposited in the Senior Lien Bond and Interest Redemption Fund and shall be used, together with earnings thereon, to pay interest on the Series 2005-B Bonds through and including January 1, 2007. The balance of the Series 2005-B Bond proceeds shall be deposited in the Construction Fund Series 2005 and shall be used to pay costs of the Project.

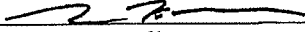
Section 902. Payment of Issuance Costs. The Finance Director shall pay Issuance Costs in an aggregate approximate amount of \$565,000.00 from the proceeds of the Series 2005-B Bonds deposited in the Construction Fund Series 2005 in accordance with Section 11(b) of the Bond Resolution, or from other legally available funds. In addition, the allocable portion of the Reserve Policy premium and the Bond Insurance Policy premium set forth in Section 901 hereof shall be paid by the Underwriters on behalf of the City to the Bond Insurer. The allocable portion of Underwriters' discount set forth in Section 901 hereof shall be paid to the Underwriters in the form of a discount from the par amount of the Series 2005-B Bonds which the Underwriters shall be required to pay upon closing, thereby reducing the purchase price as provided in Section 203 hereof.

Section 903. Order a Contract. The provisions of this Sale Order shall constitute a contract between the City and any Series 2005-B Bondholder.

Section 904. Book-Entry-Only Form. The Series 2005-B Bonds shall be held in book-entry-only form and the appointment of The Depository Trust Company, New York, New York, as depository for the Series 2005-B Bonds pursuant to the terms of the City's Blanket Letter of Representations, dated November 26, 1996, is hereby confirmed.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

This Sale Order shall take effect immediately.



Sean K. Werdlow
Finance Director City of Detroit

March 22, 2005

EXHIBIT A

REQUIREMENTS OF QUALIFIED
DERIVATIVE AGREEMENTS

Except as otherwise defined herein the capitalized terms used herein without definitions shall have the meanings ascribed to them in the Sale Order or the Ordinance.

“Qualified Derivative Agreement” means (a) a Derivative Agreement, whether it is an Insured Swap or Uninsured Swap, in either case, identified in such Derivative Agreement as being related to a particular series of Securities under the Ordinance (the “Related Securities”) if:

(i) the notional amount for such Derivative Agreement (when taken together with any other Derivative Agreement related to such Related Securities) will not exceed the outstanding principal amount of such Related Securities; provided however that a transaction which reverses, in whole or in part, an existing Qualified Derivative Agreement (with the same provider, the same payment terms and dates, but reversing the obligations of the parties, providing that the two transactions are netted against one another for payment purposes and that one transaction may not be terminated unless either (1) the other transaction is terminated, or (2) the remaining transaction would qualify as a Qualified Derivative Agreement if such determination were made at that point) will be permitted and so long as both remain in effect, will be considered, collectively, to have a zero notional amount for purposes of determining whether the notional amount of such Derivative Agreement will exceed the outstanding principal amount of the Related Securities;

(ii) the rate to be paid by the City under such Derivative Agreement is not subject to a multiplier;

(iii) the Derivative Agreement does not include a significant loan component (i.e., an obligation to repay money borrowed, credit extended or the equivalent thereof, including, but not limited to, receipt by the City of any payment (or promise of a payment) which effectively increases the rate on the Derivative Agreement which the City would otherwise pay);

(iv) such Derivative Agreement is not a currency swap and all payments under such Derivative Agreement are calculated in U.S. Dollars, and any variable or index-based rate used in such swap are from an index for U.S. Dollar denominated obligations;

(v) any Non-Scheduled Payments (on an Uninsured Swap) or uninsured payments (on an Insured Swap) thereunder are both: (A) Subordinate to all Senior Obligations and (B) payable only if and to the extent that after such payment there are sufficient funds remaining to make all Senior Obligations expected to become due over the next six months;

(vi) collateral may be required to be delivered by the City in connection with such Derivative Agreement only if and to the extent that after such delivery that there are sufficient funds remaining to make all Senior Obligations expected to become due over the next six months;

(vii) the principal amount of any Security issued to secure a Qualified Derivative Agreement shall be deemed to have a principal amount of zero for purposes of determining any consent or other voting rights under the Ordinance as amended and supplemented; and

(viii) MBIA Insurance Corporation receives notice of, and a copy of, such Derivative Agreement; or

(b) any other Derivative Agreement approved by MBIA Insurance Corporation.

“Derivative Agreement” means (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls or to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the City entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of indebtedness, to convert any element of indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Swap Provider” means, with respect to a Derivative Agreement, the person that is identified in such agreement as the counterparty to, or contracting party with, the City under such agreement.

“Early Termination Payment” means, with respect to a Derivative Agreement, any payment obligation of the City thereunder due upon the early termination of any transaction governed by such Derivative Agreement, other than an Insured Early Termination Payment.

“Insured Early Termination Payment” means, with respect to a Derivative Agreement, any payment obligation of the City thereunder due upon the early termination of any transaction governed by such Derivative Agreement that is insured under an insurance policy issued by an insurer that has also issued a bond insurance policy with respect to Related Securities.

“Insured Swap” means any Derivative Agreement wherein the Regularly Scheduled Payments are insured under a bond insurance policy from an insurer who has also insured the Related Securities, having an outstanding principal amount at least equal to the notional amount of the Derivative Agreement.

“Non Scheduled Payments” means any payments under any Derivative Agreement that are not Regularly Scheduled Payments, including but not limited to Early Termination Payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

“Regularly Scheduled Payments” means any payments scheduled (at the time such Derivative Agreement is executed) for payment on dates related to interest payment days under the Related Securities and which are intended to be “interest-like” when the interest on the Related Securities and such payments are reviewed together.

“Senior Obligations” means the Related Securities, any obligations on a parity with or senior to the Related Securities, any related requirements to replenish debt service reserve funds, any deposits in support of debt service and the obligations of the City to make payments to MBIA Insurance Corporation under the Insurance/Reimbursement Agreement.

“Subordinate” means that in the event of: (i) any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the City, (ii) any Subordinated Swap Payment is declared or otherwise becomes due and payable under the applicable Derivative Agreement or, (iii) any Event of Default shall occur and be continuing and (1) written notice of such default shall have been given to the Trustee and (2) judicial proceedings shall be commenced in respect of such Event of Default; then, for so long as any action described in clause (i), (ii) or (iii) hereof shall not have been remedied or cured in the opinion of the Trustee, the Trustee shall pay in full all principal, premium and interest on all Senior Obligations before the Swap Provider is entitled to receive any Subordinated Swap Payment, and to that end the Trustee shall be entitled to receive for application in payment of the Senior Obligations in accordance with the Ordinance any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of such Subordinated Swap Payment after giving effect to any concurrent payment or distribution in respect to such Senior Obligations.

“Subordinated Swap Payment” means any Non-Scheduled Payment on an Uninsured Swap or any uninsured payment on an Insured Swap.

“Uninsured Swap” means a Derivative Agreement which is not an Insured Swap.

Exhibit 8

Book-Entry Only

RATINGS (See "RATINGS" herein)

In the opinion of Bond Counsel, Lewis Munday, A Professional Corporation, under existing law as presently interpreted (i) interest on the Fixed Rate Bonds is excluded from gross income for federal income tax purposes, (ii) interest on the Fixed Rate Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals and corporations, and (iii) the Fixed Rate Bonds and the interest thereon are exempt from all taxation imposed by the laws of the State of Michigan except inheritance and estate taxes on gains realized from the sale, payment or other disposition thereof, in each case to the extent and subject to the conditions described under "TAX MATTERS" herein.

382,710,000
CITY OF DETROIT, MICHIGAN
Sewage Disposal System

122,905,000
Senior Lien Revenue Refunding Bonds
(Modal Fixed Rate), Series 2001(C-2)

136,150,000
Second Lien Revenue Bonds
(Modal Fixed Rate), Series 2001(E)

123,655,000
Revenue Second Lien Bonds
(Fixed Rate), Series 2006(A)

2001 E) and 2006 A) Remarketing Date: May 7, 2008
 2001 C-2) Remarketing Date: May 8, 2008

Due: July 1, as shown on inside cover

The purpose of this Remarketing Circular is to provide certain information in connection with the remarketing by UBS Securities LLC the "Remarketing Agent", on behalf of itself and as a representative, of the Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate), Series 2001 C-2) the "2001 C-2) Fixed Rate Bonds", the Sewage Disposal System Second Lien Revenue Bonds (Modal Fixed Rate), Series 2001 E) the "2001 E) Fixed Rate Bonds" and the Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate), Series 2006 A) the "2006 A) Fixed Rate Bonds" and, together with the 2001 C-2) Fixed Rate Bonds and the 2001 E) Fixed Rate Bonds, the "Fixed Rate Bonds" issued by the City of Detroit, Michigan the "City".

The City has elected to convert its Sewage Disposal System Senior Lien Revenue Refunding Bonds (Variable Rate Demand), Series 2001 C-2) the "2001 C-2) Predecessor Bonds") from the Weekly Mode to the Modal Fixed Rate Mode, its Revenue Second Lien Bonds (Variable Rate Demand), Series 2006 A) the "2006 A) Predecessor Bonds") from the Weekly Mode to the Fixed Rate Mode and a portion of its Second Lien Revenue Bonds (Variable Rate Demand), Series 2001 E) the "2001 E) Predecessor Bonds" and, together with the 2001 C-2) Predecessor Bonds and the 2006 A) Predecessor Bonds, the "Predecessor Bonds") from the Flexible Rate Mode to the Modal Fixed Rate Mode.

The Predecessor Bonds are being remarketed pursuant to the Remarketing Agreement, dated May 1, 2008, between the Remarketing Agent and the City. The 2001 C-2) Predecessor Bonds were initially issued on October 23, 2001 and the 2006 A) Predecessor Bonds were initially issued on August 10, 2006, each in the Weekly Mode, and currently bear interest at a Weekly Rate. The 2001 E) Predecessor Bonds were initially issued on October 23, 2001 in the Flexible Rate Mode and currently bear interest at a Flexible Rate. The anticipated fixed rate conversion date of the 2001 C-2) Predecessor Bonds is May 8, 2008 and the anticipated fixed rate conversion date of the 2001 E) Predecessor Bonds and 2006 A) Predecessor Bonds is May 7, 2008 together, the "Conversion Dates"), subject to certain conditions precedent. From and after the Conversion Dates, the Fixed Rate Bonds will bear interest at the rates set forth on the inside cover, payable on each January 1 and July 1, commencing July 1, 2008.

Certain Fixed Rate Bonds are subject to mandatory and optional redemption prior to maturity. See "THE FIXED RATE BONDS – Redemption Provisions" herein.

The principal of and interest on the Fixed Rate Bonds are payable solely from the Pledged Assets under the Bond Ordinance, including the Net Revenues of the City's Sewage Disposal System. **The Fixed Rate Bonds are not general obligations of the City and are not indebtedness of the City for purposes of computing its debt limitations imposed by constitutional, statutory or charter provisions. The Fixed Rate Bonds do not constitute a charge against the general credit or taxing power of the City, and the City is not liable for payment of the Fixed Rate Bonds except from the sources herein described.** See "SECURITY AND SOURCES OF PAYMENT FOR FIXED RATE BONDS" herein. Payment of the principal of and interest on each series of the Fixed Rate Bonds, when due, is insured by a separate financial guaranty insurance policy collectively, the "FGIC Insurance Policies") issued at the time of the original issuance of the Predecessor Bonds by Financial Guaranty Insurance Company "FGIC"). In connection with the remarketing, Berkshire Hathaway Assurance Corporation "BHAC") will issue separate insurance policies collectively, the "BHAC Insurance Policies") on the Conversion Dates guaranteeing the scheduled payment of the principal of and interest on the Fixed Rate Bonds. BHAC's obligation to make payments under the BHAC Insurance Policies is subject to the failure of FGIC to make payments under the FGIC Insurance Policies. See "INTRODUCTION – Recent Developments in the Bond Insurance Industry" and "BOND INSURANCE" herein.



BERKSHIRE HATHAWAY
ASSURANCE CORPORATION

THIS COVER PAGE CONTAINS INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THE ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

It is expected that the 2001 C-2) Fixed Rate Bonds will be delivered to DTC in New York, New York on or about May 8, 2008 and the 2001 E) Fixed Rate Bonds and the 2006 A) Fixed Rate Bonds will be delivered to DTC in New York, New York on or about May 7, 2008.

UBS Investment Bank

Loop Capital Markets, LLC

Fifth Third Securities

M.R. Beal & Company

Raymond James

122,905,000

Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate), Series 2001(C-2)

\$25,275,000 Serial Bonds				
Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP ⁽¹⁾
2008	195,000	3.50	2.00	2512374A8
2009	245,000	3.50	2.25	2512374B6
2010	260,000	3.50	2.55	2512374C4
2011	270,000	3.50	2.85	2512374D2
2012	285,000	3.50	3.08	2512374E0
2013	295,000	4.00	3.21	2512374F7
2014	310,000	4.00	3.34	2512374G5
2015	325,000	4.00	3.48	2512374H3
2016	345,000	4.00	3.62	2512374J9
2017	365,000	4.00	3.76	2512374K6
2018	380,000	4.00	3.89	2512374L4
2019	400,000	4.00	4.00	2512374M2
2028	21,600,000	5.25	4.63 ⁽²⁾	2512374P5

\$4,090,000 4.50% Term Bonds due July 1, 2027 Yield 4.75% CUSIP⁽¹⁾ 2512374N0

\$93,540,000 5.25% Term Bond due July 1, 2029 Yield 4.67%⁽²⁾ CUSIP⁽¹⁾ 2512374Q3

136,150,000

Sewage Disposal System Second Lien Revenue Bonds (Modal Fixed Rate), Series 2001(E)

\$136,150,000 5.75% Term Bonds due July 1, 2031 Yield 4.67%⁽²⁾ CUSIP⁽¹⁾ 2512374R1

123,655,000

Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate), Series 2006(A)

\$123,655,000 5.50% Term Bonds due July 1, 2036 Yield 4.74%⁽²⁾ CUSIP⁽¹⁾ 2512373Z4

⁽¹⁾ Copyright 2008, American Bankers Association, CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of remarketing of the Fixed Rate Bonds and the City and Remarketing Agent do not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after remarketing of the Fixed Rate Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to the Fixed Rate Bonds.

⁽²⁾ Priced to July 1, 2018 optional redemption date.



CITY OF DETROIT

MAYOR
KWAME M. KILPATRICK

CITY COUNCIL
KENNETH V. COCKREL, JR., PRESIDENT

MONICA CONYERS, President Pro Tem
JOANN WATSON
SHEILA M. COCKREL
BARBARA-ROSE COLLINS

ALBERTA TINSLEY-TALABI
MARTHA REEVES
BRENDA JONES
KWAME KENYATTA

CITY CLERK
JANICE WINFREY

FINANCE DIRECTOR
NORMAN L. WHITE

WATER AND SEWERAGE DEPARTMENT DIRECTOR
VICTOR M. MERCADO

BOARD OF WATER COMMISSIONERS
MARY E. BLACKMON, PRESIDENT

HILLIARD L. HAMPTON
CARLA WALKER-MILLER
MARILYNN E. GOSLING

JIMMY L. COOPER
WILLIAM G. WESTRICK
KENNETH DANIELS

SPECIAL SERVICES

LEWIS & MUNDAY, A PROFESSIONAL CORPORATION
Bond Counsel

ROBERT W. BAIRD & CO., INCORPORATED
Co-Financial Advisor

PHOENIX CAPITAL PARTNERS
Co-Financial Advisor and Swap Advisor

THE FOSTER GROUP, LLC
Feasibility Consultant

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

INTRODUCTION 1

Authorization..... 1

Security and Sources of Payment for the Fixed Rate Bonds..... 2

Municipal Bond Insurance..... 2

Recent Developments in the Bond Insurance Industry 2

Miscellaneous..... 3

THE FIXED RATE BONDS 3

General 3

Redemption Provisions..... 4

BOOK-ENTRY ONLY SYSTEM..... 5

PLAN OF REMARKETING 7

Remarketing Plan 7

Amendments..... 7

Related Interest Rate Swaps 9

Sources and Uses of Funds 9

DEBT SERVICE AND OUTSTANDING INDEBTEDNESS 10

INTEREST RATE SWAP AGREEMENTS..... 12

General 12

Interest Rate Swaps Related to the Remarketed Bonds 12

SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS..... 15

Nature of Obligations under the Bond Ordinance..... 15

Pledged Assets..... 15

Priority of Lien and Payment Status..... 15

Bond Ordinance Flow of Funds..... 16

Reverse Flow of Funds..... 16

Reserve Accounts and Reserve Requirements..... 17

Certain Other Funds 19

Rate Covenant 19

Enforceability of Rates 20

Additional Bonds..... 20

Amendments Without Consent..... 21

Trustee..... 22

Remedies 22

BOND INSURANCE 23

Financial Guaranty Bond Insurance Policies..... 23

Berkshire Hathaway Assurance Corporation Bond Insurance Policies 25

THE WATER AND SEWERAGE DEPARTMENT..... 26

Organization 26

The Board..... 27

Management and Personnel..... 28

Pension Plan 29

THE SEWAGE DISPOSAL SYSTEM 29

Service Area 29

Retail and Other Billing; Delinquencies 30

Wholesale Municipal Customers..... 31

Customer and Regional Water Quality Partnering.....	32
Wholesale Customer Information.....	33
The Plant	33
Interceptor System.....	34
Collection System.....	34
Environmental Matters	34
FEASIBILITY CONSULTANT’S REPORT	35
THE CAPITAL IMPROVEMENT PROGRAM	35
FINANCIAL PROCEDURES	37
Budget and Accounting Matters	37
Management Initiatives	37
Collections and Delinquencies	38
Cash Management	38
Investment Policy	39
Rates	39
“Look-Back” Adjustments	40
Sewage Rate Comparison.....	41
FINANCIAL OPERATIONS	42
Summary of Historical Revenues and Expenses.....	42
Analysis of Recent Operations	42
Projected Operations for Fiscal Year 2008 Through 2012	43
Upcoming Reporting Change	44
Future Years	45
CONTINUING DISCLOSURE UNDERTAKING	45
LITIGATION	46
Environmental Litigation.....	46
Rate Litigation.....	47
Other Litigation	47
TAX MATTERS	48
Federal Tax Matters.....	48
State Tax Matters.....	48
Original Issue Discount	48
Amortizable Bond Premium.....	49
Market Discount	49
Recent Developments	50
Future Developments.....	50
Tax Advisors	50
FEASIBILITY CONSULTANT	50
VERIFICATION OF MATHEMATICAL COMPUTATIONS	50
INDEPENDENT AUDITORS.....	50
CERTAIN LEGAL MATTERS.....	51
REMARKETING	51
RATINGS.....	51
MISCELLANEOUS	51

Appendices:

- A – Feasibility Report
 - B – Audited Financial Statements of the Sewage Disposal Fund of the City of Detroit, Michigan as of and for the years ended June 30, 2006 and 2005
 - C – The Bond Ordinance
 - D – Amendments to Certain Provisions of Authorizing Documents
 - E – Characteristics of the Sewage Disposal System Service Area
 - F – Summary of the Continuing Disclosure Undertaking
 - G – Specimen of BHAC Bond Insurance Policy
- Map of Service AreaInside Back Cover

This Remarketing Circular has been prepared by the City and provides certain information relating to the City and its Sewage Disposal System in connection with the sale of the Fixed Rate Bonds. This Remarketing Circular is distributed in connection with the sale of the Fixed Rate Bonds and may not be reproduced or used, in whole or in part, for any other purpose. No dealer, broker, salesperson or other person has been authorized by the City or the Remarketing Agent to give any information or to make any representations with respect to the City or its Fixed Rate Bonds other than those contained in this Remarketing Circular and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Remarketing Agent. Neither the City nor the Remarketing Agent has undertaken any independent investigation of the operations of FGIC or BHAC, and they make no representation herein as to the accuracy or adequacy of such information or as to the ability of FGIC or BHAC to make payments under their respective bond insurance policies. The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Circular: The Remarketing Agent has reviewed the information in this Remarketing Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

This Remarketing Circular does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Fixed Rate Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Remarketing Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Sewage Disposal System, the City, FGIC or BHAC since the date hereof.

Upon conversion, the Fixed Rate Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity other than the City will have passed upon the accuracy or adequacy of this Remarketing Circular.

IN CONNECTION WITH THIS REMARKETING, THE REMARKETING AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE FIXED RATE 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 order and placement of materials in this Remarketing Circular, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance and this Remarketing Circular, including the Appendices, must be considered in its entirety.

Other than with respect to information concerning FGIC and BHAC contained herein under the caption "BOND INSURANCE" and in the appendices to the herein defined Predecessor Official Statements and incorporated herein, none of the information in this Remarketing Circular has been supplied or verified by FGIC or BHAC, and neither FGIC nor BHAC make any representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Fixed Rate Bonds, or (iii) the tax exempt status of the interest on the Fixed Rate Bonds.

382,710,000
CITY OF DETROIT, MICHIGAN
Sewage Disposal System

122,905,000
Senior Lien Revenue Refunding Bonds
Modal Fixed Rate), Series 2001 C-2)

136,150,000
Second Lien Revenue Bonds
Modal Fixed Rate), Series 2001 E)

123,655,000
Revenue Second Lien Bonds
Fixed Rate), Series 2006 A)

INTRODUCTION

This Remarketing Circular provides certain information in connection with the remarketing by UBS Securities LLC (the "Remarketing Agent") of the Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate), Series 2001(C-2) (the "2001(C-2) Fixed Rate Bonds"), the Sewage Disposal Second Lien Revenue Bonds (Modal Fixed Rate), Series 2001(E) (the "2001(E) Fixed Rate Bonds") and the Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate), Series 2006(A) (the "2006(A) Fixed Rate Bonds", and together with the 2001(C-2) Fixed Rate Bonds and the 2001(E) Fixed Rate Bonds, the "Fixed Rate Bonds") issued by the City of Detroit, Michigan (the "City").

The 2001(C-2) Fixed Rate Bonds will be converted from 123,625,000 currently outstanding principal amount of Sewage Disposal System Revenue Refunding Bonds (Variable Rate Demand), Series 2001(C-2) (the "2001(C-2) Predecessor Bonds"), a portion of the 2001(E) Fixed Rate Bonds will be converted from the 139,080,000 currently outstanding principal amount of Sewage Disposal System Second Lien Revenue Bonds (Variable Rate Demand), Series 2001(E) (the "2001(E) Predecessor Bonds"), and the 2006(A) Fixed Rate Bonds will be converted from 125,000,000 currently outstanding principal amount of Sewage Disposal System Revenue Second Lien Bonds (Variable Rate Demand), Series 2006(A) (the "2006(A) Predecessor Bonds," and together with the 2001(C-2) Predecessor Bonds and 2001(E) Predecessor Bonds, the "Predecessor Bonds"). The 2001(C-2) Predecessor Bonds and the 2006(A) Predecessor Bonds were each issued in the Weekly Mode and currently bear interest at a Weekly Rate. The 2001(E) Predecessor Bonds were issued in the Flexible Rate Mode and currently bear interest at a Flexible Rate. The Predecessor Bonds will be converted from their respective interest rate modes to the Modal Fixed Rate Mode (in the case of the 2001(C-2) and 2001(E) Predecessor Bonds) or the Fixed Rate Mode (in the case of the 2006(A) Predecessor Bonds) (in either case, referred to herein as the "Fixed Rate Mode"). Upon conversion of any of the Predecessor Bonds to a Fixed Rate Mode, such converted Fixed Rate Bonds may not be converted to any other interest rate mode. The 2001(E) Predecessor Bonds which are not being converted to the Modal Fixed Rate Mode will remain outstanding in the Flexible Rate Mode. This Remarketing Circular is not applicable to such 2001(E) Predecessor Bonds and reference should be made to the Official Statement dated October 18, 2001 with respect thereto.

Authorization

Issuance. The Predecessor Bonds were authorized to be issued pursuant to the Revenue Bond Act of 1933, Act No. 94, Public Acts of Michigan, 1933, as amended (the "Act"). The 2001(C-2) Predecessor Bonds were issued pursuant to Ordinance No. 27-86, as supplemented and amended, which was amended and restated by Ordinance 18-01 (the "Bond Ordinance") and a resolution supplementing the Bond Ordinance adopted by the City Council on August 1, 2001, and as amended on October 10, 2001 (the "2001 Resolution"), a Variable Rate Mode Supplement and Amendment dated as of September 1, 2001 (the "2001 Variable Rate Supplement") and a Sale Order of the Finance Director of the City dated October 1, 2001 (the "2001(C-2) Sale Order", together with the Bond Ordinance, the 2001 Variable Rate Supplement and the 2001 Resolution, the "2001(C-2) Authorizing Documents"). The 2001(E) Predecessor Bonds were issued pursuant to the Bond Ordinance as supplemented by the 2001 Resolution, the 2001 Variable Rate Supplement and a Sale Order of the Finance Director of the City dated October 18, 2001 (the "2001(E) Sale Order" together with the Bond Ordinance, the 2001 Variable Rate Supplement and the 2001 Resolution, the "2001(E) Authorizing Documents"). The 2006(A) Predecessor Bonds were issued pursuant to 2001 Ordinance as supplemented by a resolution adopted by the City Council on February 15, 2006 (the "2006(A) Resolution"), the Variable Rate Mode and Auction Rate Mode Supplement and Agreement dated August 1, 2006 (the "2006(A) Variable Rate Supplement") and a Sale Order of the Interim Finance Director of the City dated as of August 4, 2006 (the "2006(A) Sale Order, together with the Bond Ordinance, 2006(A) Variable Rate Supplement and the 2006(A) Resolution, the "2006(A) Authorizing Documents").

Remarketing The Predecessor Bonds to be remarketed are being remarketed pursuant to the Remarketing Agreement, dated May 1, 2008 (the "Remarketing Agreement"), between the Remarketing Agent and the City. The conversion of the 2001(C-2) Predecessor Bonds to Fixed Rate Bonds is expected to occur on or about May 8, 2008, and the conversion of the 2001(E) Predecessor Bonds and the 2006(A) Predecessor Bonds to Fixed Rate Bonds is expected to occur on or about May 7, 2008 (together, the "Conversion Dates"), subject to certain conditions precedent as described in the Remarketing Agreement. **Should the conversion to Fixed Rate Mode fail to occur, the Predecessor Bonds to have been converted will remain outstanding in the Weekly Mode as to the 2001 C-2) Predecessor Bonds and the 2006 A) Predecessor Bonds and in the Flexible Mode as to the 2001 E) Predecessor Bonds. In connection with the remarketing described herein, certain**

amendments will be made to the 2001(C-2), 2001(E) and 2006(A) Authorizing Documents to shorten certain notice periods in the event the initial Fixed Rate Conversion is not consummated and the City elects to again attempt a fixed rate conversion shortly thereafter. See “PLAN OF REMARKETING – Amendments”, and “Appendix D – Amendments to Certain Provisions of the Authorizing Documents” herein. Until such conversion to a Fixed Rate Mode, the Purchase Price of the 2001(C-2) Predecessor Bonds, 2001(E) Predecessor Bonds and 2006(A) Predecessor Bonds will be paid by separate liquidity facilities provided by DEPFA Bank plc, acting through its New York branch (collectively, the “Liquidity Facilities”). See “PLAN OF REMARKETING” herein for more information.

Except with respect to the amendments described in the immediately preceding paragraph, this Remarketing Circular only contains information regarding bonds while in the Fixed Rate Mode. Reference is made to the respective Predecessor Official Statements defined below) for information relating to any of the Predecessor Bonds prior to conversion to the Fixed Rate Mode.

Underlying Documents. This Remarketing Circular describes the Fixed Rate Bonds in the Fixed Rate Mode only. It is not intended to be used in connection with any offer to sell or remarket any Predecessor Bonds in any mode other than the Fixed Rate Mode. Should conversion of the Predecessor Bonds to Fixed Rate Mode fail to occur, the Predecessor Bonds will remain in the Weekly Mode. Reference should be made to the Official Statement dated October 1, 2001 with respect to the 2001(C-2) Predecessor Bonds, to the Official Statement dated October 18, 2001 with respect to the 2001(E) Predecessor Bonds and to the Official Statement dated August 4, 2006 with respect to the 2006(A) Predecessor Bonds (together the “Predecessor Official Statements”), on file with the Municipal Securities Rulemaking Board (the “MSRB”), for information concerning the authorization for the Predecessor Bonds, and other information related to the Predecessor Bonds. Reference to the Predecessor Official Statements is made solely for informational purposes, and information in the Predecessor Official Statements is not incorporated herein. Reference should also be made to certain amendments to the 2001 Variable Rate Supplement, the 2001(C-2) Sale Order, the 2006(A) Variable Rate Supplement, and the 2006(A) Sale Order which will be effective in connection with the remarketing, are set forth in Appendix D hereto.

Interest Rate Swap Agreements. In connection with the remarketing of the 2001(C-2) and 2006(A) Predecessor Bonds, the City has executed two (2) fixed-to-floating interest rate swaps, the purpose of which is to offset the effect of the floating-to-fixed rate payments of the existing floating-to-fixed interest rate swaps related to the 2001(C-2) and 2006(A) Predecessor Bonds. See “PLAN OF REMARKETING – Related Interest Rate Swaps” and “INTEREST RATE SWAP AGREEMENTS” herein.

Security and Sources of Payment for the Fixed Rate Bonds

Upon conversion, the Fixed Rate Bonds will have the same benefits of the security and sources of payment, covenants and other provisions of the Bond Ordinance as all other Sewage Disposal System Bonds secured by a senior lien, as to the 2001(C-2) Fixed Rate Bonds (sometimes referred to herein along with other senior lien bonds as the “Senior Lien Bonds”) and by a subordinate second lien, as to the 2001(E) Fixed Rate Bonds and the 2006(A) Fixed Rate Bonds (together, and along with other second lien bonds, sometimes referred to herein as “Second Lien Bonds”), on the Pledged Assets, as hereinafter described and defined. The Bond Ordinance appears as Appendix C of this Remarketing Circular.

Municipal Bond Insurance

Concurrently with the issuance of the Predecessor Bonds, Financial Guaranty Insurance Company (“FGIC”), issued its bond insurance policies for such Predecessor Bonds (the “FGIC Insurance Policies”). The FGIC Insurance Policies remain in effect and unconditionally guarantee the payment of that portion of the principal of and interest on the Fixed Rate Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. See “BOND INSURANCE – Financial Guaranty Bond Insurance Policies” herein.

In addition, concurrently with the remarketing of the Predecessor Bonds, Berkshire Hathaway Assurance Corporation (“BHAC”) will issue its bond insurance policies for each series of the Fixed Rate Bonds (the “BHAC Insurance Policies”) on the respective Conversion Dates. The BHAC Insurance Policies will guarantee the scheduled payment when due of the principal of and interest on the Fixed Rate Bonds. BHAC’s obligation to make payments under the BHAC Insurance Policies is subject to the failure of FGIC to make payments under the FGIC Insurance Policies. See “BOND INSURANCE – Berkshire Hathaway Bond Insurance Policies.”

Recent Developments in the Bond Insurance Industry

In recent months, Standard & Poor’s, a division of The McGraw-Hill Companies (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch” and, collectively, the “Rating Agencies”) have expressed growing concern about the potential effects of downturns in the market for structured finance instruments, including collateralized debt

obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies. As a result of exposure to such risks, the Rating Agencies have issued press releases and/or reports addressing their ratings on a number of bond insurance companies. These companies include: (a) FGIC, which provided the FGIC Insurance Policies on the Predecessor Bonds, bond insurance on other Sewage System Bonds, and various surety policies providing Reserve Account credit enhancement; (b) BHAC, which will provide the BHAC Insurance Policies on the Fixed Rate Bonds; (c) MBIA Insurance Corporation (“MBIA”), which provided bond insurance on other Sewage System Bonds and various surety policies providing Reserve Account credit enhancement; and (d) Financial Security Assurance Inc. (“FSA”), which provided bond insurance on other Sewage System Bonds and various surety policies providing Reserve Account credit enhancement. See “BOND INSURANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Reserve Accounts and Reserve Requirements” herein. The paragraphs below address recent actions by the Rating Agencies on the bond insurance companies referenced above that have provided bond insurance and/or Reserve Account credit enhancement for outstanding Sewage System Bonds. There could be further deterioration in the financial condition of any of the bond insurance companies, and further credit rating downgrades, which could potentially impact the market price of outstanding Sewage System Bonds and/or the funding of the Sewage System’s Reserve Accounts.

FGIC. As of March 31, 2008, the financial strength ratings of FGIC were as follows: Fitch – “BBB”, Rating Outlook Negative; S&P – “BB”, Outlook Negative; and Moody’s – “Baa3”, under review for possible downgrade. Each rating of FGIC should be evaluated independently. The ratings reflect the respective Rating Agency’s current assessment of the insurance financial strength of FGIC, and further explanations of any rating may be obtained only from the applicable Rating Agency. These ratings are not recommendations to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by the Rating Agencies. The further downgrade or withdrawal of any of these ratings may have an adverse effect on the market price of the Fixed Rate Bonds. See “BOND INSURANCE - Financial Guaranty Bond Insurance Policies” for more information.

BHAC. In an April 25, 2008 press release, Moody’s assigned a “Aaa” rating to BHAC, with a stable outlook. In an April 11, 2008 research update, S&P assigned a “AAA” rating to BHAC, with a stable outlook. See “BOND INSURANCE – Berkshire Hathaway Assurance Corporation Bond Insurance Policies” for more information.

MBIA. In a February 26, 2008 press release, Moody’s confirmed its “Aaa” rating of MBIA, with a negative outlook. The release is available on the Moody’s website at www.moody.com. In a press release dated February 25, 2008, S&P removed its “AAA” rating of MBIA from CreditWatch and assigned a negative rating outlook. In an April 4, 2008 press release, Fitch downgraded the rating of MBIA from “AAA” to “AA”, removed its rating from rating watch negative and assigned a negative rating outlook. The release is available on the Fitch website at www.fitchratings.com. There can be no assurance that the views expressed in those documents represent the current views of the Rating Agencies or that those views will not change in the future.

FSA. In a March 11, 2008 press release Moody’s affirmed its “Aaa” rating of FSA, with a stable outlook. In a press release dated January 31, 2008, S&P affirmed its “AAA” rating of FSA, with a stable rating outlook. In a January 24, 2008 press release, Fitch affirmed its “AAA” rating of FSA, with a stable rating outlook. There can be no assurance that the views expressed in those documents represent the current views of the rating agencies or that those views will not change in the future.

Miscellaneous

There follow in this Remarketing Circular descriptions of the Fixed Rate Bonds and other matters generally relating to the remarketing of the Fixed Rate Bonds. *Persons considering a purchase of the Fixed Rate Bonds should read this Remarketing Circular in its entirety.*

THE FIXED RATE BONDS

General

The Fixed Rate Bonds are issuable in authorized denominations of \$5,000 or integral multiples thereof and will be issued in book-entry form. The Fixed Rate Bonds will be dated as of their original date of issuance and delivery, and will mature on July 1 in the years and principal amounts and bear interest at the rates set forth on the inside cover of this Remarketing Circular. Interest on the Fixed Rate Bonds will accrue from the applicable date of conversion (the “Conversion Dates”) and will be payable semiannually on each January 1 and July 1, commencing July 1, 2008 (each an “Interest Payment Date”) to the registered owners as of the 15th day of the month immediately preceding the Interest Payment Date (a “Regular Record Date”). Interest on the Fixed Rate Bonds will be computed using a 360-day year and twelve 30-day months.

Redemption Provisions

Optional Redemption. The Fixed Rate Bonds maturing on or before July 1, 2018, are not subject to redemption prior to maturity. The Fixed Rate Bonds maturing on or after July 1, 2019, are subject to redemption at the option of the City in whole or in part in such order of maturity as the City shall determine and within any maturity by lot, on any date on or after July 1, 2018, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The 2001(C-2) Fixed Rate Bonds maturing on July 1, 2027 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the Sinking Fund established for such purpose under the 2001 Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

<u>Redemption Date (July 1)</u>	<u>Principal Amount</u>
2020	\$420,000
2021	440,000
2022	470,000
2023	495,000
2024	520,000
2025	550,000
2026	580,000
2027†	615,000

† Final maturity.

The 2001(C-2) Fixed Rate Bonds maturing on July 1, 2029 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the Sinking Fund established for such purpose under the 2001 Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

<u>Redemption Date (July 1)</u>	<u>Principal Amount</u>
2028	\$34,240,000
2029†	59,300,000

† Final maturity.

The 2001(E) Fixed Rate Bonds maturing on July 1, 2031 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the Sinking Fund established for such purpose under the 2001 Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

<u>Redemption Date (July 1)</u>	<u>Principal Amount</u>
2024	\$1,750,000
2025	1,870,000
2026	1,885,000
2027	1,890,000
2028	1,160,000
2029	1,100,000
2030	62,305,000
2031†	64,190,000

† Final maturity.

The 2006(A) Fixed Rate Bonds maturing on July 1, 2036 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the Sinking Fund established for such purpose under the 2006(A) Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

<u>Redemption Date (July 1)</u>	<u>Principal Amount</u>
2034	\$7,525,000
2035	7,880,000
2036†	108,250,000

† Final maturity.

General Redemption Provisions. Any Fixed Rate Bonds to be redeemed will be redeemed only in authorized denominations. Fixed Rate Bonds duly called for redemption will cease to bear interest on and after the date fixed for redemption, whether or not presented for payment, provided that funds are on hand with the Transfer Agent to redeem such Fixed Rate Bonds. A registered owner of a Fixed Rate Bond selected for redemption in part, upon surrender of such Fixed Rate Bond for redemption shall receive without cost a new Fixed Rate Bond of the same series and maturity, and in the principal amount of the unredeemed portion of such Fixed Rate Bond that was surrendered.

Notice of Redemption. The Transfer Agent will mail notice of redemption to the registered owners of Fixed Rate Bonds not less than 30 days prior to the date fixed for redemption. So long as DTC or its nominee is the registered owner of the Fixed Rate Bonds, the Transfer Agent will send any notice of redemption only to DTC, as described under Book-Entry-Only System.”

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Fixed Rate Bonds (referred to in this section as, the “Bonds”). The Bonds will be remarketed 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 Bond certificate will be issued for each maturity of the Bonds, each 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 Standard & Poor’s highest rating: AAA. 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 and www.dtc.org.

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

To facilitate subsequent transfers, all 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 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 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Issuer or Agent, on 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that Issuer believes to be reliable, but the City takes no responsibility for the accuracy thereof.

PLAN OF REMARKETING

Remarketing Plan

The City intends to convert the 2001(C-2) Predecessor Bonds from the Weekly Mode to the Modal Fixed Rate Mode, the 2001(E) Predecessor Bonds from the Flexible Rate Mode to the Modal Fixed Rate Mode to the extent bondholder consent is received therefor and the 2006(A) Predecessor Bonds from the Weekly Mode to the Fixed Rate Mode via remarketings pursuant to the Remarketing Agreement. In conjunction with the remarketings, the existing Liquidity Facilities and Remarketing Agreements will be terminated. Each series of the Fixed Rate Bonds will continue to carry the associated FGIC Insurance Policies issued by FGIC. In addition, concurrently with the remarketing of the Predecessor Bonds to Fixed Rate Bonds on the respective Conversion Dates, BHAC, a New York stock insurance corporation, will deliver the BHAC Insurance Policies guaranteeing the scheduled payments when due of the principal of and interest on the Fixed Rate Bonds. BHAC's obligation to make payments under the BHAC Insurance Policies is subject to the failure of FGIC to make payments under the FGIC Insurance Policies. See "BOND INSURANCE" herein for more detail.

Amendments

Certain amendments to the 2001 Variable Rate Supplement, the 2001(C-2) Sale Order, the 2006(A) Variable Rate Supplement, and the 2006(A) Sale Order (collectively, the "2001 and 2006 Authorizing Documents"), which will be effective in connection with the remarketing, are set forth in Appendix D hereto. The 2001 and 2006 Authorizing Documents are governed by their own amendment provisions but are also subject to the amendment provisions of the Bond Ordinance, which is included as Appendix C to this Remarketing Circular. Section 22(B)(3) of the Bond Ordinance, "Amendments With Consent," states in relevant part as follows:

[T]he 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.

Each of the 2001 Variable Rate Supplement and the 2006(A) Variable Rate Supplement (collectively, the "Supplements") contain substantially the same language. **Accordingly, Holders of the Predecessor Bonds being remarketed hereby which are acquired in the remarketing thereof on or after the date of this Remarketing Circular, whether or not the fixed rate conversion and related optional redemption are consummated in accordance with the initial notice of Mode Change or optional redemption, will be considered to have consented to the amendments set forth in Appendix D without the necessity of receipt of actual formal consent.**

Following is a summary of the amendments. Unless stated otherwise, the amendment applies to all of the Predecessor Bonds being remarketed pursuant to this Remarketing Circular and to only the Predecessor Bonds. It does not apply to any other bonds which are covered by the terms of the 2001 Variable Rate Supplement and related sale orders. Reference should be made to Appendix D for specific amendment provisions and the authority therefor. Capitalized terms used in this section have the same meanings as in Appendix D.

1. The definition of "Favorable Bond Counsel's Opinion" will be amended to provide that in lieu of the opinion that the remarketing will not adversely affect the exemption of the interest on the Fixed Rate Bonds from federal and state income taxation (subject to customary exceptions), Bond Counsel may provide an opinion to the effect that the interest on the Fixed Rate Bonds is excluded from gross income for federal and state income tax purposes (subject to customary exceptions).

2. In the event that certain structural changes to debt service are made in the conversion to fixed rate, the Supplements require that the converted Securities meet the requirements for issuance as new bonds of the corresponding parity and for the corresponding purpose under the Bond Ordinance. This requirement will not be required in connection with any remarketing of the Predecessor Bonds that is completed prior to September 30, 2008, but only if the City certifies, in a manner acceptable to Bond Counsel at the time of such remarketing, that such lack of compliance is not materially adverse to the Holders of all outstanding Bonds of the Sewage Disposal System.

3. The Supplements require that the interest rate in remarketings, other than with respect to Flexible Rate Securities, shall be determined by the Remarketing Agent as the interest rate that in the judgment of the Remarketing Agent would allow such Securities to be sold at par plus accrued interest to the purchase date, under prevailing market conditions. The amendment will allow the Predecessor Bonds to be remarketed at a net premium, provided that the par amount thereof may not increase.

4. In the event that notice of Mode Change or notice of optional redemption is sent to Holders of the Predecessor Bonds, but the Mode Change or the optional redemption is not consummated on the date specified in the original notices, the amendments shorten the period for giving a subsequent notice of Mode Change or optional redemption. The amendments provide that in such a situation, if the Finance Director again elects to change the Mode for the Predecessor Bonds to the Fixed Rate Mode within 30 days of the initial Mode Change Date, and in connection therewith, optionally redeem a portion of the Predecessor Bonds, his/her election shall be effective if he/she delivers to the Holders of the Predecessor Bonds, the Tender Agent, and each of the other Notice Parties, simultaneously, not later than the 3rd day next preceding the Mode Change and optional redemption date, a subsequent notice of Mode Change and optional redemption stating that such Mode Change Date is the Purchase Date and the redemption date, as applicable.

5. The following amendments relate only to the holders of the 2001(E) Predecessor Bonds consenting to such amendments provided that consent to such amendments is obtained from at least 51% in outstanding principal amount of the Holders of Series E Securities to the amendments¹:

a. The provision of the 2001 Variable Rate Supplement which requires that all outstanding Flexible Rate Securities be changed on the same Mode Change Date is amended to permit the Mode of Series E Securities (which are currently in the Flexible Rate Mode) to be changed without regard to the Mode of any other Flexible Rate Security.

b. The amendments allow the Mode of a 2001(E) Predecessor Bonds to be changed on any Modal Business Day rather than only on the last day of the Flexible Rate Period.

c. The amendments allow 2001(E) Predecessor Bonds to be subject to redemption on any Modal Business Day rather than only on an Interest Payment Date.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

¹ Consent of \$137,730,000 in aggregate principal amount (99.03%) was received and, accordingly, those holders will be subject to mandatory tender in the amount of \$136,150,000 and optional redemption in the amount of \$1,580,000. The amendments apply only to the consenting 2001(E) Predecessor Bondholders. 2001(E) Predecessor Bondholders not consenting will remain outstanding in the Flexible Rate Mode in the aggregate principal amount of \$1,350,000. See INTRODUCTION.”

Related Interest Rate Swaps

In connection with the remarketing of the 2001(C-2) and 2006(A) Predecessor Bonds, the City executed two (2) fixed-to-floating interest rate swaps (the “Mirror Swaps”), which will be effective on the respective Conversion Dates. The purpose of the Mirror Swaps is to offset the floating-to-fixed rate payments of the existing floating-to-fixed rate swaps (the “Existing Swaps”) related to the 2001(C-2) and 2006(A) Predecessor Bonds. Additionally, in connection with the execution of the Mirror Swaps, which will be uninsured, the City and the swap providers executed amended and restated ISDA Master Agreements for the Existing Swaps, which will remove the existing FGIC swap insurance, effective on the respective Conversion Dates. The 2001(C-2) Bonds have one (1) related swap which terminates July 1, 2029. The 2006(A) Predecessor Bonds have one (1) related swap which terminates July 1, 2036. The notional amounts and amortization of the Mirror Swaps will match exactly the notional amounts and amortization of the Existing Swaps. Under the Mirror Swaps, the City will receive a fixed rate from the respective swap provider and pay a floating rate based on the SIFMA Index to the swap provider related to the Mirror Swaps. Under the Existing Swaps, the City currently pays a fixed rate to the swap provider and receives a floating rate based on the SIFMA Index to the swap provider. The floating rate receipts of the City under the Existing Swaps and floating rate payments made by the City under the Mirror Swaps will completely offset each other. The City will be left with a net fixed rate payment which equals the difference between the fixed rate payment made by the City on the Existing Swaps and the fixed rate receipt of the City on each Mirror Swap. The net fixed rate payment will be added to and treated as a part of debt service on the applicable Fixed Rate Bonds. See “INTEREST RATE SWAP AGREEMENTS” for more information on the System’s outstanding interest rate swap agreements

Sources and Uses of Funds

The sources and uses of funds in connection with the remarketing of the Fixed Rate Bonds are as follows:

	<u>2001(C-2) Fixed Rate Bonds</u>	<u>2001(E) Fixed Rate Bonds</u>	<u>2006(A) Fixed Rate Bonds</u>	<u>Total</u>
SOURCES OF FUNDS:				
Par Amount of Bonds	122,905,000	136,150,000	123,655,000	382,710,000
Net Reoffering Premium	<u>5,354,591</u>	<u>11,768,806</u>	<u>7,493,493</u>	<u>24,616,890</u>
TOTAL SOURCES	128,259,591	147,918,806	131,148,493	407,326,890
USES OF FUNDS:				
Remarketing Proceeds and Debt Service Accounts	123,908,730	141,952,215	125,245,902	391,106,846
Costs of Issuance*	<u>4,350,861</u>	<u>5,966,591</u>	<u>5,902,591</u>	<u>16,220,044</u>
TOTAL USES	128,259,591	147,918,806	131,148,493	407,326,890

* Includes underwriting discount, municipal bond insurance premiums, printing costs, rating agency fees, legal fees and other issuance expenses.

DEBT SERVICE AND OUTSTANDING INDEBTEDNESS*

As of the Conversion Dates, there will be \$2,983,775,548 aggregate principal amount of Sewage System Bonds outstanding, consisting of \$1,539,480,179 Senior Lien Bonds, \$1,057,770,000 Second Lien Bonds and \$386,525,369⁽²⁾ State Revolving Fund (“SRF”) Junior Lien Bonds. The following tables set forth information with respect to outstanding Sewage System Bonds, including the total outstanding Sewage System Bond debt service.

Sewage Disposal System Revenue Bonds and Revenue Refunding Bonds

	Original Principal Amount	Outstanding as of May 8, 2008
Senior Lien Bonds		
Sewage Disposal System Revenue Bond, Series 1992-A	\$ 4,360,000	\$ 1,260,000
Sewage Disposal System Revenue Bond, Series 1992-B	1,915,000	655,000
Sewage Disposal System Revenue Bond, Series 1993-B	6,603,996	2,585,000
Sewage Disposal System Revenue Refunding Bonds, Series 1995-B	125,295,000	14,375,000
Sewage Disposal System Revenue Bond, Series 1997-B	6,075,000	3,250,000
Sewage Disposal System Revenue Refunding Bonds, Series 1998-A	69,000,000	65,875,000
Sewage Disposal System Revenue Refunding Bonds, Series 1998-B	68,955,000	65,865,000
Sewage Disposal System Revenue Bond, Series 1999-SRF1	21,475,000	14,135,000
Sewage Disposal System Revenue Bond, Series 1999-SRF2	46,000,000	36,560,000
Sewage Disposal System Revenue Bond, Series 1999-SRF3	31,030,000	21,885,000
Sewage Disposal System Revenue Bond, Series 1999-SRF4	40,655,000	28,665,000
Sewage Disposal System Revenue Bonds, Series 1999-A	302,995,000	34,635,179
Sewage Disposal System Revenue Bonds, Series 2001(C-1)	159,970,000	155,305,000
Sewage Disposal System Revenue Bonds, Series 2001(C-2)	127,165,000	122,905,000 ⁽¹⁾
Sewage Disposal System Revenue / Revenue Refunding Bonds, Series 2003(A)	599,380,000	335,210,000
Sewage Disposal System Revenue Bonds, Series 2003(B)	150,000,000	150,000,000
Sewage Disposal System Revenue Refunding Bonds, Series 2004(A)	101,435,000	97,890,000
Sewage Disposal System Revenue Refunding Bonds, Series 2006(C)	26,520,000	26,560,000
Sewage Disposal System Revenue Refunding Bonds, Series 2006(D)	<u>370,000,000</u>	<u>361,865,000</u>
Total Senior Lien Bonds	2,258,828,996	1,539,480,179
Second Lien Bonds		
Sewage Disposal System Revenue Bonds, Series 2001(B)	110,550,000	110,550,000
Sewage Disposal System Revenue Bonds, Series 2001(D-1)	20,000,000	20,000,000
Sewage Disposal System Revenue Bonds, Series 2001(D-2)	72,450,000	72,450,000
Sewage Disposal System Revenue Bonds, Series 2001(E)	139,080,000	137,500,000 ⁽¹⁾
Sewage Disposal System Revenue Bonds, Series 2005(A)	273,355,000	240,535,000
Sewage Disposal System Revenue Refunding Bonds, Series 2005(B)	40,215,000	40,215,000
Sewage Disposal System Revenue Refunding Bonds, Series 2005(C)	63,160,000	62,865,000
Sewage Disposal System Revenue Bonds, Series 2006(A)	125,000,000	123,655,000 ⁽¹⁾
Sewage Disposal System Revenue Bonds, Series 2006(B)	<u>250,000,000</u>	<u>250,000,000</u>
Total Second Lien Bonds	1,093,810,000	1,057,770,000
SRF Junior Lien Bonds		
Sewage Disposal System Revenue Bonds, Series 2000-SRF1	53,475,000	42,500,000
Sewage Disposal System Revenue Bonds, Series 2000-SRF2	65,000,000	51,660,000
Sewage Disposal System Revenue Bonds, Series 2001-SRF1	82,200,000	72,330,000
Sewage Disposal System Revenue Bonds, Series 2001-SRF2	59,850,000	52,665,000
Sewage Disposal System Revenue Bonds, Series 2002-SRF1	18,985,000	15,080,000
Sewage Disposal System Revenue Bonds, Series 2002-SRF2	1,970,000	1,200,369
Sewage Disposal System Revenue Bonds, Series 2002-SRF3	43,740,000	38,490,000
Sewage Disposal System Revenue Bonds, Series 2003-SRF1	48,520,000	44,685,000
Sewage Disposal System Revenue Bonds, Series 2003-SRF2	25,800,000	22,695,000
Sewage Disposal System Revenue Bonds, Series 2004-SRF1	2,910,000	2,545,000
Sewage Disposal System Revenue Bonds, Series 2004-SRF2	18,690,000	16,365,000
Sewage Disposal System Revenue Bonds, Series 2004-SRF3	12,920,000	11,310,000
Sewage Disposal System Revenue Bonds, Series 2007-SRF1	<u>167,560,000</u> ⁽²⁾	<u>15,000,000</u> ⁽²⁾
Total SRF Junior Lien Bonds	<u>601,620,000</u>	<u>386,525,369</u>
Total All Bonds	<u>\$3,954,258,996</u>	<u>\$2,983,775,548</u>

SOURCE: The Department.

(1) Reflects partial optional redemption of some of the Predecessor Bonds on the respective Conversion Dates.

(2) Original Principal Amount reflects maximum stated amount of State Revolving Fund Bonds issued as part of the State of Michigan’s Revolving Loan Program; outstanding amount reflects principal amount of loan drawn by the Department. As the Department draws additional amounts from time to time hereafter, the outstanding principal amounts of such Bonds will correspondingly increase. It is anticipated that the maximum amounts on all State Revolving Fund Bonds will not be fully drawn until Fiscal Year 2011.

Debt Service Schedule

Fiscal Year Ending June 30 ⁽¹⁾	Senior Lien Bonds			Second Lien Bonds			SRF Junior Lien Bonds			Total System		
	Outstanding Senior Lien Debt Service (2,3)	Series 2001(C-2) Fixed Rate Principal ⁽⁴⁾	Series 2001(C-2) Debt Service (4)	Total Senior Lien Debt Service (4)	Outstanding Second Lien Debt Service (2,3,5)	Series 2001(E) Fixed Rate Debt Service (4)	Series 2006(A) Fixed Rate Principal ⁽⁴⁾	Series 2006(A) Fixed Rate Debt Service (4)	Total Second Lien Debt Service ⁽⁶⁾	Outstanding SRF Junior Lien Debt Service ⁽⁶⁾	Total System Debt Service	
2008	102,834,726	195,000	1,402,136	104,236,862	39,700,764	1,174,294	3,172,504	44,047,562	26,964,110	175,248,534		
2009	100,040,298	245,000	7,705,526	107,745,824	35,557,185	7,828,625	7,876,275	51,262,085	27,886,044	186,893,953		
2010	100,285,816	260,000	7,709,281	107,995,097	41,665,423	7,828,625	7,876,275	57,370,323	28,726,659	194,092,078		
2011	96,365,846	270,000	7,707,377	104,073,224	45,244,423	7,828,625	7,876,275	60,949,323	36,862,815	201,885,362		
2012	93,825,266	285,000	7,709,990	101,535,257	48,572,427	7,828,625	7,876,275	64,277,327	37,330,684	203,143,268		
2013	97,963,108	295,000	7,706,945	105,670,053	44,721,132	7,828,625	7,876,275	60,426,032	37,328,678	203,424,763		
2014	89,549,088	310,000	7,706,941	97,256,029	52,934,657	7,828,625	7,876,275	68,639,557	37,332,175	203,227,761		
2015	90,112,956	325,000	7,706,203	97,819,159	52,519,657	7,828,625	7,876,275	68,224,557	37,335,875	203,379,591		
2016	98,742,771	345,000	7,709,688	106,452,459	43,632,527	7,828,625	7,876,275	59,337,427	37,339,497	203,129,383		
2017	98,494,325	365,000	7,712,194	106,206,519	43,648,402	7,828,625	7,876,275	59,353,302	37,332,459	202,892,280		
2018	98,637,168	380,000	7,708,723	106,345,891	43,641,602	7,828,625	7,876,275	59,346,502	37,339,722	203,032,114		
2019	98,542,836	400,000	7,709,474	106,252,309	43,883,402	7,828,625	7,876,275	59,588,302	37,325,719	203,166,330		
2020	96,929,151	420,000	7,709,246	104,638,397	45,646,502	7,828,625	7,876,275	61,351,402	37,335,337	203,325,136		
2021	85,822,917	440,000	7,705,940	93,528,858	56,548,302	7,828,625	7,876,275	72,253,202	37,332,840	203,114,900		
2022	94,488,922	470,000	7,711,513	102,200,435	48,006,297	7,828,625	7,876,275	63,711,197	37,337,853	203,249,485		
2023	103,704,373	495,000	7,710,512	111,414,885	38,817,066	7,828,625	7,876,275	54,521,966	37,325,419	203,262,270		
2024	97,193,545	520,000	7,708,164	104,901,709	51,613,103	1,750,000	7,876,275	69,068,003	28,489,447	202,459,160		
2025	90,902,507	550,000	7,709,469	98,611,976	58,011,466	1,870,000	7,876,275	75,485,741	28,495,656	202,593,373		
2026	109,725,312	580,000	7,709,156	117,434,468	54,633,591	1,885,000	7,876,275	72,015,341	12,894,663	202,344,471		
2027	110,040,157	615,000	7,712,226	117,752,383	57,621,441	1,890,000	7,876,275	74,899,803	9,812,181	202,464,368		
2028	55,545,167	55,840,000	62,903,455	118,448,622	57,526,716	1,160,000	7,876,275	73,966,403	9,810,325	202,225,350		
2029	63,869,882	59,300,000	62,934,256	126,804,138	49,342,416	1,100,000	7,876,275	65,655,403	9,810,991	202,270,532		
2030	84,943,746	-	-	84,943,746	28,064,316	62,305,000	69,578,463	105,519,053	9,814,097	200,276,896		
2031	82,871,872	-	-	82,871,872	30,298,816	64,190,000	67,880,925	106,056,016	-	188,927,887		
2032	56,972,844	-	-	56,972,844	121,343,785	-	7,876,275	129,220,060	-	186,192,904		
2033	130,321,710	-	-	130,321,710	49,275,775	-	7,876,275	57,152,050	-	187,473,760		
2034	-	-	-	-	171,907,250	-	7,525,000	15,401,275	-	187,308,525		
2035	-	-	-	-	172,024,000	-	7,880,000	15,272,896	-	187,296,896		
2036	-	-	-	-	72,140,250	-	108,250,000	115,137,841	-	187,278,091		
Totals	2,428,726,309	122,905,000	273,708,417	2,702,434,726	1,698,542,690	136,150,000	311,147,369	2,355,581,450	677,563,246	5,735,579,421		

(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 due July 1, 2008 are shown in the Fiscal Year ending June 30, 2008.
(2) Includes debt service on the Predecessor Bonds prior to the Conversion Dates. Debt service on the Predecessor Bonds with related Existing Swaps (Series 2001(C-2) and Series 2006(A)) is calculated as per the Bond Ordinance at the fixed interest rate payable by the City under the Existing Swaps until March 1, 2008; due to the recent developments in the bond insurance industry discussed herein, from March 1, 2008 until the Conversion Dates, debt service on such Predecessor Bonds was calculated assuming the fixed swap rate plus an approximated additional payment due to variable rate bond payments in excess of variable swap receipts. Includes debt service on the \$1,350,000 unconsented Series 2001(E) Bonds, which remain in the Flexible Rate Mode, assuming an average rate equal to 125% of the 12-month variable rate average (calculated as per the Bond Ordinance).
(3) Debt service on variable rate bonds with related interest rate swaps is included at the fixed rate to be paid under the related swap agreement as per the Bond Ordinance.
(4) Debt service on the Fixed Rate Bonds after the Conversion Dates includes the net fixed payment by the City under the Mirror Swaps; see "PLAN OF REMARKETING - Related Interest Rate Swaps" and "INTEREST RATE SWAP AGREEMENTS - Interest Rate Swaps Related to the Remarketed Bonds"; for more information.
(5) Net of capitalized interest.
(6) Based on projected drawdown and expenditure of SRF-funded projects.

NOTE: Totals may not add due to rounding.
SOURCE: The Department.

INTEREST RATE SWAP AGREEMENTS

General

In accordance with its Swap Management Plan adopted November 26, 2002, the City uses interest rate swaps as part of prudent fiscal management to limit its interest rate exposure and to lower its overall cost of borrowing. The City is currently a party to a number of separate interest rate swap agreements that were entered into in conjunction with the issuance of certain variable rate Sewage System Bonds, or in anticipation of Sewage System Bonds expected to be issued prior to the effective date of the swap. Arrangements between the City and the swap counterparty do not alter the City's obligation to pay the principal of and interest on such Sewage System Bonds.

Net payments received by the City from the swap counterparty under each swap agreement constitute Revenues under the Ordinance. The periodic net interest payments made by the City to the counterparty under each swap agreement, and any termination payment that may be payable by the City to the counterparty upon early termination of the swap agreement, constitute Ancillary Obligations of the City under the Ordinance. The Ordinance permits the City to secure Ancillary Obligations by a lien on Pledged Assets having the same or a lower priority as the lien securing the related Sewage System Bonds. The City has secured its Ancillary Obligations under all current swap agreements listed below by a lien on Pledged Assets of the same priority as the lien securing the related Sewage System Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Priority of Lien and Payment Status."

The chart set forth on the following page provides a brief description of the principal features of each current interest rate swap agreement related to outstanding or anticipated Sewage System bonds to which the City is a party. See also notes (8) and (10) in Appendix B – "Audited Financial Statement of the Sewage Disposal Fund of the City of Detroit, Michigan".

Interest Rate Swaps Related to the Remarketed Bonds

Until recent market events, the floating rate received by the City under the Existing Swaps generally approximated the floating rate owed by the City on the related Predecessor Bonds, so that the swaps successfully hedged the City's interest rate exposure. As a result of recent market events, however, the Existing Swaps have not provided the City with a nearly complete hedge against interest rate volatility.

In connection with the remarketing of the 2001(C-2) and 2006(A) Predecessor Bonds, the City has executed two (2) fixed-to-floating interest rate Mirror Swaps which will be effective on the respective Conversion Dates, the purpose of which is to offset the effects of the floating-to-fixed rate payments of the Existing Swaps related to the 2001(C-2) and 2006(A) Predecessor Bonds. Additionally, in connection with the execution of the Mirror Swaps, which will be uninsured, the City and the swap providers have executed amended and restated ISDA Master Agreements for the Existing Swaps, which will remove the existing FGIC swap insurance, effective on the respective Conversion Dates. See "PLAN OF REMARKETING – Related Interest Rate Swaps" herein for more information.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

City of Detroit – Summary of Outstanding Sewage Swaps

Related Bond Series	Series 1998A ⁽¹⁾	Series 1998B ⁽¹⁾	Series 2001C-1	Series 2001C-2	Series 2001C-2 ⁽⁵⁾	Series 2001D-1 ⁽²⁾	Series 2001D-2 ⁽³⁾	Series 2003B	Series 2006A	Series 2006A ⁽⁶⁾	Series 2006D	Sewer Forward Starting SIFMA ⁽⁴⁾	Sewer Forward Starting SIFMA ⁽⁴⁾	
Original Notional Amount	\$69,000,000	\$68,955,000	\$159,970,000	\$127,165,000	\$123,625,000	\$20,000,000	\$72,450,000	\$150,000,000	\$125,000,000	\$125,000,000	\$370,000,000	\$168,750,000	\$56,250,000	
Current Notional Amount	\$67,500,000	\$67,500,000	\$155,305,000	\$123,625,000	\$123,625,000	\$20,000,000	\$72,450,000	\$150,000,000	\$125,000,000	\$125,000,000	\$361,865,000	\$168,750,000	\$56,250,000	
Termination Date(s)	July 1, 2023	July 1, 2023	July 1, 2027	July 1, 2029	July 1, 2029	July 1, 2032	July 1, 2032	July 1, 2033	July 1, 2036	July 1, 2036	July 1, 2032	July 1, 2039	July 1, 2039	
Termination/Exercise Provisions	Counterparty can exercise on or after July 1, 2008 if SIFMA averages 7.00% or higher for a consecutive 90 day period	Counterparty can exercise on or after July 1, 2008 if SIFMA averages 7.00% or higher for a consecutive 90 day period	Counterparty can terminate at par after January 1, 2010 if SIFMA averages 7.00% or higher for a consecutive 180 day period	Counterparty can terminate at par after January 1, 2010 if SIFMA averages 7.00% or higher for a consecutive 180 day period	The City can terminate with five day written notice	The City can terminate with five day written notice	The City can terminate with five day written notice	Counterparty can terminate at par after July 1, 2013 if SIFMA averages 7.00% or higher for a consecutive 180 day period	The City can terminate with five day written notice	The City can terminate with five day written notice	The City can terminate with five day written notice	The City can terminate with five day written notice	The City can terminate with five day written notice	The City can terminate with five day written notice
Type of Swap	Fixed to Floating Swaption	Fixed to Floating Swaption	Floating to Fixed	Floating to Fixed	Fixed to Floating	Floating to Fixed	Floating to Fixed	Floating to Fixed	Floating to Fixed	Fixed to Floating	Floating to Fixed	Floating to Fixed	Floating to Fixed	
Rate Paid By Counterparty	4.512%	4.512%	SIFMA	SIFMA	3.578%	SIFMA	SIFMA	SIFMA minus 10 basis points	SIFMA	3.6908%	67% of LIBOR + 60 basis points	SIFMA	SIFMA	
Rate Paid By City	SIFMA	SIFMA	4.428%	4.468%	SIFMA	4.656%	4.831%	4.137% from effective date thru 9/30/04 and 3.842% from 10/1/04 thru Termination Date	4.551%	SIFMA	4.105%	4.927%	4.927%	
Counterparty	JPMorgan Chase Bank	JPMorgan Chase Bank	UBS AG	UBS AG	UBS AG	Loop Financial Products (Deutsche Bank as Credit Support Provider)	Loop Financial Products (Deutsche Bank as Credit Support Provider)	UBS AG	Loop Financial Products (Deutsche Bank as Credit Support Provider)	Loop Financial Products (Deutsche Bank as Credit Support Provider)	UBS AG	Morgan Stanley Capital Services Inc.	SBS Financial Products (Merrill Lynch as Credit Support Provider)	
Counterparty Rating	Aaa/AA+/AA-	Aaa/AA+/AA-	Aaa/AA-/A-	Aaa/AA-/AA-	Aaa/AA-/AA-	Aaa/AA+/AA-	Aaa/AA+/AA-	Aaa/AA-/AA-	Aaa/AA+/AA-	Aaa/AA+/AA-	Aaa/AA-/AA-	Aaa/AA-/AA-	A+/A+/A+	
Swap Insurer	MBIA	MBIA	FSA	None	None	None	None	FSA	None	None	FSA	TBD	TBD	

Related Bond Series	Series 1998A ⁽¹⁾	Series 1998B ⁽¹⁾	Series 2001C-1	Series 2001C-2	Series 2001C-2 ⁽²⁾	Series 2001D-1 ⁽²⁾	Series 2001D-2 ⁽²⁾	Series 2003B	Series 2006A	Series 2006A ⁽⁶⁾	Series 2006D	Sewer Forward Starting SIFMA ⁽³⁾	Sewer Forward Starting SIFMA ⁽⁴⁾
	Counterparty Senior unsecured < A1/A+ (1 of 2) and Collateral Agreement not executed in 30 days or senior unsecured withdrawal, suspended or < Baa1/BBB+ (1 of 2).	Counterparty Senior unsecured < A1/A+ (1 of 2) and Collateral Agreement not executed in 30 days or senior unsecured withdrawal, suspended or < Baa1/BBB+ (1 of 2).	Counterparty Senior unsecured < A1/A+ (1 of 2) and Collateral Agreement not executed in 30 days or senior unsecured withdrawal, suspended or < Baa1/BBB+ (1 of 2).	Counterparty Senior unsecured < A1/A+ (1 of 2) and Collateral Agreement not executed in 30 days or senior unsecured withdrawal, suspended or < Baa1/BBB+ (1 of 2).	Counterparty Senior unsecured < A1/A+ (1 of 2) and Collateral Agreement not executed in 30 days or senior unsecured withdrawal, suspended or < Baa1/BBB+ (1 of 2).	Deutsche Bank senior unsecured < A2/A/A (2 of 3) or fails to have any rating on senior debt.	Deutsche Bank senior unsecured < A2/A/A (2 of 3) or fails to have any rating on senior debt.	Counterparty senior unsecured < A2/A (1 of 2) and Collateral Agreement not executed in 30 days.	Deutsche Bank senior unsecured < A2/A/A (2 of 3) or fails to have any rating on senior debt and Collateral Agreement not executed in 30 days... Deutsche Bank senior unsecured < Baa3/BBB- (1 of 23) or fails to have any rating on senior debt and within 15 days has not been substituted by acceptable credit support provider.	Deutsche Bank senior unsecured < A2/A/A (2 of 3) or fails to have any rating on senior debt and Collateral Agreement not executed in 30 days... Deutsche Bank senior unsecured < Baa3/BBB- (1 of 23) or fails to have any rating on senior debt and within 15 days has not been substituted by acceptable credit support provider.	Counterparty senior unsecured < A2/A (1 of 2) and Collateral Agreement not executed in 30 days.	Morgan Stanley senior unsecured < Baa3/BBB- (1 of 2) or fails to have any rating on senior debt.	Merrill Lynch senior unsecured < Baa3/BBB- (1 of 2) or fails to have any rating on senior debt.
Bond Rating Downgrade Event	MBIA < (Aa3/AA-) (1 of 2) or fail to maintain ratings from S&P and Moody's or MBIA < (Aaa/AAA) (1 of 2) and fails to pay a claim greater than \$20,000,000.	MBIA < (Aa3/AA-) (1 of 2) or fail to maintain ratings from S&P and Moody's or MBIA < (Aaa/AAA) (1 of 2) and fails to pay a claim greater than \$20,000,000.	City's senior unsecured withdrawal, suspended or < BBB/Baa2/BBB (1 of 3) and Collateral Agreement not executed in 30 days.	City's senior unsecured withdrawal, suspended or < BBB/Baa2/BBB (1 of 3) and Collateral Agreement not executed in 30 days.	City's senior unsecured withdrawal, suspended or < BBB/Baa2/BBB (1 of 3) and Collateral Agreement not executed in 30 days.	City's senior unsecured < Baa2/BBB (1 of 2), or fails to have any rating on senior debt. City's second lien unsecured < Baa3/BBB- (1 of 2), or fails to have any rating on second lien debt.	City's senior unsecured < Baa2/BBB (1 of 2), or fails to have any rating on senior debt. City's second lien unsecured < Baa3/BBB- (1 of 2), or fails to have any rating on second lien debt.	FSA < (A2/A) (1 of 2) or fails to maintain ratings from S&P and Moody's.	FSA < (A2/A) (1 of 2) or fails to maintain ratings from S&P and Moody's.	FSA < (A2/A) (1 of 2) or fails to maintain ratings from S&P and Moody's.	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	City's senior unsecured < Baa2/BBB (1 of 2), or fails to have any rating on senior debt.	City's senior unsecured < Baa2/BBB (1 of 2), or fails to have any rating on senior debt.
Bond Rating Downgrade Remedies	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	None	None	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	None.	None	The City must provide third-party guarantee rated AAA by Moody's or S&P, post acceptable collateral, or provide S&P or Moody ratings of at least A- or A3 for senior debt.	None	None
Lien Status of Swap Payments	Senior Lien	Senior Lien	Senior Lien	Senior Lien	Senior Lien	Second Lien	Second Lien	Senior Lien	Second Lien	Second Lien	Senior Lien	TBD	TBD
Termination Payments	Senior Lien	Senior Lien	Senior Lien	Senior Lien	Senior Lien	Second Lien	Second Lien	Senior Lien	Second Lien	Second Lien	Senior Lien	TBD	TBD

(1) This swap became effective December 14, 2006.
(2) This swap becomes effective July 1, 2008.
(3) This swap becomes effective January 1, 2012.
(4) This swap becomes effective March 1, 2010.
(5) This swap becomes effective May 8, 2008.
(6) This swap becomes effective May 7, 2008.

SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS

Nature of Obligations under the Bond Ordinance

Sewage System Bonds and Ancillary Obligations are self-liquidating obligations of the City, payable solely from the Pledged Assets under the Bond Ordinance. "Ancillary Obligations" are obligations incurred by the City with respect to particular Sewage System 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 (the "Ancillary Obligation Fees and Expenses") are treated separately under the Bond Ordinance from payments on Sewage System Bonds and Ancillary Obligations and have a different payment priority, as described under "Priority of Lien and Payment Status" below.

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 as the revenues of the City from the System (construed in accordance with the Act) and include amounts received by the City under its hedge agreements with respect to Sewage System 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 Bond Ordinance other than the Construction Fund for any Fiscal Year earnings on the Construction Fund not transferred to the Receiving Fund by the Board. The Board's current policy is to transfer Construction Fund earnings to the Receiving Fund, and therefore such earnings are included in Revenues. "Net Revenues" are defined in the Bond Ordinance as Revenues except for those transferred to the Operation and Maintenance Fund.

Priority of Lien and Payment Status

Sewage System 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 by a lien on Pledged Assets having the same or a lower priority than the lien securing the particular Sewage System Bonds to which the Ancillary Obligations relate. Ancillary Obligation Fees and Expenses have a higher payment status than Sewage System Bonds and Ancillary Obligations, as described below.

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 System, with the result being that they are paid before debt service on the Sewage System Bonds and before Ancillary Obligations.

Senior Lien 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.

Junior Lien Bonds include all Sewage System Bonds issued under the Bond Ordinance other than Senior Lien Bonds. To date, the City has issued two priorities of Junior Lien Bonds:

Second Lien Bonds and related Ancillary Obligations are secured by a lien on Pledged Assets that is senior to the liens securing all other Junior Lien Bonds and second only to the Senior Lien Bonds and their related Ancillary Obligations, and rank second in order of payment from Net Revenues.

SRF Junior Lien Bonds and related Ancillary Obligations have the lowest priority lien on Pledged Assets, junior to the liens securing all other Sewage System Bonds and their related Ancillary Obligations, and rank last in order of payment from Net Revenues.

Bond Ordinance Flow of Funds

In accordance with the requirements of the Act and the City Charter, the Bond Ordinance establishes certain funds and accounts for the System and permits the establishment of additional funds for additional priorities of Sewage System Bonds. All funds and accounts are held and managed by the City. All Revenues are set aside as collected and credited to the Receiving Fund. As of the first day of each month, 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 credited 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 Bond 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 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 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 to, and including, the SRF Junior Lien Bonds:

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

Second: to the Reserve Account, if any, established for such priority an amount that, when added to all other amounts then on deposit therein, shall equal the Reserve Requirement for such priority 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 and transferred to the Improvement and Extension Fund as provided in the Bond Ordinance, 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 Board 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.

Amounts remaining in the Receiving Fund as of the last day of each Fiscal Year shall be credited to the Surplus Fund to be used for any purposes related to the System. The use and application of amounts in the funds and accounts established by the Bond Ordinance are set forth in Appendix C — "The Bond Ordinance."

Reverse Flow of Funds

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 Sewage System 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 Sewage System Bonds and Ancillary Obligations after applying payments in the Reserve Account, if any, established for such priority of Sewage System Bonds, then there shall be applied to such payment amounts in each Interest and Redemption Fund established for each lower priority of Sewage System Bonds, beginning with the lowest priority and proceeding seriatim in ascending order of priority, until such payments are made in full.

Reserve Accounts and Reserve Requirements

The Bond Ordinance establishes a Senior Lien Bond Reserve Account and a Second Lien Bond Reserve Account and authorizes a Reserve Account to be established for other priorities of Junior Lien Bonds, but no such other Junior Lien Bond Reserve Account has been established to date. Accordingly, SRF Junior Lien Bonds are not secured by any Reserve Account. Amounts in a Reserve Account may be used solely for the payment of the principal (and premium, if any) of and interest on the Sewage System Bonds 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 Bonds is the maximum Annual Debt Service on all Senior Lien 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"). The Reserve Requirement for Second Lien Bonds is the average Annual Debt Service on all Second Lien Bonds then outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code. If a Reserve Account is established for any other priority of Junior Lien Bonds, the Reserve Requirement for such other Junior Lien 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 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 Sewage System Bonds of a priority for which a Reserve Account has been or is being established, the Bond Ordinance requires there be credited to such Reserve Account the amount that, added to the amount on deposit in such account or credited thereto, equals the Reserve Requirement for the Bonds then to be issued and all Bonds of the same priority then outstanding. In connection with the remarketings contemplated herein, the Senior Lien Bond Reserve Account and the Second Lien Bond Reserve Account will be revalued, and any deposits necessary to satisfy the respective Reserve Requirement of each Reserve Account will be made at the time of the remarketing. 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 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 Bonds. There is no Bond Ordinance requirement that the rating of Credit Enhancement which has been properly been credited to a Reserve Account be maintained.

In accordance with the Ordinance, the Senior Lien Bond Reserve Account and the Second Lien Bond Reserve Account are funded as required with a combination of cash and investments, and Credit Enhancement as set forth in the paragraphs below.

As of the Conversion Dates, the Reserve Requirement for the Senior Lien Bond Reserve Account will be \$130,321,710, and available funding includes the following:

1. Cash and Investments: \$51,551,174
2. Credit Enhancement in the form of surety policies provided by the following Credit Enhancement providers in the amounts noted:
 - (a) MBIA surety policy unconditionally guaranteeing the payment of principal of and interest on the Series 1999-SRF2, Series 1999-SRF3 and Series 1999-SRF4 Bonds up to a maximum aggregate available amount of \$7,482,000 and with a termination date equal to the earlier of October 1, 2022 or the date on which the City has made all payments required to be made on the three series of related bonds.
 - (b) FGIC surety policy unconditionally guaranteeing the payment of principal of and interest on any Senior Lien Bonds up to a maximum aggregate available amount of \$17,301,095 and with a termination date of July 1, 2029.
 - (c) FSA surety policy unconditionally guaranteeing the payment of principal of and interest on any Senior Lien Bonds up to a maximum aggregate available amount of \$3,618,077 and with a termination date of July 1, 2031.

(d) FSA surety policy unconditionally guaranteeing the payment of principal of and interest on any Senior Lien Bonds up to a maximum aggregate available amount of \$51,800,000 and with a termination date equal to the earlier of July 1, 2033 or the date on which the Series 2003(A) and 2003(B) Bonds are no longer outstanding.

As of the Conversion Dates, the Reserve Requirement for the Second Lien Bond Reserve Account will be \$83,285,401, and available funding includes the following:

1. Cash and Investments: \$28,587,721

2. Credit Enhancement in the form of surety policies provided by the following Credit Enhancement providers in the amounts noted:

(a) MBIA surety policy unconditionally guaranteeing the payment of the principal of and interest on the Series 2001(D) Bonds up to a maximum aggregate available amount of \$7,379,761 and with a termination date equal to the earlier of July 1, 2032 or the date on which the City has made all payments required to be made on the Series 2001(D) Bonds (includes any bonds that are issued to refund the 2001(D) Bonds).

(b) FGIC surety policy unconditionally guaranteeing the payment of the principal of and interest on the Series 2001(E) Bonds up to a maximum aggregate available amount of \$10,605,321 and with a termination date equal to July 1, 2031.

(c) MBIA surety policy unconditionally guaranteeing the payment of the principal of and interest on any Second Lien Bonds up to a maximum aggregate available amount of \$22,000,000 and with a termination date equal to the earlier of July 1, 2035 or the date on which the City has made all payments required to be made on the Series 2005(A), Series 2005(B) and Series 2005(C) Bonds.

(d) FGIC surety policy unconditionally guaranteeing the payment of the principal of and interest on any Second Lien Bonds up to a maximum aggregate available amount of \$17,000,000 and with a termination date of July 1, 2036.

The table below summarizes the funding of the Reserve Requirements for the Senior Lien Reserve Account and Second Lien Reserve Account as of the Conversion Dates.

	Senior Lien Bonds	Second Lien Bonds	Aggregate System
Reserve Requirement	130,321,710	83,285,401	213,607,111
Funding Amounts:			
Cash and Investments ⁽¹⁾	51,551,174	28,587,721	80,138,895
Surety Policies			
-FSA	55,418,077	---	55,418,077
-FGIC	17,301,095	27,589,896 ⁽²⁾	44,890,991
-MBIA	6,789,762 ⁽²⁾	29,039,372 ⁽²⁾	35,829,134
- Total Sureties	79,508,934	56,629,267	136,138,201
Total Funding Amounts	131,060,108	85,216,988	216,277,096

(1) Represents amounts in cash and cash equivalents and Permitted Investments with Westdeutsche Landesbank Girozentrale, Bank of America (formerly by Nationsbank, N.A.), Morgan Stanley Capital Services Inc. and First Independence Bank.

(2) For series-specific surety 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.

As noted, certain Reserve Account requirements currently are satisfied through surety policies issued by MBIA, FGIC and FSA. The ratings of MBIA and FGIC recently have been downgraded. See "INTRODUCTION – Recent Developments in the Bond Insurance Industry" herein. 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 over time or through a replacement Credit Enhancement Policy, as described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Bond Ordinance Flow of Funds" and in Appendix C – "The Bond Ordinance."

Certain Other Funds

As described in “Reverse Flow of Funds” above, amounts held in certain other funds established under the Bond Ordinance may be transferred to the Operation and Maintenance Fund and the Interest and Redemption Fund in the event of a shortfall of Revenues.

Extraordinary Repair and Replacement Fund. The Extraordinary Repair and Replacement 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 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 System for such Fiscal Year, minus the amount of any transfer described in the two immediately succeeding sentences. Amounts in the Extraordinary Repair and Replacement Fund may be used to pay costs of making major unanticipated repairs and replacements to the System which individually cost or are reasonably expected to cost in excess of \$1 million. The Bond Ordinance authorizes the Finance Director, 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 Fund to the Improvement and Extension Fund, but only if in 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.

Improvement and Extension Fund. The Improvement and Extension Fund is to be used for improvements, enlargements, extensions or betterment to the System.

Rate Stabilization Fund. The Bond Ordinance permits the Board of Water Commissioners of the Department (the “Board”) to create a Rate Stabilization Fund, the purpose of which is to enable the City to set aside Prior Revenues to augment Revenues in future years in order to satisfy the requirements of the Bond Ordinance with respect to rate covenants related to Sewage System 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. 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 System, in effect limiting Prior Revenues to Net Revenues that, in the Fiscal Year of receipt, exceed the required deposits described above under “Bond Ordinance 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 C - “The Bond Ordinance - 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 System.

Rate Covenant

The Bond Ordinance requires that the Board fix and revise rates for sewage disposal 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 System as are necessary to preserve the same in good repair and working order;
 - b. the payment of Indebtedness coming due for the Fiscal Year of calculation;
 - 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 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 Indebtedness:</u>	<u>Percentage:</u>
Senior Lien Indebtedness	120%
Second Lien Indebtedness (together with Senior Lien Indebtedness)	110%
SRF Junior Lien Bonds (together with Senior and Second Lien Indebtedness)	100%

The Bond Ordinance defines “Indebtedness” as (i) principal of and interest on Sewage System 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. Net fixed swap payments payable by the City under the Mirror Swaps will be treated as interest on the Sewage System Bonds and will therefore be included in Indebtedness for purposes of the Bond Ordinance.

The Bond Ordinance provides that the interest rate on the Sewage System Bonds that are Variable Rate Securities (as defined in the Bond Ordinance) 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, or if such Variable Rate Securities have been outstanding for less than a full fiscal year on the date of calculation, the interest rate shall be calculated as 125% of the average of the BMA (now SIFMA) Municipal Index, for the five-year period ending not more than one week before the date of calculation. For purposes of determining if Sewage System Bonds are Fixed Rate Securities (as defined in the Bond Ordinance), a rate is “fixed” if the economic effect of the Sewage System Bond bearing interest at a fixed rate is produced by a Qualified Hedge or by Counterpart Securities (as defined in the Bond Ordinance), and a rate is “variable” if the economic effect of the Sewage System Bond bearing interest at a variable rate is produced by a Qualified Hedge.

Enforceability of Rates

The charges for sewage disposal service are a lien on the respective premises, and the Bond Ordinance provides for certain means of enforcement including the right to shut off and discontinue the supply of water to any premises for the nonpayment of sewage disposal rates when due. The Act provides that the rates charged for services furnished by any public improvement constructed under the Act shall not be subject to supervision or regulation by any State bureau, board, commissioner or other like instrumentality or agency thereof.

Additional Bonds

The City may not incur any obligations payable from Pledged Assets except for Sewage System 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 Additional Bonds test, 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 Sewage System Bonds are as follows:

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

The Sections of the Supplements that require the above coverage requirements to be met for conversion of the Predecessor Bonds from the Weekly Mode or the Flexible Rate Mode, as applicable, to the Fixed Rate Mode under certain circumstances will be amended prior to the remarketing of the Fixed Rate Bonds. See “PLAN OF REMARKETING – Amendments” herein.

General Authority. The City may issue Sewage System Bonds of any Priority (herein, “Additional Bonds”) 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 Sewage System Bonds and paying the costs of issuing such Additional Bonds, including deposits, if any, to be made to any Reserve Account established or to be established for such Additional Bonds or any other Sewage System Bonds, if, but only if, there is Required Combined Coverage under either the Projected Net Revenues Test or the Historical Net Revenues Test.

Projected Net Revenues Test. For purposes of the Projected Net Revenues Test, the Required Combined Coverage 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 Sewage System Bonds and the 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 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 sewage disposal systems.

“Annual Debt Service” is a defined term in the Bond Ordinance, and reference should be made to Appendix C — “The Bond Ordinance” for the definition and the rules for determining Annual Debt Service. If any Additional Bonds are to be issued to refund Outstanding Sewage System Bonds, the Annual Debt Service to be used for determining the Required Combined Coverage shall be the Annual Debt Service on the Additional Bonds to be issued and not the Annual Debt Service on the Sewage System Bonds to be refunded.

Historical Net Revenues Test. For purposes of the Historical Net Revenues Test, the Required Combined Coverage 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 Fiscal Year on Outstanding Sewage System Bonds and the 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 Additional Bonds. 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 Bonds, 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.

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 Sewage System 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 sewage disposal systems regarding the existence of such conditions.

Alternate Test for Refundings. The City may issue Sewage System Bonds of any Priority without regard to the above tests for the purpose of refunding all or part of Sewage System Bonds then Outstanding and paying costs of issuing such additional Sewage System Bonds, including deposits which may be made to any Reserve Account established or to be established for such additional Sewage System Bonds or any other Sewage System 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 additional Sewage System Bonds to be issued and (B) giving effect to the refunding, all Outstanding unrefunded Sewage System 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 Sewage System 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 a resolution or ordinance of City Council, as required or permitted by law, or by a sale order or other document signed by the Finance Director pursuant to a resolution or ordinance of City Council authorizing such action, without the consent of the Holders of Sewage System Bonds:

To issue Sewage System 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 Sewage System 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 System; and

To amend or supplement the Bond Ordinance in any respect with regard to one or more Priorities of Sewage System Bonds so long as such amendment does not materially adversely affect the Holders of Outstanding Sewage System Bonds.

The Bond Ordinance provides that no Holders of a Priority of Sewage System Bonds shall be “materially adversely affected” for the purposes of the Bond Ordinance by the change of any coverage percentage established for any other Priority of Sewage System Bonds, and no amendment of or supplement to the Bond Ordinance that provides for or facilitates the issuance of Sewage System Bonds or incurs Ancillary Obligations or Ancillary Obligations Fees and Expenses, in either case, of any Priority shall “materially adversely affect” the Holders of Sewage System Bonds of any other Priority for the purposes of the Bond Ordinance so long as such amendment does not change any coverage percentage established for such Priority of Sewage System Bonds or is not an amendment that requires the consent of the Holder of such Sewage System Bonds because it (i) reduces the aforesaid percentage of Holders of Sewage System Bonds required to consent to an amendment to the Bond Ordinance, (ii) extends the fixed maturity of such Holder’s Sewage System 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 such Holder’s Sewage System Bonds or deprives such Holder of the right to payment from Pledged Assets.

The Bond Ordinance provides that the consent of a Holder acquiring a Sewage System Bond in an offering or remarketing in which the offering or remarketing circular or other disclosure documents fully discloses the terms of any amendment or supplement shall be considered obtained as if such consent were being solicited as provided above, but no actual consent shall be required, and no more than one such disclosure in any disclosure document shall be required. See “PLAN OF REMARKETING – Amendments” and Appendix D – “Amendments to Certain Provisions of the Authorizing Documents” herein.

The Bond Ordinance further provides that a confirmation of the rating of the Sewage System Bonds held by Holders affected by any amendment of or supplement to the Bond Ordinance shall be conclusive evidence that such Holders were not materially adversely affected by such amendment or supplement.

So long as FGIC’s policies are in effect, any amendment to the Bond Ordinance requiring bondholder consent also requires the consent of FGIC. FGIC also has certain consent rights in its capacity as bond insurer. So long as BHAC’s policies are in effect, any amendment to the Bond Ordinance requiring bondholder consent also requires the consent of BHAC. BHAC also has certain consent rights in its capacity as bond insurer.

Trustee

The City has appointed U.S. Bank National Association, Detroit, Michigan as trustee (the “Trustee”). The Trustee does not have an active role under the Bond Ordinance, and funds and accounts established under the Bond Ordinance are not held by the Trustee, and the Trustee is not responsible for the administration, investment or disbursement of the moneys allocated to such funds and accounts.

Remedies

The Holder or Holders of Sewage System 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 System and the proper application thereof. So long as FGIC’s policy is in effect, FGIC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision. If FGIC’s policy is not in effect, BHAC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision, so long as BHAC’s policy is in effect. The statutory lien upon Pledged Assets, however, shall not be construed to compel the sale of the 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 Sewage System Bonds, 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 and in Act 94.

A Holder of Sewage System Bonds shall have all other rights and remedies given by Act 94 and by law for the payment and enforcement of the Sewage System Bonds and the security therefor.

BOND INSURANCE

Payment of the principal of and interest on each series of the Fixed Rate Bonds, when due, is insured by the FGIC Insurance Policies, which were issued at the time of the original issuance of the Predecessor Bonds by FGIC. In connection with the remarketing, BHAC will issue the BHAC Insurance Policies on the respective Conversion Dates guaranteeing the scheduled payment of the principal of and interest on the Fixed Rate Bonds. BHAC's obligation to make payments under the BHAC Insurance Policies is subject to the failure of FGIC to make payments under the FGIC Insurance Policies.

Financial Guaranty Bond Insurance Policies

Financial Guaranty Insurance Company (referred to herein as "Financial Guaranty") has supplied the following information for inclusion in this Remarketing Circular. No representation is made by the City or the Remarketing Agent as to the accuracy or completeness of this information.

The policies issued by Financial Guaranty for the Predecessor Bonds will remain in effect upon conversion of the Predecessor Bonds to the Fixed Rate Mode.

Recently, S&P, Moody's and Fitch have downgraded their ratings on Financial Guaranty. See "INTRODUCTION - Recent Developments in the Bond Insurance Industry" herein.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Remarketing Circular or any information or disclosure that is provided to potential purchasers of the Fixed Rate Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the policies under the heading "BOND INSURANCE – Financial Guaranty Bond Insurance Policies." In addition, Financial Guaranty makes no representation regarding the Fixed Rate Bonds or the advisability of investing in the Fixed Rate Bonds.

Financial Guaranty's Ratings. As of March 31, 2008, the financial strength ratings of Financial Guaranty were as follows: Fitch Ratings – 'BBB', Rating Outlook Negative; Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. – 'BB', Outlook Negative; and Moody's Investors Service, Inc. – 'Baa3', under review for possible downgrade. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective rating agencies' current assessments of the insurance financial strength of Financial Guaranty, and further explanations of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by the rating agencies. The further downgrade or withdrawal of any of these ratings may have an adverse effect on the market price of the Fixed Rate Bonds. Financial Guaranty does not guarantee the market price of the Fixed Rate Bonds, nor does it guarantee that the ratings on the Fixed Rate Bonds will not be reduced, withdrawn or put on review for possible downgrade.

Financial Guaranty's financial strength ratings have been an integral part of its business, since the value of the financial guaranty and insurance products sold by Financial Guaranty has generally been a function of the rating applied to obligations insured by Financial Guaranty. **Recent ratings downgrades, reflected above, and the watches referred to above have adversely impacted the market price of the Fixed Rate Bonds, Financial Guaranty's ability to compete and otherwise to engage in its business, and its results of operations and financial condition, and will continue to have such adverse effects unless Financial Guaranty's ratings are restored (as to which Financial Guaranty can give no assurance).**

Payments Under the Policies. Concurrently with the issuance of the Predecessor Bonds, Financial Guaranty issued its bond insurance policies for such Predecessor Bonds (the "Policies"). The Policies unconditionally guarantee the payment of that portion of the principal or accreted value (if applicable) of and interest on the Fixed Rate Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Fixed Rate Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policies) from an owner of Fixed Rate Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The

Fiscal Agent will disburse such amount due on any Fixed Rate Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Fixed Rate Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Fixed Rate Bond 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.

The Policies are non-cancellable by Financial Guaranty. The Policies cover failure to pay principal (or accreted value, if applicable) of the Fixed Rate Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Fixed Rate Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policies also cover the failure to pay interest on the stated date for its payment. In the event that payment of the Fixed Rate Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policies do not insure any risk other than Nonpayment by the Issuer, as defined in the Policies. Specifically, the Policies do not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Fixed Rate Bonds, Financial Guaranty was granted certain rights under the Bond documentation. The specific rights granted to Financial Guaranty in connection with its insurance of the Fixed Rate Bonds may be set forth in the description of the principal legal documents appearing elsewhere in the Official Statement for the applicable Predecessor Bonds, and reference should be made thereto.

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

Financial Guaranty Insurance Company. Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At December 31, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each was as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At December 31, 2007, Financial Guaranty had net admitted assets of approximately \$4.298 billion, total liabilities of approximately \$4.038 billion, and total capital and policyholders' surplus of approximately \$260 million, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2007 and December 31, 2006, which will be filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Remarketing Circular. Any statement contained herein under the heading "BOND INSURANCE – Financial

Guaranty Bond Insurance Policies” or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Remarketing Circular. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Remarketing Circular and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Remarketing Circular and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty’s audited SAP financial statements.

Financial Guaranty’s most recently published GAAP and SAP financial statements are available on Financial Guaranty’s website at <http://www.fgic.com/investorrelations/financialreports/> or upon request to Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty’s telephone number is 212.312.3000. Reference is made to those financial statements, including the notes thereto (in particular, Notes 2, 8, 11 and 23 to the GAAP financial statements for the year ended December 31, 2007), for important information concerning Financial Guaranty.

Specimens of the bond insurance policies issued by Financial Guaranty in connection with the issuance of the Predecessor Bonds and as set forth in the applicable Official Statement for the respective Predecessor Bonds are hereby incorporated herein by reference: the “Appendix D-Specimen Bond New Insurance Policies” as to the 2001(C-2) Bonds, the “Appendix D-Specimen Bonds of Municipal Bonds new insurance policy and Municipal Bond Debt Service Reserve Policy” as to the 2001(E) bonds and the “Appendix E-Specimen Bonds Insurance Policy and Reserve Policy” as to the 2006(A) Bonds.

Berkshire Hathaway Assurance Corporation Bond Insurance Policies

Berkshire Hathaway Assurance Corporation (referred to herein as “BHAC”) has supplied the following information for inclusion in this Remarketing Circular. No representation is made by the City or the Remarketing Agent as to the accuracy or completeness of this information.

BHAC Bond Insurance Policies. Concurrently with the issuance of the Fixed Rate Bonds, BHAC will issue its financial guaranty insurance policy for the Fixed Rate Bonds (collectively, the “Policy”). The Policy guarantees the scheduled payment of principal and interest on the Fixed Rate Bonds when due as set forth in the form of Policy included as Appendix G to this Remarketing Circular. BHAC’s obligation to make any payment under the Policy is subject to the condition precedent contained in the Policy that a proper claim for payment has been made on the FGIC Insurance Policy and FGIC has failed to pay such claim in the period permitted by the FGIC Insurance Policy for reasons other than a failure to provide proper documentation required by FGIC to pay such claim.

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

Berkshire Hathaway Assurance Corporation. BHAC is a New York stock insurance corporation that writes financial guaranty insurance. BHAC was organized on December 21, 2007, and received its New York Certificate of Authority on December 28, 2007. BHAC is licensed in New York to write financial guaranty insurance, surety insurance and credit insurance. As of April 11, 2008, BHAC was licensed to write financial guaranty insurance in 47 additional states and the District of Columbia.

BHAC’s shareholders and their respective percentage of outstanding common stock are as follows: Columbia Insurance Company (“Columbia”), a Nebraska corporation – 51%, and National Indemnity Company, a Nebraska corporation – 49%. Columbia and National Indemnity Company are each indirect, wholly owned subsidiaries of Berkshire Hathaway Inc.

BHAC is subject to the insurance laws and regulations of the State of New York, BHAC’s state of domicile. Pursuant to New York’s financial guaranty insurance law, financial guaranty insurers are limited to writing financial guaranty insurance and related lines, including surety and credit insurance. In addition, New York’s financial guaranty insurance law (i) requires such insurers to maintain a minimum surplus as regards policyholders, (ii) establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as a percentage of surplus as regards policyholders; and (iii) establishes

contingency, loss and unearned premium reserve requirements. BHAC is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations vary by jurisdiction.

At March 31, 2008, BHAC had surplus as regards policyholders of slightly less than \$1,000,000,000, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by the New York Department of Insurance.

Copies of BHAC's most recently published SAP Annual Statement is available upon request to: Berkshire Hathaway Assurance Corporation, 100 First Stamford Place, Stamford, CT 06902, Attention: General Counsel. BHAC's telephone number is (203) 363-5200.

BHAC's Credit Rating. Standard & Poor's Rating Services ("S&P"), a Division of the McGraw Hill Companies, Inc., has assigned its "AAA" financial strength and financial enhancement ratings to BHAC. S&P has assigned its "AAA" financial enhancement rating to Columbia. The ratings on BHAC are based on a guaranty from Columbia in favor of BHAC. The guaranty issued by Columbia applies to BHAC's policy issued with respect to the Fixed Rate Bonds. Any explanation of these ratings may only be obtained from S&P. The ratings are not a recommendation to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by S&P. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Fixed Rate Bonds. BHAC does not guarantee the market price or investment value of the Fixed Rate Bonds nor does it guarantee that the ratings on the Fixed Rate Bonds will not be revised or withdrawn.

In addition, Moody's Investors Service ("Moody's") has assigned its "Aaa" insurance financial strength ratings to BHAC and Columbia. Any explanation of these ratings may only be obtained from Moody's. The ratings are not a recommendation to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by Moody's. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Fixed Rate Bonds. On April 25, 2008, the date that Moody's assigned its rating to BHAC, BHAC's ultimate parent company, Berkshire Hathaway Inc., maintained an investment in Moody's parent company of approximately 19.6% of the common shares then outstanding.

BHAC does not guarantee the market price or investment value of the Fixed Rate Bonds nor does it guarantee that the ratings on the Fixed Rate Bonds will not be revised or withdrawn.

Neither BHAC nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Remarketing Circular or any information or disclosure that is provided to potential purchasers of the Fixed Rate Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to BHAC or the Policy under the heading "BOND INSURANCE – Berkshire Hathaway Assurance Corporation Bond Insurance Policies." In addition, BHAC makes no representation regarding the Fixed Rate Bonds or the advisability of investing in the Fixed Rate Bonds.

THE WATER AND SEWERAGE DEPARTMENT

Organization

The Sewage Disposal System is owned by the City and is operated, managed and accounted for by the City as a separate enterprise fund (the "Sewage Fund") through the Department. The Department was established under the City Charter and is empowered to supply sewage disposal services within and outside the City. The Department is governed by a seven-member Board of Water Commissioners (the "Board") appointed by the Mayor and operates out of its own 20-story office building in downtown Detroit.

The City Charter provides that the Board shall periodically establish equitable rates for retail and wholesale sewage disposal services. Such rates are established with the concurrence of the City Council. See "FINANCIAL PROCEDURES - Rates." The Board authorizes and executes all service and construction contracts. Certain contracting and other policy-making powers of the Board are subject to the approval or rejection of the City Council and the approval or veto of the Mayor.

Sewage disposal service to the residents of the City and to a substantial portion of the Sewage Disposal System service area outside the City is also provided by the City through the Department. However, the Sewage Disposal System is operated, managed and accounted for as a separate enterprise fund of the City apart from the Sewage Fund.

The Board

The members of the Board are appointed by and serve at the pleasure of the Mayor. The members serve four-year terms and the terms are staggered so that not more than two members' terms expire each year. Board members must be citizens of the United States and residents of Michigan. The City Charter provides that at least four members of the Board must be residents of the City. At present the Board consists of four City residents plus one member each from Oakland County, western Wayne County (not including the City) and Macomb County.

The current members of the Board are as follows (dates in parentheses are dates of original appointment to the Board):

Mary E. Blackmon, President (1989). Mrs. Blackmon was elected President in January 2003. She 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 (SEMCOG), where she is a Vice President. A graduate of Leadership Detroit, Mrs. Blackmon remains active in a number of civic and community organizations.

Marilynn E. Gosling (1995). Ms. Gosling was elected Vice President in January 2003. She was a member of the Oakland County Board of Commissioners for 14 years before retiring in January 1995. She currently serves on the Board of Directors of the Dispute Resolution Settlement Center and is active as a community mediator. She is also a board member of Camp Oakland Youth Programs, Inc. and the Local Development Company. Ms. Gosling has served as a member of the Community Mental Health Board and the Southeast Michigan Council of Governments (SEMCOG).

Hilliard L. Hampton (1994). Mr. Hampton is the Mayor of the City of Inkster. He also has twenty-eight years with Wayne County government. He currently serves as Sergeant with the Wayne County Sheriff's Department, where he is Supervisor of Community Justice. He has a Bachelor of Arts degree from Wayne State University in Mass Communications and has also received extensive training and certification in law enforcement.

Jimmy L. Cooper (2007). Mr. Cooper is Business Manager for Laborers' Local 1191 – a 3,500 member organization – and had held that position since 1997. A member of Local 1191 for 30 years and a co-founder of the Michigan Labor Alliance, Mr. Cooper is vice president of the executive board of the Michigan Laborers' District Council and secretary of the Laborers' International Union African American Caucus. He is also a member of the Michigan transportation Team, a group that lobbies Congress for funding state highway projects, and is a past president of Detroit Works, a pre-apprenticeship and union training program established by the skilled trade unions.

Carla Walker-Miller (2000). Ms. Walker-Miller is the President of Walker-Miller Energy Services, a distributor of power transmission and distribution equipment manufactured for use by electric utilities. She holds a Bachelor of Science Degree in Civil Engineering from Tennessee State University.

William G. Westrick (2000). Mr. Westrick was President of the engineering firm of Anderson, Eckstein and Westrick, Inc., and served as a member of the Board of Directors. He is a member of the Southern Michigan Water and Sewer Utilities Association. He serves on the Board of Directors of the Macomb County Traffic Association and the Northeast Water and Sewer Superintendent Association. Previously he was employed by the Macomb County Road Commission for nearly 10 years, first as a Project Engineer in charge of design and construction of individual projects, and finally as the Design and Construction Engineer, coordinating road and bridge projects. Mr. Westrick has a Bachelor of Science Degree in Civil Engineering from the University of Detroit and a Master of Science Degree in Civil Engineering from Wayne State University. He is a Registered Professional Engineer in the State of Michigan.

Kenneth Daniels (2006). Mr. Daniels has been employed by the Michigan Economic Development Corporation since 2005 and served as a community champion for the Governor Granholm's Cool Cities Initiative. Mr. Daniels is a former Michigan State Representative, having served in the Michigan Legislature from 1999 through 2004. He also served for three years on the Detroit Board of Education. Mr. Daniels has served as a member on the Mohican Regent Residents Association, National Association of School Boards and the advisory boards of St. John's Hospital and the Holden Center Boys and Girls Club.

The Board appoints, with the approval of the Mayor, a Director and Deputy Director who serve at the pleasure of the Board and are responsible for day to day operations of the Department.

Management and Personnel

The Department's budget for Fiscal Year 2008 provides funding for 3,104 positions, of which 1,025 positions are classified as strictly Sewage System and 206 positions are classified as strictly Sewage Disposal System. The remaining 1,873 positions are budgeted in the administrative and support divisions, which provide service to both the Water Supply and Sewage Disposal Systems. The cost associated with these positions is allocated to the two systems either on the basis of actual time spent on projects or on estimates developed by the Department. The Department estimates that approximately 40% to 50% of the time allocation of the work force in these areas is attributable to the Sewage Disposal System.

The Department is organized into six operating groups: Engineering, Asset Maintenance, Financial Services, Wastewater Operations, Water Supply Operations, and Information Technology, Systems Integration and Operations. Each of the operating groups is headed by an Assistant Director. In addition, the head of the Public Affairs Division serves as an Assistant Director. Together with the Director and Deputy Director, as discussed below, this group services as the Executive Management Team. The Department's key personnel and their qualifications are summarized below.

Victor M. Mercado, Director. Mr. Mercado was named Director of the Detroit Water and Sewerage Department on June 12, 2002. Mr. Mercado brings with him more than 25 years of experience in both the public and private sectors. He previously served as Vice President of Thames Water North America, and President and General Manager of Thames Water Puerto Rico (1999-2002); Vice President and General Manager of United Water Delaware and President of United Water Bethel and United Water Virginia (1997-1999); Chief of Emergency Construction for the Department of Environmental Protection in New York City (1996-1997); and Director of Operations for the Jamaica Sewage Disposal Company in Jamaica, New York (1989-1996). Mr. Mercado has considerable experience in distribution and transportation, construction, and the electric and gas industries. He holds a Bachelor of Science degree in Economics and Industrial Management from the City University of New York.

Gary Fujita, P.E., Deputy Director. Appointed Deputy Director in November 2002, Mr. Fujita had served as Interim Deputy Director since January 2002 and as Assistant Director of Wastewater since 1993. He has a Bachelor of Science degree in Civil Engineering from Wayne State University. He is a Registered Professional Engineer and holds a Class "A" Wastewater Treatment Operator's license. Mr. Fujita has been with the Department since 1972 and has also served as Chief Sewerage Plant Engineer. Mr. Fujita has considerable experience in engineering design, construction of major pipelines and related facilities, planning, wastewater treatment, industrial pretreatment, and combined sewer overflow control planning.

Sam Smalley, Assistant Director - Asset Maintenance. Mr. Smalley was appointed to his current position in February 2008. He joined the Department in June of 2007 after having spent two years participating in the Department's customer outreach program as a customer representative. He brings considerable experience in engineering design, construction management, and utility management. He is a registered professional engineer in California and Michigan, and has over 20 years of experience in the water and wastewater industry. He obtained a Bachelor of Science in Civil Engineering from San Diego State University, and holds both an F-1 Water Treatment Plant Operator license and an S-1 Water Distribution System Operator license.

Woodrow McCarty, Assistant Director - Financial Services Group. Mr. McCarty was assigned to his current position in May 2005. Mr. McCarty holds a Bachelor in Accounting from Wayne State University. He has experience with the City of Detroit in areas of Accounting, Budget, and Cash Management. Mr. McCarty has been with the Department since 1976. Prior to his current assignment he served as Manager of the Financial Reporting Section.

Stephen Kuplicki, Assistant Director - Wastewater Operations. Mr. Kuplicki was named the Assistant Director of Wastewater Operations in January 2008, and is responsible for the operation of the Wastewater Treatment Plant and Combined Sewage Overflow Facilities, and the Industrial Waste Control Division. Mr. Kuplicki previously served as the Manager of the Industrial Waste Control Division, where he developed, administered and enforced regulatory control programs on behalf of the City of Detroit. Prior to joining the Department in 1983, Mr. Kuplicki worked as a hydrologist and filtration consultant supporting projects in the chemical, power and petroleum industries throughout the United States, Canada and Mexico. Mr. Kuplicki is a licensed Professional Engineer in the State of Michigan, and a member of the Michigan State Bar. He holds a B.S. degree in Chemical Engineering from Wayne State University, a Master of Engineering degree with a Chemical Engineering major from the University of Detroit, and a Juris Doctor degree from the University of Detroit-Mercy.

Pamela Turner, Assistant Director - Water Supply Operations. Ms. Turner was named Assistant Director in April 2003. Prior to her selection Ms. Turner served as Water Quality Division Manager. She has worked in the Department since 1977. Ms. Turner holds a Bachelor of Science degree in Environmental Science and a Masters in Public Administration from the University of Michigan. Ms. Turner has served on the Michigan Department of Environmental Quality Technical Advisory Committee for the Source Water Assessment Program. She is currently serving her second three-year term on the American Water Works Research Foundation, Research Advisory Council.

Ramesh Shukla, Assistant Director – Engineering. Mr. Shukla is a Registered Professional Engineer and was appointed to the current position in February 2006. Prior to his appointment, he had served as Interim General Superintendent of Engineering and has been with the Department for more than 17 years. Prior to joining the Department in 1988, Mr. Shukla worked with consulting firms and governmental agencies in the U.S. and abroad in India. Mr. Shukla has over 34 years of experience in planning, design, construction, and management of water and wastewater systems. Mr. Shukla received a B.S. degree in Mechanical Engineering and a Masters degree in Business Administration in India.

PJ Dada, Assistant Director of Information Technology. Ms. Dada was named Assistant Director in July 2007. Prior to her position, she served as General Manager of the Process Networks and SCADA Systems Division. Prior to joining the department in September 2006, Ms. Dada worked with consulting firms and the automotive industries. Ms. Dada has over 15 years experience in process controls and instrumentation. Ms. Dada holds a B.S. degree in Electrical Engineering and a minor in Computer Science. She holds a Level III ISA certification.

George Ellenwood, Assistant Director Public Affairs. Mr. Ellenwood was named Assistant Director in September 2006. Previously, he served as General Manager of the Department’s Public Affairs Group, consisting of the Commercial Operations, Meter Operations and Public Affairs Divisions. Mr. Ellenwood holds a B.A. in English and Modern Languages from Oakland University and an M.A. in Spanish from Wayne State University. He serves on the National Public Affairs Council of the American Water Works Association (AWWA) and the Project Advisory Committee of the AWWA Research Foundation.

Most of the Department’s key personnel have considerable managerial experience either with the Department or with other municipal agencies or large utility systems. The Deputy Director and most of the Assistant Directors have significant experience with the Department, each having advanced through the ranks of the Department to his or her present position. The Assistant Director of Asset Maintenance was recruited from outside the Department to facilitate the performance improvements targeted for that operation. The experience and qualifications of the Department’s executive staff are commensurate with their duties and responsibilities.

The collective bargaining agreements for the American Federation of State, County and Municipal Employees (“AFSCME”) and the other non-uniform unions and nearly all other City bargaining units expire on June 30, 2008. The City currently is in labor negotiations and has no reason to believe that its outstanding labor negotiations will result in any interruption of service from the unionized work force.

Pension Plan

Department employees are members of the City’s General Retirement System. Payments to the pension fund are made as a percentage of payroll, based on annual actuarial studies. These studies determine the amount necessary to fund the financial benefits as earned as well as an amount necessary to amortize unfunded accrued liabilities. For employees budgeted strictly as Sewage System employees, contributions are made directly to the retirement fund. For employees common to both the Water and Sewage Systems, payments are generally made by the Water System, which is then periodically reimbursed from Sewage System revenues. Although the actuarially computed pension contribution rates are different for the two systems, “common” employees are considered as Water System employees and accordingly, the Sewage System is billed at the Water System’s rate. See Appendix B – “Audited Financial Statements of the Sewage Disposal Fund of the City of Detroit, Michigan” as of and for the years ended June 30, 2006 and 2005. The City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 is available at www.ci.detroit.mi.us/finance/Default.htm.

THE SEWAGE DISPOSAL SYSTEM

The major components of the System include the Plant, a collection system within the City (including approximately 3,000 miles of trunk and lateral sewers), 11 pump stations, 3 interceptors in the City and a 35-mile interceptor outside the City. The City believes that the System is adequate to meet the current needs of its retail and wholesale customers and to meet the current federal requirements of the U.S. Environmental Protection Agency under the Water Pollution Control Act, as amended by the Clean Water Act of 1977 and the Water Quality Act of 1987. The flow of wastewater is monitored and remotely controlled by the Systems Control Center in the Water Board Building. Some repairs, replacements and major improvements are necessary to improve operations and ensure continued compliance with environmental standards. These repairs, replacements and improvements are part of the System’s Capital Improvement Program. See “THE CAPITAL IMPROVEMENT PROGRAM.”

Service Area

The System presently provides wholesale service through 23 contracts to 76 municipalities in the surrounding metropolitan area and retail service to the customers in the City. Of the total service area of approximately 850 square miles, 138

square miles are in the City. See “Map of Service Area” on the inside back cover. The System currently serves approximately 3.0 million people, or one-third of the population of the State of Michigan, including approximately 1.0 million customers in the City and 2.0 million customers in surrounding communities. See Appendix A - “Characteristics of the Sewage Disposal System Service Area.” As a matter of general policy, the City does not contract with individual or corporate customers outside the City, but only with municipal entities and public sewage disposal districts or authorities.

The overall population served by the System has been essentially stable since 1990. Within the service area, the percentage of population served on a wholesale basis has increased. This pattern of increases in population and service to wholesale customers is expected to continue in the future. Over 55% of the System’s operating revenues for the Fiscal Year ended June 30, 2007, were derived from wholesale customers and the balance from retail customers and miscellaneous other income sources. The following table shows the estimated historical population of the service area as a whole and on a retail and wholesale basis, and the sewage flow in millions of gallons. Annual flow to the Plant during the past three years has been lower than in recent preceding years. This is in part to drier than normal weather conditions, resulting in less storm flow entering the System.

Wholesale and Retail Population and Flows⁽¹⁾

Fiscal <u>Year</u>	<u>Estimated Population Served</u>			Annual Wastewater <u>Treated(mg)</u>
	<u>Suburban Municipal</u>	<u>Detroit Retail</u>	<u>Total</u>	
2003	2,128,800	951,300	3,080,100	224,200
2004	2,128,800	951,300	3,080,100	240,800
2005	2,128,800	951,300	3,080,100	242,700
2006	2,128,800	951,300	3,080,100	248,600
2007	2,128,800	951,300	3,080,100	244,700

Mg = Millions of gallons.
SOURCE: The Department.

Generally, the System has expanded with the population increase in the municipalities surrounding the City. It is expected that any additional revenue growth will result from requests by existing wholesale customers to serve major, new manufacturing facilities or from ordinary development within the service area. No expansion of the System’s service area is expected in the near future.

Retail and Other Billing; Delinquencies

The Department has been the sole provider of all sewage interception, treatment and disposal services in the City since 1940 and all sewage collection since 1964. The Board has full responsibility for rate setting, billing and collection of charges from retail and wholesale customer accounts, subject to review and concurrence by the City Council. There are approximately 280,000 retail customer accounts. These customers are billed on a monthly or quarterly basis and water and sewage charges are included on the same bill. The Department is required to notify three large industrial retail users 90 days prior to the effective date of any rate change. The Department also bills various governmental agencies, including the City, for service. Rate changes, once established, become effective the following July 1.

Pursuant to the Act, the charges for water and sewage service furnished to a premises become a lien on such premises when the service is provided. If the charges on an account are delinquent, such charges may be collected by placing such lien 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 Board may also enforce the payment of charges by discontinuing service to the premises. The Department has a policy of transmitting delinquent accounts to the City’s Assessor for placement on the property tax roll. Other more active measures adopted by the Department with respect to enforcement of delinquent bills include termination of service to delinquent accounts, a bad debt write-off policy and common protocols for pursuit of delinquent customers. In addition, in 2006 the Department converted all retail customer accounts to a monthly billing cycle. Residential accounts had previously been billed quarterly. This conversion is intended to produce a beneficial impact to both the Department and its customers. Customers will receive more regular bills and the bills will be lower. The Department will receive a more uniform revenue stream and will be able to monitor and react to anomalies in bills to individual customers. See “FINANCIAL PROCEDURES - Collections and Delinquencies.”

Wholesale Municipal Customers

The System has provided wholesale service to an increasing number of surrounding municipalities since the construction of the Plant in 1940. The System receives wastewater from a wholesale service community at sewers owned by the City. The quantity of wastewater discharged is measured with a sewage meter or estimated on the basis of water consumption. In all cases, the municipalities are responsible for the construction and maintenance of their own internal sewerage systems for collecting the wastewater and delivering it to the System. Prior to 1968, the municipalities were required to construct their interceptors for connection to a Detroit combined sewer or for connection directly to the System interceptor sewer. Since 1968, the Department has constructed interceptors which it owns and operates in selected areas outside the City.

Wholesale Contracts. Each wholesale district or municipality has executed a sewage disposal agreement with the City which is generally for either an original period of at least 35 years, terminable on one year's notice thereafter unless renewed, or of indefinite duration. The agreements have notice requirements for termination prior to the maximum term of the contract, of from zero to three years. Under the typical contract, the City, subject to certain terms and conditions, is obligated to receive and provide treatment for the wastewater from the municipalities at designated metered points or at mutually agreed locations. The municipality is required to pay for treatment of all wastewater delivered to the System at rates related to the cost incurred in providing the service.

The agreements generally include other provisions required for orderly operation of the System such as: (1) restrictions on the collection of wastewater from outside the limits of the particular municipality or district without the consent of the City; (2) metering for all new customers and for most other customers; and (3) acceptance by wholesale municipal customers of the State's water quality standards and of appropriate City ordinances for meeting the pollution control standards imposed by the State and federal government. Wholesale customers are billed on either a monthly or quarterly basis.

With respect to the wholesale contracts, user classes can be determined based upon use of different facilities or differences in the degree of use but not differences in location. Specifically, each contract requires the establishment of rates based upon a methodology under which the same rate of return on capital asset rate base is charged to customers in and outside the City. The City is permitted to charge the wholesale customers an aggregate of \$1,000,000 compounded at 5% annually commencing in Fiscal Year 1980 for costs of indirect service to the System provided by the City. Provision for surcharges for those discharging pollutants in excess of normal domestic sewage is also permitted. In all cases, the municipalities are responsible for the construction and financing of sewer mains in such municipalities required to connect with the interceptor or collection System of the City (except the Oakland-Macomb interceptor which the Department financed and owns).

Settlement Agreements. At various times since 1975, several wholesale municipal customers and industrial users have challenged rates established by the Board. The City and certain municipal entities entered into settlement agreements in 1978, 1980, 1982, 1995 and 1999 (collectively, the "Settlement Agreements"). The Settlement Agreements generally set forth rate schedules to be effective during a specified period of time and established principles by which rates are to be developed. Pursuant to the Settlement Agreements and the Amended Consent Judgment (hereafter defined), all existing wholesale contracts were amended to incorporate certain rate schedules and rate making principles and to provide for observance of environmental controls. Contractual provisions regarding rate making methodology are also subject to EPA regulations prescribing the rate making principles which must be followed as a condition to participation in federal grant programs by the City. See "FINANCIAL OPERATIONS - Rates."

Pursuant to the Settlement Agreements and the wholesale contracts, the Board is responsible for providing treatment and disposal service as may be necessary to conform with all federal, State and local laws and regulations. The customer is required to pay for such service at the rates established by the Board, subject to certain principles including (i) annual review and adjustment, if necessary, to maintain proportionate distribution of all costs among user classes and to generate sufficient revenue to pay the total costs of the System and (ii) revenue requirements based on experience and estimates of operating and maintenance expenses, the local share of capital costs, debt coverage and any obligations imposed by law, and a working capital allowance to cover lags in payments by the customers and by federal and State grant agencies. The Settlement Agreements require the Board to finance, to the maximum extent possible, the local share of capital costs of the System from bond proceeds.

As part of the collective process, the Department recently worked with its customers to develop new model contracts with standardized contract language. These standardized contracts will ensure that all wholesale customers are treated equitably and will also provide the Department with the same rights and controls across all agreements. The standardized contract language will address items such as contract term lengths, contract renewal, flow limitations, flow enforcement provisions, flow measurement, regulatory compliance, connection points, and contract enforcement. The general terms of the new model contract have been approved by all existing contract customers. The Department plans to use the new model contract, with appropriate modifications, as it negotiates new and renewed individual contracts with its customers.

Currently, the long-term contract with Macomb County, a large wholesale customer, has expired. The Department and Macomb are operating under a one-year renewable contract. The Department has initiated discussions with Macomb to renew its long-term contractual arrangement, using the new model contract form. This renegotiation may result in a portion of Macomb County's flow being diverted to a different treatment facility, to accommodate the sanitary sewer overflow challenges facing several communities in Macomb County. The Department has also initiated negotiations for a new contract with Grosse Pointe Farms, using the model contract as a basis.

The Department believes that wholesale customers will continue to utilize the System because (i) the Plant has the capacity required to provide service to those under contract and is currently in compliance with federal and State environmental regulations, (ii) federal and State grant agencies have encouraged regional sewage treatment systems and wholesale customers desiring to leave the System may not have the benefit of federal grant funds covering a portion of the capital cost of eligible facilities, making such a move economically unfeasible, and (iii) long standing contractual relationships exist between the System and its wholesale customers. Moreover, the Department believes that the Settlement Agreements, which contain principles pertaining to the establishment of rates and provisions for advance notice and public hearings thereon, and the mandates of the Amended Consent Judgment relating to capital improvements and operating procedures, should serve to eliminate certain of the factors which precipitated controversy and litigation in the past. In addition, it is expected that certain bases of past controversy may be resolved as a result of implementing EPA regulations which require periodic review of actual operating results with appropriate credit or surcharge adjustments to the various users of the System. However, because of the complex nature of rate setting and cost allocation there can be no assurance that various assumptions which are used in the formulation of future rate increases will not be the subject of controversy and possibly future litigation.

Over the past several years there has been a continuing dispute between the City and certain wholesale municipal customers over control of the System. 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 System. Among these have been proposals to create a regional water and sewerage authority and transfer to this authority the ownership of the City's Sewage Disposal and Sewage Disposal Systems, excluding certain retail facilities. On March 31, 2006, Governor Granholm vetoed Senate Bill 372, which would have given control of the Department to a new regional authority dominated by the suburbs. The bill did not receive enough votes in either house to override the veto. The City will continue to oppose any efforts to transfer control of the City's Sewage Disposal and Sewage Disposal Systems. Currently, no legislation is pending which contemplates the transfer of control of the City's Sewage Disposal and Sewage Disposal Systems.

Customer and Regional Water Quality Partnering

Since 1995 the Department has entered into several "partnering" agreements with representatives of its suburban customer communities, establishing a framework for discussion of major issues among Detroit and all of its suburban wholesale customers. The partnering groups have established teams to explore a variety of topics, including flows in the System, operating plans and efficiencies, billing protocol, service contracts, sewer rates, and communication strategies. The Sewer Rates Work Group reviews issues impacting rates and rate levels and attempts to reach consensus on these issues. Through the Sewer Contracts Work Group the Department has created a new model contract with standardized contract language.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Wholesale Customer Information

The following table lists the wholesale municipal customers, the date of initiation of service with the System and various details of the contracts. For Fiscal Year 2007, these customers provided approximately 55% of the gross operating revenues of the System.

Summary of Wholesale Sewerage Treatment Contracts

	<u>Total Billed</u> <u>Flow Mcf</u> <u>FY 2007</u>	<u>Total Billed</u> <u>Revenue</u> <u>FY 2007</u> ⁽¹⁾	<u>Contract</u> <u>Date</u>	<u>Term of</u> <u>Contract</u>	<u>Years</u> <u>Remaining</u> <u>in Contract</u>
Wayne County - Rouge Valley	3,477,254	36,389,754	1961	50 Years	6
Macomb County ⁽³⁾	2,121,170	32,897,289	1967	35 Years	
S. O. C. S. D. D. ⁽²⁾	2,952,352	29,656,043	1962	50 Years	7
Evergreen – Farmington	2,316,838	25,084,922	1958	50 Years	3
Clinton - Oakland ⁽³⁾	1,515,812	17,317,664	1968	50 Years	13
Wayne County – Northeast	1,518,356	15,477,575	1961	⁽⁶⁾	
Dearborn – West	594,472	5,848,583	1961	50 Years	6
Dearborn – East ⁽⁴⁾	506,640	5,728,476	1957	⁽⁶⁾	
Highland Park ⁽⁴⁾	177,542	3,666,450	1949	⁽⁸⁾	
Hamtramck ^(4,5)	76,157	2,257,075	1941	⁽⁸⁾	
Grosse Pointe Farms ⁽⁴⁾	79,187	1,623,185	1941	⁽⁸⁾	
Grosse Pointe Park	115,930	1,204,722	1940	⁽⁸⁾	
Dearborn – Northeast ⁽⁴⁾	38,126	929,871	1955	⁽⁸⁾	
Melvindale	86,166	887,532	1977	35 Years	7
Grosse Pointe ⁽⁴⁾	36,369	734,650	1940	⁽⁸⁾	
Farmington	72,612	753,013	1956	⁽⁶⁾	
Center Line	64,842	763,064	1960	⁽⁶⁾	
Allen Park	44,130	454,163	1974	35 Years	4
Harper Woods	6,210	156,655	1958	⁽⁸⁾	
Wayne County #6 ⁽⁴⁾	3,456	100,607	1950	10 Years	
Redford Township ⁽⁴⁾	1,557	78,078	1940	⁽⁸⁾	
Wayne County #3 ⁽⁴⁾	198	26,687	1950	10 Years	

Mcf = Thousand cubic feet.

⁽¹⁾ Billed revenue does not include surcharges to wholesale area industrial users for pollutant discharges in excess of Bond Ordinance limits or Industrial Waste Control charges.

⁽²⁾ Southeastern Oakland County Sewage Disposal District.

⁽³⁾ Billings include transportation charges for the use of system interceptors specially constructed for those areas.

⁽⁴⁾ Billed flow does not include estimated storm drainage and infiltration.

⁽⁵⁾ Account currently showing delinquent balances.

⁽⁶⁾ Minimum term expired; automatic renewal may be canceled with one year's notice.

⁽⁷⁾ Original contract for period of 6 years to be renewed annually.

⁽⁸⁾ Duration is indefinite with no initial term. Contracts with indefinite term are generally terminable either by mutual consent or within a specified term of years after notice of termination has been given.

Source: The Department

The Plant

The Plant, which is among the largest in the world, was originally constructed in 1940 to provide primary treatment of sewage emanating from the City and surrounding communities, and was improved in the mid 1960s with construction of sludge incinerators and filters, and dry ash handling facilities. The Plant was further improved starting in 1970 when construction commenced on secondary treatment processes, including aerated activated sludge units, final clarifiers and additional primary treatment capacity.

Primary treatment of sewage at the Plant is provided by 16 clarifiers or settling basins. Secondary treatment is provided in one air aeration basin, three oxygen aeration basins and 25 final clarifiers. Removal of phosphorus is accomplished with ferrous chloride (pickle liquor) and polymer feeding mechanisms which operate in conjunction with the primary treatment processes.

Chlorine gas is used for disinfection of effluent prior to discharge into the Detroit River. Incineration of dewatered sludge occurs in 14 multiple hearth incinerators. The Department engages contractors for disposal of the ash produced

by incineration of sludge cake, for screenings from preliminary treatment, and for disposal of excess sludge cake which is not incinerated.

Interceptor System

All of the major trunk sewers in the City are connected in some manner to either the Detroit River Interceptor, the Oakwood-Northwest Interceptor, or the North Interceptor - East Arm, which transport the flow to the Plant. See "Map of the Service Area" on the inside back cover of this Official Statement. The North Interceptor-East Arm was placed in service in 1995. This interceptor provides non-overflowing conveyance of separated suburban flows from northern areas. The Evergreen-Farmington permanent connection, which was completed in fiscal 1994, serves Oakland County and transfers flows from Oakland County which are currently transported by the Oakwood-Northwest Interceptor to the Detroit River Interceptor.

In addition to the collection systems and the interceptors within the City, the Department owns, operates and maintains the 35 mile Oakland-Macomb Interceptor system in Macomb County. The Oakland-Macomb Interceptor feeds into the North Interceptor-East Arm at the City limits. At the request of Macomb County, the Department continues to construct and own expansions to the Oakland-Macomb Interceptor System. The latest addition to this system is the Garfield Arm, which was placed in service in 2004.

Collection System

Wastewater is transported via the lateral system into the public sewers and then through the interceptor sewers to the Plant. Wholesale customers own and operate their collection systems and discharge their flow into the System interceptor sewers. Approximately 60% of the System is drained by gravity with the remainder requiring pumping at least once.

Approximately 98% of the collection system located within the City consists of combined sewers, which transport both sanitary sewage and storm water drainage. Approximately 80% of the wholesale flow comes from combined sewers, with the remaining 20% being from sanitary sewers. Overflows from combined sewers are diminished to a degree by the use of remote controlled regulators, fabridams and control gates, providing controlled and uncontrolled storage of overflows. Plans are being developed to optimize the existing operation to provide additional in-System storage in order to better control combined sewer overflows ("CSO").

Environmental Matters

The operation of the Plant is subject to extensive regulation pursuant to 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"). Included in the regulatory framework established by the Clean Water Act is the NPDES permit program, which requires operation of wastewater treatment facilities according to discharge limitations set forth in permits issued to each facility. The NPDES permit program is administered by the United States Environmental Protection Agency (the "EPA") through the MDEQ.

The Department operates the Plant pursuant to an NPDES permit that took effect on January 1, 2008 (the "Permit"). The Permit sets forth requirements in four general classifications: (1) plant operation and discharge of pollutants, (2) management of the wastewater collection system, including various improvements to control CSO, (3) elements of the Industrial Pretreatment Program ("IPP"), and (4) residuals management to dispose of solids generated as byproducts of the treatment process.

The Department is also subject to a number of enforcement related administrative orders and consent judgments, most notably the Second Amended Consent Judgment (SACJ) entered by the US District Court on August 3, 2000, for Clean Water Act violations dating back to the 1970s. The SACJ and related orders set forth remedial measures required of the Department, including several capital improvements at the Plant, increased monitoring and reporting, penalties totaling \$1,500,000 for past violations, and payment to MDEQ for oversight activities of \$75,000. Most of the ACO capital improvement projects were already contained in the Department's Capital Improvement Program. In addition, three new "supplemental environmental projects" were requested by the MDEQ and agreed to by the Department: (1) a project that will consist of dredging and disposal of approximately 114,000 cubic yards of sediment from Connor Creek; (2) a study of reuse alternatives for biosolids disposal and implementation of the preferred technology; and (3) a triennial asset audit of the wastewater treatment plant focusing on the processes and equipment at the Plant and the transportation and pumping facilities throughout the System. See "LITIGATION--Environmental Litigation."

In compliance with the Permit, the Department is implementing its Long-term CSO Control Plan (the "CSO Plan"). The CSO Plan is generally acceptable to MDEQ, with minor revisions, and appropriate provisions of the CSO Plan were incorporated into the Permit. The Permit establishes a compliance schedule, including design and construction of major capital

improvements, to reduce overflows and provide for treatment and disinfection of CSO prior to discharge to the Detroit and Rouge Rivers. The permit requires an operational plan to manage the wastewater collection system so as to maximize transport and treatment of wet weather flows.

Because the Plant is not designed to remove cadmium, copper, lead, PCBs, mercury, or other toxic materials to the levels required by MDEQ, the Department controls these substances primarily through the Industrial Pretreatment Program ("IPP"). The IPP was the culmination of litigation filed by the EPA in 1989 against the City and the State in federal court, alleging that the City failed to fully implement and enforce industrial pretreatment. Although the lawsuit was dismissed in 1997, the Department revised the IPP in 1997, and the revised IPP has been subsequently approved by the MDEQ and the EPA. The Permit incorporates requirements that the Department administer the revised IPP to control and regulate wastewater discharge to the System, including the adoption of local limits for various pollutants.

The IPP includes procedures to identify and locate all industrial users who may be subject to the IPP, identify the character and volume of the pollutants contributed by these users, notify users of programs or standards, receive and analyze self-monitoring reports, investigate instances of non-compliance, fine non-compliers, return noncompliant users to compliance and meet public participation requirements. The IPP currently includes about 364 significant users in the service area of the System. Each significant user is assigned pollutant levels based on its industry classification and is routinely sampled to verify compliance. There was a notice of Non-Compliance issued by the MDEQ in November 2000 for failure to achieve adequate enforcement authority (i.e., the ability to assess significant fines and penalties against industrial violators of the IPP). Current Michigan law may preclude the Department from levying fines on industrial customers located outside the City of Detroit. The Department and the MDEQ have established an agreement delegating a portion of the State of Michigan's enforcement authority to the Department and establishing alternative means of enforcing the goals of the IPP Program. This agreement was executed in December 2002 in full satisfaction of the outstanding issues.

In 1995, the Final Water Quality Guidance for the Great Lakes System (the "Guidance"), developed by the Great Lakes States, EPA and other Federal agencies, established a mechanism for consistent, long term protection for Great Lakes fish, as well as the people and wildlife who consume them. The Guidance contains maximum acceptable contamination levels for 29 pollutants (bioaccumulative chemicals of concern and other pollutants) considered long-term threats due to toxicity. The State of Michigan subsequently adopted new Water Quality Standards in July 1997 to comply with the Great Lakes Initiative (GLI), and the 2004 Permit includes changes as a result of the GLI requirements. These include minor modifications to effluent limits for various toxic pollutants including metals and organic parameters, adjustment to the industrial discharge limits as set forth in permits issued under the IPP to regulate industrial wastewater discharges to the system, and continued updates to the PCB/Mercury Minimization Program to satisfy GLI requirements relating to minimization and pollution prevention activities.

The Department has exceeded certain emission limitations applicable to its incinerator operations. Implementation of several existing and impending air quality regulations may affect the Department's future incinerator operations. The 1990 Clean Air Act Amendments require EPA to establish performance standards for sludge incinerator systems. These standards which have been proposed include numerical emission limitations, which may require stack testing, procurement of additional monitoring equipment and control devices, and enhanced recordkeeping. The Department may need to achieve higher levels of pollution control technology to control incinerator releases of particulates and ozone precursors if the proposed EPA standards are promulgated. The Plant's air emission operating permit requires a significant increased in monitoring, record keeping and operating parameters.

The Department continually monitors the various pending air regulations and will assess the potential impact after the regulations are finalized. While the Department believes that compliance with the pending regulations may be achieved with additional staff and monitoring equipment, the Capital Improvement Program contains several projects to continue to improve incinerator operations and air quality control, including continued renovations of the incinerators.

FEASIBILITY CONSULTANT'S REPORT

The Department has engaged The Foster Group, LLC (the "Feasibility Consultant") to conduct an evaluation of the System, including information about the financial feasibility of completing the System's Capital Improvement Program. A copy of the report summarizing the findings of The Foster Group LLC's evaluation is included as Appendix A.

THE CAPITAL IMPROVEMENT PROGRAM

The Department has financed its ongoing Capital Improvement Program from Sewage System Bonds, federal and State grants, and revenues of the System. Over the past ten years, approximately \$2.27 billion has been spent for capital improvements to the System.

The Capital Improvement Program, which is subject to at least annual review and revision, is divided into the following major categories: Plant, Sewer Interceptor System, Combined Sewer System, Lateral Sewer Replacement, and Planning/Administration. The Plant category is further divided into sub-categories: Primary Treatment, Secondary Treatment, Solids Handling, Disinfection Facilities and General Purpose. As noted earlier, the System has experienced excursions of regulatory requirements. Since then a variety of capital and operational improvements have been made and, with the exception of opacity violations, the System is presently in substantial compliance with all regulatory requirements for water quality, air quality and sludge disposal. The Capital Improvement Program is therefore primarily intended to improve the reliability of the System to meet those standards as well as to make reasonable efforts to achieve greater operating and maintenance efficiency. A minor portion of the program is dedicated towards very limited growth of the service area.

The following tables detail the planned Capital Improvement Program expenditures for the five Fiscal Years ending June 30, 2012, and the projected funding sources for the Capital Improvement Program. The five year program is estimated to cost \$1,519,746,000. Of this amount, it is anticipated that \$824,547,700 (approximate net amount) will be raised through the issuance of bonds during and after fiscal year 2010 with the balance of the System's share to be generated out of System revenues, additional SRF Loans and funds currently available.

Capital Improvement Program Projected Expenditure Schedule

	<i>Fiscal Year Ended June 30,</i>					<i>Total</i>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
	\$	\$	\$	\$	\$	\$
Plant						
Primary Treatment	1,202,000	4,433,000	16,814,000	22,837,000	8,284,000	53,570,000
Secondary Treatment	3,765,000	2,550,000	6,057,000	19,226,000	10,473,000	42,071,000
Solids Handling	415,000	2,315,000	18,201,000	8,594,000	0	29,525,000
Disinfection Facilities	6,250,000	33,126,000	83,000,000	38,000,000	29,006,000	189,382,000
General Purpose	<u>33,835,000</u>	<u>27,080,000</u>	<u>27,464,000</u>	<u>19,549,000</u>	<u>12,713,000</u>	<u>120,641,000</u>
Subtotal Plant	45,467,000	69,504,000	151,536,000	108,206,000	60,476,000	435,189,000
Sewer Interceptor System	915,000	1,551,000	6,432,000	0	0	8,898,000
Combined Sewer System	65,894,000	192,875,000	222,998,000	264,294,000	145,106,000	891,167,000
Lateral Sewer Replacement	29,394,000	53,840,000	12,877,000	5,000,000	5,000,000	106,111,000
Planning & Administration	<u>22,746,000</u>	<u>24,570,000</u>	<u>23,140,000</u>	<u>4,925,000</u>	<u>3,000,000</u>	<u>78,381,000</u>
Subtotal	<u>118,949,000</u>	<u>272,836,000</u>	<u>265,447,000</u>	<u>274,219,000</u>	<u>153,106,000</u>	<u>1,084,557,000</u>
Total Capital Program	164,416,000	342,340,000	416,983,000	382,425,000	213,582,000	1,519,746,000

Sewage Disposal System Capital Improvement Program Projected Funding Sources

	<i>Fiscal Year Ending June 30,</i>					<i>Total</i>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Existing Improvement and Extension Funds ⁽¹⁾	69,821,500	0	0	0	0	69,821,500
Existing Construction Funds ⁽¹⁾	471,566,700	0	0	0	0	471,566,700
Current Revenues	26,915,200	17,511,700	34,503,800	41,677,300	49,724,400	170,332,400
Bond Proceeds	0	0	250,000,000	400,000,000	250,000,000	900,000,000
Less: Capitalized Interest	0	0	(13,125,000)	(21,000,000)	(13,125,000)	(47,250,000)
Issuance Expenses ⁽²⁾	0	0	(7,700,000)	(12,200,000)	(7,700,000)	(27,600,000)
Bond Reserve ⁽³⁾	<u>0</u>	<u>0</u>	<u>(167,300)</u>	<u>(267,700)</u>	<u>(167,300)</u>	<u>(602,300)</u>
Net Bond Proceeds Available	<u>0</u>	<u>0</u>	<u>229,007,700</u>	<u>366,532,300</u>	<u>229,007,700</u>	<u>824,547,700</u>
State Revolving Fund Loans	33,757,000	63,200,000	58,200,000	12,190,000	0	167,347,000
Total Funding Sources ⁽⁴⁾	<u>602,060,400</u>	<u>80,711,700</u>	<u>321,711,500</u>	<u>420,399,600</u>	<u>278,732,100</u>	<u>1,703,615,300</u>

(1) Balance available June 30, 2007. (Applies only to Fiscal Year 2008).

(2) Assumes issuance expenses totaling 3 percent of the bond issue amount plus \$200,000.

(3) Amount required to purchase surety to fund reserve requirement.

(4) 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 2012.

SOURCE: The Department.

FINANCIAL PROCEDURES

Budget and Accounting Matters

The Department prepares an annual budget in conformity with the City's requirements and procedures, and this budget sets forth estimated revenues and appropriations. No expenditures may be made without an authorized appropriation approved by the Board and City Council. Appropriations are made in lump sum by major program and such amounts cannot be exceeded without Board and City Council approval. Appropriation increases must be funded either by transfer from other appropriations within the funds of the System or by excess revenues generated within the System. The annual budget is reviewed and may be revised by the Mayor prior to submission to the City Council. The City Council conducts hearings and reviews and may alter the budget prior to adoption. Any revisions by the City Council are subject to veto by the Mayor and subsequent override of veto by the City Council. The entire preparation and review process encompasses approximately 6 months and the final budget is approved approximately June 1 of each year, to be effective July 1. The expenditure level of the proposed budget is taken into account as a revenue requirement for establishing Sewage Disposal System rates.

Certain differences should be noted between budget presentation and the audited financial statements for a given period. The budget encumbers amounts which might be spent in future periods and it records equipment and other long-term purchases against the current period. The audited financial statements include accrual of expenditures and revenues and depreciation of plant and equipment over the useful life of such capital items.

Generally, the Department pays for various employees, supplies and equipment, which are shared between the water and sewage systems, from water operations. The Sewage Disposal System is then billed periodically (currently monthly) based on actual operations and an estimate of certain personnel and equipment usage.

Because the 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 audited 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 System.

The Department uses an Oracle financial management system which 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, work order and inventory applications to provide an almost complete financial reporting system.

The Department uses a legacy human resources/payroll application for employee compensation. Preliminary funding has been approved to begin planning the replacement of the legacy system with the human resources/payroll modules. The complete integration of the human resources/payroll application with the core financial applications is expected to take about three years.

The City of Detroit's audited financial statements for the fiscal year ended June 30, 2006, available on the City's website at: www.ci.detroit.mi.us/Portals/0/docs/finance/CAFR/CAFR2006.pdf, includes an unqualified independent auditors' report with exception to a reference to the unaudited financial statements of the Detroit Public Library. The auditors provided the City with a second document, which highlights certain recommended improvements to the City's internal control environment. In its report, the City's auditors noted certain Reportable Conditions involving the City's internal control over financial reporting and operations including 22 it considered material. With respect to each Reportable Condition, the auditors described the criteria, condition, cause, effect and recommended solution. The City takes such recommendations seriously. Accordingly, the City has developed plans and has begun executing such planned action steps to address each concern identified by the auditors. The City is confident that each issue will be addressed, with substantially all issues being addressed prior to the conclusion of the audit of its financial statements for the fiscal year ended June 30, 2007. However, the City may be unable to remediate these matters in a complete and timely manner. If the City is unable to improve its financial and management controls, in a timely and effective manner, its ability to comply with the accounting and financial reporting requirements and other rules that apply to it would be impaired. The audited financial statements of the Sewage Disposal System for the fiscal year ended June 30, 2006, which are included as Appendix B, also includes the unqualified opinion of the City's auditors. See also TAX MATTERS-Recent Developments" herein.

Management Initiatives

The Department continues to employ several cost-saving measures instituted in recent years. These programs were designed to streamline operations and make them more efficient, and included: limiting outsourcing of work to contractors;

an overtime management plan; elimination of almost all unfilled budgeted positions; voluntary reductions in force through attrition; a work force reduction program; liquidation of surplus vehicles; installation of new work practices and performance targets to improve efficiency and productivity of field crews; and implementation of a performance management tool which provides real-time reporting for performance metrics and supports the overall performance improvement initiative.

These efforts have produced significant results. Department-wide operating expenses for 2005 were actually lower than those experienced in 2002. While recent increases in utility costs have led to slightly higher expenses in the last two years, the 2007 (unaudited) department-wide operating expenses represent an average annual increase of less than 2% from 2002 levels.

The Department has also initiated an energy management plan for water and sewer system operations. Finally, the Department has launched a program to replace all retail billing meters in the System and install automatic meter reading devices. This program is designed to provide more accurate, timely water use information in an efficient manner.

Collections and Delinquencies

The Department operates a computerized billing system for its approximately 280,000 retail customers. All retail customers are billed monthly. All retail customers are allowed 20 days to pay, after which a one-time 5% late payment charge is applied. Wholesale municipal customers maintain their own retail billing systems and pay the Department monthly or quarterly in accordance with contractual agreements. The charge for late payment of wholesale customers' bills is also 5%.

Retail water and sewer charges constitute a lien on the premises served, enforceable upon entry on the tax roll as described herein, unless notice is given that a tenant is responsible for such charges. Over the past year, the Department has implemented a program of enforcing these liens and has a policy of transmitting delinquent accounts to the City's Assessor for placement on the property tax roll. To date the City's Treasurer's Office has collected \$8.1 million on the Department's behalf. However, the Department continues to believe that discontinuance of service is the most effective method of collection. If water or sewer charges are delinquent, the City official in charge of the collection of such charges may certify to the tax assessing officer of the City the fact of such delinquency, whereupon such charge will be entered upon the next tax roll as a charge (lien) against the premises and the lien will be enforced in the same manner as general taxes of the City are collected; provided, that where notice is given that a tenant is responsible for such charges and service, no further service shall be rendered to such premises until a cash deposit equal to the estimated amount of the next ensuing bill is made. In addition to other remedies provided, the City has a right to shut off and discontinue the supply of water to any premises for the non-payment of bills for water or sewer when due. The termination of any services by the City to any residents may be subject to constitutional safeguards regarding due process, including notice and hearing requirements.

In order to enforce payment of retail billings, the Department pursues an aggressive collection program. Retail customers may have service shut off for non-payment after six months in arrears. During Fiscal Year 2008 (through February 2008), shutoffs totaled approximately 13,200. Historically, the number of shutoffs decline for the quarters ending in December and March due to weather conditions making shutoffs difficult.

The Board of Commissioners currently practices a "Bad Debt" write off policy common in many other large utilities, establishing a common protocol to aid determination of financial feasibility with regard to pursuit of delinquent customers.

The Department's computerized billing system produces data on aged accounts receivable and breaks delinquencies into four aged categories. The February 2008 report indicates total retail delinquencies in excess of six months of \$92.8 million. Approximately \$86.6 million of this total delinquent balance had been reserved for within the allowance for doubtful accounts as of June 30, 2007. The amount of delinquencies has not caused cash flow problems as sufficient operating capital has been available to the System. The System has not experienced significant problems relating to wholesale municipal delinquencies. Normally, wholesale delinquencies have arisen from disputed billings which can be resolved through negotiation. With respect to wholesale municipal receivables, as of June 30, 2007 the System did not report any significant wholesale municipal delinquencies.

Cash Management

In accordance with the City Charter, all funds and accounts of the System are separate and distinct from all other City funds. Except as described below, no System moneys are commingled with general fund or other moneys of the City.

All revenues of the System are initially deposited to the Water Receiving Fund because one payment is received from retail customers billed on a combined basis for water and sewerage services. Periodic (generally bi-weekly)

transfers are made from the Water Receiving Fund to the Sewage Receiving Fund, based on the proper allocation between funds. Next, transfers are made from the Sewage Receiving Fund to the Operation and Maintenance Fund, Bond Interest and Redemption Funds and other System funds and, until needed, balances are invested in accordance with the provisions of the Bond Ordinance. See “SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Bond Ordinance Flow of Funds.”

With the exception of direct payments made for debt service and special “manual” payments, expenditures are made through the City’s Central Clearing Account. The City maintains a central account which disburses all vendor payments. Once an invoice has been processed for payment, a wire transfer from the appropriate fund of the City is made to the Central Clearing Account. Moneys from the particular fund must be received before a check is released. Accordingly, no System moneys may be used to “cover” payments to be made from any other fund of the City. While all City payroll checks are drawn upon a special payroll account, funds are cleared through the Central Clearing Account in the same manner as vendor payments.

Debt service payments for Sewage System Bonds (as well as other City debt obligations) are not cleared through the Central Clearing Account. Such payments are made directly from the appropriate debt service account to the paying agent for the particular debt obligation.

The System maintains a budget system that monitors and controls funding in accordance with actual funds available. While the budget includes appropriations for specific projects to be funded out of the Improvement and Extension Fund at the beginning of each Fiscal Year, the Department re-authorizes such appropriations and approves the award of a contract for specific projects only when cash is on hand in such fund, which is then fully encumbered in an amount equal to the amount of the award.

Investment Policy

Funds in excess of current System requirements are invested by the City for the Department in accordance with State law. The City 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 City’s investment policy is to provide for effective cash management. The City’s 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 City has not experienced material investment-related losses in any City managed funds. As of March 1, 2008, the Sewage Disposal Fund held investments with a total market value of approximately \$599,554,865 and the investment with the longest maturity had a date of November 17, 2010.

Rates

Under the City Charter, the Board has the authority to establish rates for sewage disposal service. In accordance with the Act, rates are subject to review by and concurrence of City Council. Certain of the wholesale contracts require certain notice requirements relating to rate changes, generally 90 or 120 days. Public hearings are required to be held prior to action on rate changes. No other statutory procedures are required as a condition precedent to a change in rates. Rates, once established, become effective the following July 1.

Under the Bond Ordinance, the City covenants that with respect to each Fiscal Year the rates shall be fixed and revised from time to time as may be necessary to produce the greater of (1) the sum of (a) administrative and operating expenses of the System, (b) debt service on Senior Lien Bonds, (c) creation and maintenance of a debt service reserve for Senior Lien Bonds, (d) debt service on Junior Lien 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 System as the Bond Ordinance and the Act 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 FIXED RATE BONDS—Rate Covenant.” The City has covenanted at all times to fix and maintain such rates for services furnished by the System as shall be sufficient to provide for the foregoing. As a matter of operating policy, the Department has established a goal of fixing rates so that net revenues exceed the debt service coverage requirements of the Bond Ordinance. This policy may be changed from time to time by the Board without approval by Bondowners or any other party.

Under the Act, rates must be fixed and revised as necessary to comply with the Bond Ordinance. The contracts with wholesale municipal 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. The current sewage rates became effective July 11, 2007. A new schedule of sewer rates has been approved by the Board, is currently being reviewed by the City Council, and is expected to take effect in September 2008. See "FINANCIAL OPERATIONS - Analysis of Recent Operations." The Act provides that the rates charged by the System should not be subject to supervision or regulation by any State bureau, board, commission or like agency or instrumentality of the State.

The following table presents a summary of the rates charged by the Department per 1,000 cubic feet for sewage disposal for the last ten years.

Historic Sewage Disposal Rates*			
<u>Date of Implementation</u>		<u>City</u>	<u>Average Suburban Wholesale</u>
7/01/1999		9.86	7.08
7/01/2000		10.93	7.40
7/01/2001		12.22	7.27
7/01/2002		14.28	8.23
7/01/2003		15.79	8.93
7/01/2004		18.99	9.27
7/01/2005		19.68	9.28
7/01/2006		21.11	9.65
7/11/2007		22.62	9.78
9/01/2008	pending	24.71	10.18

* Charge per thousand cubic feet of sewage; includes sewage and storm drainage treatment charges.

SOURCE: The Department.

"Look-Back" Adjustments

Because rates are set prospectively, the costs and wastewater volumes must be estimated and therefore actual performance may not coincide with the estimates. Therefore, the EPA, in attempting to ensure that user charges are proportional in effect as well as in their design, adopted regulations which require grantees to review the wastewater contributions and revenues of users and user classes, making appropriate rate adjustments in the next Fiscal Year. While the EPA requires a review not less often than every two years, the Department is following an annual review policy with actual "look-back" adjustments to System users.

In determining the "look-back" adjustment, the Department evaluates the System's actual revenue requirement for the Fiscal Year and each customer class's proportionate share of those requirements based on the actual wastewater volumes. A comparison of these requirements with the billed revenues provides the amount of the "look-back" adjustment. In addition to cash requirements, the Department takes into consideration the financial covenants of the Bond Ordinance and will make no net adjustment which would result in a violation of the rate covenant and the Additional Bonds test. The maximum net adjustment is constrained by the requirements of the Bond Ordinance. Any look-back adjustments appear on the Department's billings in the second succeeding Fiscal Year (e.g., Fiscal Year 2006 adjustments on Fiscal Year 2008 billings, etc.). From an accounting perspective, such adjustments are reflected in the audited financial statements for the applicable Fiscal Year (e.g., Fiscal Year 2006 adjustments were reflected in the audited financial statements for Fiscal Year 2004).

For Fiscal Year 2006, the look-back analysis resulted in an overall System look-back charge of approximately \$28.4 million. This is a "net" amount, which means that the Department had under-recovered revenue from some customers and over-recovered revenue from others. The appropriate credit or debit adjustments were made to Fiscal Year 2006 audited financial statements and such credit or debit adjustments, as applicable, are being reflected in customers' bills during Fiscal Year 2008. The look-back adjustment process gives the Department some degree of control over the actual financial performance of the System as adjustments are implemented and limited to ensure compliance with bond covenants and management policies.

Sewage Rate Comparison

As shown in the following table, as of 2005 charges for sewage disposal in Detroit are generally below the average rates in effect in comparably sized cities. While sewer rates have increased subsequent to the publishing of this survey, the Department believes that such increases have not been materially different from those experienced by other survey participants. Also, the Department anticipates increasing rates as necessary to continue the funding of the Capital Improvement Program, and believes that the increases projected through 2012 are expected to be comparable to what will be experienced in other large metropolitan areas having wastewater systems of similar size and addressing infrastructure and regulatory challenges similar to those of the System.

Comparison of Annual Retail Sewage Charges in the 20 Largest U.S. Cities, Ranked from Lowest Cost to Highest Cost

City	Small ⁽¹⁾		Medium ⁽²⁾		Large ⁽³⁾	
	Amount	Rank	Amount	Rank	Amount	Rank
Memphis	79	1	1,050	1	105,000	1
Chicago	97	2	1,296	2	129,594	2
Indianapolis	149	3	1,631	3	167,933	3
Phoenix	192	4	2,268	4	233,664	6
San Antonio	228	5	2,385	5	233,313	5
San Jose	248	6	5,403	16	333,923	10
Milwaukee	262	7	3,074	8	293,421	8
Dallas	270	8	2,402	6	217,549	4
Philadelphia	273	9	2,755	7	258,095	7
Detroit	288	10	3,815	10	333,640	9
Columbus	288	11	3,489	9	401,548	13
Los Angeles	290	12	3,882	11	388,189	11
Baltimore	296	13	3,962	12	396,211	12
Houston	314	14	5,385	15	535,233	16
New York	315	15	4,219	13	421,859	14
Jacksonville	373	16	4,984	14	467,645	15
Boston	476	17	6,785	19	737,246	19
Austin	483	18	6,168	18	548,448	17
San Diego	522	19	6,028	17	589,328	18
San Francisco	563	20	10,579	20	1,057,935	20
<i>Average⁽⁴⁾</i>	303		4,092		395,581	

- (1) Based on water use of 90,000 gallons (12 Mcf) per year and 5/8" meter.
- (2) Based on water use of 1.2 million gallons (160 Mcf) per year and 2" meter.
- (3) Based on water use of 1.2 million gallons (160 Mcf) per year and 2" meter.
- (4) Excluding Detroit

SOURCE: Black & Veatch Corporation, 2005 Survey.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL OPERATIONS

Summary of Historical Revenues and Expenses

The table below shows historical revenue and expenses of the Sewage Disposal System for each of the five Fiscal Years ended June 30, 2003 through June 30, 2007. This information is derived from audited financial statements of the Sewage Disposal Fund (except as to fiscal year 2007 which has not yet been audited). Financial statements and notes thereto for the Fiscal Year ended 2006 and 2005, together with the auditors' report thereon, are in Appendix B - "Audited Financial Statements of the Sewage Disposal Fund of the City of Detroit, Michigan."

Summary of Historical Revenues and Expenses For Fiscal Years 2003-2007

	<i>Fiscal Year Ending June 30,</i>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007 (unaudited)</u>
Operating Revenues:					
Retail	\$124,492,166	\$137,397,451	\$146,894,621	\$155,630,255	\$145,822,109
Wholesale	147,863,307	170,688,966	158,120,913	188,762,961	191,834,525
Other	<u>7,243,499</u>	<u>6,485,913</u>	<u>8,572,741</u>	<u>7,300,106</u>	<u>6,536,907</u>
Total Operating Revenues	279,598,972	314,572,330	313,588,275	351,693,322	344,193,542
Operation and Maintenance Expenses					
Sewage Treatment Plant	102,795,411	108,834,440	103,536,939	120,630,600	128,702,227
Sewage Maintenance and Engineering	12,319,582	15,566,222	12,348,657	15,775,123	10,086,025
Sewer Pump Stations	2,816,201	5,076,606	3,122,298	2,963,775	3,193,023
Interceptors and Regulators	52,145	182,574	740,870	1,237,752	4,378,862
Combined Sewage Overflow Control					
Basins	1,606,591	1,141,192	511,252	1,697,068	692,041
Commercial	5,664,080	6,321,194	5,698,630	5,870,839	5,878,512
Administrative and General	<u>33,980,622</u>	<u>40,624,344</u>	<u>37,441,707</u>	<u>46,666,956</u>	<u>47,212,866</u>
Total Operating Expenses	159,234,632	177,746,572	163,400,354	194,842,114	200,143,557
Net Operating Revenues ⁽¹⁾	120,364,340	136,825,758	150,187,921	156,851,208	144,049,985
Non-Operating Income ⁽²⁾	<u>11,594,449</u>	<u>8,017,586</u>	<u>14,930,952</u>	<u>18,920,649</u>	<u>33,362,548</u>
Net Revenues	131,958,789	144,843,344	165,118,873	175,771,857	177,412,533
Debt Service ⁽³⁾					
Senior Lien Bonds	86,084,712	92,135,474	108,403,917	105,353,514	106,225,011
Senior and Second Lien Bonds	96,502,214	105,389,547	123,739,213	127,189,369	129,757,571
All Bonds, Including SRF Junior Lien	102,472,833	115,969,942	136,635,131	151,245,544	156,427,936
Debt Service Coverage ⁽⁴⁾					
Senior Lien Bonds	1.53	1.57	1.52	1.67	1.67
Senior and Second Lien Bonds	1.37	1.37	1.33	1.38	1.37
All Bonds, Including SRF Junior Lien	1.29	1.25	1.21	1.16	1.13

- (1) Net Revenues that are not required to flow into the Bond Interest and Redemption Funds, the Junior Lien Bond and Interest Redemption Fund or the Extraordinary Repair and Replacement Reserve Fund are available for capital expenditures. It should be noted that the table reflects accounting on an accrual basis in accordance with accounting principles generally accepted in the United States of America and does not necessarily reflect cash available since revenues include accounts receivable and expenditures include a number of "non-cash" items.
- (2) Does not include "Miscellaneous Non-Operating Income (Expense)," which amounts are reflected on the Statement of Operations as a net adjustment to Non-Operating Income (Expense). Historically, miscellaneous non-operating income has been actual cash receipts not derived from operations and has not been material.
- (3) Includes liquidity fees, as these have traditionally been treated as interest payments for accounting purposes. Projections of debt service in this Remarketing Circular do not include such fees, in accordance with Bond Ordinance treatment of such fees as Ancillary Obligation Fees and Expenses.
- (4) "Coverage" calculations include all Net Revenues available for payment of debt service, and include Construction Fund investment earnings. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Pledged Assets" regarding treatment of Construction Fund investment earnings.

SOURCE: The Department

Analysis of Recent Operations

The following information summarizes the financial operations of the System for the last five fiscal years. Audited financial statements are available for fiscal years 2003 through 2006, and additional detailed information related to the financial statements for the fiscal years ended June 30, 2006 and June 30, 2005 can be found in Appendix B - "Audited Financial Statements of the Sewer Fund of the City of Detroit, Michigan."

Operating Revenues As indicated in the above table, System operating revenues (primarily generated from water sales) have increased approximately \$64.6 million, or 23%, since fiscal 2003. This increase is primarily attributable to sewer rate increases during that period, as billable wastewater volumes have been relatively stable during that time. However, the variance from year to year is also partially attributable to varying levels of bad debt expense throughout the period. Operating revenues in this schedule are expressed net of bad debt expense, which was recorded as an operating expense prior to 2005. Bad debt expense is recognized on the Department's financial statements based on an analysis of the size and age of accounts receivable and the expected ability to collect those receivables. Revenues in the table are net of bad debt expense figures totaling \$8.5 million in 2003, \$5.3 million in 2004, \$32.4 million in 2005, \$22.4 million in 2006, and \$4.1 million in 2007.

In addition, the revenues shown in the preceding schedule are net of "look-back" adjustments; for example, 2006 retail revenues reflect a \$23.2 million customer charge, or increase, in revenues associated with look-back adjustments. Similarly, the 2006 figure for wholesale customers reflects a \$5.4 million customer charge (increase) in revenues. The look-back calculations affect all other revenue figures shown in the schedule to varying degrees. A look-back analysis is currently underway for 2007. The results of such analysis will be incorporated into the financial statements when complete.

Operating Expenses. Total operating expenses in 2007 were approximately almost \$2.5 million (or 1.3 percent) higher than those experienced in 2006. Operating expenses increased in 2006, primarily at the Plant. These increases were primarily attributable to higher natural gas and electricity prices, as well as increased costs associated with sludge hauling. In addition, the 2006 and 2007 figures in this category include costs from prior years associated with projects that were originally capitalized and were determined to be operating expenses during the close out process of the projects.

The relatively stable cost levels in other areas are primarily attributable to the cost efficiency measures implemented by Department management over the last three fiscal years. See "FINANCIAL PROCEDURES – Management Initiatives." A portion of the annual variation in operating 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 two utilities 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.

Non-Operating Income. As indicated in footnote (2) to the above table, the category "Miscellaneous Non-Operating Income (Expense)" 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. 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 System operations or debt service. The presentation in the preceding table does not reflect any Miscellaneous Non-Operating Income (Expense) elements.

The indicated debt service coverage levels for all years in the schedule have been remarkably stable, and have been in excess of the figures required by the Bond Ordinance and the Board's policy goal. The stability in debt service coverage is largely attributable to the existence of the "look-back" process noted above, accounting for which results in after the fact adjustments to net revenues. The 2007 coverage levels indicated in the table are likely to increase once the look-back process has been completed for that year.

The Department has made and continues to make significant efforts to ensure that financial plans accurately accommodate each of these issues and that its financial accounting systems accurately report activity for each of these matters.

Projected Operations for Fiscal Year 2008 Through 2012

The projected financial operations of the Sewage Disposal System shown in the table on the following page include assumptions relating to inflation and to costs associated with the continuing Capital Improvement Program, including debt service on additional bonds and additional operating costs associated with operating new facilities, all assuming application of current federal pollution control standards and compliance schedules and requirements under the Clean Water Act and the Clean Air Act. The projected revenues shown in the table do not anticipate any substantial growth in usage by existing customers or extension of service to a substantial number of new customers. Accordingly, the Department anticipates that increases in revenue requirements will be obtained through rate increases as indicated in the following table.

The projected additional revenue required reflects the minimum additional amounts which will be required to meet the requirements of the Ordinance and the policies enacted by the Board, given the various assumptions. The operation and maintenance projections are based on actual operating data and budget information. The operation and maintenance expense projection for fiscal year 2008 is based on review of the 2008 budget and actual expenses for the first 6 months of the fiscal year. The 2009 projection is based on this information and the Department's budget and serves as a base for the remaining years. The total debt service includes the amount due on all currently outstanding Sewage System Bonds and all projected additional Sewage

System Bond issues required to fund the Capital Improvement Program. The projected Net Revenues are divided by the applicable debt service to show estimated coverage. The balance available is applied to renewals and replacements, the Extraordinary Repair and Replacement Reserve Fund, and the local share of the Capital Improvement Program funded with revenue financed capital.

The projections set forth below are intended as “forward-looking statements.” The City 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 Capital Improvement Program as scheduled and within budget, regional climate and weather conditions, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting the Department’s ability to manage the System.

Summary of Projected Revenues and Additional Revenue Requirements

For Fiscal Years 2008-2012

Fiscal Year Ending June 30,

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating Revenue Under Existing Rates (a)	377,220,300	399,217,300	407,587,500	408,449,300	409,311,100
<u>Projected Revenue from Rate Increases (b)</u>					
FY 2010: 5.6%			22,702,500	22,750,500	22,798,500
FY 2011: 6.0%				26,013,700	26,068,700
FY 2012: 5.0%					22,881,400
Total Projected Revenue from Sewer Rates	377,220,300	399,217,300	430,290,000	457,213,500	481,059,700
Miscellaneous Operating Revenue	3,750,000	3,750,000	3,750,000	3,750,000	3,750,000
Projected Non-Operating Revenue	<u>22,614,500</u>	<u>12,298,500</u>	<u>10,794,000</u>	<u>10,849,500</u>	<u>12,062,200</u>
Total Projected Operating Revenue	403,584,800	415,265,800	444,834,000	471,813,000	496,871,900
Operation and Maintenance Expense (c)	<u>193,421,000</u>	<u>201,073,900</u>	<u>206,100,700</u>	<u>211,253,200</u>	<u>216,534,500</u>
Projected Net Operating Revenues	210,163,800	214,191,900	238,733,300	260,559,800	280,337,400
Senior Lien Debt Service (d) (e)	104,236,900	107,745,800	107,995,100	110,635,700	118,264,500
Second Lien Debt Service (d)	44,047,600	51,262,100	57,370,300	60,949,300	64,277,300
SRF Debt Service (d)	<u>26,964,100</u>	<u>27,886,000</u>	<u>28,726,700</u>	<u>36,862,800</u>	<u>37,330,700</u>
Total Debt Service	175,248,600	186,893,900	194,092,100	208,447,800	219,872,500
Projected Senior Lien Debt Service Coverage	202%	199%	221%	236%	237%
Projected Senior and Second Lien Debt Service Coverage	142%	135%	144%	152%	154%
Projected Total Debt Service Coverage	120%	115%	123%	125%	127%
Balance for CIP and Other Purposes	34,915,200	27,298,000	44,641,200	52,112,000	60,464,900

(a) Revenues for 2008 assume rates in effect during 2008. Revenues for 2009 - 2012 reflect rates expected to take effect in September 2008. These rates reflect an increase of approximately 8.0 percent.

(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 2009. Operating expense projected to also include certain fees to remarketing and liquidity providers.

(d) Reflects debt service (principal and interest) on all existing indebtedness, the Predecessor Bonds and the Fixed Rate as provided in the immediately succeeding sentence, and future bonds. Reflects debt service on the Predecessor Bonds at a fixed interest rate payable by the City under the Existing Swaps until March 1, 2008 for Predecessor Bonds (Series 2001(C-2) and Series 2006(A)) subject to Existing Swaps. As a result of recent developments in the bond insurance industry discussed herein, from March 1, 2008, until the conversion to a Fixed Rate, debt service on such Predecessor Bonds was the approximate average variable rate borne by such Predecessor Bonds. Prior to conversion, fiscal year 2008 debt service on the 2001(E) Predecessor Bonds is 125% of the twelve (12) month variable rate average. Debt Service on the Fixed Rate Bonds after the Conversion Dates includes the net fixed payment by the City under the Mirror Swaps; see “INTRODUCTION – Recent Developments in the Bond Insurance Industry”, PLAN OF REMARKETING - Related Interest Rate Swaps” and “INTEREST RATE SWAP AGREEMENTS - Interest Rate Swaps Related to the Remarketed Bonds” for more information.

(e) Assumes bond sales in subsequent years at an annual interest rate of 5.25%. Although the Department may issue Additional Sewage System Bonds as Second Lien or Senior Lien Bonds, for purposes of this table future debt is assumed to be issued as Senior Lien Bonds.

(f) Because 2008 has 366 days, the Total Debt Service for 2008 includes one extra day of interest.

Source: The Foster Group, LLC.

Upcoming Reporting Change

The Government Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). This change will cause the financial statements of the City to recognize the cost and related liability of providing

retiree health coverage over the working life of the employee, rather than at the time the health care premiums are paid. For the City, this will result in increased expenses and a related liability, which will likely be significant. The City is currently evaluating the effect that GASB Statement No. 45 will have on its financial statements. The City commissioned an actuarial valuation as of December 31, 2004. The present value of all benefits expected to be paid to current plan members as of December 31, 2004 is \$8,033 million (\$3,931 million for current retirees and \$4,102 million for active employees). The actuarial accrued liability, which is the portion of the \$8,033 million attributable to the service accrued by the plan members as of December 31, 2004 is \$6,244 million. The City has not yet determined the Department's share of this liability. As of December 31, 2004, there were no plan assets available to offset the liabilities of the plan. GASB Statement No. 45 is effective for the year ending June 30, 2008.

Future Years

The Department projects that \$900,000,000 principal amount of additional Sewage System Bonds will be issued after January 1, 2010 to finance the Sewage Disposal System's Capital Improvement Program through fiscal 2012. Additional financings can be expected beyond 2012 to provide for future capital needs of the System. See "THE CAPITAL IMPROVEMENT PROGRAM." The Department intends to adjust rates, as appropriate and consistent with the Ordinance and the Board rate covenant policy

CONTINUING DISCLOSURE UNDERTAKING

The City has covenanted for the benefit of the Bondowners and the Beneficial Owners of the Fixed Rate Bonds (as such terms are defined in the Master Continuing Disclosure Agreement dated November 21, 1995 (the "Continuing Disclosure Undertaking")) to provide certain financial information and operating data relating to the Sewage Disposal System and the City's Sewage Disposal Fund by not later than 180 days following the end of each of the City's Fiscal Years (the "Annual Financial Information"), and to provide notices of the occurrence of certain enumerated events, if material. A summary of the Continuing Disclosure Undertaking is contained in Appendix F. The Continuing Disclosure Undertaking requires that the Annual Financial Information be filed by the City with each Nationally Recognized Municipal Securities Information Repository (each a "NRMSIR") and the state information depository (the "SID"). The Continuing Disclosure Undertaking also requires that notices of material events be filed by the City with the SID and with either each NRMSIR or the Municipal Securities Rulemaking Board. Any filing with each NRMSIR and the SID may be made by transmitting such filing to Disclosure USA as provided at www.disclosureusa.org unless the Securities and Exchange Commission withdraws the interpretive advice contained in its letter to the Municipal Advisory Council of Texas, dated September 7, 2004. These covenants have been made in order to assist the Remarketing Agent named on the cover page of this Official Statement to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission. As of the date of this Official Statement, the City and the Sewage Disposal Fund are the only "obligated persons" required to provide such annual financial information under Rule 15c2-12. Reference is made to the respective Predecessor Official Statements for a discussion of the specific nature of the information to be contained in the Annual Financial Information or the notices of material events.

A failure by the City to comply with the Continuing Disclosure Undertaking must be reported by the City in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Fixed Rate Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the Fixed Rate Bonds and the market price therefor.

The City has entered into a Disclosure Dissemination Agent Agreement (the "Disclosure Dissemination Agreement") with Digital Assurance Certification, L.L.C. ("DAC") for the benefit of the Beneficial Owners of the Fixed Rate Bonds, 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 this 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 Report, audited financial statements, notice of Notice Event or Voluntary Report, 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 of the Fixed Rate Bonds 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 will 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.

In recent years, the City has been unable to meet its obligation under the continuing disclosure agreements related to prior bond issues, to provide annual financial information within the periods specified in the applicable agreements.

Annual financial information for the Fiscal Years ended June 30, 1999 through 2002 was filed on May 10, 2000, May 28, 2001, May 31, 2002 and March 10, 2003, respectively. Annual financial information for Fiscal Year ended June 30, 2003 was filed on February 9, 2004 (for water supply system bonds and sewage disposal system bonds) and on March 1, 2004 (for other bonds), and for Fiscal Year ended June 30, 2004 was filed on February 16, 2005 (for water supply system bonds and sewage disposal system bonds) and on May 5, 2005 (for other bonds). Annual financial information for Fiscal Year ended June 30, 2005 was filed on June 1, 2006. Annual financial information for Fiscal Year ended June 30, 2006 was filed on September 26, 2007. Annual financial information for the Fiscal Year ended June 30, 2007 will be filed upon completion of an audit of such financial information. A failure by the City to comply with the Disclosure Undertaking 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 of the Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of and the market price for the Bonds.

LITIGATION

Environmental Litigation

In 1977, the EPA filed suit against the City in the U.S. District Court (the "Court") to compel the Department to comply with the requirements of the Clean Water Act. The City, the State and the EPA entered into a Consent Judgment in September 1977 which contained specific effluent requirements and specific dates to bring the City into compliance. In 1978, as a result of the City's failure to comply with certain provisions of the Consent Judgment, the Court appointed then Mayor of the City, Coleman A. Young, as Administrator of Operations to exercise control, management and operation of the System. As the result of a full scale Plant evaluation, the Amended Consent Judgment was entered by the Court in April 1980. Subsequently, the City demonstrated its compliance with the wastewater quality requirements of the Amended Consent Judgment and the City and the State of Michigan negotiated a new NPDES permit that was issued in August 1983. In December 1984, the Court found that the operations of the Plant were in substantial compliance with the Amended Consent Judgment, terminated the Administratorship and relieved the City from a number of requirements of the Amended Consent Judgment. The Court retained jurisdiction under the remaining provisions of the Amended Consent Judgment in order to ensure the City's continued compliance.

In 1991, Wayne County petitioned the Court to take jurisdiction over certain permit related issues between the County and the communities for which the County provides wastewater service, and also to take jurisdiction over potential contract disputes between the County and the City. The Court granted the County's petition to take jurisdiction over issues relating to these Wayne County communities but deferred taking any action concerning potential contract disputes. After lengthy proceedings, in 1992 the Court ordered MDEQ to make these Wayne County communities co permittees for Wayne County. In the course of conferences related to resolution of non CSO permit issues, the Court had also advocated the creation of a regional or watershed authority to address issues relating to point source and non point source pollution of the Rouge River. The Court had encouraged the parties to agree to the creation of such an agency and to apply to the MDEQ for a regional storm water discharge permit. Detroit and Wayne County have indicated to the Court that they believe that a voluntary approach is the most appropriate means of addressing both point and non point wet weather pollution issues on a watershed basis.

Beginning in August 1997 and continuing through March 1999, the City experienced violations of the requirements of the 1997 Permit related to solids handling at the Plant. In October 1998, the MDEQ issued a Notice of Violation for total suspended solids and total phosphorous permit limit violations and for failure to meet deadlines for implementing specific design and construction projects required by the 1997 Permit. The City has maintained compliance with the effluent requirements of the 1997 Permit since June 1999.

The City and MDEQ negotiated the ACO to resolve this Notice of Violation. This proposed ACO contained a schedule to bring the City back into compliance and contained a schedule of projects to achieve that goal. In the ACO, the City agreed to reimburse MDEQ for its costs of investigation and oversight in connection with the ACO in the amount of \$75,000 and to pay a civil penalty of \$1,500,000.

The Court advised the parties that the Amended Consent Judgment covered completely the issues in the proposed ACO, and that the ACO should be replaced by a Supplemental Consent Judgment ("SCJ"). The Court also appointed a committee to determine the causes of the permit violations. The committee has submitted its final report to the Court. The City has submitted its response to the committee's report. The Court accepted the committee's report and the City's response on February 7, 2000. On that date the Court entered an Order Appointing Special Administrator For the Detroit Wastewater Treatment Plant of the Detroit Water And Sewerage Department ("the Order").

The Order named then-Mayor Dennis Archer as Special Administrator of the Department for the purpose of correcting the causes of noncompliance discovered by the committee. The appointment was to be for one year or until further order of the Court. On December 3, 2001 the Court entered an Order Continuing Special Administratorship For the Detroit

Water And Sewerage Department. That Order named Mayor Kwame Kilpatrick as Special Administrator, effective on the date that he took office as Mayor of Detroit.

Under the two Orders, the Special Administrator was given full power to manage the Wastewater Treatment Plant and was given sweeping powers to improve the operation of the Wastewater Treatment Plant. The City and the MDEQ negotiated the Second Amended Consent Judgment (SACJ), which was entered by the Court on August 3, 2000. The SACJ establishes a compliance schedule for certain improvements to be made at the Wastewater Treatment Plant.

On January 5, 2006 the Court entered an order terminating the Special Administratorship over the Department. The court noted that the Department had not violated the terms of its NPDES Permit since a new director was hired for the Department in 2002 and that the Department had completed several important projects to ensure compliance with the permit. The Court determined that the Special Administratorship was no longer needed.

Rate Litigation

During August 2004 a portion of the Oakland Macomb Interceptor collapsed. The interceptor has been repaired. The Department has implemented sewer rates which allocate the cost of the repair to the interceptor (\$53 million) to Macomb County, the only community served by the interceptor. Macomb County objected to this and has sued the Department to force a re-allocation of the cost of repair. On March 23, 2007 the Court rejected Macomb County's claims and ruled that the Department properly allocated the cost of repairing the interceptor to Macomb County. Macomb County has appealed that ruling to the Sixth Circuit Court of Appeals.

The City of Detroit recently constructed a new 800 Megahertz (MHz) radio communications system that provides communication capabilities to all City departments for both day to day operations and emergency situations. The total cost of the 800 MHz was approximately \$138 million.

In May 2003, the City of Detroit Budget Department, on behalf of all of the general fund departments, and the Detroit Water and Sewerage Department (DWSD), an enterprise fund department entered into a Memorandum of Understanding pursuant to which DWSD took the lead in contracting for and overseeing the construction of the 800 MHz radio project. Pursuant to the MOU, DWSD agreed that it would pay 60% of the capital (i.e. infrastructure) cost of the project and the general fund departments would pay 40% of those costs. That allocation was based on the larger footprint of DWSD's service area (1,000 square miles in eight counties in southeast Michigan) as compared to the approximately 100 square mile area of the City served by the general fund departments. This allocation was also based on the understanding that 15 of the 25 radio communication towers (60%) needed to support the system would be constructed outside the City of Detroit and utilized only by DWSD. Thus, of the total infrastructure costs of \$64.4 million, DWSD paid \$38.6 million and the general fund departments paid the balance. The City subsequently succeeded in negotiations with the State of Michigan for the use of its Michigan Public Safety Communications System (MPSCS) radio towers for communications support outside the City of Detroit, in exchange for various payments and the improvements both to the MPSCS towers and the towers planned to be constructed inside the City of Detroit for use of those towers by the State.

In late 2005 Wayne, Oakland and Macomb Counties challenged the 60:40 infrastructure cost allocation in litigation pending in U.S. District Court. Those counties are wholesale sewerage customers of DWSD. They argued that the allocations of the costs of the system passed on, in part, to those Counties through DWSD's rates was improper. They argued that DWSD's allocated share of the infrastructure costs should have been closer to 8%, based on DWSD's actual air time use of the radio system.

On March 23, 2007 the Court issued an opinion in which the Court determined that DWSD's share of the infrastructure cost was too high. A final order implementing that opinion has not yet been entered. The Court has ordered the parties to engage in negotiations supervised by the Court to determine the exact amount of the overpayment by DWSD that must be reimbursed by the general fund departments. The negotiations are ongoing.

Other Litigation

On March 24, 2008 the Wayne County Prosecutor filed charges of obstruction of justice and perjury against the Mayor of Detroit. The charges relate to his testimony in a wrongful discharge lawsuit filed by two former police officers. That underlying litigation, which has been settled, had no connection to the Detroit Water and Sewerage Department. The Mayor has asserted his innocence and announced that he will fight the charges. The Department believes that the charges against the Mayor should not have any effect on the revenues of the Department or the security for the Fixed Rate Bonds.

Additionally, the Department is involved in numerous other lawsuits related to the System. These lawsuits arise primarily out of personal injuries or property damage or assert breach of contract claims on construction projects for the System. The Department and its legal counsel have determined an estimated contingent reserve against the potential outcome of such claims or the amount of potential damages.

TAX MATTERS

Federal Tax Matters

In the opinion of Lewis & Munday, A Professional Corporation, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, as presently interpreted, the interest on the Fixed Rate 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 is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, and all rules and regulations promulgated thereunder (the "Code"), that must be satisfied subsequent to the issuance of the Fixed Rate Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements may include rebating certain earnings to the United States. Failure to comply with any of such requirements could cause the interest on the Fixed Rate Bonds to be so included in gross income retroactive to the applicable date of issuance of the Fixed Rate Bonds. The City has covenanted to comply with all such requirements. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Fixed Rate Bonds and interest thereon.

Additional federal tax consequences relative to the Fixed Rate Bonds and interest thereon include the following matters. The following is a general description of some of these consequences, but is not intended to be complete or exhaustive, and investors should consult their tax advisors with respect to these matters. For federal income tax purposes: (a) tax-exempt interest, including interest on the Fixed Rate Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Fixed Rate Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Fixed Rate Bonds; (d) interest incurred or continued to purchase or carry the Fixed Rate Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations such as the Fixed Rate Bonds; (f) interest on tax-exempt bonds, such as the Fixed Rate Bonds, will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; and (g) passive investment income, including interest on tax-exempt bonds such as the Fixed Rate Bonds, may be subject to federal income taxation for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income.

State Tax Matters

Bond Counsel is further of the opinion that, under existing law, as presently interpreted, the Fixed Rate Bonds and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan, except inheritance and estate taxes, and taxes on gains realized from the sale, payment or other disposition of the Fixed Rate Bonds.

Original Issue Discount

For federal income tax purposes, if the remarketing price of the Fixed Rate Bonds as shown on the cover of this Official Statement is less than the stated redemption price at maturity, then such Fixed Rate Bond is considered to have an "original issue discount" equal to the difference between such remarketing price and the amount payable at maturity (such Fixed Rate Bonds are referred to as "Original Issue Discount Bonds"). The remarketing price of each Original Issue Discount Bond will be the remarketing price to the public at which a substantial amount of the Original Issue Discount Bonds are sold, and the issue date will be the date on which an Original Issue Discount Bond is first issued to the public.

In the opinion of Bond Counsel, under existing law as presently interpreted, the original issue discount on an Original Issue Discount Bond accrued in the hands of a registered owner is treated for federal income tax purposes as tax exempt interest as described below. The registered owner's basis for determining gain or loss on a sale, maturity or other disposition of an Original Issue Discount Bond generally will equal the registered owner's cost, increased by any original issue discount that accrued while the owner held the Original Issue Discount Bond as described below. Generally, any gain or loss incurred by a U.S. registered owner on the sale, exchange or payment at maturity of an Original Issue Discount Bond (based on the registered

owner's basis) would be taxable as capital gain or loss (assuming the Original Issue Discount Bond is held as a capital asset), which would be long term or short term depending on whether the Original Issue Discount Bond was held for more than the applicable period for treatment of long term capital gain.

Subject to the modification in the next paragraph for certain subsequent registered owners, the original issue discount accrued in each "accrual period" will equal the remarketing price of the Original Issue Discount Bond (increased by the amount of the original issue discount accrued in all prior accrual periods without regard to the modifications discussed in the next paragraph) multiplied by the yield to maturity of the Original Issue Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less the interest payable on such Original Issue Discount Bond during such accrual period. For purposes of this paragraph, "accrual period" means a six month period (or shorter period from the date of remarketing of the Original Issue Discount Bond) which ends on a day in the calendar year corresponding to the maturity date of the Original Issue Discount Bond or the date six months before such maturity date. The original issue discount so accrued in a particular accrual period will then be considered to accrue ratably on each day of the accrual period.

A modification of the foregoing rules will generally apply to a registered owner who acquired an Original Issue Discount bond by "purchase" if the cost of the Original Issue Discount Bond to that purchaser exceeds the sum of (a) the remarketing price of the Original Issue Discount Bond and (b) the total original issue discount accrued under the rules of the preceding paragraph during the entire period prior to the registered owner's purchase of the Original Issue Discount Bond. In that case, the amount of the original issue discount considered to accrue in an accrual period will equal (i) the amount determined under the rules of the preceding paragraph reduced by (ii) the portion of such excess purchase price allocable to the days beginning on the date of such purchase and ending on the stated maturity date of the Original Issue Discount Bond. Such excess would be allocated so as to equal a constant percentage of the original issue discount accrued on each such day in the remaining period to maturity as described above. For this purpose, a "purchase" is any acquisition of an Original Issue Discount Bond other than one in which the registered owner's basis in such Original Issue Discount Bond is determined by reference to the basis of the Original Issue Discount Bond in the hands of the person from whom acquired (such as a gift).

Amortizable Bond Premium

For federal income tax purposes, under existing law, as presently interpreted, if the remarketing price of the Fixed Rate Bonds is greater than the stated redemption price at maturity (such bonds are hereafter referred to as "Premium Bonds"), then the difference between a purchaser's cost basis of the Premium Bonds and the amounts payable on the Premium Bonds (other than the payment of the stated interest thereon) constitutes an amortizable bond premium. Such amortizable bond premium 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 Premium Bonds and is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code.

In general, the amount of amortizable bond premium allocated to each "accrual period" is the excess of the stated interest on a Premium Bond allocable to such accrual period over the product of the bond purchaser's adjusted acquisition price at the beginning of the accrual period multiplied by the discount rate that, when used in computing the present value of all remaining payments to be made on such Premium Bond (including stated interest) produces an amount equal to the holder's basis in the Premium Bonds. For purposes of this calculation, the adjusted acquisition price at the beginning of any accrual period is equal to the purchaser's original basis in the Premium Bond decreased by (i) the amount of bond premium amortized in prior accrual periods and (ii) the amount of any payments previously made on the Premium Bond other than payments of stated interest on such Premium Bond.

The amount of amortizable bond premium allocable to each taxable year is deducted from the bond purchaser's adjusted basis on such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Fixed Rate Bonds.

Market Discount

Pursuant to amendments made to the Code by the Omnibus Budget Reconciliation Act of 1993, the "market discount rules" of the Code apply to the Fixed Rate Bonds. Accordingly, holders acquiring their Fixed Rate Bonds subsequent to the remarketing of the Fixed Rate Bonds will generally be required to treat market discount recognized under the provisions of the Code as ordinary taxable income (as opposed to capital gain income). Bondholders should consult their own tax advisors regarding the application of the market discount provisions of the Code and the advisability of making any of the elections relating to market discount allowed by the Code.

Recent Developments

The City has determined that it has not implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax-exempt obligations. The City is engaged in discussions with the Internal Revenue Service with a view to establishing such procedures. The potential impact to the City is indeterminable at this time

The opinion of Bond Counsel is based on existing law as of the date of the opinion and the opinion does not cover future changes in law. Michigan tax law could be affected by a decision of the United States Supreme Court in the case of *Kentucky Department of Revenue Services v. Davis*. The case was argued before the Court on November 5, 2007. The Kentucky Court of Appeals ruled that taxing interest income on out-of-state bonds while exempting interest on bonds issued by the Commonwealth of Kentucky and its political subdivisions violated the Commerce Clause of the United States Constitution. Like Kentucky and a number of other states, the State of Michigan taxes interest on bonds of out-of-state issuers but exempts the interest on bonds issued by the State of Michigan and its political subdivisions. In the event the United States Supreme Court upholds the Kentucky decision and rules that it is unconstitutional to exempt the interest on in-state bonds while taxing the interest on out-of-state bonds, the State of Michigan and other states may modify their tax laws as to the treatment of interest on in-state and out-of-state bonds. No assurances can be given as to the outcome of the *Davis* case or as to the nature of any legislative response by the State of Michigan or any other state if the decision in *Davis* is upheld. Owners of Fixed Rate Bonds should consult their tax advisors with respect to the potential impact on ownership, disposition and market value of the Fixed Rate Bonds as a result of the *Davis* case.

Future Developments

No assurance can be given that any future legislation or clarifications or amendments to the Code, is enacted into law, will not contain proposals which could cause the interest in the Fixed Rate Bonds to be subject directly or indirectly to federal income taxation, or which could cause the interest on the Fixed Rate Bonds to be subject directly or indirectly to the State of Michigan income taxation, adversely affect the market price or marketability of the Fixed Rate Bonds, or otherwise prevent the holders 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 Fixed Rate Bonds for audit examination, or the course or result of any examination of the Fixed Rate Bonds, or other bonds which present similar tax issues, will not affect the market price of the Fixed Rate Bonds.

Tax Advisors

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE FIXED RATE BONDS.

FEASIBILITY CONSULTANT

The Department retains The Foster Group, LLC as a Feasibility Consultant to develop reports and studies relating to the Sewage Disposal System and certain financial matters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, independent certified public accountants and consultants, will deliver a report dated as of the Conversion Dates of the interest mode on the Predecessor Bonds from the Weekly Mode to the Modal Fixed Rate Mode with respect to the Series 2001(C-2) Bonds, from the Weekly Mode to the Fixed Rate Mode with respect to the Series 2006(A) Bonds and, to the extent bondholder consent is received therefor, from the Flexible Rate Mode to the Modal Fixed Rate Mode with respect to the Series 2001(E) Bonds verifying the accuracy of the yield of the Fixed Rate Bonds. Such verification will be used by Bond Counsel in its determination that the interest on the Fixed Rate Bonds is not included in gross income for federal income tax purposes as a condition to the conversion and remarketing of the Fixed Rate Bonds. Such verifications will be based upon certain information supplied to Grant Thornton LLP by the Remarketing Agent.

INDEPENDENT AUDITORS

The audited financial statements of the Sewage Disposal Fund for the years ended June 30, 2006 and 2005, included in Appendix B - "Audited Financial Statements of the Sewage Disposal Fund of the City of Detroit," have been audited by KPMG LLP, independent auditors, as indicated in their report with respect thereto, which report also appears in Appendix B.

CERTAIN LEGAL MATTERS

Legal matters incident to the conversion of the Fixed Rate Bonds will be passed upon by Lewis & Munday, A Professional Corporation, Detroit, Michigan, and for the Remarketing Agent by its counsel, Pepper Hamilton LLP, Detroit, Michigan.

REMARKETING

Pursuant to the Remarketing Agreement, UBS Securities LLC, as Remarketing Agent, agreed, subject to certain conditions, to purchase the Fixed Rate Bonds from the City at a purchase price of \$405,061,927.61 (being the principal amount of the Fixed Rate Bonds plus net original issue premium of \$24,616,890.00 less an underwriting discount of \$2,264,962.39). The Remarketing Agent is obligated to purchase all the Fixed Rate Bonds if any are purchased. The Fixed Rate Bonds may be offered and sold by the Remarketing Agent to certain dealers at prices lower than the initial public offering prices for the Fixed Rate Bonds, and the public offering prices may be changed from time to time. In connection with this offering, the Remarketing Agent may overallocate or effect transactions which stabilize or maintain the market price of the Fixed Rate Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Should the conversion of the Predecessor Bonds to the Fixed Rate Mode fail to occur, the Predecessor Bonds to have been converted will remain outstanding and UBS Securities LLC will remarket the Predecessor Bonds as Variable Rate Bonds in their current mode. This Remarketing Circular describes the Fixed Rate Bonds in the Fixed Rate Mode only. It is not intended to be used in connection with any offer to sell or remarket any Predecessor Bonds in any Mode other than the Fixed Rate Mode. Reference should be made to the Predecessor Official Statements on file with the MSRB for information concerning the remarketing of the Predecessor Bonds in the Weekly Mode in the event of conversion to the Fixed Rate Mode or the Flexible Rate Mode, as applicable, is not successful. See Appendix D – “Amendments to Certain Provisions of the Authorizing Documents” herein.

RATINGS

S&P and Moody’s are expected to assign their long-term municipal bond ratings of “AAA” and “Aaa”, respectively, to the Fixed Rate Bonds, based upon the issuance by BHAC of the BHAC Insurance Policies for the Fixed Rate Bonds. In addition, S&P, Moody’s, and Fitch have assigned their underlying long-term municipal bond ratings of “A+”, “A2” and “A+,” respectively, to the 2001(C-2) Fixed Rate Bonds and “A”, “A3” and “A,” respectively, to the Second Lien Series 2001(E) Fixed Rate Bonds and the Second Lien Series 2006(A) Fixed Rate Bonds. An explanation of the significance of such ratings may only be obtained from S&P, Moody’s and Fitch. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely, if in the sole judgment of S&P, Moody’s or Fitch, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the trading value and the market price of the Fixed Rate Bonds. The City makes no representations as to the appropriateness of the ratings.

The above ratings are not recommendations to buy, sell or hold the Fixed Rate Bonds, and such ratings may be subject to revision or withdrawal at any time by the Rating Agencies. Each of the Rating Agencies has recently issued press releases or reports stating that they are examining the potential effects of downturns in the market for structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies, including FGIC. See “INTRODUCTION – Recent Developments in the Bond Insurance Industry”. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Fixed Rate Bonds.

An explanation of the significance of such ratings may only be obtained from S&P, Moody’s and Fitch. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely, if in the sole judgment of S&P, Moody’s or Fitch, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the trading value and the market price of the Fixed Rate Bonds. The City makes no representations as to the appropriateness of the ratings.

MISCELLANEOUS

This Remarketing Circular is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Fixed Rate Bonds. Any statements made in this Remarketing Circular involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as a representation of fact.

APPENDIX – A
FEASIBILITY REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

T G
TH FOST R 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

May 1, 2008

Mr. Victor Mercado, Director
Detroit Water and Sewerage Department
Water Board Building
735 Randolph Street
Detroit, Michigan 48226

Dear Mr. Mercado:

In accordance with our agreement with the City of Detroit (the City), we submit herewith our Financial Feasibility report to be included as an appendix to the remarketing circular (the Remarketing Circular) prepared by the City in connection with its remarketing of \$382,710,000 Sewage Disposal System Senior Lien Revenue Refunding Bonds, Series 2001(C-2), Sewage Disposal System Second Lien Revenue Bonds, Series 2001(E), and Sewage Disposal System Second Lien Revenue Bonds, Series 2006(A) (collectively, the 2008 Remarketing Bonds). The purpose of this report is to set forth information concerning financial factors relating to the 2008 Remarketing Bonds.

The report contains the financial feasibility information including analyses of sewerage rates and rate methodology, projections of revenues under existing rates, projection of operation and maintenance expenses, Capital Improvement Program (“CIP”) financing, and the impact of projected revenue requirements on future revenues and sewerage rates.

In addition, during the course of our review we have updated our overview of the sewage collection and treatment system (the System) owned by the City and operated by the Detroit Water and Sewerage Department (the Department). Our overview, traditionally contained in feasibility reports related to issuance of new money bonds, has instead been incorporated into the main body of the Remarketing Circular. In connection with the remarketing, compliance with the Additional Bonds Test set forth in the City’s ordinance under which the 2008 Remarketing Bonds were issued (the “Bond Ordinance”) will not be required and, accordingly, is not included herein.

It has been a pleasure to have been of service to the Department on this matter.

Very truly yours,

TH FOST R GROUP



Bart Foster
President

Contents

	<u>Page</u>
INTRODUCTION	1
Financial Feasibility for the 2008 Remarketing Bonds	2
Rate Methodology and Existing Rates	2
Projections of Revenue	4
Operation and Maintenance Expense Projections.....	5
Capital Improvement Program.....	6
Capital Improvement Program Financing.....	7
Impact of Projected Revenue Requirements on Rates for Wastewater Service.....	9

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 environmental laws governing the discharge of pollutants to the nation's air and waters. 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 2008 Remarketing Bonds are not intended to finance capital improvement program expenditures – but rather to fix rates of interest on several currently outstanding variable rate bonds in order to achieve anticipated interest savings. Capital improvement expenditures in the Department's CIP through a portion of 2010 will be financed by a combination of available fund balances, loans from the Michigan State Revolving Fund (SRF), and internally generated funds. Capital improvement expenditures scheduled for 2010 and beyond are expected to be financed, in part, with future bond issues. *See Capital Improvement Program Financing.*

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 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.

Financial Feasibility for the 2 8 Remarketing Bonds

The financial data used in the analyses presented herein were 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.

Rate Methodology and Existing Rates

The methodology by which the revenue requirements for the current wastewater rates have been determined is the cash basis. The cash basis allocates directly all revenue requirements to the appropriate customer classes. The current user charge system of rates has been approved by the EPA and is based on the principle that each customer pays its proportionate share of the costs of the System's operation and maintenance, including replacements. This philosophy is extended to also apply to capital costs, including debt service on revenue bonds, revenue financed capital improvements, and deposits to reserve funds. Allocations of costs to customer classes are determined by the actual usage of facilities by specific customer classes. In general, all customer classes are allocated a portion of administrative and general costs and costs incurred at the Plant based on their annual wastewater volume. Costs associated with the collection system located inside the City and the retail metering facilities and billing system are directly assigned to retail customers inside the City. Costs associated with major interceptors and pump stations are allocated to customer classes based on the geography and use of the collection system. Wholesale customers are not charged a rate differential based on rate of return on investment.

Sewage treatment rates are developed for retail, wholesale, and surcharge customers by determining the total cost of service and units of service. The rate for retail customers having domestic strength sewage is based on sewage flow as estimated by metered water sales. The rates for wholesale customers vary based on whether the customer's sewage is metered or unmetered and the amount of service that is provided to them by the System. The surcharge rates are applicable to each commercial, governmental, and industrial user of the System whose wastewater discharge exceeds the domestic equivalency of certain pollutant parameters.

Stormwater treatment charges are billed to all retail and unmetered wholesale customers. In addition, the State of Michigan and Wayne County are billed for the stormwater runoff from roads under their jurisdiction within the City. Stormwater from metered wholesale customers is recorded by meters and is included in the basic wastewater volume charge. Stormwater treatment charges for unmetered wholesale customers and retail customers are based on the total stormwater revenue requirement and the estimated quantities of stormwater treated in the System. Estimates of stormwater runoff have been developed for the Department utilizing empirical data for the area within the City and each unmetered wholesale community and are used to determine stormwater charges.

Table 1 presents the current sewage treatment rates, which became effective July 11, 2007, and the proposed rates, which have been approved by the Board of Water Commissioners, are under review by the City Council, and are expected to take effect in September 2008. The proposed rates (the "2009 Rates") were designed to generate an overall revenue increase of approximately 8.0 percent over those generated by the current rates.

The Department's sewage rates to its suburban wholesale customer communities are governed by various rate settlement agreements negotiated by the parties to resolve rate challenges filed by various customer communities. Five settlement agreements effectively establish rules the Department must follow in determining sewage rates for its wholesale customers. These agreements were negotiated in 1978, 1980, 1982,

1995, and 1999 and are referred to by the year in which they were established (the “1978 Rate Settlement Agreement”, etc.)

**Table 1
Sewage Treatment Rates**

	<u>Effective July-07</u>		<u>Effective September-08</u>	
	<u>Commodity</u> /Mcf	<u>Fixed</u> /month	<u>Commodity</u> /Mcf	<u>Fixed</u> /month
Retail Customers				
Detroit	22.62	Varies	24.71	Varies
Other	24.98	Varies	27.29	Varies
Wholesale Customers				
Average Commodity	9.78		9.95	
Total Fixed		2,764,684		2,945,245
Surcharge - \$/lb.				
Biochemical Oxygen Demand (for each pound (lb) in excess 275 mg/l)	0.268		0.254	
Total Suspended Solids (for each lb in excess 350 mg/l)	0.290		0.324	
Phosphorus (for each lb in excess 12 mg/l)	3.703		3.729	
Fats, Oils, & Grease (for each lb in excess 100 mg/l)	0.201		0.221	
Non-Residential Industrial Waste Charge		Based on Meter Size		Based on Meter Size

In recent years, in order to reduce controversy concerning sewage rates, the Department has taken a number of steps to improve communication with the wholesale customers including the scheduling of individual meetings with the wholesale customers to discuss the basis for proposed rate adjustments. These efforts are embodied in the Department’s partnering agreements with representatives of the customer communities. The Sewer Rates Work Group has met on a regular basis over the past several years to explore issues impacting overall rate levels, cost allocation techniques, and how information regarding flows in the System should impact cost responsibility amongst customers. Recently, the partnering effort developed a formalized schedule for disseminating information during the development of proposed sewage rates. The intent of this initiative was to accelerate the availability of information used in rate development, allowing for a greater understanding and review opportunity for the Department and customers alike. This schedule included a series of customer meetings, where information regarding sewer rates was formally distributed. Efforts such as these have created greater understanding of the sewage rate development process and have successfully resulted in regional consensus on sewage rate issues.

Since 1983, at the end of each fiscal year, the Department has calculated a look-back adjustment for the rates to determine if all classes of customers paid their proportionate share of costs incurred during the rate period based on actual operating results. For 2006, the calculation of the adjustment indicated that the Department had under recovered revenue from some customers and over recovered revenue from others. The net result was that revenue requirements were approximately \$28.4 million in excess of billed revenues. In other words, the customers owed the System \$28.4 million - approximately 8.3 percent of originally billed revenue. The appropriate credit and debit adjustments were made to the fiscal year 2006 financial statements

and are being included with the customer's bills during fiscal year 2008. A similar analysis is in the final stages for fiscal year 2007. The "look-back adjustment" process gives the Department some degree of control over the actual financial performance of the System as adjustments are implemented and limited to ensure that compliance with bond covenants and management policies are met.

Projections of Revenue

Table 2 presents the projected operating revenues for 2008 through 2012. Projections are based on an analysis of historical trends of ten years of actual data, and year to date data for 2008. Projected revenues for 2008 reflect the sewer rate schedule currently in effect. Projected revenues for 2009 through 2012 reflect the new sewer rate schedule, which is expected to become effective in September 2008.

Sales of sewage disposal service in recent years have reflected a decline from those experienced in the early part of the decade. This decline is attributed in part to a series of drier than average conditions (and therefore less metered storm flow) but also to more efficient uses of water for sanitary purposes and conservation measures implemented to address economic issues. The estimates and projections contained herein reflect more conservative assumptions than those utilized in prior evaluations, but continue to be based on normalized conditions beyond 2008. Billable sewage volumes for wholesale customers are projected by each individual customer. In total, they are expected to remain relatively level over the five year period, as are billable volumes for retail customers. Industrial surcharge and industrial waste control revenues are also expected to remain level.

Table 2
Summary of Projected Operating Revenue Under Existing Rates

	Fiscal Year Ending June 30				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	\$	\$	\$	\$	\$
Operating Revenue (a)					
Wholesale Customers	186,780,300	197,055,000	197,916,800	198,778,600	199,640,400
Retail Customers	173,558,800	191,352,200	191,352,200	191,352,200	191,352,200
Industrial Surcharges	2,406,700	2,394,000	2,394,000	2,394,000	2,394,000
Industrial Waste Control	<u>14,474,500</u>	<u>15,924,500</u>	<u>15,924,500</u>	<u>15,924,500</u>	<u>15,924,500</u>
Total Operating Revenue	377,220,300	406,725,700	407,587,500	408,449,300	409,311,100
Miscellaneous Revenue	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>
Total Operating Revenue	380,970,300	410,475,700	411,337,500	412,199,300	413,061,100
Revenues are based on projected billable volumes of:					
Wholesale (Mcf)	15,707,900	15,663,600	15,743,600	15,823,600	15,903,600
Retail (Mcf)	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>
Total Billable Volume (Mcf)	20,507,900	20,463,600	20,543,600	20,623,600	20,703,600

(a) Based on application of FY 2008 rates for 2008 and FY 2009 rates for 2009 through 2012.

Miscellaneous Operating Revenue includes revenues generated through the sale of equipment, penalty charges, disposal of septic tanks, and sewer tap inspections among others. Miscellaneous revenues for the study period are estimated based on historical and budgeted information.

Operation and Maintenance Expense Projections

Table 3 presents the projected operation and maintenance expense for 2008 through 2012. These projections have been developed based on a detailed review of actual expenses for 2006 and 2007 as well as budgeted and year-to-date actual expenses for 2008, and budgeted expenditures for 2009.

The Department has been remarkably successful at holding operating expenses at current levels over the past several years. We are confident that the Department's recent efforts to control costs and ensure that all costs are accurately reported to the accounting system will continue to yield positive results. The cost-conscious environment established by management continues to be successful and performance could continue to improve as the programs are further implemented. However, new programs and the impacts of inflation will most likely not allow for the recent "no increases" in operating expense to continue.

Table 3
Projected Operation and Maintenance Expense

	<i>Fiscal Year Ended June 30,</i>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	\$	\$	\$	\$	\$
Plant Expenses:					
Personal Services	49,901,200	51,875,600	53,172,500	54,501,800	55,864,300
Utilities	29,252,600	30,410,000	31,170,200	31,949,500	32,748,200
Chemicals	9,045,700	9,403,600	9,638,700	9,879,700	10,126,600
Other	<u>32,406,400</u>	<u>33,688,500</u>	<u>34,530,800</u>	<u>35,394,000</u>	<u>36,278,800</u>
Total Plant	120,605,900	125,377,700	128,512,200	131,725,000	135,017,900
Non Plant Expenses:					
Pumping Stations	4,968,500	5,165,100	5,294,200	5,426,600	5,562,200
Sewer & Interceptor Maintenance	9,209,300	9,573,700	9,813,100	10,058,400	10,309,800
Commercial & Meter Operations	10,412,600	10,824,600	11,095,200	11,372,600	11,656,900
Industrial Waste Control	14,987,900	15,581,000	15,970,500	16,369,700	16,779,000
Engineering	2,770,600	2,880,200	2,952,200	3,026,000	3,101,700
Administrative & General	27,936,700	29,042,000	29,768,000	30,512,200	31,275,000
Combined Sewer Overflow Facilities	<u>2,529,500</u>	<u>2,629,600</u>	<u>2,695,300</u>	<u>2,762,700</u>	<u>2,831,800</u>
Total Non Plant	<u>72,815,100</u>	<u>75,696,200</u>	<u>77,588,500</u>	<u>79,528,200</u>	<u>81,516,400</u>
Total Operation and Maintenance	193,421,000	201,073,900	206,100,700	211,253,200	216,534,300

The projections shown in Table 3 include recognition of the potential impact of anticipated escalation of costs due to inflation during the five-year planning 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 2010. Utilities, chemicals, contractual services and miscellaneous expenses for 2008 have generally been estimated at budgeted levels or at levels indicated by 2007 expenditures.

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. The CIP is dynamic and requires continual review and modification during the course of each year. The current CIP is based on estimates of future capital costs as of June 30, 2007. The estimates for the 2008 ongoing projects are based on remaining costs as of June 30, 2007. As additional cost information is developed from design work being performed on the various projects, cost estimates are adjusted accordingly.

A summary of the CIP for fiscal years 2008 through 2012 is presented in Table 4. For each year, the CIP is divided into major categories of the Plant, Sewer Interceptor System, Combined Sewer System, Lateral Sewer Replacement, and Planning and Administration. In addition, projects at the Plant are further separated into the categories of Primary Treatment, Secondary Treatment, Solids Handling, Disinfection Facilities, and General Purpose.

Table 4
Sewage Disposal System Capital Improvement Program
Projected Expenditure Schedule - Fiscal Years 2008 through 2012

	<i>Fiscal Year Ended June 30,</i>					<u>Total</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
	\$	\$	\$	\$	\$	\$
Plant						
Primary Treatment	1,202,000	4,433,000	16,814,000	22,837,000	8,284,000	53,570,000
Secondary Treatment	3,765,000	2,550,000	6,057,000	19,226,000	10,473,000	42,071,000
Solids Handling	415,000	2,315,000	18,201,000	8,594,000	0	29,525,000
Disinfection Facilities	6,250,000	33,126,000	83,000,000	38,000,000	29,006,000	189,382,000
General Purpose	<u>33,835,000</u>	<u>27,080,000</u>	<u>27,464,000</u>	<u>19,549,000</u>	<u>12,713,000</u>	<u>120,641,000</u>
Subtotal Plant	45,467,000	69,504,000	151,536,000	108,206,000	60,476,000	435,189,000
Sewer Interceptor System	915,000	1,551,000	6,432,000	0	0	8,898,000
Combined Sewer System	65,894,000	192,875,000	222,998,000	264,294,000	145,106,000	891,167,000
Lateral Sewer Replacement	29,394,000	53,840,000	12,877,000	5,000,000	5,000,000	106,111,000
Planning & Administration	<u>22,746,000</u>	<u>24,570,000</u>	<u>23,140,000</u>	<u>4,925,000</u>	<u>3,000,000</u>	<u>78,381,000</u>
Subtotal	<u>118,949,000</u>	<u>272,836,000</u>	<u>265,447,000</u>	<u>274,219,000</u>	<u>153,106,000</u>	<u>1,084,557,000</u>
Total Capital Program	164,416,000	342,340,000	416,983,000	382,425,000	213,582,000	1,519,746,000

Capital Improvement Program Financing

Table 5 presents a plan for financing the CIP (Line 1) for the five-year period ending June 30, 2012 utilizing the provision of maximum debt financing as set forth in the 1980 Settlement Agreement. Within the constraints of the additional securities test and the Department's debt service coverage policies, the amount of bonds to be issued is designed to maximize the capital requirements financed with bond proceeds. Lines 2 through 13 outline the sources available to meet the CIP financing requirements. Line 2 shows the net balance in the Improvement and Extension Fund as of June 30, 2007, available to fund the CIP. Line 3 shows the amount projected to be transferred to the Improvement and Extension Fund each year from current operating revenues. Total funds available from the Improvement and Extension Fund are indicated on Line 4.

The capital financing sources available from the Construction Fund are indicated on Lines 5 through 12. Line 5 shows the net balance in the Construction Fund as of June 30, 2007. As the 2008 Remarketing Bonds do not provide any capital financing, they are not referenced in this table. The anticipated sizes of future bond issues are shown on Line 6. It is assumed that the projected bond issues in 2010, 2011, and 2012 will be sold at the mid-point of the fiscal year and will include capitalized interest for a period of one year. Issuance expenses are estimated at three percent of the issue size plus \$200,000 per issue for future issues and are shown on Line 8. In addition, it is assumed that an amount equal to the maximum future principal and interest payment will be funded by Debt Service Reserve Surety Bonds and will be deducted from the proceeds of each issue, as shown on Line 9.

Line 11 presents the proceeds from State Revolving Fund Loans. Unlike other bond issues, funds from SRF loans are not fully received upon loan closing but are "drawn down" over time as dictated for associated projects costs. As the Department incurs expenditures for SRF funded projects, the invoices are transmitted to the state administrators of the SRF for remittance. As such, the amounts shown on Line 11 reflect the projected expenditure schedule of SRF funded projects. The figures on this line apply to existing loan commitments. The Department remains an active participant in the SRF program, and is planning on issuing additional SRF junior lien debt to obtain this low-cost financing during the study period. However, for purposes of the financial planning, this low cost financing is not reflected until the loan is approved. The projections contained herein are also based on this conservative assumption.

Lines 14 through 16 illustrate the projected application of financing sources to meet the CIP financing requirements stated on Line 1. The balances of funds available for subsequent years are shown on Lines 17 through 19 and are carried forward to Lines 2 and 5 in the next year.

Table 5
Capital Improvement Program Financing

Line No.	Item	Fiscal Year Ending June 30,					Total
		2008	2009	2010	2011	2012	
		\$	\$	\$	\$	\$	\$
Financing Requirements							
1	Capital Improvement Program (a)	164,416,000	342,340,000	416,983,000	382,425,000	213,582,000	1,519,746,000
Financing Sources							
<u>Improvement and Extension Fund</u>							
2	Beginning Balance (b)	69,821,500	26,915,200	17,511,700	34,503,800	41,677,300	69,821,500
3	Revenue Financed Capital	26,915,200	17,511,700	34,503,800	41,677,300	49,724,400	170,332,400
4	Subtotal - Improvement & Extension Fund	96,736,700	44,426,900	52,015,500	76,181,100	91,401,700	240,153,900
<u>Construction Bond Funds</u>							
5	Beginning Balance (b)	471,566,700	410,729,200	158,504,400	46,240,800	77,041,900	471,566,700
Bond Proceeds							
6	Sewer System Revenue Bonds (c)	0	0	250,000,000	400,000,000	250,000,000	900,000,000
7	Less: Capitalized Interest (d)	0	0	(13,125,000)	(21,000,000)	(13,125,000)	(47,250,000)
8	Less: Issuance Expenses (e)	0	0	(7,700,000)	(12,200,000)	(7,700,000)	(27,600,000)
9	Less: Bond Reserve Account (f)	0	0	(167,300)	(267,700)	(167,300)	(602,300)
10	Net Bond Proceeds Available	0	0	229,007,700	366,532,300	229,007,700	824,547,700
11	State Revolving Fund Loans	33,757,000	63,200,000	58,200,000	12,190,000	0	167,347,000
12	Subtotal - Construction Bond Funds	505,323,700	473,929,200	445,712,100	424,963,100	306,049,600	1,463,461,400
13	Total Financing Sources Available	570,665,900	518,356,100	497,727,600	501,144,200	397,451,300	1,703,615,300
Application of Financing Sources							
14	Projects Funded with						
	Improvement and Extension Funds	69,821,500	26,915,200	17,511,700	34,503,800	41,677,300	190,429,500
15	Projects Funded with Const. Bond Funds	94,594,500	315,424,800	399,471,300	347,921,200	171,904,700	1,329,316,500
16	Total Financing Sources Applied	164,416,000	342,340,000	416,983,000	382,425,000	213,582,000	1,519,746,000
Financing Sources Available for Future Requirements							
17	Improvement & Extension Fund (g)	26,915,200	17,511,700	34,503,800	41,677,300	49,724,400	49,724,400
18	Construction Bond Funds (h)	410,729,200	158,504,400	46,240,800	77,041,900	134,144,900	134,144,900
19	Total Financing Sources Available for Future	437,644,400	176,016,100	80,744,600	118,719,200	183,869,300	183,869,300

- (a) From Table 4.
- (b) Balance available June 30, 2007 (applies only to fiscal year 2008).
- (c) Does not include the 2008 Remarketing Bonds, as they do not generate net proceeds for capital financing.
- (d) Includes approximately 18 months of capitalized interest on future issues.
- (e) Includes 3 percent of bond size and \$200,000 for issuance expenses for future issues.
- (f) Amount required to purchase surety to fund bond reserve requirement for future issues.
- (g) Line 4 minus Line 14.
- (h) Line 12 minus Line 15.

Impact of Projected Revenue Requirements on Rates for Wastewater Service

Table 6 presents a pro forma operations statement, which develops projections for the fiscal years 2008 through 2012. The table provides an indication of the adequacy of the Department's revenues and the feasibility of the currently proposed and future anticipated revenue bond sales. The approximate annual percent increase required shown in the table provides an estimate of the magnitude of increases in operating revenues needed to finance the remaining years of the current CIP.

Operating revenue projections, presented earlier in Table 2, have been based on the Department's prior sewer rate schedule for 2008 and on the new schedule of sewer rates for 2009 through 2012. Lines 2 through 4 indicate additional increases in sewer rates projected to be required to meet projected total revenue requirements in fiscal years 2010 through 2012. The approximate annual percentage increases in operating revenues of 5.6 percent in 2010, 6.0 percent in 2011, and 5.0 percent in 2012.

Projected non-operating revenues of the System include interest earnings from the various funds of the System. The interest earnings have been projected based on an analysis of funds on hand, construction schedules, and average fund balances. Annual interest rates of 2.75 percent and 4.0 percent have been assumed in projecting interest income for funds investing in short-term and long-term investments, respectively.

The projected operation and maintenance expenses shown on Line 10 reflect the impact of the anticipated escalation of costs and changes in operation as presented earlier in Table 3. The Department's debt service is depicted on Lines 11 through 19, separated by priorities of lien. These debt service figures include the new debt service on the 2008 Remarketing Bonds, and are net of the debt service for the predecessor variable rate bonds that were remarketed. The annual principal and interest due on future bond issues anticipated to finance the remaining total cost of the CIP is shown on Line 12. For purposes of these projections, it is assumed that future bonds will be senior lien bonds. A scale that produces an interest cost of approximately 5.25 percent and a 30-year term has been used to calculate debt service on future bond issues. Projected repayments of State Revolving Fund Loans are stated on Lines 16 through 18. These figures only reflect existing loans as no new loans are anticipated for purposes of these projections.

Renewals and Replacements shown on Line 20 represent capitalized expenditures budgeted by the Department, which are not included in the CIP. Line 21 presents the projected level of revenue financed major capital improvements presented earlier on 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.

In accordance with the requirements of the Bond Ordinance, an annual deposit (Line 22) is made to the Extraordinary Repair and Replacement 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. Annual deposits shown for 2008 through 2012 will be required to establish and maintain the required level due to increased expenses.

Table 6
Revenue Requirements Projections

Line No.	Item	Fiscal Year Ending June 30,				
		2008	2009	2010	2011	2012
		\$	\$	\$	\$	\$
Revenue (a)						
1	Operating Revenue Under Existing Rates	377,220,300	399,217,300	407,587,500	408,449,300	409,311,100
<u>Projected Revenue from Rate Increases</u>						
2	FY 2010: 5.6%			22,702,500	22,750,500	22,798,500
3	FY 2011: 6.0%				26,013,700	26,068,700
4	FY 2012: 5.0%					22,881,400
5	Total Projected Revenue from Sewer Rates	377,220,300	399,217,300	430,290,000	457,213,500	481,059,700
6	Miscellaneous Operating Revenue	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>
7	Total Operating Revenue	380,970,300	402,967,300	434,040,000	460,963,500	484,809,700
8	Non-Operating Revenue	<u>22,614,500</u>	<u>12,298,500</u>	<u>10,794,000</u>	<u>10,849,500</u>	<u>12,062,200</u>
9	Total Revenue Available	403,584,800	415,265,800	444,834,000	471,813,000	496,871,900
Revenue Requirements						
10	Operation and Maintenance Expense (b)	193,421,000	201,073,900	206,100,700	211,253,200	216,534,500
<u>Debt Service</u>						
Senior Lien Bonds						
11	Outstanding Bonds	94,265,100	97,766,200	98,027,100	94,111,100	91,573,600
12	Future Bonds (Lien Unspecified)	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,562,500</u>	<u>16,729,200</u>
13	Total Senior Debt Service	94,265,100	97,766,200	98,027,100	100,673,600	108,302,800
Second Lien Bonds						
14	Outstanding Bonds	<u>44,047,600</u>	<u>51,262,100</u>	<u>57,370,300</u>	<u>60,949,300</u>	<u>64,277,300</u>
15	Subtotal Debt Service	138,312,700	149,028,300	155,397,400	161,622,900	172,580,100
State Revolving Loan Repayments						
16	Senior Lien Bonds	9,971,800	9,979,600	9,968,000	9,962,100	9,961,700
17	Junior Lien Bonds	<u>26,964,100</u>	<u>27,886,000</u>	<u>28,726,700</u>	<u>36,862,800</u>	<u>37,330,700</u>
18	Subtotal SRF Loan Repayments	<u>36,935,900</u>	<u>37,865,600</u>	<u>38,694,700</u>	<u>46,824,900</u>	<u>47,292,400</u>
19	Total Debt Service	175,248,600	186,893,900	194,092,100	208,447,800	219,872,500
20	Renewals and Replacements	8,000,000	8,500,000	8,755,000	9,017,700	9,288,200
21	Revenue Financed Major Capital Improvements	26,915,200	17,511,700	34,503,800	41,677,300	49,724,400
22	Extraordinary Repair and Replacement Fund	0	329,700	754,000	772,900	792,200
23	Operating Reserve Requirement	<u>0</u>	<u>956,600</u>	<u>628,400</u>	<u>644,100</u>	<u>660,100</u>
24	Total Revenue Requirements	403,584,800	415,265,800	444,834,000	471,813,000	496,871,900
25	Indicated Balance (Deficiency)	0	0	0	0	0
<u>Debt Service Coverages Under Required Rates</u>						
26	Senior Lien for Rate Covenant Purposes (c)	202%	199%	221%	236%	237%
27	Second Lien for Rate Covenant Purposes (c)	142%	135%	144%	152%	154%
28	SRF Junior Lien for Rate Covenant Purposes (c)	120%	115%	123%	125%	127%
<u>Operating Reserve (d)</u>						
29	Beginning Balance	24,177,600	24,177,600	25,134,200	25,762,600	26,406,700
30	Deposit from Operations	<u>0</u>	<u>956,600</u>	<u>628,400</u>	<u>644,100</u>	<u>660,100</u>
31	Ending Balance	24,177,600	25,134,200	25,762,600	26,406,700	27,066,800

(a) From Table 2. Based on application of FY 2009 rates for 2009 through 2012.

(b) From Table 3.

(c) Includes SRF Senior Lien Debt Service on Line 16.

(d) Balance available June 30, 2007 (applies only to fiscal year 2008).

Line 23 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 on Lines 29 through 31 of the table. Annual deposits are targeted at five days of annual operation and maintenance expense or that amount which will result in an annual fund value equal to 45 days of budgeted operation and maintenance expense. The June 30, 2007 balance of this reserve is at the targeted level. As operating expenses increase, additional annual deposits are projected to be necessary through 2012 to maintain the targeted level.

The indicated annual balance or deficiency under existing rates, Line 25 of Table 6, is calculated by subtracting total revenue requirement from the total revenue available. As indicated in the table, the projected rate increases on Lines 2 through 4 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 of Water Commissioners' policy on debt service coverage, which establishes a target range for debt service coverage for each lien of debt. It requires that sewage rates be set to generate projected debt service coverage ratios that are at least 15 percentage points higher than the rate covenants of the Bond Ordinance. Under this policy (and the current rate covenant coverage figures of the Bond Ordinance), the minimum 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 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 26 through 28. These coverage levels are calculated on the same basis as required by the rate covenant. As indicated, annual coverage levels for 2010 through 2012, 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 of Water Commissioners. Due to a delay in implementing the 2009 Rates, the SRF Junior Lien debt service coverage level for 2009 is projected to be slightly lower than the minimum policy coverage target. However, all coverage levels for 2009 are projected to be in excess of the amounts required by the Bond Ordinance.

As is common with wastewater utilities throughout the nation, increases in wastewater charges will be necessary to finance construction, operations, and maintenance of additional treatment facilities necessary to ensure continued compliance with existing Federal and state of Michigan environmental regulations and to enable compliance with potentially more stringent regulations as they become effective. This is especially applicable considering the potential capital financing requirements during the study period to comply with the limitations on CSO in the Permit. The projected increases shown in Table 6 are believed to be comparable to those that should be experienced in other areas of the United States having wastewater systems of similar size, and addressing similar infrastructure and regulatory challenges, to the System. It is expected that sewage rate increases, alone, will not result in industry leaving the Detroit area nor is it contemplated that any existing wholesale customers will seek other providers of wastewater treatment service because, at this time, there are no practicable alternative wastewater treatment facilities available, because of the historic Federal funding of the System, and because of the absence of future Federal grants due to the change over to the State Revolving Loan Program, all of which may render new and competing wholesale customer facilities economically unfeasible.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX – B

**AUDITED FINANCIAL STATEMENTS OF THE SEWAGE DISPOSAL FUND
OF THE CITY OF DETROIT, MICHIGAN AS OF AND FOR THE
YEARS ENDED JUNE 30, 2006 AND 2005**

[THIS PAGE INTENTIONALLY LEFT BLANK]



**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Basic Financial Statements
and Required Supplementary Information

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Basic Financial Statements:	
Statements of Net Assets	3 – 4
Statements of Revenues, Expenses, and Changes in Fund Net Assets	5
Statements of Cash Flows	6
Notes to Basic Financial Statements	7 – 29
Required Supplementary Information (Unaudited)	30



KPMG LLP
Suite 1200
150 West Jefferson
Detroit MI 48226-4429

Independent Auditors' Report

The Board of Water Commissioners,
the Honorable Mayor, and
Members of the City Council
City of Detroit, Michigan:

We have audited the accompanying basic financial statements of the Sewage Disposal Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of the Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above present only the Sewage Disposal Fund of the City and are not intended to present fairly the financial position of the City as of June 30, 2006 and 2005, and the changes in its financial position, and, where applicable, cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Sewage Disposal Fund of the City as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also audited the financial statements of the City, as described above in this report on the Fund's financial statements. This report does not include the results of our testing of internal control over financial reporting and on our tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are reported on separately by us for the City. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an



opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Fund has not presented Management's Discussion and Analysis, which U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The schedule of funding progress on page 30 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Detroit, Michigan
August 20, 2007

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Statements of Net Assets

June 30, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 5,418,283	—
Investments	47,205,044	47,948,538
Due from other funds	52,798,669	66,388,078
Accounts receivable (including \$50,156,538 and \$41,695,332 for unbilled sewage services and net of allowance for doubtful accounts of \$85,033,590 and \$64,482,340 for June 30, 2006 and 2005, respectively)	101,428,204	88,501,230
Rate adjustments receivable from customers	46,062,009	12,174,737
Prepaid expenses	5,423,804	381,847
Inventories	10,456,963	11,173,380
Restricted cash and cash equivalents	39,168,566	21,666,661
Restricted investments	312,884,409	266,046,651
Restricted due from other funds	5,541,786	37,638,549
Total current assets	<u>626,387,737</u>	<u>551,919,671</u>
Noncurrent assets:		
Restricted long-term investments	111,020,313	308,770,507
Net pension asset	8,371,380	7,850,281
Noncurrent rate adjustments receivable from customers	30,820,615	44,946,430
Issuance costs – pension obligation certificates of participation	509,674	286,646
Unamortized bond issuance costs	33,720,782	35,433,200
Capital assets:		
Land	13,834,957	13,876,751
Structures	1,703,001,142	1,143,914,922
Interceptors, regulators, and improvements	474,689,271	542,769,689
Equipment	1,385,071,312	708,031,859
Construction work in progress	310,502,398	1,219,986,063
Total capital assets	3,887,099,080	3,628,579,284
Less accumulated depreciation	<u>(750,972,844)</u>	<u>(681,127,715)</u>
Net capital assets	<u>3,136,126,236</u>	<u>2,947,451,569</u>
Total noncurrent assets	<u>3,320,569,000</u>	<u>3,344,738,633</u>
Total assets	<u>\$ 3,946,956,737</u>	<u>3,896,658,304</u>

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Statements of Net Assets

June 30, 2006 and 2005

Liabilities and Net Assets	2006	2005
Current liabilities:		
Current liabilities payable from current assets:		
Book cash overdraft	\$ —	758,762
Accounts and contracts payable	13,303,914	7,683,870
Due to other funds	57,747,466	53,133,721
Accrued salaries and wages	1,246,496	1,629,152
Rate adjustments payable to customers	7,054,465	4,938,657
Accrued workers' compensation	811,538	895,155
Accrued compensated absences	2,281,068	5,556,011
Other current accrued liabilities	958,353	754,691
Total current liabilities payable from current assets	83,403,300	75,350,019
Current liabilities payable from restricted assets:		
Revenue bonds and revolving loan payable within one year	53,205,000	50,035,000
Accrued bond interest payable	41,115,497	38,654,433
Other liabilities	—	89,017
Accounts and contracts payable	35,307,217	62,465,874
Due to other funds	10,262,102	11,074,002
Total current liabilities payable from restricted assets	139,889,816	162,318,326
Total current liabilities	223,293,116	237,668,345
Long-term liabilities:		
Revenue bonds and revolving loan payable	2,611,323,633	2,609,004,255
Pension obligation certificates of participation payable	9,031,280	8,760,811
Deferred swap termination fees	2,504,243	2,286,256
Rate adjustments payable to customers	2,610,365	7,054,465
Accrued workers' compensation	4,321,980	3,832,814
Accrued compensated absences	11,618,703	8,361,795
Total long-term liabilities	2,641,410,204	2,639,300,396
Total liabilities	2,864,703,320	2,876,968,741
Net assets:		
Invested in capital assets, net of related debt	532,734,469	646,808,681
Restricted	303,465,827	166,369,102
Unrestricted	246,053,121	206,511,780
Total net assets	1,082,253,417	1,019,689,563
Total liabilities and net assets	\$ 3,946,956,737	3,896,658,304

See accompanying notes to basic financial statements.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
General customers	\$ 160,510,586	146,456,155
Suburban customers	188,762,961	158,120,913
City departments	530,845	281,062
Sewage surcharge	774,798	5,914,639
Miscellaneous	3,876,014	2,815,506
Total operating revenues, net	354,455,204	313,588,275
Operating expenses before depreciation:		
Sewage treatment plant	123,392,482	103,536,940
Interceptors and regulators	1,237,752	740,870
Sewer pumping stations	2,963,775	3,122,298
Sewer maintenance and engineering	15,775,123	12,348,658
Combined sewage overflow control basins	1,697,068	511,252
Commercial	5,870,839	5,698,629
Administrative and general	46,666,958	37,441,707
Total operating expenses before depreciation	197,603,997	163,400,354
Operating income before depreciation	156,851,207	150,187,921
Depreciation	69,951,016	44,053,316
Total operating income	86,900,191	106,134,605
Nonoperating revenues (expenses):		
Earnings on investments	18,920,649	14,930,952
Interest expense, net of capitalized interest	(43,912,587)	(44,205,957)
Miscellaneous	655,601	(7,038)
Total nonoperating expenses	(24,336,337)	(29,282,043)
Increase in net assets	62,563,854	76,852,562
Net assets – beginning of year	1,019,689,563	942,837,001
Net assets – end of year	\$ 1,082,253,417	1,019,689,563

See accompanying notes to basic financial statements.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operationing activities:		
Receipts from customers	\$ 320,864,453	326,617,651
Internal activity – Payments to other funds	49,488,016	(18,598,461)
Payments to suppliers	(156,302,328)	(124,774,098)
Payments to the General Retirement System in excess of annual required contributions	—	(7,850,281)
Payments to employees	(69,072,910)	(68,354,091)
Net cash provided by operating activities	<u>144,977,231</u>	<u>107,040,720</u>
Cash flows from non–capital and related financing activities:		
Proceeds from issuance of personal obligation certificates of participatio	—	8,760,811
Issuance costs–pension obligation certificates of participation	170,460	(286,646)
Bank overdraft	—	758,762
Net cash provided by non–capital and related financing activities	<u>170,460</u>	<u>9,232,927</u>
Cash provided by capital and related financing activities:		
Contributions received from customers	655,600	—
Acquisition and construction of capital assets, net	(204,612,868)	(364,680,084)
Principal paid on revenue bond maturities and revolving loar	(27,840,000)	(32,590,000)
Interest paid on revenue bonds	(95,464,337)	(82,010,501)
Principal paid on refunded debt	—	(108,765,000)
Proceeds from bond issuance and increase in revolving note payable, ne	31,459,549	426,848,891
Swap termination fee	—	(11,750,000)
Unamortized discount and bond issuance cost	3,756,736	2,542,333
Net cash used in capital and related financing activities	<u>(292,045,320)</u>	<u>(170,404,361)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	622,765,697	651,726,904
Purchase of investments	(471,109,766)	(623,524,459)
Interest received on investments	18,920,649	14,930,952
Net cash provided by investing activities	<u>170,576,580</u>	<u>43,133,397</u>
Net increase in cash	23,678,951	(10,997,317)
Cash at beginning of year	20,907,898	31,905,215
Cash at end of year	<u>\$ 44,586,849</u>	<u>20,907,898</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 86,900,191	106,134,605
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	69,951,016	44,053,316
Provision for uncollectible accounts	20,551,250	21,580,685
Changes in certain assets and liabilities:		
(Increase) decrease in accounts receivable	(33,478,223)	2,510,949
(Increase) in rate refund receivable from customers	(19,761,457)	(21,982,296)
(Increase) in prepaid expenses	(5,041,957)	(375,967)
(Increase) decrease in inventories	716,417	(282,877)
(Increase) in Net Pension Asset	(521,099)	(7,850,281)
(Decrease) in accounts and contracts payable	(21,538,613)	(22,701,285)
Increase (decrease) in accrued salaries and wages	(382,656)	173,323
Increase (decrease) in rate refund payable to customers	(2,328,292)	2,615,338
Increase in other accrued liabilities and accrued compensated absences and accrued workers' compensation	422,638	1,763,672
Net change in due from (to) other funds	49,488,016	(18,598,462)
Net cash provided by operating activities	<u>\$ 144,977,231</u>	<u>107,040,720</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

The City of Detroit (the City) Charter established the Water and Sewerage Department (the Department) in the year 1836 to supply water, drainage, and sewage service within and outside the City under the administration of the Board of Water Commissioners. The Sewage Disposal Fund (the Fund), an enterprise fund, separately accounts for the Sewage Disposal System (the System), as is required by bond ordinances of the City. 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.

The basic financial statements of the Fund have been included in the City of Detroit'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.

a) Basis of Accounting

The accounting policies of the Fund conform to U.S. generally accepted accounting principles (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 and amortization) of providing services to the public are accrued when incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Fund applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Fund also has the option of following FASB guidance issued after November 30, 1989, but has elected not to do so.

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 stated at fair value based on quoted market price.

d) Inventories

Inventories consist of operating and maintenance and repair parts for sewage lines and are valued at the lower of cost or market, with cost being determined on an average cost method.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

e) Capital Assets

Capital assets are recorded at historical cost, together with interest capitalized during construction. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Improvements to land	67 years
Structures	40 years
Interceptors and regulators	100 years
Equipment	3 – 20 years

f) Workers' Compensation

The Fund has no insurance coverage for workers' compensation claims. Workers' compensation expenses are recorded when the occurrence of the liability is probable and the amount is reasonably estimable. The amounts recorded as of June 30, 2006 and 2005 are based on compensation expected to be paid, along with estimated medical costs, for all claims known as of the balance sheet date, and historical data are used in computing the liability for estimated incurred but unknown claims as of the balance sheet date.

	June 30		
	2006	2005	2004
Balance at beginning of year	\$ 4,727,969	5,206,684	4,844,529
Current year claims and changes in estimates	964,548	475,827	1,543,501
Claims payments	(558,999)	(954,542)	(1,181,346)
Balance at end of year	\$ 5,133,518	4,727,969	5,206,684

g) Capitalized Interest

The Fund capitalizes qualifying net interest costs of the System on bonds issued for capital construction in accordance with Statement of Financial Accounting Standards Statement No. 34 *Capitalization of Interest Cost* and Statement No. 62 *Capitalization of Interest Cost in situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants an Amendment of FASB Statement No. 34*. Accordingly, capitalized interest for the years ended June 30, 2006 and 2005 was \$54,012,814 and \$50,767,951, respectively.

h) 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 sewage services provided to City departments.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

i) 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.

j) Compensated Absences

The Fund records as a liability estimated vested vacation, sick pay, and banked overtime in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Unused vacation pay accumulates until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service.

k) Accrued Revenue

The Fund records unbilled revenues for services provided prior to year-end by accruing actual revenues billed in the subsequent month.

l) Net Assets

Net assets are categorized as follows:

Invested in capital assets: This consists of capital assets, net of accumulated depreciation and related debt.

Restricted: This consists of net assets that are 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 net assets that do not meet the definition of "restricted" or "invested in capital assets."

m) Classification of Revenues

The Fund has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as revenue from charges for sewage service.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, which are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as investment income and interest expense.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o) New Accounting Pronouncements

The Fund adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. The Fund implemented Statement No. 42 with the year ended June 30, 2006.

The Fund adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing legislation or if legal enforceability is reevaluated. The Fund implemented Statement No. 46 with the year ended June 30, 2006.

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined-benefit “other postemployment benefit” (OPEB) plan. The Fund will implement Statement No. 45 beginning with the year ended June 30, 2007. The Fund is currently evaluating the impact of adopting Statement No. 45.

(2) Deposits and Investments

The following is a complete listing of deposits and investments held by the Fund at June 30, 2006:

Deposits	\$ 8,833,849
Investments	<u>506,862,766</u>
Total deposits and investments	<u><u>\$ 515,696,615</u></u>

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The deposits and investments of the Fund at June 30, 2006 are reflected in the basic financial statements as follows:

Unrestricted:		
Deposits	\$	1,418,283
Investments		51,205,044
Restricted:		
Deposits		7,415,566
Investments – current		344,637,409
Investments – noncurrent		<u>111,020,313</u>
Total cash and investments	\$	<u><u>515,696,615</u></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.

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, 2006 and 2005, the Fund had deposits of \$8,436,281 and \$12,918,713, respectively, that were exposed to custodial credit risk, as they were uninsured and uncollateralized.

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, 2006 and 2005, the Fund had no investments subject to custodial credit risk.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise 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 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.

<u>Investment</u>	<u>Fair value</u>	<u>Investment maturities in years</u>	
		<u>Less than one year</u>	<u>one to five years</u>
U.S. government agency securities	\$ 257,920,511	161,876,955	96,043,556
Certificate of deposit	23,421,649	23,421,649	—
Commercial paper	34,981,735	34,981,735	—
Repurchase agreements	19,985,604	5,008,847	14,976,757
Money market	170,553,267	170,553,267	—
Total investments	<u>\$ 506,862,766</u>	<u>395,842,453</u>	<u>111,020,313</u>

Credit Risk

The Fund's investment policy complies with state law. 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, 2006, the Fund had the following investments, maturities, and credit quality ratings of debt securities:

<u>Investment</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
U.S. government agency securities	\$ 161,876,955	AAA, Aaa	S & P and Moody's
U.S. government agency securities	96,043,556	AAA, Aaa	S & P and Moody's
Repurchase agreements	14,976,757	AAA, Aaa	S & P and Moody's
Repurchase agreements	5,008,847	AAA, Aaa	S & P and Moody's
Money market	60,160,500	Aaa	Moody's
Money market	21,834,727	Not rated	N/A
Money market	88,558,040	AAAm, Aaa	S & P and Moody's
Certificates of Deposit	23,421,649	Not rated	N/A
Commercial paper	34,981,735	Not rated	N/A
Total investments	<u>\$ 506,862,766</u>		

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

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, 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 and Federal National Mortgage Association securities. These investments are 28% and 22%, respectively, of the Fund's total investments.

(3) 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 aforementioned 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.

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.

The Fund's statement of net assets reports \$303,996,408 of restricted net assets, of which \$299,071,259 is restricted by enabling legislation.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(4) Capital Assets

Capital asset activity for the fiscal years ended June 30, 2006 and 2005 is as follows:

	<u>Balance, June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance, June 30, 2006</u>
Nondepreciable assets:				
Land	\$ 13,876,751	—	(41,794)	13,834,957
Construction in progress	1,219,986,063	284,368,969	(1,193,852,634)	310,502,398
	<u>1,233,862,814</u>	<u>284,368,969</u>	<u>(1,193,894,428)</u>	<u>324,337,355</u>
Depreciable assets:				
Interceptors, regulators, and land improvements	542,769,689	106,574,102	(174,654,520)	474,689,271
Structures	1,143,914,922	964,622,796	(405,536,576)	1,703,001,142
Equipment	708,031,859	910,940,701	(233,901,249)	1,385,071,311
Accumulated depreciation	<u>(681,127,715)</u>	<u>(69,951,016)</u>	<u>105,887</u>	<u>(750,972,844)</u>
	<u>1,713,588,755</u>	<u>1,912,186,583</u>	<u>(813,986,458)</u>	<u>2,811,788,880</u>
Total	<u>\$ 2,947,451,569</u>	<u>2,196,555,552</u>	<u>(2,007,880,886)</u>	<u>3,136,126,235</u>
	<u>Balance, June 30, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance, June 30, 2005</u>
Nondepreciable assets:				
Land	\$ 13,876,751	—	—	13,876,751
Construction in progress	1,203,738,078	439,665,001	(423,417,016)	1,219,986,063
	<u>1,217,614,829</u>	<u>439,665,001</u>	<u>(423,417,016)</u>	<u>1,233,862,814</u>
Depreciable assets:				
Interceptors, regulators, and land improvements	532,455,750	10,313,939		542,769,689
Structures	891,488,855	252,665,492	(239,425)	1,143,914,922
Equipment	572,095,371	136,220,745	(284,257)	708,031,859
Accumulated depreciation	<u>(637,571,035)</u>	<u>(44,053,316)</u>	<u>496,636</u>	<u>(681,127,715)</u>
	<u>1,358,468,941</u>	<u>355,146,860</u>	<u>(27,046)</u>	<u>1,713,588,755</u>
Total	<u>\$ 2,576,083,770</u>	<u>794,811,861</u>	<u>(423,444,062)</u>	<u>2,947,451,569</u>

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(5) Impaired Capital Assets

Beginning fiscal year ended June 30, 2006, the Fund implemented GASB Statement No. 42-*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of June 30 2006, the Fund did not have any impaired assets reportable under Statement No. 42.

(6) Revenue Bonds

The outstanding indebtedness of the Fund was \$2,657,446,122 and \$2,653,826,572 at June 30, 2006 and 2005, respectively. The interest rates on the outstanding bonds range from 4.2% to 6.5%. Net revenues of the Fund are pledged to repayment of bonds.

Future debt service requirements at June 30, 2006 are as follows:

	<u>Principal</u>	<u>Bond interest</u>	<u>Swap interest</u>	<u>Total requirements</u>
Year ending June 30:				
2007	\$ 53,205,000	98,382,197	32,993,250	184,580,447
2008	53,704,128	100,782,453	33,554,365	188,040,946
2009	56,925,000	107,542,236	32,780,631	197,247,867
2010	59,795,000	105,879,518	33,307,497	198,982,015
2011	62,270,000	102,905,996	32,646,118	197,822,114
2012 – 2016	330,454,096	515,844,103	178,428,909	1,024,727,108
2017 – 2021	375,230,225	490,294,825	198,035,091	1,063,560,141
2022 – 2026	431,147,673	417,634,980	205,211,098	1,053,993,751
2027 – 2031	614,335,000	222,394,897	97,112,842	933,842,739
2032 – 2036	620,380,000	68,643,718	19,553,665	708,577,383
	<u>\$ 2,657,446,122</u>	<u>2,230,304,923</u>	<u>863,623,466</u>	<u>5,751,374,511</u>

In fiscal 2005, the Fund issued \$273,355,000 of City of Detroit, Michigan, Sewage Disposal System Revenue Second Lien Bonds, Series 2005-A; \$40,215,000 of City of Detroit, Michigan Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-B; and \$63,160,000 of City of Detroit, Michigan Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-C. The net proceeds were used to refund a portion of the City's outstanding Sewage Disposal System Revenue Bonds and Revenue Refunding Bonds and to pay costs of issuance associated with the 2005 bonds.

The net proceeds of the Sewage Disposal System Revenue Second Lien Bonds, Series 2005-A, will be used (a) to deposit into the Construction Fund and (b) for the payment of the related costs of issuance, including the premium for the municipal bond insurance.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The net proceeds of the Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-B, will be used (a) to advance-refund the \$22,355,000 principal amount of the City's Sewage Disposal System Senior Lien Bonds, Series 1997-A, comprising serial bonds maturing in the year 2022 (the Advance Refunded 1997-A Bonds), with an average interest rate of 5%, (b) to advance-refund \$115,000 of 1999-A Sewage Disposal System Senior Lien Bonds, maturing in 2011, and \$3,425,000 1999-B Sewage Disposal System Senior Lien Bonds, maturing in 2012 (the Advance Refunded 1999-A Bonds), with an average interest rate of 5.20% and 5.25%, respectively, (c) to advance-refund \$8,215,000 of 2003-A Sewage Disposal System Senior Lien Bonds, maturing in 2014, and \$8,470,000 Sewage Disposal System Senior Lien Bonds, maturing in 2015 (the Advance Refunded 2003-A Bonds), with an average interest rate of 5.0%, and (d) the payment of the related costs of issuance, including the premium for the municipal bond insurance.

The proceeds of the Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-C, will be used (a) to currently refund \$6,770,000 principal amount of the City's Sewage Disposal System Senior Lien Bonds, Series 1995-A bonds, maturing in the year 2025, with an average interest rate of 5%, (b) to currently refund the following amounts of the City's Sewage Disposal System Senior Lien Bonds, Series 1995-B bonds, \$2,400,000 principal amount maturing in the year 2008, with an average interest rate of 5.25%, \$20,410,000 principal amount of term bonds maturing in the year 2015, with an average interest rate of 5.25%, and \$36,605,000 principal amount of term bonds, maturing in the year 2021, with an average interest rate of 5.25% (together with the "Currently Refunded 1995-A/B Bonds"), and (c) for the payment of the related costs of issuance, including the premium for the municipal bond insurance.

Proceeds of the Refunding Bonds were deposited into an irrevocable trust with an escrow agent to provide for all future principal and interest payments on the Currently Refunded 1995-A/B Bonds when due to and including July 1, 2005 at 100% and 101%; the Advance Refunded 1997-A Bonds when due to and including July 1, 2007 at 101%; the Advance Refunded 1999-A Bonds when due to and including July 1, 2010 at 101%; and the Advance Refunded 2003-A Bonds when due to and including July 1, 2013 at 100%.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$8,987,394. This difference, reported in the basic financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight-line method. The fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$6,143,299.

In prior years, the Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Fund's financial statements. Similarly, the interest expense related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2006 and 2005, approximately \$400,800,000 and \$593,330,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2006 include \$2,439,587,743 of bonds callable at various dates after June 30, 2006. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Obligation Certificates of Participation (POC's)

2005 Issuance

In June 2005, the Detroit Retirement Systems Funding Trust issued \$1,440,000,000 (\$640 million of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable Pension Obligation Certificates of Participation (COPs). The 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 POC's were issued 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 & Fire Retirement System (PFRS), and a portion of the then current year normal contribution. 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.

A proportionate amount of the liability was recorded on the books of the City's Governmental Activities, Transportation Fund, Sewage Disposal Fund and Water Fund, based on each fund's portion of the overall UAAL liquidated by the use of the 2005 POC net proceeds. In connection with the 2005 transactions, the Service Corporations entered into interest rate exchange agreements (swap agreements) to hedge the variable rate interest exposure associated with the issuance of the 2005 Series-B Certificates.

The original Series A and Series B certificates were not specifically related to either of the Service Corporations. The amount of proceeds from the 2005 issuance recorded on each Service Corporation's books was based on the respective proportion of UAAL funding required for the corresponding Pension System.

Fiscal Year 2006 Events

Michigan law entitles each Retirement System to have its UAAL funded over a specified period (Amortization Period), which may be duly changed up to a 30-year maximum. Each 2005 Service Contract required the City to make 2005 COP service payments over a period that was limited to the PFRS or GRS Amortization Period (13 years for PFRS and 20 years for the GRS). The funding Ordinance anticipated the possible future extension of the PFRS and GRS Amortization Periods and authorized the Service Corporations, in that event, to assist the City in gaining the financial benefits of making its 2005 COP Service payments over a similarly lengthened period.

On February 8, 2006, the governing board of the GRS extended the Amortization Period for GRS UAAL from 20 to 30 years. On March 30, 2006, the governing board of the PFRS UAAL extended the amortization period for PFRS UAAL from 13 to 30 years. Accordingly, the Detroit Retirement Systems Funding Trust 2006 issued \$948,540,000 of taxable Certificates of Participation Series 2006. The City also terminated the Swap agreements entered into in the 2005 transaction and received \$48,932,455 as a result of the swap termination.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The Taxable Certificates of Participation Series 2006 were issued to enable the City to replace certain scheduled payment obligations that it incurred to provide funding for the 2005 Subject UAAL with new scheduled payment obligations payable over the extended 30-year periods under the 2006 Service Contracts. This will enable the City to achieve financial benefits from the lengthened payment periods compared to the payment period included within the 2005 Series A and B payment schedules.

The 2006 Certificates were issued to fund the optional redemption \$104,055,000 aggregate principal amount of Series 2005-A COPs of certain maturities and the purchase and cancellation of \$800,000,000 aggregate principal amount of Series 2005-B COPs of certain maturities.

The City did not pay off the \$104,055,000 of optionally redeemed Series A 2005 COPs until July 13, 2006. At June 30, 2006 the portion of the 2006 COP proceeds to pay the \$104,055,000 COPs were in irrevocable trust investment accounts and on July 13, 2006 were disbursed to pay the COP service obligation and accrued interest from June 15, 2006 (the last interest payment date) to July 13, 2006. For financial reporting purposes, this disbursement was treated as if it had occurred on June 30, 2006.

In economic substance, the City paid off \$904,055,000 of 2005 Series Certificates with the net proceeds from the \$948,540,000 received from the issuance of Certificates of Participation Series 2006. The net effect of this on the City's balance sheet is to add on additional \$44,485,000 of Certificates of Participation obligations to the government-wide balance sheet. The refunding resulted in an increase of approximately \$992 million in required aggregate future cash outflows for debt service. This resulted in an economic loss (difference between the present values of the old and new debt service requirements) of \$89,265,111.

Certain maturities of the Series 2005-A COPs still remain outstanding concurrently with the 2006 Certificates. The 2005 COPs and the 2006 Certificates are wholly independent of each other.

The redemption dates and a summary of the aggregate principal and interest amounts for the remaining 2005 POC's are as follows:

Maturity (June 15)	Primary Government Principal				Totals
	Governmental Activities	Business-type Activities			
		Sewer Disposal Fund	Transportation Fund	Water Fund	
2007	-	-	-	-	-
2008	-	-	-	-	-
2009	-	-	-	-	-
2010	3,861,370	28,880	340,053	519,698	4,750,000
2011	8,905,539	66,606	784,268	1,198,587	10,955,000
2012-2016	113,686,862	850,288	10,011,862	15,300,989	139,850,000
2017-2021	153,857,304	1,150,731	13,549,481	20,707,484	189,265,000
2022-2025	155,369,335	1,162,040	13,682,639	20,910,986	191,125,000
Total	\$ 435,680,409	\$ 3,258,546	\$ 38,368,303	\$ 58,637,742	\$ 535,945,000

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Primary Government Interest Business Type Activities					
Maturity (June 15)	Governmental Activities	Sewer Disposal Fund	Transportation Fund	Water Fund	Totals
2007	20,942,804	156,636	1,844,333	2,818,669	\$ 25,762,441
2008	20,942,804	156,636	1,844,333	2,818,669	25,762,441
2009	20,942,804	156,636	1,844,333	2,818,669	25,762,441
2010	20,942,804	156,636	1,844,333	2,818,669	25,762,441
2011	20,776,224	155,390	1,829,663	2,796,249	25,557,526
2012-2016	93,492,246	699,248	8,233,418	12,583,018	115,007,929
2017-2021	60,177,138	450,077	5,299,514	8,099,174	74,025,904
2022-2025	20,083,887	150,212	1,768,692	2,703,068	24,705,859
Total	<u>\$ 278,300,709</u>	<u>\$ 2,081,470</u>	<u>\$ 24,508,620</u>	<u>\$ 37,456,183</u>	<u>\$ 342,346,982</u>

The redemption dates and a summary of the aggregate principal and interest amounts for Series 2006 Pension Obligation Certificates are as follows:

Primary Government Principal Business-type Activities					
Maturity (June 15)	Governmental Activities	Sewer Disposal Fund	Transportation Fund	Water Fund	Totals
2007	\$ -	\$ -	\$ -	\$ -	\$ -
2008	-	-	-	-	-
2009	-	-	-	-	-
2010	-	-	-	-	-
2011	-	-	-	-	-
2012-2016	-	-	-	-	-
2017-2021	33,557,338	250,982	2,955,235	4,516,445	41,280,000
2022-2026	84,689,193	633,408	7,458,175	11,398,224	104,179,000
2027-2031	318,531,321	2,382,363	28,051,539	42,870,777	391,836,000
2032-2035	334,309,285	2,500,370	29,441,030	44,994,315	411,245,000
Total	<u>\$ 771,087,137</u>	<u>\$ 5,767,123</u>	<u>\$ 67,905,979</u>	<u>\$ 103,779,761</u>	<u>\$ 948,540,000</u>

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Maturity (June 15)	Governmental Activities	Primary Government Interest Business Type Activities			Totals
		Sewer Disposal	Transportation	Water	
		Fund	Fund	Fund	
2007	\$ 40,020,806	\$ 299,324	\$ 3,524,442	\$ 5,386,356	\$ 49,230,928
2008	44,079,824	329,682	3,881,901	5,932,655	54,224,061
2009	47,826,551	357,705	4,211,857	6,436,922	58,833,035
2010	47,826,551	357,705	4,211,857	6,436,922	58,833,035
2011	47,826,551	357,705	4,211,857	6,436,922	58,833,035
2012-2016	239,132,754	1,788,524	21,059,285	32,184,612	294,165,175
2017-2021	236,954,334	1,772,231	20,867,442	31,891,421	291,485,428
2022-2026	223,400,997	1,670,863	19,673,864	30,067,292	274,813,016
2027-2031	165,038,717	1,234,359	14,534,175	22,212,378	203,019,629
2032-2035	52,643,635	393,733	4,636,075	7,085,248	64,758,691
Total	\$ 1,144,750,722	\$ 8,561,832	\$ 100,812,754	\$ 154,070,728	\$ 1,408,196,036

(8) Deferred Swap Termination Proceeds and Payments

During the year ended June 30, 2004, the Fund and its counterparty terminated a forward starting swap agreement related to the future issuance of debt in fiscal year 2005. The Fund received a termination payment in the amount of \$14,056,137 that has been deferred to offset future debt service. The proceeds will be recognized over the life of the debt using the straight-line method.

During the year ended June 30, 2005, the Fund and its counterparty terminated a forward starting swap agreement related to the issuance of debt in fiscal year 2005. The Fund paid a termination payment in the amount of \$11.75 million that has been reserved to offset future debt service. The expense will be recognized over the life of the debt that was issued in fiscal year 2005 using straight-line method.

During the year ended June 30, 2006, The City terminated the Swap agreements entered into in the 2005 transaction and received \$48,932,455. The Fund's allocated share is \$297,509. The proceeds will be recognized over the life of the debt using the straight-line method.

During fiscal year ended June 30, 2006, the amount of amortization expense was \$79,522. The remaining balance of the Sewer Swap Termination Fee as of June 30, 2006 and 2005 is \$2,504,243 and 2,286,256, respectively.

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(9) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2006 and 2005 is as follows:

	<u>Balance, June 30, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2006</u>	<u>Amount due within one year</u>
Revenue bonds payable	\$ 2,653,826,572	53,654,550	(50,035,000)	2,657,446,122	53,205,000
Total revenue bond payable	2,653,826,572	53,654,550	(50,035,000)	2,657,446,122	53,205,000
Add:					
Unamortized premium	83,676,956	—	(5,128,099)	78,548,857	—
Less:					
Deferred charges on refunding	63,094,656	10,013,373	(3,707,707)	69,400,322	—
Discount	15,369,617	—	(13,303,593)	2,066,024	—
Net revenue					
bonds payable	<u>2,659,039,255</u>	<u>43,641,177</u>	<u>(38,151,799)</u>	<u>2,664,528,633</u>	<u>53,205,000</u>
Pension obligation certificates payable	<u>8,760,811</u>	<u>270,469</u>	<u>—</u>	<u>9,031,280</u>	<u>—</u>
Other liabilities:					
Accrued workers' compensation	4,727,969	964,548	(558,999)	5,133,518	811,538
Accrued compensated absences	13,917,806	3,256,908	(3,274,943)	13,899,771	2,281,068
Deferred swap termination	<u>2,286,256</u>	<u>297,509</u>	<u>(79,522)</u>	<u>2,504,243</u>	<u>—</u>
Total other liabilities	<u>20,932,031</u>	<u>4,518,965</u>	<u>(3,913,464)</u>	<u>21,537,532</u>	<u>3,092,606</u>
Total	<u>\$ 2,688,732,097</u>	<u>48,430,611</u>	<u>(42,065,263)</u>	<u>2,695,097,445</u>	<u>56,297,606</u>

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

	<u>Balance, June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2005</u>	<u>Amount due within one year</u>
Revenue bonds payable	\$ 2,375,152,600	420,028,972	(141,355,000)	2,653,826,572	50,035,000
Add:					
Unamortized premium	70,051,130	17,150,459	(3,524,633)	83,676,956	—
Less:					
Deferred charges on refunding	62,230,146	4,456,953	(3,592,443)	63,094,656	—
Discount	16,297,959	—	(928,342)	15,369,617	—
Net revenue					
bonds payable	<u>2,366,675,625</u>	<u>432,722,478</u>	<u>(140,358,848)</u>	<u>2,659,039,255</u>	<u>50,035,000</u>
Pension obligation certificates payable	<u>—</u>	<u>8,760,811</u>	<u>—</u>	<u>8,760,811</u>	<u>—</u>
Other liabilities:					
Accrued workers' compensation	5,206,684	475,827	(954,542)	4,727,969	895,155
Accrued compensated absences	12,158,263	2,255,075	(495,532)	13,917,806	5,556,011
Deferred swap termination	<u>14,056,137</u>	<u>—</u>	<u>(11,769,881)</u>	<u>2,286,256</u>	<u>—</u>
Total other liabilities	<u>31,421,084</u>	<u>2,730,902</u>	<u>(13,219,955)</u>	<u>20,932,031</u>	<u>6,451,166</u>
Total	<u>\$ 2,398,096,709</u>	<u>444,214,191</u>	<u>(153,578,803)</u>	<u>2,688,732,097</u>	<u>56,486,166</u>

(10) Derivatives Not Reported at Fair Value

The Fund is party to derivative financial instruments consisting of interest rate swaps that are intended to effectively convert variable-rate financings to fixed-rate financings. These are not reported at fair value on the statement of net assets at June 30, 2006.

Objective of the swaps. In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the Fund has entered into nine separate fixed-payor interest rate swaps. The Fund is also a party in the City's POC's related to the GRS. The City has entered into two separate fixed-payor interest rate swaps related to the POC's and the GRS.

Market access risk. The City is exposed to market access risk on its hedge swaps or forward starting swaps in the event that it will not be able to enter credit markets or in the event that credit will become more costly.

Terms, fair values, and credit risk. Certain key terms, fair market values, and counterparty credit ratings relating to the outstanding swaps as of June 30, 2006 are presented below. The notional amounts of the swaps, except those with effective dates of September 1, 2006 and March 1, 2007, match the principal amounts of the outstanding financings. The swaps with effective dates of September 1, 2006 and March 1, 2007, were entered into to hedge future interest rate risk and will be associated with financings expected to be issued prior to the effective dates. Except as discussed under rollover risk, the Fund's swap agreements

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated financings.

<u>Associated financing issue</u>	<u>Notional amounts (1)</u>	<u>Effective date</u>	<u>Fixed rate paid</u>	<u>Variable rate received</u>	<u>Fair values</u>	<u>Sweep termination date</u>	<u>Final maturity of bonds</u>	<u>Counterparty credit rating</u>
Sewage 1998-A	\$ 68,000,000	12/10/1998	4.51%	BMA (2)	\$ (3,258,018)	7/1/2023	7/1/2023	Aa2/AA-/NR
Sewage 1998-B	67,900,000	12/10/1998	4.51	BMA	(3,260,270)	7/1/2023	7/1/2023	Aa2/AA-/NR
Sewage 1999-A	27,900,000	10/22/1999	7.48	IMT+.28%	(9,227,590)	7/1/2029	7/1/2029	Aa1/AA-/AA+
Sewage 2001 C-1	156,500,000	10/23/2001	4.43	BMA	(7,116,931)	7/1/2027	7/1/2027	Aa2/AA+/AAA
Sewage 2001 C-2	124,500,000	10/23/2001	4.47	BMA	(6,565,848)	7/1/2029	7/1/2029	Aa2/AA+/AAA
Sewage 2003-B	150,000,000	5/22/2003	4.14	BMA	1,924,401	7/1/2033	7/1/2033	Aa2/AA+/AAA
Sewage Hedge Swap	125,000,000	9/1/2006	4.96	BMA	7,867,616	7/1/2036	N/A	Aa2/AA+/AAA
Sewage Hedge Swap	56,250,000	3/1/2010	4.93	BMA	1,320,373	7/2/2039	N/A	Aa3/A+/AA-
Sewage Hedge Swap	168,750,000	3/1/2010	4.93	BMA	(4,141,786)	7/3/2039	N/A	Aa3/A+/AA-
Pension Obligation Certificates - GRS	99,621,000	6/7/2006	4.99	3 MTH LIBOR + .34%	(183,936)	6/15/2034	6/15/2034	Aa3/A+/AA-
Pension Obligation Certificates - GRS	42,252,000	6/7/2006	4.99	3 MTH LIBOR + .30%	(84,084)	6/15/2029	6/15/2029	Aa3/A+/AA-

(1) Notional amount balance as of July 1, 2006

(2) The Bond Market Association Municipal Swap Index™

(3) Denotes the the swap termination date does not match the final maturity of the financings

Fair value. Because interest rates have generally declined since the time the swaps were negotiated, most of the Fund's swaps have a negative fair value as of June 30, 2006. The negative fair values may be countered by lower total interest payments required under the variable-rate financings, creating lower synthetic interest rates.

Credit risk. As of June 30, 2006, the Fund was not significantly exposed to net credit risk, as the majority of the swaps had net negative fair values. However, should interest rates change and fair values of the swaps become positive, the Fund would be exposed to credit risk in the amount of the derivatives' positive fair value.

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, and/or Moody's Investors Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Basis risk. The Fund is not exposed to significant basis risk on its swaps because most of the variable payments received are based on the Bond Market Association (BMA) index. The Consumer Price Index (CPI) indexed swaps are associated with CPI indexed financings and thus create no basis risk. The London Interbank Offered Rate (LIBOR)-based swap has basis risk on \$28.3 million of swaps.

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 value of the swap at that time. In addition, the Fund is exposed to termination risk, but not termination payments, on certain of the Fund's swaps related to Sewer Series 1998-A, Sewer Series 1998-B, Sewer Series 1999-A, Sewer Series 2001-C-1, Sewer Series 2001-C-2, and Sewer Series 2003-B. These

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

swaps provide the counterparty with the option to terminate the swap agreement beginning on January 1, 2010, July 2, 2011, July 1, 2008, July 1, 2008, January 1, 2010, January 1, 2010, and July 1, 2013, respectively, upon the passing of certain BMA thresholds. If any of these swaps were terminated, the associated variable-rate financings would no longer carry synthetic interest rates, but there would be no termination payment.

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.

(11) Employee Benefit Plan

Substantially all City employees, including the Sewage Disposal Fund employees, are covered by a single-employer plan composed of a defined benefit with an optional employee-contributed annuity through the General Retirement System (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.

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 Retirement System's board of trustees. The GRS issues separate, stand-alone financial statements annually. Copies of these financial statements can be obtained at the Coleman A. Young Municipal Center, 2 Woodward Ave., Rm. 908, Detroit, Michigan 48226.

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's board of trustees based on information provided by the GRS's 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's consulting actuary.

The recommended contribution rate is determined by the GRS's 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, 2005 actuarial valuation, which was the most recent actuarial data available when the budget was developed for the year ended June 30, 2006, the actuary recommended the Sewage Disposal Fund contribution rate of 2.04%. Contributions for the Sewage Fund totaled \$4,185,887.

Employees may elect to contribute 3%, 5%, or 7% of the first \$87,900 of annual compensation and 5% or 7% of any excess over \$87,900 for annuity savings. Contributions are voluntary for all union and nonunion

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

employees. Contributions received from Sewer Fund employees during the year ended June 30, 2006 amounted to \$2,638,158.

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 General Retirement System 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.

a) 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.

	<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, 2004	\$ 2,559,591	100%	\$ —
	June 30, 2005	6,359,722	223%	7,850,281
	June 30, 2006	3,795,979	—	8,240,189

The annual pension cost and net pension asset as of June 30, 2006 are as follows:

Annual required contributions	\$ 3,975,424
Interest on net pension asset	(620,172)
Adjustment to annual required contribution	440,727
	<hr/>
Annual pension cost	3,795,979
Contributions made—employer	4,185,887
	<hr/>
Changes in net pension asset	389,908
Net pension asset, beginning of year	7,850,281
	<hr/>
Net pension asset, end of year	<u>\$ 8,240,189</u>

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The actuarial methods and significant assumptions used to determine the annual required contributions for June 30, 2006 were as follows:

Valuation date	June 30, 2005
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period for unfunded accrued liabilities	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases*	4% – 9.5%
Cost-of-living adjustments*	2.25%

*Includes inflation rate of 4%

(12) Other Post-employment Benefits

In addition to the pension benefits described above, the City provides post-retirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2006 is 22451. Costs are accounted for in accordance with GASB Statement No. 12, Disclosure of Information on Post-retirement Benefits Other Than Pension Benefits by State and Local Governmental Employers. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2006, are as follows:

Benefits	City cost	Retiree cost	Total cost
Hospitalization	\$ 139,306,757	14,933,508	154,240,265
Dental	6,160,524	—	6,160,524
Eye care	1,969,690	—	1,969,690
Life insurance	143,579	26,740	170,319
	\$ 147,580,550	14,960,248	162,540,798

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(13) Due from (to) Other Funds

During the course of operations, numerous transactions occur between individual funds and other City of Detroit funds for goods provided or services rendered. Related receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheets and are summarized as follows:

	<u>2006</u>	<u>2005</u>
Due from other funds (unrestricted):		
General	\$ 30,513	11,887,394
Water	<u>52,768,156</u>	<u>54,500,684</u>
Total due from other funds (unrestricted)	<u>\$ 52,798,669</u>	<u>66,388,078</u>
Due from other funds (restricted):		
General	\$ 33,067	37,355,552
Water	<u>5,508,719</u>	<u>282,997</u>
Total due from other funds (restricted)	<u>\$ 5,541,786</u>	<u>37,638,549</u>
Due to other funds (unrestricted):		
General	\$ 5,824,511	4,921,074
General Fiduciary	411,500	
Water	<u>51,511,455</u>	<u>48,212,647</u>
Total due to other funds (unrestricted)	<u>\$ 57,747,466</u>	<u>53,133,721</u>
Due to other funds (restricted):		
General	\$ 30,605	48,509
Water	<u>10,231,497</u>	<u>11,025,493</u>
Total due to other funds (restricted)	<u>\$ 10,262,102</u>	<u>11,074,002</u>

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Notes to Basic Financial Statements

June 30, 2006 and 2005

(14) Capital Improvement Programs

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 \$1.81 billion through fiscal year 2011. The Program is being financed primarily from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2006 and 2005 was approximately \$356 million and \$453 million, respectively.

(15) Rate Adjustments

The U.S. Environmental Protection Agency (EPA), in attempting to ensure that user charges are proportional in effect as well as in their design, requires grantees to compare budgeted wastewater contributions, revenues from users, and user classes to actual results and make appropriate rate adjustments in the second succeeding year. The accompanying financial statements reflect management's estimates of the current and noncurrent amounts receivable from and refundable to customers in accordance with the regulations. Although subsequent adjustments to these amounts may occur, management does not believe the impact would be material to the Fund's financial position or results of operations.

(16) Contingencies

The operation of the Fund's Waste Water Treatment Plant (WWTP) is subject to extensive regulation pursuant to 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). Included in the regulatory framework established by the Clean Water Act is the National Pollutant Discharge Elimination System (NPDES) permit program, which requires operation of wastewater treatment facilities according to discharge limitations and other requirements as set forth in permits issued to each facility. The U.S. EPA has authorized the State of Michigan Department of Environmental Quality (MDEQ) to implement and enforce the federal NPDES permit program.

The Fund and the City's Legal Department operate the WWTP pursuant to an NPDES permit that took effect on January 1, 2004 and which is due to expire on October 1, 2007.

The Fund is also a defendant in numerous other alleged claims and lawsuits. The Fund and its legal counsel have estimated a reserve for the potential outcome of such claims or the amount of potential damages in the event of an unfavorable outcome for each of the above contingencies, which is included in the accompanying financial statements. The Fund's management and the City's Legal Department estimate that any differences in reserved amounts, and other potential claims against the Fund not covered by the Fund's 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 potential loss exposures.

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Notes to Basic Financial Statements

June 30, 2006 and 2005

(17) Subsequent Events

On August 4, 2006, the Fund issued \$401,560,000 of bonds that comprised: (1) Sewage Disposal System Revenue Second Lien Bond Series 2006-A (Variable Rate Demand) of \$125,000,000, (2) Sewage Disposal System Revenue Second Lien Bond Series 2006-B for \$250,000,000 and, (3) Sewage Disposal System Refunding Senior Lien Bonds, Series 2006-C for \$26,560,000. The bonds begin to mature July 1, 2009 and will be fully matured in the year 2036.

The proceeds (includes offering premium less cost of issued) of the Sewage Disposal System Refunding Senior Lien Bonds, Series 2006-C is used to refund Sewage Disposal System Senior Lien Bond, Series 2003-A of various maturities with aggregate principal of \$27,470,000 plus defeasement cost.

In September 2005, several customers of the Fund challenged the method of allocating costs associated with the 800 MHz project. In early 2007, the court issued a preliminary ruling acknowledging that the Fund had been overcharged, but is yet to issued a final ruling. In management's opinion, the final resolution will not have a material effect on the Fund's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF DETROIT
SEWAGE DISPOSAL FUND**

Required Supplementary Information (Unaudited)

June 30, 2006

Schedule of Funding Progress (in thousands) for the General Retirement System (unaudited):

Actuarial valuation date, June 30		Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio		Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of payroll
2004	\$	190,985	174,546	109.42%	\$	(16,442)	—	—
2005		220,900	167,291	132.05%		(53,609)	—	—
2006		239,972	181,684	132.08		(58,288)	—	—

See accompanying independent auditors' report.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX – C
THE BOND ORDINANCE

[THIS PAGE INTENTIONALLY LEFT BLANK]

Ordinance No. 18-01

An Ordinance to Amend Ordinance No. 27-86 as Amended and Supplemented by Ordinance No. 7-87 Ordinance No. 38-92 Ordinance No. 3-93 Ordinance No. 31-95 Ordinance No. 16-97 Ordinance No. 24-97 and Ordinance No. 36-99 of the City of Detroit to Provide for a Means of Determining if Certain Junior Lien Bonds Bear Interest at a Fixed Rate or a Variable Rate Change the Reserve Account Requirement for Second Lien Bonds Facilitate the Use of Debt Service Reserve Fund Surety Bonds by Amending Section 8 and to Amend and Restate Ordinance No. 27-86.

Whereas, the City Council (the Council) of the City of Detroit, Michigan, adopted Ordinance No. 27-86 (the Ordinance) on December 9, 1986, to provide for the financing and refinancing of capital improvements to the Sewage Disposal System by the issuance of Sewage Disposal System Revenue Bonds and Revenue Refunding Bonds and Junior Lien Bonds, and has extensively amended the Ordinance seven times since its adoption in 1986; and

Whereas, the Council has determined that it is in the best interest of the City to amend the Ordinance so as to provide a means of determining if certain Junior Lien Bonds bear interest at a fixed or variable rate and to change the Reserve Account Requirement for Second Lien Bonds, such amendment to take effect upon this amendatory ordinance becoming effective; and

Whereas, the Council has determined that it is in the best interest of the City to further amend the Ordinance and to restate the Ordinance so as provide for more efficient financings that reflect current capital market practices, eliminate obsolete provisions and integrate this amendment and all prior amendments into one ordinance, such amendment to take effect upon receiving consent of the requisite percent of holders of outstanding Bonds and Junior Lien Bonds; and

Whereas, Section 8 of the Ordinance (Section 8) provides for the use of surety bonds (Reserve Account Surety Bonds) to meet the City's obligations, from time to time, to fund Bond Reserve Accounts and Second Lien Bond Reserve Accounts; and

Whereas, Section 8 contains certain ambiguous and defective provisions regarding the payment obligations of the City in certain instances; and

Whereas, funding Reserve Accounts with Bond proceeds increases the aggregate principal amount of bonds issued to finance capital improvements to the System and can increase the cost of capital and thereby diminish limited capital resources to be directly used for System purposes; and

Whereas, the necessity of investing Reserve Accounts funded with Bond proceeds can result in market and credit volatility and can result in an insufficiency of funds if and when the Reserve Account is needed to provide debt service payments; and

Whereas, Reserve Account Surety Bonds can result in debt service savings and other economic efficiencies; and

Whereas, it is in the best interest of the City and Bondholders that the most efficient use be made of the ability to borrow under the Ordinance and otherwise use capital resources; and

Whereas, there can be a material adverse effect on the City and Bondholders if the ability to borrow and capital resources are not used efficiently; and

Whereas, the Council determines that it is in the best interests of the City and the Bondholders to amend Section 8 so as to assure the availability of Reserve Account Surety Bonds and that Bondholders may be materially adversely affected if Reserve Account Surety Bonds are not freely available in connection with financing the System; and

Whereas, in light of the foregoing, the Council further determines that amendments herein contained do not have a material adverse effect on the interests of Bondholders but rather enhance the ability of the City to obtain Reserve Account Surety Bonds.

The City of Detroit Ordains:

Part I

Section 1. Immediate Amendment of Ordinance No. 27-86.

(a) **Amendment.** Ordinance No. 27-86 as amended to the date hereof is hereby amended by adding three new sections thereto as “Section 1A,” “Section 1B” and Section 8 to respectively read as follows:

Section 1A. Determination of Fixed Rate and Variable Rate Junior Lien Bonds.

(a) **Applicability.** This Section is applicable to all Junior Lien Bonds other than SRF Junior Lien Bonds (the “Subject Junior Lien Bonds”).

(b) **Generally.** Notwithstanding any provision of this Ordinance to the contrary, this Section shall govern the following determinations:

(1) Whether a Subject Junior Lien Bond is a Variable Rate Junior Lien Bond (a “Variable Rate Security”) or a Fixed Rate Junior Lien Bond (a “Fixed Rate Security”) for all purposes of this Ordinance.

(2) How interest is to be calculated on such Variable Rate Securities and Fixed Rate Securities for the purpose of determining Maximum Annual Debt Service, and all definitions and determination of this Ordinance based on or derived from Maximum Annual Debt Service.

(c) **Definitions of Fixed Rate Securities and Variable Rate Securities.**

“Fixed Rate Security” means a Subject Junior Lien Bond 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.

(1) 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.

(2) 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.

(3) A rate is not fixed 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.

“Variable Rate Security” means a Subject Junior Lien Bond that is not a Fixed Rate Security.

(d) Interest Calculations – Variable Rate Securities.

(1) If a Variable Rate Security has been Outstanding for less than a full Fiscal Year on the date of calculation, then the interest rate on such Variable Rate Security shall be calculated as 125% of the average of the Bond Market Association (BMA) Municipal Index 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.

(e) Interest Calculations – Fixed Rate Securities Convertible to Variable Rate Securities.

If Subject Junior Lien Bonds 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 purposes of calculating interest at a variable rate.

(f) Other Definitions.

“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 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).

“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.

“Credit Enhancement” means any Credit Facility and any Bond Insurance.

“Credit Facility” means any letter of credit, line of credit, purchase agreement, or other financial arrangement 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 other than Bond Insurance.

“Hedge” means any agreement by which the City is authorized or permitted by law to manage its debt service, either in connection with the 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.

“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.

“Securities” means any Subject Junior Lien Bonds.

Section 1B. Second Lien Bond Reserve Requirement.

Notwithstanding any provision of this Ordinance to the contrary, whenever this Ordinance provides for a determination of Maximum Annual Debt Service for purposes of determining the Second Lien Bond Reserve Requirement, a determination of average Annual Debt Service as of the date of issuance shall be made instead, and such determination shall be sufficient for all purposes of this Ordinance with respect to the Second Lien Bond Reserve Requirement as it relates to Maximum Annual Debt Service.

Section 8. Municipal Bond Insurance or other Credit Enhancement.

The Finance Director may obtain municipal bond insurance or other credit enhancement in respect of all or part of the Series 1986 Bonds or any Additional Bonds which, if obtained, shall be provided for in the resolution authorizing the sale of the Series 1986 Bonds or any Additional Bonds. Such municipal bond insurance or other credit enhancement may only insure or secure certain Bonds and may or may not insure or secure any other series of Bonds or any part thereof. Such municipal bond insurer or other credit enhancement provider may be afforded certain rights and remedies to direct the proceedings with respect to the enforcement of payment of the Bonds as shall be provided in the resolution authorizing the sale of the Series 1986 Bonds or Additional Bonds.

The City may at any time fulfill its obligation to fund all or a portion of the Bond Reserve Account by acquiring for the benefit of the Bond Reserve Account an irrevocable surety bond payable on any interest or interest and principal payment date in an amount which, when added to any other funds in the Bond Reserve Account, equals the Bond Reserve Requirement. Before any such surety bond is substituted for moneys or applied in lieu of moneys within the Bond Reserve Account, there shall be filed with the Commissioners (i) 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 Bonds; (ii) evidence that such surety bond is provided

by an insurance company rated by each Rating Agency then rating the Bonds to the effect that if the issuers of the surety bond were insuring payment of principal and interest of the Bonds to which the Bond Reserve Account relates, such Bonds would receive the highest rating available from each such Rating Agency; (iii) a copy of the surety bond; and (iv) an opinion of counsel satisfactory to such nationally recognized bond counsel to the effect that the surety bond is valid and enforceable in accordance with its terms. Each such surety bond shall be unconditional and irrevocable and shall provide debt service reserve security for the Bonds with respect to which the surety bond is purchased and, if the surety bond is purchased with respect to more than one issue of Bonds, then for the term of all the then outstanding Bonds for which such surety bond is purchased. Any agreement of the City with or for the benefit of the issuer of any such surety bond may provide that the City will be obligated to repay such issuer on amount equal to any draw-down on the surety bond plus the issuer's expenses and interest, but not in excess of the maximum rate permitted by law (collectively, "Policy Costs"), from Net Revenues subordinated only to debt service payments on the Bonds.

The City reserves the right, if it deems it necessary in order to acquire such a surety bond, to amend this Ordinance without the consent of any of the Bondholders in the following respects:

(ii) to provide that Policy Costs shall be secured by a lien on Net Revenues equal in priority to the statutory lien securing Bonds but subordinate to such statutory lien as between Bonds and Policy Costs; and

(iii) to grant to the issuer of such surety bond such additional rights as it may request, provided that such amendment shall not, in the written opinion of nationally recognized bond counsel filed with the Commissioners, materially impair or reduce the security or rights hereby granted to the owners of the 517-E Bonds or the Bonds or any of them.

(b) Inconsistent Amendments.

The amendments contained in this Part I shall prevail to the extent of any inconsistency between these amendments and the amendments identified in Ordinance 36-99 as the "Bondholder Approval Amendments" upon the Bondholder Approval Amendments becoming effective by obtaining the requisite consent.

Part II

Amendment to Amend and Restate Ordinance No. 27-86

Ordinance No. 27-86, as amended to the date hereof (including provisions to take effect upon consent of the owners of Senior Lien Bonds and Junior Lien Bonds outstanding on the effective date of Ordinance No. 36-99), is hereby amended to read as follows, such amendment to take effect as provided in Part III:

Section 1. Definitions.

Whenever used in this Ordinance, except when otherwise indicated by the context, the following terms shall have the following meanings:

“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.

“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 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 it may be amended.

“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.

“Credit Enhancement” means any Credit Facility and any Bond Insurance.

“Credit Facility” means any letter of credit, line of credit, purchase agreement, or other financial arrangement 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 other than Bond Insurance.

“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.

“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.

“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.

“Hedge” means any agreement by which the City is authorized or permitted by law to manage its debt service, either in connection with the 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” 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 a Priority of Securities and Ancillary Obligations, 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 and related 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.

“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 ordinance authorizing the issuance or in the resolution providing for the sale of such Term Securities.

“Net Revenues” means Revenues except for those Revenues credited to the Operation and Maintenance Fund.

“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, all Securities of such Priority 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 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 that have been defeased in accordance with this Ordinance or a Supplemental Action; and
- (iv) Securities of such Priority 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 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 a Priority 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 and related Ancillary Obligations, if any, next coming due in such Fiscal Year.

“Priority” 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 Rule 15c3-1 of the United States Securities and Exchange Commission.

“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” has the meaning given that term in Section 3.

“Required Combined Coverage” means, for two or more Priorities for which a determination is to be made, that (i) the result produced by dividing the prescribed inflows by the prescribed outflows for the highest Priority required for such determination and performing the same calculation for each successively lower Priority and expanding the divisor in each instance by the sum of the outflows for such Priority and each higher Priority equals or exceeds (ii) the coverage requirement for the lowest Priority in each calculation, such that

Where	$I=$	Inflows required by the particular determination
	$O=$	Outflows required by the particular determination for the Priority indicated by the subscript
	$=$	Coverage requirement for the particular determination for the Priority indicated by the subscript

and assuming three Priorities, [1] Senior, [2] Second and [3] SRF, Required Combined Coverage is:

$$[1] \frac{I}{O} \quad \text{and} \quad \frac{I}{[2] (O_1 + O_2)} \quad \text{and}$$

$$[3] \frac{I}{(O_1 + O_2 + O_3)} \quad 3$$

“Reserve Account” means a Reserve Account established in an Interest and Redemption Fund and may be restricted in meaning by referring to a Priority of Securities for which such Reserve Account was established.

“Reserve Requirement” means, for a Priority of Securities for which a Reserve Account has been established, the amount of Annual Debt Service on all Securities of such Priority then Outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code as provided below:

(v) for Senior Lien Bonds, the “amount of Annual Debt Service” shall be maximum Annual Debt Service;

(vi) for Second Lien Bonds, the “amount of Annual Debt Service” shall be average Annual Debt Service; and

(vii) 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, 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.

“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 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.

“Sinking Fund Installment Requirement” means, with respect to a Priority of Term Securities 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.

“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 Sewage Disposal System of the City including all plants, works, instrumentalities and properties, used or useful, in whole or in part, in connection with the collection, interception, treatment and disposal of sewage, 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.

“Term Securities” means, with respect to Securities of a Priority, 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.

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.

(3) Other terms are defined in the last subsection of this Section.

(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,

(B) Fixed Rate Securities converting to Variable Rate Securities

(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 Bond Market Association (BMA) Municipal Index 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 a Priority of Securities, 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) *Other Definitions.*

“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.

“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.

“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.

“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.

- (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.
- (iii) A rate is not fixed 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.

“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.

“Tender Securities” means Securities that are subject to optional or mandatory tender for purchase.

“Variable Rate Security” means any Security that is not a Fixed Rate Security.

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, if any, 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 same Priority of Securities as such Securities, the amount necessary to comply with subsection (e) unless such compliance will be obtained with amounts from a different source.

(3) The balance of the proceeds 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 (the "Registry"), 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 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.

(c) 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.

(d) The Finance Director may at any time acquire Credit Enhancement to fulfill the City's obligation to fund any Reserve Account or substitute a Credit Enhancement for amounts in a Reserve Account. 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.

(e) The Finance Director may, in accordance with law, from time to time enter into such Hedges as the Finance Director determines to be in the best financial interests of the City.

(f) 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.

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 an Ancillary Obligation shall be contained in the instrument evidencing or providing for such Ancillary Obligation.

(1) An Ancillary Obligation in respect of a particular Priority of Securities:

(i) may be secured at a lower Priority, but

(ii) may not be secured at a higher Priority.

(2) Ancillary Obligations are “related” to Securities of the same Priority for purposes of determining priority of security and payment even though such Ancillary Obligations may have been entered into in respect of a higher Priority of Securities.

Priorities:
(d) The lien securing the payment of a Secured Obligation is subject to the following

(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.

(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 related Ancillary Obligations shall be senior to the liens securing all other Junior Obligations;

(ii) the lien of each other Priority of Junior Obligations 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 this Ordinance.

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 a Priority or any payment on the Ancillary Obligations related to such Securities (any of the foregoing a “Payment”) 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 Ancillary Obligations, no Payment shall be made directly or indirectly on or in respect of any Securities of lower Priority or any Ancillary Obligations related to such Securities of lower Priorities (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 (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, and as between the City and its creditors, other than Superior Obligees and Subordinated Obligees, no payment made on Superior Obligations which would otherwise have been made to Subordinated Obligees shall be deemed to be a payment by the City on account of Superior Obligations, it being understood that the Priorities are solely for the purpose of defining the relative rights of Superior Obligees on the one hand and the Subordinated Obligees on the other hand.

(3) Except as otherwise provided in a Supplemental Action, the City may agree with the Holders of Securities of any Priority and the obligee of any related Ancillary Obligations to extend, renew, modify or amend the terms of such Securities or such related Ancillary Obligations 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 related Ancillary Obligations 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 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 and in Act 94.

(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 a Priority of Securities not enumerated above, this subsection shall be amended to provide for the coverage percentage for Indebtedness in respect of such Priority of 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 sewage disposal 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 Inflows are the Net Revenues projected for the Fiscal Year of calculation and the Outflows are the Indebtedness coming for such Fiscal Year.

(c) The City hereby covenants and agrees at all times to fix and maintain such rates for services furnished by the System as shall be sufficient to provide for the foregoing and to repay any borrowing 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 sewage disposal service which are under the provisions of Section 21 of Act 94, Public Acts of Michigan, 1933, as amended, are made a lien on all premises served thereby, unless notice is given 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 sewage disposal 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.

(a) The following funds and accounts are hereby established:

- Sewage Disposal System Receiving Fund (the "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

- Such Interest and Redemption Funds as are established by Supplemental Action for other Priorities of Junior Lien Bonds

- SRF Junior Lien Bond Interest and Redemption Fund
 - SRF Junior Lien Debt Service Account

- No SRF Junior Lien Bond Reserve Account is established
- Extraordinary Repair and Replacement Reserve Fund
- Improvement and Extension Fund
- Surplus Fund

(b) Additional funds may be established for other Priorities of Securities 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 of the first day of each month, 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 credited 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 Bond 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 to, and including, the SRF Junior Lien Bonds:

First: to the Debt Service Account established for such Priority, 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 as of the first day of such month;

Second: to the Reserve Account, if any, established for such Priority an amount that when added to all other amounts then on deposit therein shall equal the Reserve Requirement for such Priority 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.

(a) Amounts in the Receiving Fund shall be monthly applied as provided in Section 12.

(b) Amounts remaining in the Receiving Fund as of the last day of each Fiscal Year shall be credited to the Surplus Fund.

B. Operation and Maintenance Fund.

Amount 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.

(a) *Generally.* Amounts in the Interest and Redemption Fund established for a Priority of Securities and Ancillary Obligations 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.

(b) *Mandatory Redemption Requirements.*

(1) 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 Priority of Securities 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.

(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 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 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.

(ii) 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.

(c) Reserve Accounts.

(1) 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 Priority for which such Reserve Account was established, as to which there would otherwise be default.

(2) 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.

(3) 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.

(4) A separate Reserve Account may be established for an issue of Securities by the Supplemental Action providing for the issuance of such Securities.

(i) 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.

(ii) 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 the same Priority of Securities 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.

(a) Amounts 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.

(b) 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.

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; 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.

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 or resolutions 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 (“construction costs”) and any costs of engineering, legal, bond insurance premiums, if any, and other expenses incident thereto, to the financing thereof.

(1) Payments of construction costs, 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 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 Municipal Finance Division, 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 Priority of Securities 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 the City's relevant tax covenants.

Section 15. Rate Stabilization Fund.

(a) 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).

(b) The Commissioners may create a fund designated Sewage Disposal System Rate Stabilization Fund (the "Rate Stabilization Fund"). No amounts shall be deposited therein or credited thereto except Prior Revenues and then only if:

(1) 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;

(2) 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

(3) 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.

(c) Amounts on deposit in the Rate Stabilization Fund may be taken into account for purposes of fixing and revising rates and rate covenants with respect to Securities (any such purpose, a "Coverage Determination").

(d) Whenever any amount on deposit in the Rate Stabilization Fund is taken into account for any Coverage Determination (a "Reserved Amount"), then such Reserved Amount shall be credited to the Receiving Fund for the Fiscal Year for which such Coverage Determination is made.

(e) 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 17 and then only after all other amounts then in the Rate Stabilization Fund have been applied pursuant to Section 17.

(f) Amounts on deposit in the Rate Stabilization Fund other than Reserved Amounts may be applied to any lawful purpose of the System.

Section 16. Depositaries.

(g) 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.

(h) Amounts in the Interest and Redemption Fund for a Priority of Securities shall be kept on deposit with one of the banks or trust companies where the principal of and interest on such Priority of Securities are payable.

(i) 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 17. 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 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 Securities and Ancillary Obligations after applying payments in the Reserve Account, if any, established for such Priority of Securities, then there shall be applied to such payment amounts in each Interest and Redemption Account established for each lower Priority of Securities, beginning with the lowest Priority and proceeding seriatim in ascending order of Priority, until such payments are made in full.

Section 18. 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 19. Covenants.

The City covenants and represents with the Holders of all Securities from time to time 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.

(2) The City will from time to time make all needful 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. 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 or any part of the System and appurtenances thereto as the Commissioners determine necessary for the System.

(e) **No Competition.** The City will not, and will not to the extent permitted by law, permit others to, operate a sewage disposal 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 20. Trustee.

(a) 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.

(b) 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.

(c) 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).

(d) 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.

(e) 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 21. 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

(f) Limitations on Issuance.

(1) The City shall not issue any Securities except in accordance with Section 21. 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.

(2) Other limitations on the issuance of Securities may be added by Supplemental Action of the Finance Director.

(g) 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.

(h) Refunding Securities. If any Additional Securities (any of such, the "Refunding Securities") are to be issued to refund Outstanding Securities (the "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.

(a) **General Authority.** The City may issue Securities of any Priority (herein, "Additional Securities") 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 (b) or the Historical Net Revenues Test contained in subsection (c). The determination in a Supplemental Action that there will be Required Combined Coverage upon the issuance of such Additional Securities shall be conclusive.

(b) **Projected Net Revenues Test.** For purposes of determining the Required Coverage Requirement, the Inflows are the projected Net Revenues of the System for the then current or the next succeeding Fiscal Year and the Outflows are the maximum composite Annual Debt Service in any Fiscal Year on Outstanding Securities and the Additional Securities to be issued.

(1) 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.

(2) 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 sewage disposal systems.

(c) **Historical Net Revenues Test.** For purposes of determining the Required Coverage Requirement, the Inflows are the actual Net Revenues of the System for the immediately preceding audited Fiscal Year and the Outflows are the maximum composite Annual Debt Service in any future Fiscal Year on Outstanding Securities and the Additional Securities to be issued.

(1) 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.

(2) 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.

(3) 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.

(4) 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 sewage disposal systems regarding the existence of such conditions.

(5) 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 Securities of any Priority (herein, "Additional Securities") without regard to Section 21C 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 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 equal and higher Priority Securities, without giving effect to the refunding.

Section 22. Defeasance.

(a) A Security is “defeased” for purposes of this Ordinance if:

(1) there has been deposited in trust sufficient cash and Permitted Investments, 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; and

(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.

(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 4 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 23. Amendments; Consent of Securityholders.

A. Amendment without Consent.

(a) 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:

(1) To issue Securities of any Priority;

(2) 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);

(3) 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;

(4) To increase the size or scope of the System; and

(5) To amend or supplement this 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.

(b) No Holders of a Priority of Securities shall be “materially adversely affected” for the purposes of this Ordinance by the change of any coverage percentage established for any other Priority of Securities, 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 shall “materially adversely affect” the Holders of Securities of any other Priority for the purposes of this 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 Holder of such Security under Section 23B(a)(1) or (2).

(c) A confirmation of the rating of the Securities held by Holders affected by any amendment of or supplement to this Ordinance shall be conclusive evidence that such Holders were not materially adversely affected by such amendment or supplement.

B. Amendments With Consent.

(a) With the consent of the Holders of not less than 51% in principal amount of Securities then Outstanding, 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:

(1) 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

(2) without the consent of the Holder of each Security affected thereby:

(i) 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

(ii) change the Priority of such Security or deprive such Holder of the right to payment of such Security from Pledged Assets.

(b) 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.

(c) 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.

(d) 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.

Section 24. 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.

PART III

Section 1. Consent of Bondholders and Junior Lien Bondholders.

(a) The registered owner or beneficial owner of each series of Bonds and Junior Lien Bonds issued after the effective date of this Ordinance by its acceptance thereof expressly consents to the amendments contained in Part II (the "Part II Amendments").

(b) At, but not until, such time as the owners of not less than 51% in principal amount of the Bonds then outstanding and the owners of not less than 51% in principal amount of the Junior Lien Bonds then outstanding (including without limitation each series of Bonds and Junior Lien Bonds issued after the effective date of this Ordinance upon the issuance thereof) shall have consented to the Part II Amendments, Ordinance No. 27-86 shall be amended and restated as herein provided. Promptly thereafter, the City shall cause the Transfer Agent to provide notice setting forth in general terms the substance of the Senior Lien Bondholder and Second Lien Bondholder Approval Amendments, in accordance with Section 26(B) of Ordinance No. 27-86 as in effect on the date of adoption of this Ordinance.

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 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 4. Effective Date.

This Ordinance shall be effective immediately.

Approved as to Form

Ruth Carter
Corporation Counsel

APPENDIX – D

AMENDMENTS TO CERTAIN PROVISIONS OF AUTHORIZING DOCUMENTS

Following are the amendments to the 2001 Variable Rate Supplement, the 2001(C-2) Sale Order, the 2006(A) Variable Rate Supplement, and the 2006(A) Sale Order (collectively, the “2001 and 2006 Authorizing Documents”), which will be effective in connection with the remarketing of the Predecessor Bonds. The 2001 and 2006 Authorizing Documents are governed by their own amendment provisions but are also subject to the amendment provisions of the Bond Ordinance, which is included as Appendix C to this Remarketing Circular. Section 23(B)(c) of the Bond Ordinance, “Amendments With Consent,” states in relevant part as follows:

[T]he 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.

Each of the 2001 Variable Rate Supplement and the 2006(A) Variable Rate Supplement contain substantially the same language. Accordingly, Holders of the Predecessor Bonds being remarketed hereby which are acquired in the remarketing thereof on or after the date of this Remarketing Circular, whether or not the fixed rate conversion is consummated in accordance with the initial notice of Mode Change or optional redemption, will be considered to have consented to the amendments set forth in this Appendix D.

In accordance with the provisions of each of the 2001 Variable Rate Supplement and the 2006(A) Variable Rate Supplement, consent of the Transfer Agent and Tender Agent, each Provider, each Bond Insurer and the Remarketing Agent (as defined in the 2001 Variable Rate Supplement or the 2006(A) Variable Rate Supplement, as applicable), will be obtained or waived and notice will be provided to each Rating Agency. Consent of at least 51% in outstanding principal amount of the Holders of Series 2001(E) Predecessor Bonds will be obtained in order for the amendments specifically referencing such consent to be effective.

To the extent certain of the amendments set forth in this Appendix D affect Holders of Sewage System Securities beyond those who have consented to such changes, as described above, the City has determined that such amendments can be made without Bondholder consent, as described in the Bond Ordinance. The amendment to Section 1.01 of each of the 2001 Variable Rate Supplement and the 2006(A) Variable Rate Supplement is pursuant to the authority of Section 23(A)(a)(3) of the Bond Ordinance, which permits amendments without consent of Securityholders for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provisions. The form of legal opinion regarding tax exemption set forth in Section 1.01 does not encompass the situation where a remarketing is deemed to be a reissuance for federal tax purposes. The amendment allows the opinion to be in the appropriate form for a reissuance but does not change the substance of the opinion. The amendments to Sections 2.03 and 3.03 of each of the 2001 Variable Rate Supplement and the 2006(A) Variable Rate Supplement are pursuant to the authority of Section 23(A)(5), which allows amendment without Securityholder consent so long as such amendment does not materially adversely affect the Holders of Outstanding Securities (as such terms are defined in the Bond Ordinance). In connection with these amendments, the City’s Finance Director will make a determination that, based upon market conditions, the effect on overall Sewage System debt service of the implementation of these amendments in connection with the fixed rate remarketings described in this Remarketing Circular, and certain other factors, such amendments are not materially adverse to Holders of Outstanding Sewage System Securities.

SERIES 2001 (C-2) and (E) AMENDMENTS

Amendments to the Supplement.

Amendment of Section 1.01 – Definitions. The definition of Favorable Bond Counsel’s Opinion is hereby amended to read as follows (*added language is in italics*):

Favorable Bond Counsel’s Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement, the Sale Order and the Authorizing Documents, and (ii) such action will not adversely affect the exemption of the interest on the Series 2001 Securities from federal and state income taxation (subject to customary exceptions), provided, however, that if Bond Counsel believes it necessary or appropriate, in lieu of the opinion described in (ii) above, Bond Counsel may provide an opinion to the effect that the interest on such Series C-2 Securities or Series E Securities is excluded from gross income for federal and state income tax purposes (subject to customary exceptions).

Amendment to Section 2.03 - Changes in Connection with Mode Change. Section 2.03(b)(3) is hereby amended to read as follows (*added language is in italics*):

(b)(3) such Variable Rate Securities could be issued as Series 2001 Securities of the corresponding Parity and for the corresponding purpose under the Bond Ordinance (treating, for such purpose, the Securities with the amortization to be adjusted as no longer outstanding to the extent of the adjustment), *provided, however, that in connection with the remarketing of any Series C-2 Securities or Series E Securities that is completed prior to September 30, 2008, compliance with this Section 2.03(b)(3) shall not be required, but only if the City certifies, in a manner acceptable to Bond Counsel at the time of such remarketing, that such lack of compliance with this Section 2.03(b)(3) is not materially adverse to the Holders of all outstanding Bonds of the Sewage Disposal System; and*

Amendment to Section 3.03 - Interest Rate Determinations for All Other Modes. Section 3.03(a) is hereby amended to read as follows (*added language is in italics*):

(a) The interest rate for each Tranche of Modal Securities other than Flexible Rate Securities shall be determined by the Remarketing Agent on the Rate Determination Date for such Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at par plus accrued interest to the purchase date, under prevailing market conditions on such Rate Determination Date; *provided, however, that for Series C-2 Securities in the Weekly Mode, and for Series E Flexible Rate Securities being converted to the Modal Fixed Rate Mode, if required by prevailing market conditions in the judgment of the Remarketing Agent, the Remarketing Agent on the Rate Determination Date for such Mode may determine an interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at a net premium, i.e. coupons exceed yields on a net basis, provided, further, that in the event of a premium remarketing permitted by the preceding clause, the total par amount of the Series C-2 Securities and the total par amount of the Series E Securities so remarketed shall not increase by reason of such premium, it being understood that circumstances permitting the exercise of the discretion authorized to be exercised by the Remarketing Agent by this Section shall **not** constitute a Rate Suspension Event under Section 3.04 hereof.*

Amendment of Section 4.01 – Modes. Section 4.01 is hereby amended to read as follows (*added language is in italics*):

(a)(2)(iii) the mode of a Flexible Rate Security may not be changed unless the Mode of all outstanding Flexible Rate Securities is changed on the same Mode Change Date, *provided, however, that the mode of a Series E Security may be changed without regard to the Mode of any other Flexible Rate Security, if (i) the Modal Holder of such Series E Security has consented to this amendment of this Section of the Supplement, and (ii) Modal Holders of 51% of the outstanding principal amount of Series E Securities have consented to such amendment of the Supplement.*

(a)(3) Although the Mode of a Term Rate Security or a Flexible Rate Security may be changed, it may be changed only at the end of a Period, *provided, however, that the Mode of a Series E Security may be changed on any Modal Business Day, if (i) the Modal Holder of such Series E Security has consented to this amendment of this Section of the Supplement, and (ii) Modal Holders of 51% of the outstanding principal amount of Series E Securities have consented to such amendment of the Supplement.*

(b)(2) The Mode of a Flexible Rate Security may be changed only on the last day of the Flexible Period, *provided, however, that the Mode of a Series E Security may be changed on any Modal Business Day, if (i) the Modal Holder of such Series E Security has consented to this amendment of this Section of the Supplement, and (ii) Modal Holders of 51% of the outstanding principal amount of Series E Securities have consented to such amendment of the Supplement.*

Amendment of Section 4.11 – Election of Mode Change; How Effected; Irrevocability. Section 4.11(b) is hereby amended to read as follows (*added language is in italics*):

(b) In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, for the proposed Mode Change Date, the minimum number of days required by Section 6.02 for notices given in connection with mandatory tenders plus 15 days (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties), *provided, however, that, for a Mode Change of Series C-2 Securities from the Weekly Rate Mode or Series E Securities from the Flexible Rate Mode to the Modal Fixed Rate Mode, if on such Mode Change Date (herein the “First Mode Change Date”) all of the conditions to conversion to the Modal Fixed Rate Mode are not met, if the Finance Director again elects to change the Mode for such Series C-2 Securities or Series E Securities to the Modal Fixed Rate Mode within 30 days of the First Mode Change Date, his/her election shall be effective if he/she delivers to the Tender Agent, with copies concurrently to each of the other Notice Parties, not later than the minimum number of days required by Section 6.02(c) for notices given in connection with a Mode Change in such situation:*

Amendment of Section 4.14 – Notice to Variable Rate Modal Securityholders and Liquidity Facility Providers. Section 4.14 is hereby amended to add additional language at the end of subsection (b) to read as follows (*added language is in italics*):

(b) Such notice shall be given in advance of the Mode Change Date specified in such Mode Change Notice by at least the minimum number of days required by Section 6.02; provided that, a Liquidity Facility Provider shall always be given at least five Modal Business Days' notice, *except in the circumstances set forth in the proviso to Section 4.11(b) hereof.*

Amendment of Section 5.01 – Optional Redemption – Short-Term and Term Rate Securities. Section 5.01(a)(2) is hereby amended to read as follows (*added language is in italics*):

(a)(2) Flexible Rate Securities are subject to redemption upon notice given as required in the Sale Order in whole or in part on any Interest Payment Date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date, *provided, however, that Series E Securities are subject to redemption upon notice given as required in the Sale Order in whole or in part on any Modal Business Day, if (i) the Modal Holder of such Series E Security has consented to this amendment of this Section of the Supplement, and (ii) Modal Holders of 51 of the outstanding principal amount of Series E Securities have consented to such amendment of the Supplement.*

Amendment of Section 6.02 – Mandatory Tender Events. Section 6.02 is hereby amended to add a new subsection (c) to read as follows (*added language is in italics*):

(c) If a Mode Change with respect to Series C-2 Securities or Series E Securities to the Modal Fixed Rate Mode from the Weekly Rate Mode or the Flexible Rate Mode, as applicable, has been properly noticed in accordance with Section 6.02(a) above (herein the “**First Mode Change Date**”) and all of the conditions precedent to the conversion to the Modal Fixed Rate Mode are not met, if the Finance Director again elects to change the Mode for such Securities to the Modal Fixed Rate Mode within 30 days of the First Mode Change Date, notice of a subsequent Mode Change shall be given to Modal Holders of Series C-2 Securities or Series E Securities, as applicable, not later than the 3rd day next preceding the Mode Change Date, stating that such Mode Change Date is the Purchase Date.

Amendment to the General Terms of the 2001 Securities Supplement to the Composite Sale Order.

Section 4.02(a) is hereby amended to read as follows (*added language is in italics*):

(a) When Series 2001 Securities, or portions thereof, are to be for redeemed, the Registrar for such Series 2001 Securities shall in its own name or in the name of the City, give notice by first class mail not less than 30 days prior to the date fixed for redemption to the registered owners of the Series 2001 Securities or portions thereof to be redeemed at their addresses set forth in the Registry, *provided, however, that where notice of optional redemption has been delivered to registered owners of Series C-2 Securities or Series E Securities in the manner required by this Section (the date fixed in such notice for redemption is herein referred to as the “First Redemption Date”), and all of the conditions precedent to the conversion of such Series C-2 Securities or Series E Securities to the Modal Fixed Rate Mode are not met, if the City again elects to effect a conversion to the Fixed Rate Mode and, in connection therewith, optionally redeem Series C-2 Securities, a subsequent notice to such registered owners in the manner required by this Section shall be given to such registered owners not later than the 3rd day next preceding the date fixed for redemption, if such date is within 30 days of the First Redemption Date.*

SERIES 2006(A) AMENDMENTS

Amendments to the Supplement.

Amendment of Section 1.01 – Definitions. The definition of Favorable Bond Counsel's Opinion is hereby amended to read as follows (*added language is in italics*):

Favorable Bond Counsel's Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement and the Authorizing Documents, and (ii) such action will not adversely affect the exemption of the interest on the Modal Securities from federal and state income taxation (subject to customary exceptions), *provided, however, that if Bond Counsel believes it necessary or appropriate, in lieu of the opinion described in (ii) above, Bond Counsel may provide an opinion to the effect that the interest on such Modal Securities is excluded from gross income for federal and state income tax purposes (subject to customary exceptions).*

Amendment to Section 2.03 - Changes in Connection with Mode Change. Section 2.03(b)(3) is hereby amended to read as follows (*added language is in italics*):

(b)(3) such Variable Rate Securities could be issued as Modal Securities of the corresponding Parity and for the corresponding purpose under the Bond Ordinance (treating, for such purpose, the Securities with the amortization to be adjusted as no longer outstanding to the extent of the adjustment), *provided, however, that in connection with the remarketing of any Modal Securities that is completed prior to September 30, 2008, compliance with this Section 2.03(b)(3) shall not be required, but only if the City certifies, in a manner acceptable to Bond Counsel at the time of such remarketing, that such lack of compliance with this Section 2.03(b)(3) is not materially adverse to the Holders of all outstanding Bonds of the Sewage Disposal System; and*

Amendment to Section 3.03 - Interest Rate Determinations for Other Modes. Section 3.03(a) is hereby amended to read as follows (*added language is in italics*):

(a) The interest rate for each of the Modal Securities other than Commercial Paper Rate Securities and Auction Rate Securities shall be determined by the Remarketing Agent on the Rate Determination Date for such Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at par plus accrued interest to the purchase date, under prevailing market conditions on such Rate Determination Date; *provided, however, that for Securities in the Weekly Mode, if required by prevailing market conditions in the judgment of the Remarketing Agent, the Remarketing Agent on the Rate Determination Date for such Mode may determine an interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at a net premium, i.e. coupons exceed yields on a net basis, provided, further, that in the event of a premium remarketing permitted by the preceding clause, the total par amount of the Securities so remarketed shall not increase by reason of such premium, it being understood that circumstances permitting the exercise of the discretion authorized to be exercised by the Remarketing Agent by this Section shall **not** constitute a Rate Suspension Event under Section 3.04 hereof.*

Amendment of Section 4.12 – Election of Mode Change; How Effected; Irrevocability. Section 4.12(b) is hereby amended to read as follows (*added language is in italics*):

(b) In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, for the proposed Mode Change Date, the minimum number of days required by **Section 6.02** for notices given in connection with mandatory tenders *plus 15 days* (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties), *provided, however, that, for a Mode change from the Weekly Rate Mode to the Fixed Rate Mode, if on such Mode Change Date (herein the “First Mode Change Date”) all of the conditions to conversion to the Fixed Rate Mode are not met, if the Finance Director again elects to change the Mode for such Securities to the Fixed Rate Mode within 30 days of the First Mode Change Date, his/her election shall be effective if he/she delivers to the Tender Agent, with copies concurrently to each of the other Notice Parties, not later than the minimum number of days required in Section 6.02(c) for notices given in connection with a Mode Change in such situation:*

Amendment of Section 4.15 – Notice to Variable Rate Security and Auction Rate Security Holders and Liquidity Facility Providers. Section 4.15 is hereby amended to add additional language at the end of subsection (b) to read as follows (*added language is in italics*):

(b) Such notice shall be given in advance of the Mode Change Date specified in such Mode Change Notice by at least the minimum number of days required by **Section 6.02**; provided that, a Liquidity Facility Provider shall always be given at least five Modal Business Days’ notice, *except in the circumstances set forth in the proviso to Section 4.12(b) hereof.*

Amendment of Section 6.02 – Mandatory Tender Events. Section 6.02 is hereby amended to add a new subsection (c) to read as follows (*added language is in italics*):

(c) If a Mode Change from the Weekly Rate Mode to the Fixed Rate Mode has been properly noticed in accordance with Section 6.02(a) above (herein the “**First Mode Change Date**”) and all of the conditions precedent to the conversion to the Fixed Rate Mode are not met, notice of a subsequent Mode Change to the Fixed Rate Mode shall be given to Modal Holders not later than the 3rd day next preceding the Mode Change Date, if such Mode Change Date is within 30 days of the First Mode Change Date, stating that such Mode Change Date is the Purchase Date.

AMENDMENTS TO THE SALE ORDER.

Section 2.05(b) is hereby amended by adding a paragraph at the end of the Section to read as follows (*added language is in italics*):

(b) *In a situation where notice of optional redemption has been delivered to registered owners of Series 2006(A) Securities in the manner required by this Section (the “**First Redemption Date**”), and all of the conditions precedent to the conversion to the Fixed Rate Mode are not met, if the City again elects to effect a conversion to the Fixed Rate Mode and, in connection therewith, optionally redeem Securities, a subsequent notice to such registered owners in the manner required by this Section shall be given to such registered owners not later than the 3rd day next preceding the date fixed for redemption, if such date is within 30 days of the First Redemption Date.*

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX – E

**CHARACTERISTICS OF THE SEWAGE
DISPOSAL SYSTEM SERVICE AREA**

[THIS PAGE INTENTIONALLY LEFT BLANK]

CHARACTERISTICS OF THE SEWAGE DISPOSAL SYSTEM SERVICE AREA

The Department operates a regional Sewage Disposal System which serves approximately 3.0 million people living in the City and 76 other southeastern Michigan communities. Sewage Disposal System customers may be classified into three categories: the City, surrounding communities, and local authorities. All of the Sewage Disposal System service area is within the Detroit Primary Metropolitan Statistical Area (“PMSA”).

Although the City is the single largest entity served by the Department, its relative importance has declined as nearby communities have increased in population and joined the Sewage Disposal System. As a percentage of total population served by the Department, the City has declined from 73% in 1950 to 24% in 2005.

The following sections provide summary information about the major components of the Sewage Disposal System service area: the City, the largest municipal entities (listed by population served) and various statistics relating to Detroit and the Detroit PMSA.

DETROIT

The City of Detroit is located in southeastern Michigan in Wayne County and has a land area of approximately 138 square miles. The City is the nation’s 11th largest city and the center of the nation’s tenth largest PMSA. 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 nine diverse industrial parks, and more than 50 firms have world headquarters within the confines of the City.

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, public lighting, transportation, water supply and sewage disposal, human services (including housing), airport and parking. In accordance with the 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. The last regular election for these positions was on November 8, 2005, in which the Mayor and five incumbent members and four new members of the City Council were elected. In January 2006, the Mayor and the newly constituted City Council commenced their new terms. There are no limits as to the number of terms that may be served by City elected officials. In addition, the City is the District Control Unit responsible for certain duties relating to the judicial branch of State government.

The Charter 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. However, these powers do not extend to the budget or any ordinance for the appropriation of money, and the referendum power does not extend to emergency ordinances.

Since 2003, unemployment has increased, with an estimated employed civilian labor force of 375,076 and a 2007 yearly unemployment rate average of 14.3%, compared to a 7.2% state-wide average and a 4.6% national unemployment rate.

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 DaimlerChrysler AG 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, trade, commerce, and tourism.

There currently are three casino licensees operating casinos in the City. As permitted by Act 69, Public Acts of Michigan, 1997, in November 1997 the City's voters approved the imposition of a local tax of 9.9% on adjusted gross receipts from casino operations ("AGR") in the City. Also pursuant to Act 69, the City has imposed a municipal service fee of 1.25% of AGR, or 4 million per licensee, whichever is greater, to pay for the provision of municipal services. Act 306, Public Acts of Michigan, 2004, effective September 2, 2004, imposed an additional wagering tax of 6% of AGR, which is allocated one-third to the City and two-thirds to the State. Thus, the City currently collects a total of 11.9% on AGR as the wagering taxes in addition to such municipal service fee.

As a result of the taxes and fees described above, the City collected revenues from gaming facilities of 85.8 million in fiscal 2001, 109.4 million in fiscal 2002, 111.3 million in fiscal 2003, 116.1 million in fiscal 2004, and 138.0 million in fiscal 2005. Effective January 1, 2006, pursuant to an agreement with the three casinos in the City, an additional payment to the City of 1% of each casino's AGR was imposed on the casinos. Also pursuant to the same agreement and effective January 1, 2006, an additional payment to the City of 1% of AGR was imposed on casinos that achieved at least 400 million in annual AGR. The City's Amended Fiscal Year 2006 Budget anticipated the total revenues of 153 million from gaming facilities, which is expected to be realized.

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.

LARGEST MUNICIPAL ENTITIES SERVED BY THE DEPARTMENT

Set forth below are descriptions of the largest municipal entities receiving sewage disposal service from the Department based on 2000 Census figures and, where available, 2006 population estimates.

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 has an area of approximately 36.8 square miles. The 2006 estimated population was 127,991. Industrial development in Sterling Heights is a continuation of that which has taken place in the City of

Warren, immediately to the south. The first major industry to locate in Sterling Heights was Ford Motor Company in 1956, followed later by DaimlerChrysler AG. General Dynamics, another major employer, has located its headquarters in Sterling Heights for the engineering and design of all its products except tanks. The Detroit News maintains its principal printing plant in Sterling Heights. Lakeside Associates, owners of the area's largest shopping mall, is one of the ten largest taxpayers.

Livonia

The City of Livonia is located in Wayne County, about 2 miles west of Detroit's western limit. Incorporated in 1950, Livonia is a residential, commercial and industrial city which encompasses some 38 square miles. Livonia's major population growth occurred in the 1950s and 1960s. The 2006 estimated population was 96,736. Livonia's tax base is well diversified. General Motors Corporation and Ford Motor Company comprise approximately 16% of its tax base. Three large shopping centers attract shoppers from surrounding communities.

Clinton Township

Clinton Township is located in the central portion of Macomb County, approximately 14 miles north of downtown Detroit. It is primarily a residential community with a land area of 38 square miles. Population has grown from 95,648 in 2000, to 96,278 in 2006.

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 25.5 square miles. The location of Ford Motor Company's headquarters in Dearborn in the early 1930s shaped the economy and growth of Dearborn. The 2006 estimated population is 92,382. Ford Motor Company is by far the largest employer and taxpayer in Dearborn.

Westland

The City of Westland, with an area of 20.42 square miles, is located three miles west of the Detroit city limits. Land use is primarily residential and commercial in character. Conveniently located near an interstate freeway, industrial development continues with auto suppliers, injection molders and tool and die shops. The 2006 estimated population was 84,504.

Troy

The City of Troy is served through both the Southeast Oakland County Sewage Disposal District and the Evergreen-Farmington District. It covers 34.8 square miles and is located 14 miles north of Detroit. Troy is principally a residential community with the primary non-residential taxpayers being light industrial, research and office centers. The Troy office market is second only to Southfield in suburban office space available. The 2006 population was 81,118.

Southfield

The City of Southfield is served by both the Southeast Oakland County Sewage Disposal District and the Evergreen-Farmington District, is located adjacent to and northwest of the City of Detroit and covers 26.6 square miles. In addition to being a residential community, Southfield is a major office center with total office footage surpassing the central business district of Detroit. The 2006 population was 76,090.

St. Clair Shores

The City of St. Clair Shores, served through the Southeast Macomb District, is a residential community of 11.6 square miles extending along Lake St. Clair. St. Clair Shores is located in southeastern Macomb County, one mile northeast of the Detroit city limits and adjacent to and north of Grosse Pointe Shores. St. Clair Shores has undergone substantial growth since its incorporation in 1950 when its population totaled 19,823. The 2006 population was 61,162. St. Clair Shores is predominantly a residential community with limited manufacturing and commercial development.

Royal Oak

The City of Royal Oak, served through the Southeast Oakland County Sewage Disposal District, encompasses an area of 11.9 square miles. It is primarily a residential and commercial community located in the southeastern part of Oakland County, two miles north of the Detroit city limits. The 2006 population was 57,984.

Dearborn Heights

The City of Dearborn Heights, served through the Middle Rouge Valley District, is located in Central Wayne County. It is contiguous with the City of Dearborn on three sides and its northeast boundary adjoins Detroit. Incorporated as a city in 1963, Dearborn Heights encompasses an area of approximately 12.1 square miles which is essentially fully developed. There are no major industrial taxpayers in Dearborn Heights. Employed residents work in and around Detroit. A substantial portion of its population is employed by Ford Motor Company in Dearborn Heights. The 2006 population was 55,278.

DETROIT PMSA

The Detroit PMSA is comprised of seven counties: Wayne, Oakland, Macomb, Livingston, Lapeer, St. Clair and Monroe. Monroe County was added to the census definition for the Detroit PMSA as a result of the 1980 census. All of the Sewage Disposal System service area is located in the Detroit PMSA. In terms of population, the Detroit PMSA is ranked the sixth largest PMSA in the country.

Population

The Detroit PMSA experienced a growth in population from 3,170,315 in 1950 to 4,441,551 in 2000. The following table presents population trends of the Detroit PMSA and the United States since 1950.

**Table 1
Population Trends**

<u>Year</u>	<u>Detroit PMSA</u>		<u>U.S.</u>
	<u>Population</u>	<u>% Change</u>	<u>% Change</u>
1950.....	3,169,649	--	--
1960.....	4,050,840	27.80%	18.50%
1970.....	4,549,869	12.32%	13.40%
1980.....	4,488,072	(1.36%)	11.40%
1990.....	4,382,299	(2.36%)	10.20%
2000.....	4,441,551	1.35%	13.20%

SOURCE: US. Department of Commerce, Bureau of the Census.

Employment

The Detroit PMSA is located in a regional economy which 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.

**Table 2
Annual Average Wage and Salary Employment by Place of Work (Non-Agricultural)**

	<u>Detroit PMSA</u>							
	<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>	
<u>Industry Group:</u>	<u>(000's)</u>	<u>—</u>	<u>(000's)</u>	<u>—</u>	<u>(000's)</u>	<u>—</u>	<u>(000's)</u>	<u>—</u>
Natural Resources & Mining.....	90	4.3	85	4.1	86	4.2	85	4.1
Construction.....	12	0.6	11	0.5	11	0.5	11	0.5
Manufacturing.....	329	15.6	309	14.9	298	14.4	285	13.9
Trade, Transportation & Utilities....	396	18.8	388	18.6	383	18.6	380	18.5
Information.....	38	1.8	37	1.8	36	1.8	35	1.7
Financial Activities.....	117	5.6	119	5.7	117	5.7	118	5.7
Professional and Business Services	368	17.5	364	17.5	358	17.3	372	18.1
Education and Health Services.....	250	11.9	253	12.1	256	12.4	264	12.8
Leisure & Hospitality.....	178	8.4	181	8.7	182	8.8	182	8.8
Other Services.....	96	4.6	97	4.6	99	4.8	91	4.4
Government.....	<u>232</u>	<u>11.0</u>	<u>238</u>	<u>11.4</u>	<u>237</u>	<u>11.5</u>	<u>234</u>	<u>11.4</u>
Total.....	<u>2,104</u>	<u>100.0</u>	<u>2,083</u>	<u>100.0</u>	<u>2,062</u>	<u>100.0</u>	<u>2,057</u>	<u>100.0</u>

	U.S.							
	<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>	
Industry Group:	(000's)	—	(000's)	—	(000's)	—	(000's)	—
Natural Resources & Mining.....	583	0.4	572	0.4	591	0.4	625	0.5
Construction.....	6,716	5.2	6,735	5.2	6,976	5.3	7,277	5.5
Manufacturing.....	15,259	11.7	14,510	11.2	14,315	10.9	14,232	10.7
Trade, Transportation & Utilities....	25,497	19.6	25,287	19.5	25,533	19.4	25,909	19.4
Information.....	3,395	2.6	3,188	2.5	3,118	2.4	3,066	2.3
Financial Activities.....	7,847	6.0	7,977	6.1	8031	6.1	8,141	6.1
Professional and Business Services	15,997	12.3	15,985	12.3	16,395	12.5	16,882	12.6
Education and Health Services.....	16,199	12.4	16,588	12.8	16,953	12.9	17,342	13.0
Leisure & Hospitality.....	11,986	9.2	12,173	9.4	12,493	9.5	12,802	9.6
Other Services.....	5,372	4.1	5,401	4.2	5,309	4.0	5,386	4.0
Government.....	<u>21,513</u>	<u>16.5</u>	<u>21,583</u>	<u>16.6</u>	<u>21,621</u>	<u>16.5</u>	<u>21,803</u>	<u>16.3</u>
Total.....	<u>130,364</u>	<u>100.0</u>	<u>129,999</u>	<u>100.0</u>	<u>131,355</u>	<u>100.00</u>	<u>133,465</u>	<u>100.00</u>

NOTE: Totals may not add due to rounding.

SOURCE: Michigan Department of Labor & Economic Growth, Office of Labor Market Information for Detroit-Warren-Livonia CBSA; U.S. Department of Labor, Bureau of Labor Statistics for U.S.

Unemployment in the Detroit PMSA in comparison to the City of Detroit, the State and the United States is illustrated in the following table:

Table 3
Civilian Unemployment Rates

	<u>Detroit</u>	<u>Detroit PMSA</u>	<u>State of Michigan</u>	<u>U.S.</u>
2003	14.6%	7.2%	7.1%	6.0%
2004	14.0%	7.1%	7.1%	5.5%
2005	14.2%	7.2%	6.7%	4.9%
2006	13.7%	7.2%	6.9%	4.6%
2007	14.3%	7.7%	7.2%	4.6%

SOURCE: Michigan Department of Labor & Economic Growth; U.S. Department of Labor, Bureau of Labor Statistics.

Housing Characteristics

Table 4
City of Detroit Housing Inventory
(in thousands)

<u>Occupancy Status</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Owner-occupied.....	298.6	250.9	197.9	184.6
Renter-occupied.....	199.1	182.6	176.1	151.8
Vacant	<u>31.3</u>	<u>37.7</u>	<u>36.0</u>	<u>38.7</u>
Total Housing Units.....	529.0	471.2	410.0	375.1

Note: Data may not add due to independent recording. Excludes seasonal housing.
SOURCE: U.S. Department of Commerce, Bureau of the Census.

Table 5
Housing Characteristics-2000

	<u>City of Detroit</u>	<u>Detroit PMSA</u>	<u>United States</u>
Percent owner-occupied	54.9%	72.4%	66.2%
Rental vacancy	8.3%	6.4%	6.8%
Median Value of owner-occupied units	63,600	127,800	119,600
Median contract rent	486	502	602
Persons per household.....	2.77	2.58	2.59

NOTE: Value of Owner-Occupied Units is a self-reported estimate of the then-current market value, and therefore is not directly comparable to the State Equalized Value.
SOURCE: U.S. Department of Commerce, Bureau of Census.

Manufacturing

The following table shows a breakdown of manufacturing wage and salary employment by type for the Detroit PMSA from 2001 through 2005.

Table 6
Manufacturing Wage and Salary Employment
(in thousands)

<u>Industry Group:</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total durable goods industries	262.6	253.0	244.6	225.1	215.9
Total nondurable goods industries	<u>46.8</u>	<u>44.7</u>	<u>44.2</u>	<u>43.7</u>	<u>43.6</u>
Total manufacturing employment	309.4	297.7	288.8	268.8	259.4

SOURCE: Michigan Department of Labor and Economic Growth, Office of Labor Market Information.

Family Income

Of the 20 largest CBSA's, Detroit ranks thirteen in terms of Effective Buying Income (EBI) in 2005 as shown in the following table:

Table 8
Ranking of 20 Largest CBSA's by
Median Household Effective Buying Income – 2005

Rank		EBI	Population (000)
1	Washington-Arlington-Alexandria, DC-VA-MD-WV.....	54,693	5,239.1
2	San Francisco-Oakland-Fremont, CA	54,541	4,215.4
3	Boston-Cambridge-Quincy, MA-NH.....	49,011	4,450.5
4	Minneapolis-St. Paul-Bloomington, MN-WI.....	48,419	3,138.3
5	Seattle-Tacoma-Bellevue, WA.....	46,789	3,200.9
6	Atlanta-Sandy Springs-Marietta, GA	46,249	4,765.8
7	Chicago-Naperville-Joliet, IL-IN-WI.....	45,876	9,433.6
8	Dallas-Fort Worth-Arlington, TX	45,468	5,786.9
9	Baltimore-Towson, MD	44,629	2,644.9
10	San Diego-Carlsbad-San Marcos, CA.....	44,506	2,998.6
11	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD.....	44,060	5,816.3
12	New York-Newark-Edison, NY-NJ-PA.....	43,978	18,768.2
13	Detroit-Warren-Livonia, MI	43,666	4,496.1
14	Houston-Baytown-Sugar Land, TX.....	43,055	5,239.5
15	Phoenix-Mesa-Scottsdale, AZ.....	42,458	3,730.6
16	Los Angeles-Long Beach-Santa Ana, CA.....	42,269	13,104.0
17	St. Louis, MO-IL.....	40,830	2,755.7
18	Riverside-San Bernardino-Ontario, CA	39,869	3,753.4
19	Miami-Fort Lauderdale-Miami Beach, FL.....	38,816	5,379.5
20	Tampa-St. Petersburg-Clearwater, FL.....	36,968	2,92.8

SOURCE: Sales & Marketing Management Magazine, Annual Survey of Buying Power, 2005.

Largest Employers

Below is a listing of the largest private sector employers by company and by number of employees actually or estimated to be employed within the City as of June 30, 2005.

Table 9
Largest Private Employers

Company	Detroit Employment
The Detroit Medical Center.....	10,617
DaimlerChrysler AG.....	9,900
Henry Ford Health System.....	7,404
General Motors Corporation.....	6,311
St. John Health System.....	4,821
American Axle & Manufacturing Holdings Inc.....	4,309
DTE Energy Co.....	3,987
Compuware Corp.....	3,946
Motor City Casino.....	2,800
Blue Cross/Blue Shield of Michigan.....	2,694

SOURCE: Crain's *Book of Lists* 2006 Edition, December 2005.

Construction

The following table shows residential construction (public and private) by number of units for the Detroit PMSA and the U.S. The number of units constructed in the Detroit PMSA has increased substantially since 1995, after several years of decline.

Table 10
Residential Construction
(Number of Units)

<u>YEAR</u>	<u>DETROIT PMSA</u>	<u>U.S.</u>
1995.....	18,037	1,332,500
1996.....	19,925	1,425,600
1997.....	18,098	1,441,100
1998.....	20,926	1,612,300
1999.....	19,370	1,663,500
2000.....	18,348	1,592,300
2001.....	16,218	1,636,700
2002.....	17,779	1,747,700

<u>YEAR</u>	<u>DETROIT- WARREN- LIVONIA CBSA</u>	<u>U.S.</u>
2003 (1).....	19,900	1,889,200
2004.....	21,808	2,052,100
2005.....	16,392	2,155,300

(1) Beginning January 2003, building permit data reflect an increase in the universe of permits issuing places from 19,000 to 20,000 places.

SOURCE: US. Department of Commerce, Bureau of the Census.

Port of Detroit

The Detroit/Wayne County Port Authority is a public agency responsible for promoting trade and freight transportation through the Port of Detroit, 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.

Table 11
Waterborne Commerce of the Port of Detroit
(million tons – computed as short tons of 2,000 pounds)

	<u>Foreign</u>			<u>Domestic</u>	<u>Grand</u>
	<u>Canadian</u>	<u>Overseas</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
1991.....	1.5	0.9	2.4	11.9	14.3
1992.....	2.0	1.4	3.4	13.0	16.4
1993.....	2.4	0.9	3.3	13.9	17.2
1994.....	4.5	1.5	6.0	12.7	18.7
1995.....	2.6	1.0	3.7	15.2	18.9
1996.....	4.6	1.7	6.3	12.3	18.6
1997.....	4.8	1.3	6.1	12.0	18.1
1998.....	5.0	1.9	6.9	12.5	19.4
1999.....	3.5	1.1	4.6	12.3	16.9
2000.....	4.1	1.1	5.2	12.0	17.2
2001.....	4.3	0.4	4.7	12.3	17.0
2002.....	3.7	0.7	4.4	12.9	17.3
2003.....	3.5	0.4	3.9	10.4	14.3

SOURCE: Detroit/Wayne County Port Authority.

Transportation Network

Five major rail lines provide direct service to the Detroit area by such railroad companies as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargoes 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, with general aviation, cargo and scheduled passenger services, and at the Detroit Metropolitan Wayne County Airport, the nation's 10th largest international airport and the largest hub for Northwest Airlines. More than 30 other scheduled airlines provided domestic and international service with more than 1 million annual passenger enplanements and 137,000 tons of annual enplaned cargo.

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.

APPENDIX – F

SUMMARY OF THE CONTINUING DISCLOSURE UNDERTAKING

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF THE CONTINUING DISCLOSURE UNDERTAKING

Certain provisions of the Master Continuing Disclosure Agreement executed by the City (the "Disclosure Agreement") are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference of full terms of the Disclosure Agreement.

The Disclosure Agreement was executed and delivered by the City for the benefit of the Holders and the Beneficial Owners, as defined in this Appendix F, and in order to assist the Remarketing Agent in complying with SEC Rule 15c2-12(b)(5). The Fixed Rate Bonds are subject to the Disclosure Agreement.

Certain Definitions

Defined terms used in the Disclosure Agreement and not otherwise defined therein have the meanings set forth in the Bond Ordinance.

"Audited General Purpose Financial Statements" means annual general purpose financial statements (currently prepared as the City's Comprehensive Annual Financial Report), if any, of the City, audited by such independent public accountants as shall then be required or permitted by state law or the Bond Ordinance. The Disclosure Agreement requires that Audited Financial Statements be prepared in accordance with GAAP, applied on a consistent basis, *provided however*, that the City 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. The Disclosure Agreement requires that notice of any such modification be provided to (i) either to each NRMSIR or the MSRB and (ii) the SID.

"Audited Sewage Disposal Fund Financial Statements" means annual financial statements, if any, of the City's Sewage Disposal Fund audited by such independent public accountants as shall then be required or permitted by City ordinance or the Bond Ordinance. The Disclosure Agreement requires that Audited Sewage Disposal Fund Financial Statements be prepared in accordance with GAAP, applied on a consistent basis; *provided, however*, that the City may from time to time, in accordance with the GAAP and subject to applicable federal or state legal requirements, modify the basis upon which financial statements are prepared. The Disclosure Agreement requires that notice of any such modification be provided to (i) either to each NRMSIR or the MSRB and (ii) the SID.

"Beneficial Owner," for the purpose of this Appendix F, means a beneficial owner of Subject Bonds, as determined pursuant to the Rule.

"Fiscal Year" means that period established by the City with respect to which its Audited Sewage Disposal Fund Financial Statements or Unaudited Sewage Disposal Fund Financial Statements, as applicable, are prepared. The City's Fiscal Year begins on July 1 and ends on June 30 of the next calendar year.

"Fixed Rate Bonds" means the Sewage Disposal System Senior Lien Revenue Refunding Bonds (Modal Fixed Rate), Series 2001(C-2), the Sewage Disposal Second Lien Revenue Bonds

(Modal Fixed Rate), Series 2001(E) and the Sewage Disposal System Revenue Second Lien Bonds (Fixed Rate), Series 2006(A).

“GAAP” means generally accepted accounting principles, as such principles are prescribed, in part, by the Government Accounting Standards Board, supplemented by pronouncements of the American Institute of Certified Public Accountants and by the Financial Accounting Standards Board, made applicable to state and local governmental entities, and in effect from time to time.

“Holders” means the registered owners of the Subject Bonds.

“Listed Event” means any of the events listed below under the heading “Reporting Certain Events.”

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“NRMSIR” means, at any time, a then existing nationally recognized municipal securities information repository as recognized by the SEC from time to time for the purposes referred to in the Rule. The NRMSIRs currently approved by the SEC are set forth in Exhibit A hereto.

“Remarketing Agent” means the remarketing agent in connection with the offering of Subject Bonds.

“Remarketing Circular” means the City’s Remarketing Circular related to the Fixed Rate Bonds.

“Rule” means the applicable provision of Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of the Disclosure Agreement, including any official interpretations thereof.

“SEC” means the United States Securities and Exchange Commission.

“Securities Counsel” means legal counsel expert in federal securities laws.

“SID” means the Municipal Advisory Council of Michigan or such other appropriate state information depository for the State of Michigan, if any, as recognized by the SEC for the purposes referred to in the Rule.

“Subject Bonds” means those bonds issued pursuant to the Bond Ordinance, including the Fixed Rate Bonds, which are made subject to the terms of the Disclosure Agreement in any resolution of the City Council authorizing the issuance of such bonds.

“Trustee” means U.S. Bank National Association, Detroit, Michigan, as the Trustee under the Bond Ordinance or any successor thereto.

“Unaudited General Purpose Financial Statements” means the same as Audited General Purpose Financial Statements, except that they shall not have been audited by independent public accountants.

“Unaudited Sewage Disposal Fund Financial Statements” means the same as Audited Sewage Disposal Fund Financial Statements, except that they shall not have been audited by independent public accountants.

Provision of Annual Financial Information

The City will, not later than 180 days after the end of each Fiscal Year, provide to the SID and each NRMSIR the annual financial information described below for such Fiscal Year (the “Annual Financial Information”) which is consistent with the requirements of the Disclosure Agreement. The Audited Sewage Disposal Fund Financial Statements, or Audited General Fund Financial Statements, as applicable, may be submitted separately from the balance of the Annual Financial Information, and later than the date required for the filing of the Annual Financial Information if not available by the date.

The Disclosure Agreement requires the City to provide, in a timely manner, notice of any failure by it to provide Annual Financial Information to each NRMSIR and the SID on or before the date described in the first paragraph under this heading, to the SID and either (i) each NRMSIR, or (ii) the MSRB, with a copy to the Trustee.

Content of Annual Financial Information

The City’s Annual Information shall contain or include by reference the following:

- a. the Audited Sewage Disposal Fund Financial Statements, if available;
- b. if the Audited Sewage Disposal Fund Financial Statements are not available, the Unaudited Sewage Disposal Fund Financial Statements and the Audited General Purpose Financial Statements (or the Unaudited General Purpose Financial Statements if the Audited General Purpose Financial Statements are not available); and
- c. financial information or operating data of the types included in tabular form in the Remarketing Circular under the headings “The Sewage Disposal System,” “Financial Operations,” “Financial Procedures” (excluding the Sewage Rate Comparison information) and “The Department of Water and Sewerage”; actual data comparable to the projections contained under the heading “The Capital Improvement Program;” and actual operating data comparable to the projections contained under the following section headings of Appendix A -- “Feasibility Report:” “Rate Methodology and Existing Rates,” “Projections of Revenues,” and “Operation and Maintenance Expense Projections.”

If not provided as part of the Annual Financial Information by the date required (as described above under “Provision of Annual Financial Information”), the City shall provide Audited Sewage Disposal Fund Financial Statements or Audited General Purpose Financial Statements, as applicable, when and if available, to each NRMSIR and the SID.

Any and all of the items above may be included by specific reference to other documents, including official statements or debt issues of the City or related public entities, which have been submitted to each NRMSIR and the SID or the SEC. If such document is an official statement, it must also be available from the MSRB. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Other Obligated Persons

With respect to any wholesale customer of the System that an obligated person for whom financial information or operating data is presented in the Remarketing Circular, as determined pursuant to the Rule, the City shall provide or cause to be provided:

(a) to each NRMSIR and the SID, annual financial information of such obligated person of the type included in the Remarketing Circular with respect to such obligated person within 180 days after the end of the obligated person's fiscal year;

(b) to each NRMSIR and SID, financial statements of such obligated person, audited in accordance with GAAP, within 180 days after the end of the obligated person's fiscal year or, if not then available, when and if available; and

(c) in a timely manner either to the MSRB or each NRMSIR, and also the SID, with a copy to the Trustee, notice of any failure to provide the above-referenced information.

Reporting of Certain Events

The City will give timely notice to the SID, the Trustee, and to either each NRMSIR or the MSRB of the occurrence of any of the following events with respect to the Subject Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) modification to rights of Holders;
- (d) Subject Bond calls;
- (e) unscheduled draws on credit enhancements reflecting financial difficulties;
- (f) substitution of credit or liquidity providers, or their failure to perform;
- (g) defeasances;
- (h) rating changes;
- (i) adverse tax opinions, or events adversely affecting the tax-exempt status (if applicable), of any Subject Bonds;

- (j) unscheduled draws on the debt service reserves reflecting financial difficulties;
- and
- (k) release, substitution or sale of property securing repayment of the Subject Bonds.

Additional Information

Nothing in the Disclosure Agreement will be deemed to prevent the City from disseminating any other information, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Agreement. If the City chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Agreement, the City will have no obligation under the Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

Amendment of Disclosure Agreement

The Disclosure Agreement may be amended by the City, and any provisions of the Disclosure Agreement may be waived, without the consent of the Holders or Beneficial Owners, except as required pursuant to clause 4(ii) below, under the following conditions: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or Sewage Disposal System or the type of business conducted thereby, (2) the Disclosure Agreement as so amended or waived could have complied with the requirements of the Rule as of the date of each primary offering of Subject Bonds affected by such amendment or waiver, after taking into account any amendments, or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have delivered to the Trustee an opinion of Securities Counsel, addressed to the City and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with the City (such as the Trustee or bond counsel), acceptable to the City and the Trustee, has determined that the amendment does not materially impair the interests of the Beneficial Owners, or (ii) the Holders consent to the amendment or waiver to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Bond Ordinance with consent of Holders, and (5) the City shall have delivered copies of such waiver or amendment to the SID and to either each NRMSIR or the MSRB.

In addition to the foregoing, the City may amend the Disclosure Agreement, and any provision of the Disclosure Agreement may be waived, if the Trustee shall have received an opinion of Securities Counsel, addressed to the City and the Trustee, to the effect that the adoption and the terms of such amendment or waiver would not, in and of themselves, cause the undertakings in the Disclosure Agreement to violate the Rule, taking into account any subsequent changes in or official interpretation of the Rule.

To the extent any amendment to the Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant thereto, and first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the

change and the impact of the change. If a change is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present 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. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Benefit; Enforcement

The provisions of the Disclosure Agreement will inure solely to the benefit of the Holders and the Beneficial Owners from time to time. Except as described in this paragraph, the provisions of the Disclosure Agreement will create no rights in any other person or entity. The obligation of the City to comply with the provisions of the Disclosure Agreement are enforceable by any Beneficial Owner of outstanding Subject Bonds and, in addition, by the Trustee on behalf of the Holders of outstanding Subject Bonds. The right to enforce the provisions of the Disclosure Agreement are limited to a right, by action or mandamus or for specific performance, to compel performance of the City's obligations under the Disclosure Agreement. Any failure by the City to perform in accordance with the Disclosure Agreement will not constitute a default or an event of default under the Bond Ordinance, and the rights and remedies provided by the Bond Ordinance upon the occurrence of a default or an event of default will not apply to any such failure.

Termination of Reporting Obligation

The City's obligations under the Disclosure Agreement with respect to the Subject Bonds will terminate upon (i) the legal defeasance under the Bond Ordinance, (ii) prior redemption, or (iii) payment in full of all of the Subject Bonds. The City shall give notice of any such termination to the SID and to either each NRMSIR or the MSRB.

The Disclosure Agreement, or any provision thereof, will be null and void in the event the City (1) delivers to the Trustee an opinion of Securities Counsel, addressed to the City and the Trustee, to the effect that those portions of the Rule which require the provisions of the Disclosure Agreement, or any of such provisions, do not or no longer apply to the Subject Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as will be specified in such opinion, and (2) delivers notice to such effect to the SID and to either each NRMSIR or the MSRB.

Governing Law

The Disclosure Agreement provides that it be construed and interpreted in accordance with the laws of the State, and that any suits and actions arising out of the Disclosure Agreement be instituted in a court of competent jurisdiction in the State, provided that, to the extent the Disclosure Agreement addresses matters of federal securities laws, including the Rule, the Disclosure Agreement is to be construed in accordance with such federal securities laws and official interpretations thereof.

EXHIBIT A

The nationally recognized municipal securities information repositories approved by the Securities and Exchange Commission as of July 12, 2006, are set forth below:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
<http://www.bloomberg.com/markets/rates/municontacts.html>
Email: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.MuniFILINGS.com>
Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.

Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: 212-771-6999; 800-689-8466
Fax: 212-771-7390
<http://www.interactivedata-prd.com>
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
<http://www.disclosuredirectory.standardandpoors.com/>
Email: nrmsir_repository@sandp.com

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX – G

SPECIMEN OF BHAC BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

BERKSHIRE HATHAWAY
ASSURANCE CORPORATION
NEW YORK, NEW YORK

FINANCIAL GUARANTY
INSURANCE POLICY

DECLARATIONS

Policy No.:

Issuer: City of Detroit, Michigan

Description of Obligations:

Fiscal Agent: U.S. Bank National Association

Premium:

Effective Date:

Endorsements:

Prior Insurer: Financial Guaranty Insurance Company

INSURANCE POLICY TERMS AND CONDITIONS (Primary)

Berkshire Hathaway Assurance Corporation (“BHAC”), a New York corporation, in consideration of the payment of the Premium and subject to the terms and conditions of this Policy (which includes any endorsement hereto), hereby agrees unconditionally and irrevocably to pay U.S. Bank National Association or its successor, as its agent (the “Fiscal Agent”), for the benefit of the Holders of the Obligations (as set forth in the Bond Ordinance, bond resolution and other applicable authorizing documents providing for the issuance of and securing the Obligations), that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

BHAC will pay an amount equal to such Insured Payments to the Fiscal Agent on the later to occur of (i) the Business Day following the day on which BHAC shall have Received a completed Notice of Nonpayment, or (ii) the date applicable principal or interest becomes Due for Payment. If a Notice of Nonpayment to BHAC is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and BHAC shall promptly give notice to the Fiscal Agent that the purported Notice of Nonpayment is not deemed Received. Upon receipt of such notice, the Fiscal Agent may submit an amended Notice of Nonpayment. The Fiscal Agent will disburse the amounts paid to it by BHAC in respect of such Insured Payments to the Holders only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it of (i) evidence of the Holder’s right to receive such payments, and (ii) evidence, including, without limitation, any appropriate instruments of assignment, that all of the Holder’s rights to payment of such Insured Payments shall thereupon vest in BHAC. Upon such disbursement, BHAC shall become the owner of the Obligation, appurtenant coupon (if any) or right to payment of such Insured Payments and any interest thereon, and shall be fully subrogated to all of the Holder’s right, title and interest thereunder, including the Holder’s right to payment thereof. Payment by BHAC to the Fiscal Agent for the benefit of the Holders shall discharge the obligation of BHAC under this Policy to the extent of such payment.

This Policy is non-cancelable by BHAC for any reason. The Premium on this Policy is not refundable for any reason, including the payment prior to maturity of the Obligations. This Policy does not insure against any acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of BHAC, nor does this Policy insure against any risk other than Nonpayment.

Except to the extent expressly modified by the Declarations to this Policy or any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy.

“Avoided Payment” means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to any applicable bankruptcy law in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder.

“Business Day” means any day other than (i) a Saturday or Sunday, or (ii) any day on which the offices of the Fiscal Agent are authorized or required by law, executive order or governmental decree to be closed.

“Due for Payment” means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation 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 a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BHAC in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest.

“Holder” means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations.

“Insured Payments” means the principal of and interest on the Obligations that shall become Due for Payment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Issuer to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Issuer by reason of such failure.

“Nonpayment” means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term “Nonpayment” in respect of an Obligation includes any Avoided Payment.

“Notice” means telephonic or telegraphic notice subsequently confirmed in writing, or written notice given by overnight or other delivery service, or by certified or registered United States mail, from a Holder or a paying agent for the Obligations to BHAC. Notices to BHAC may be mailed by certified mail or may be delivered by telecopier to facsimile number (203) 363 5221, attn: Bond Insurance Claims, or to such other address as shall be specified by BHAC to the Fiscal Agent in writing.

“Obligation” means the bonds stated in the Declarations.

“Receipt” or “Received” means actual receipt of Notice of or, if Notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of BHAC.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAWS. Payments under this Policy may not be accelerated except at the sole option of BHAC.

Premium is due not later than the Effective Date.

This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, BHAC has caused this Policy to be executed on its behalf by its duly authorized officer, and to become effective and binding upon BHAC by virtue of such signature.

BERKSHIRE HATHAWAY ASSURANCE CORPORATION

By: _____
Name: _____
Title: _____

ATTEST:

By: _____
Name: _____
Title: _____

SPECIMEN

**BERKSHIRE HATHAWAY
ASSURANCE CORPORATION
*NEW YORK, NEW YORK***

PRIOR BOND INSURER ENDORSEMENT (Primary)
ATTACHED TO POLICY NUMBER

In consideration of the premium paid by Premium Obligor, the Policy is amended as follows:

The following definitions are added to the Policy:

"Condition Precedent" means a proper claim for payment has been made on the Prior Insurance and the Prior Insurer has failed to pay such claim in the period permitted by the Prior Insurance for reasons other than failure to provide proper documentation required by the Prior Insurer to pay such claim.

"Paid in Full" For purposes of this Endorsement, any Obligation shall be "paid in full" upon the first to occur of (a) the date when the Prior Insurer has paid all amounts which may become due under the Prior Insurance and (b) the date when all Insured Payments (as defined in this Endorsement, except that, for purposes of this sentence, without giving any effect to the words "during the Term of this Policy" in such definition) required to be paid by the Issuer, including all principal and accrued interest, have been paid or deemed to be paid (but for purposes of this Endorsement, "deemed to be paid" shall not include defeasance of the Obligation) in accordance with the terms of the Obligations, and any period during which any such payment could have been avoided in whole or in part as a preference payment under applicable law shall have expired before any proceeding requisite to such avoidance shall have been commenced and any Insured Payment shall be "paid in full" when such payment has been made by the Issuer, and any period during which any such payment could have been avoided in whole or in part as a preference payment under applicable law shall have expired before any proceeding requisite to such avoidance shall have been commenced.

"Prior Insurance" means the financial guaranty insurance policy delivered by the Prior Insurer with respect to each of the Obligations.

"Prior Insurer" means the entity identified as such in the Declarations, its successors and assigns.

The following definitions replace the definitions provided for in the Policy:

"Holder" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder but shall not include the Prior Insurer, the Issuer or any affiliate or successor thereof.

"Insured Payments" means payments which are scheduled to be made during the Term of this Policy in accordance with the original terms of the Obligations (including when amended in accordance with such original terms) when issued and without regard to any amendment or modification of such Obligations thereafter (other than an amendment in accordance with such terms); provided that no such amount shall constitute an "Insured Payment" unless and until the Condition Precedent has been fulfilled, in which event the Insured Payment insured under the Policy shall be the principal and interest scheduled to be made as aforesaid on the Obligations less any amount paid by the Prior Insurer in respect thereof. Payments which become due on an accelerated basis as a result of (a) a default by the Issuer, (b) an election by the Issuer to pay principal on an accelerated basis or (c) any other cause, shall not constitute "Insured Payments" unless BHAC shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. Insured Payments shall not include any amounts due in respect of the Obligations attributable to any increase in interest rate, penalty or other sums, if any, payable by the Issuer by reason of any default or event of default in respect of the Obligations. Insured Payments shall, subject to the Condition Precedent, include principal and interest due in respect of the Obligations payable in connection with the maturity thereof as well as mandatory sinking fund redemption. In the absence of written consent by BHAC, any (i) action by the Holder of an Obligation which releases, or diminishes the liability of, the Prior Insurance; or (ii) failure by the Holder to take such action(s) as BHAC may reasonably require in order to preserve BHAC's rights, if any, against the Prior Insurance, shall result in such Obligation ceasing to be insured under this Policy.

The following Terms and Conditions are added to the Policy:

1. In addition to all other requirements set forth in this Policy, with respect to an Avoided Payment only, BHAC shall have no obligation to make any payment to any Holder under this Policy until the fourth Business Day following receipt by BHAC from the Fiscal Agent of (i) a certified copy of the order of the court which exercised jurisdiction to the effect that the Holder is required to return a payment of principal or interest constituting a Insured Payment and paid on the Obligation during the Term of this Policy because such payment was an avoidable preference under applicable law (the "Order"), (ii) a certificate of the Holder that the Order has been entered and is not subject to any stay. With respect to an Avoided Payment, BHAC may disburse payment due under the Policy to the receiver, conservator, debtor-in-possession, trustee in bankruptcy

or other person named in the Order and not to the Fiscal Agent or Holder directly; unless such Holder has been required previously to disgorge all or part of such payment, as demonstrated to the satisfaction of BHAC.

In addition to all other requirements set forth in this Policy, with respect to all claims under this Policy BHAC shall have no obligation to make any payment to any Holder under this Policy until it has received (i) a certificate stating that the Condition Precedent has been fulfilled accompanied by a certified copy of the claim filed with the Prior Insurer; and (ii) an assignment duly executed and delivered by the Holder, in such form as is reasonably required by BHAC and provided to the Holder by BHAC or the Fiscal Agent, irrevocably assigning to BHAC all rights and claims of the Holder relating to or arising under the Obligation and the Prior Insurance against the Issuer and the Prior Insurer, as appropriate, upon disbursement of any payments by BHAC hereunder.

2. BHAC's obligation to make any payment under this Policy is subject to the Condition Precedent.

3. In addition to BHAC being subrogated to the rights of each Holder to receive payment under the Obligations to the extent of any payment by BHAC hereunder, BHAC shall be subrogated to the rights of each Holder to receive payment under the Prior Insurance to the extent of any payment by BHAC hereunder and shall be subrogated to the rights of the Prior Insurer to the extent of any payment by BHAC hereunder.

4. This Policy shall expire with respect to each Obligation on the date on which that Obligation is Paid in Full.

IN WITNESS WHEREOF, BHAC has caused this Policy to be executed on its behalf by its duly authorized officer, and to become effective and binding upon BHAC by virtue of such signature.

BERKSHIRE HATHAWAY ASSURANCE CORPORATION

By: _____

Name: Kara Raiguel

Title: Vice President

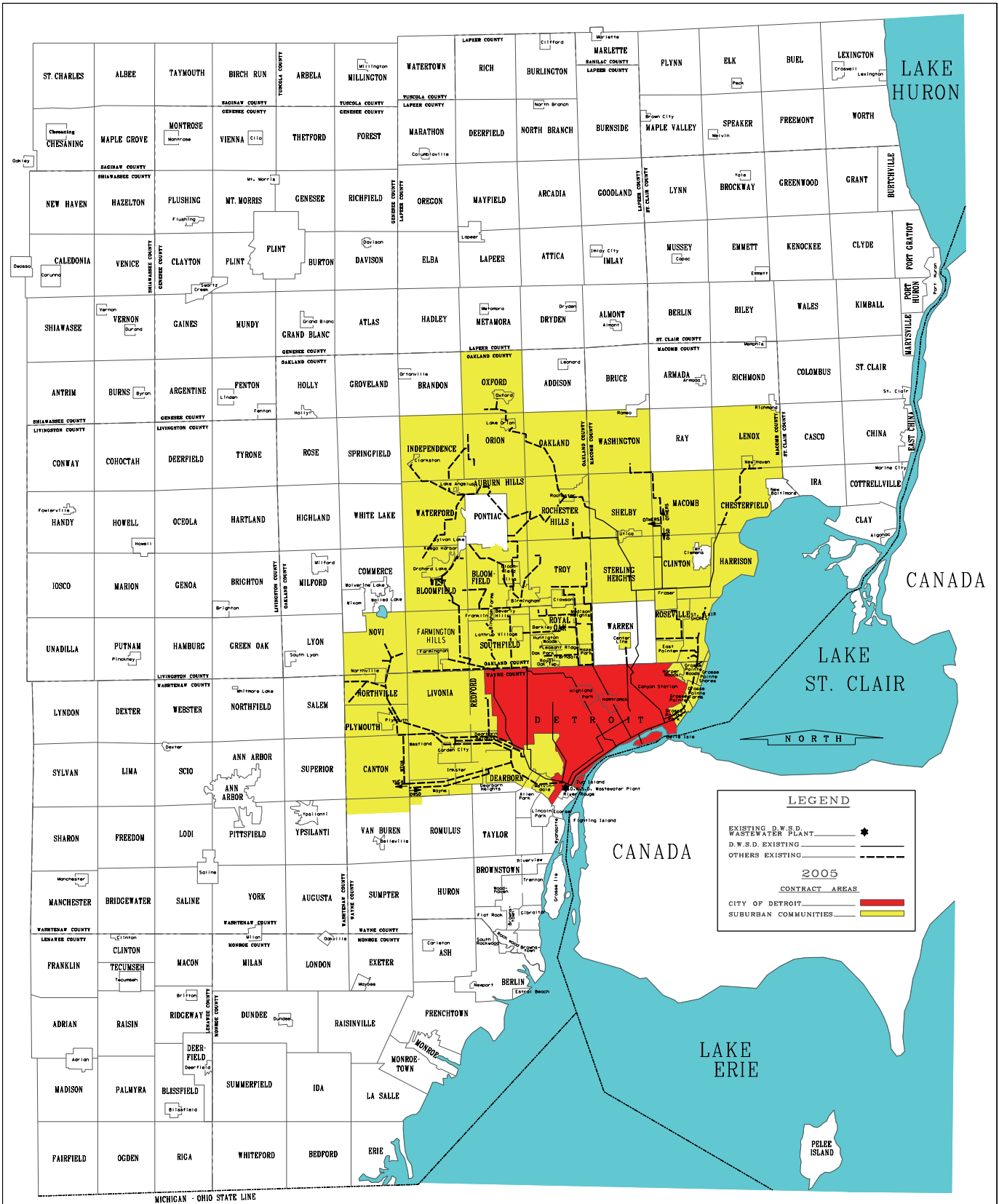
ATTEST:

By: _____

Name: Brian Snover

Title: Vice President

SPECIMEN



DETROIT WATER AND SEWERAGE DEPARTMENT
POLLUTION CONTROL SYSTEM
 FOR THE
SOUTHEASTERN MICHIGAN METROPOLITAN AREA
2005

..TEMPWall Map Sewer.dgn 2/27/2006 8:23:59 AM



Printed on Recycled Paper
MADE WITH 100% RECYCLED PAPER

Exhibit 9

Book-Entry-Only**RATINGS: (See "RATINGS" herein)**

In the opinion of Bond Counsel, Lewis & Munday, A Professional Corporation, under existing law, as presently interpreted (i) interest on the Fixed Rate Bonds is excluded from gross income for federal income tax purposes, (ii) interest on the Fixed Rate Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals and corporations and (iii) the Fixed Rate Bonds and the interest thereon are exempt from all taxation imposed by the laws of the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof, in each case to the extent and subject to the conditions described under "TAX MATTERS" herein and Appendix H hereto.

\$385,305,000**CITY OF DETROIT, MICHIGAN****Water Supply System****\$190,405,000****Revenue Refunding Second Lien Bonds
(Fixed Rate), Series 2001-C****\$194,900,000****Revenue Senior Lien Bonds
(Fixed Rate), Series 2005-B****Remarketing Date: May 14, 2008****Due: July 1, as shown on inside cover**

The purpose of this Remarketing Circular is to provide certain information in connection with the remarketing by Siebert Brandford Shank & Co., LLC (the "Remarketing Agent") and the broker-dealers listed below of the Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C (the "2001C Fixed Rate Bonds"), and the Water Supply System Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B (the "2005B Fixed Rate Bonds," and together with the 2001C Fixed Rate Bonds, the "Fixed Rate Bonds"), issued by the City of Detroit, Michigan (the "City").

Pursuant to the Variable Rate Demand Bonds Supplement and Agreement, dated as of May 31, 2001, between the City and U.S. Bank Trust National Association (now U.S. Bank National Association), in its capacities as Trustee, Transfer Agent and Tender Agent, with respect to the City's Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C (the "2001 Predecessor Bonds"), and the Variable Rate Mode and Auction Rate Mode Supplement and Agreement, dated as of March 22, 2005, between the City and U.S. Bank National Association in its capacity as Tender Agent with respect to the City's Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B (the "2005 Predecessor Bonds," and together with the 2001 Predecessor Bonds, the "Predecessor Bonds"), the City has elected to convert the Predecessor Bonds from the Weekly Mode to the Fixed Rate Mode.

The Predecessor Bonds are being remarketed pursuant to a Remarketing Agreement, dated as of May 6, 2008, between the Remarketing Agent and the City. The 2001 Predecessor Bonds were initially issued on June 7, 2001 in the Weekly Mode and currently bear interest in the Weekly Mode. The 2005 Predecessor Bonds were initially issued on March 23, 2005 in the Weekly Mode and currently bear interest in the Weekly Mode. The anticipated conversion date of the Predecessor Bonds is May 14, 2008 (the "Conversion Date"), subject to certain conditions precedent. From and after the Conversion Date, the Fixed Rate Bonds will bear interest at the rates set forth on the inside cover, payable on each January 1 and July 1, commencing July 1, 2008.

Certain Fixed Rate Bonds are subject to mandatory or optional redemption prior to maturity. See "THE FIXED RATE BONDS -Redemption Provisions."

The principal of and interest on the Fixed Rate Bonds are payable solely from the Pledged Assets under the Bond Ordinance (as defined herein), including the Net Revenues of the City's Water Supply System. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS." **The Fixed Rate Bonds are not general obligations of the City and do not constitute indebtedness of the City for purposes of computing its debt limitations imposed by constitutional, statutory or charter provisions. The Fixed Rate Bonds do not constitute a charge against the general credit or taxing power of the City, and the City is not liable for the payment of the Fixed Rate Bonds except from the sources herein described.** Concurrently with the remarketing of the Predecessor Bonds, Berkshire Hathaway Assurance Corporation ("BHAC") will issue separate bond insurance policies for the 2001C Fixed Rate Bonds and the 2005B Fixed Rate Bonds (the "BHAC Insurance Policies") on the Conversion Date, guaranteeing the scheduled payment when due of the principal of and interest on the Fixed Rate Bonds. BHAC's obligation to make payments under the BHAC Insurance Policies is subject to the failure of Financial Guaranty Insurance Company ("FGIC") to make payments under separate financial guarantee insurance policies issued by FGIC (the "FGIC Policies") concurrently with the issuance of the Predecessor Bonds, for such Predecessor Bonds. The FGIC Policies remain in effect and unconditionally guarantee the payment of that portion of the principal of and interest on the Fixed Rate Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. See "BOND INSURANCE" and "INTRODUCTION -Recent Developments in the Bond Insurance Industry" herein.

BERKSHIRE HATHAWAY
ASSURANCE CORPORATION

FGIC

THIS COVER PAGE CONTAINS INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THE FIXED RATE BONDS. INVESTORS MUST READ THE ENTIRE REMARKETING CIRCULAR TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

It is expected that the Fixed Rate Bonds will be delivered to DTC in New York, New York, on or about May 14, 2008.

Siebert Brandford Shank & Co., LLC

**DEPFA First Albany Securities LLC
Cabrera Capital Markets, LLC
Melvin & Co.**

**JPMorgan KeyBanc
Comerica Securities
Wachovia Securities**

Dated: May 6, 2008

13-53846-swr Doc 5029-6 Filed 05/23/14 Entered 05/23/14 19:55:08 Page 26 of

MATURITY SCHEDULE

\$ 190,405,000 Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C

\$151,500,000 Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Price/Yield	CUSIP ⁽¹⁾	Maturity (July 1)	Principal Amount	Interest Rate	Price/Yield	CUSIP ⁽¹⁾
2009	\$ 480,000	3.00%	2.08%	2512556P5	2019	\$ 12,510,000	5.75%	4.04% ⁽²⁾	2512556Z3
2010	495,000	3.00%	2.55%	2512556Q3	2020	13,235,000	5.75%	4.15% ⁽²⁾	2512557A7
2011	515,000	3.00%	2.88%	2512556R1	2021	14,025,000	5.75%	4.25% ⁽²⁾	2512557B5
2012	325,000	3.50%	3.12%	2512556S9	2022	14,865,000	5.75%	4.32% ⁽²⁾	2512557C3
2013	340,000	3.50%	3.25%	2512556T7	2023	15,750,000	5.75%	4.39% ⁽²⁾	2512557D1
2014	350,000	3.50%	3.37%	2512556U4	2024	16,690,000	5.75%	4.43% ⁽²⁾	2512557E9
2015	365,000	4.25%	3.51%	2512556V2	2025	17,690,000	5.75%	4.47% ⁽²⁾	2512557F6
2016	380,000	4.25%	3.65%	2512556W0	2026	18,735,000	5.75%	4.50% ⁽²⁾	2512557G4
2017	390,000	4.25%	3.79%	2512556X8	2027	19,945,000	5.75%	4.55% ⁽²⁾	2512557H2
2018	415,000	4.25%	3.92%	2512556Y6	2028	4,000,000	5.75%	4.60% ⁽²⁾	2512557J8

\$18,815,000 4.75% Term Bonds due July 1, 2029 --- Priced to yield 4.90%; CUSIP⁽¹⁾ 2512557K5

\$20,090,000 4.50% Term Bonds due July 1, 2029 --- Priced to yield 4.90%; CUSIP⁽¹⁾ 2512557L3

\$ 194,900,000 Water Supply System Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B

\$51,620,000 Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Price/Yield	CUSIP ⁽¹⁾	Maturity (July 1)	Principal Amount	Interest Rate	Price/Yield	CUSIP ⁽¹⁾
2010	\$ 1,750,000	5.00%	2.55%	2512557M1	2020	\$ 2,690,000	5.50%	4.15% ⁽²⁾	2512557X7
2011	1,855,000	4.00%	2.88%	2512557N9	2021	2,905,000	5.50%	4.25% ⁽²⁾	2512557Y5
2012	1,940,000	4.00%	3.12%	2512557P4	2022	3,025,000	5.50%	4.32% ⁽²⁾	2512557Z2
2013	2,020,000	5.00%	3.25%	2512557Q2	2023	3,145,000	5.50%	4.39% ⁽²⁾	2512558A6
2014	2,125,000	5.00%	3.37%	2512557R0	2024	3,270,000	5.50%	4.43% ⁽²⁾	2512558B4
2015	2,225,000	4.00%	3.51%	2512557S8	2025	3,490,000	5.50%	4.47% ⁽²⁾	2512558C2
2016	2,305,000	4.00%	3.65%	2512557T6	2026	3,620,000	5.50%	4.50% ⁽²⁾	2512558D0
2017	2,385,000	4.00%	3.79%	2512557U3	2027	3,850,000	5.50%	4.55% ⁽²⁾	2512558E8
2018	2,465,000	5.50%	3.92%	2512557V1	2028	3,980,000	5.50%	4.60% ⁽²⁾	2512558F5
2019	2,575,000	5.50% ⁽²⁾	4.04%	2512557W9					

\$28,415,000 4.75% Term Bonds due July 1, 2034 --- Priced to yield 4.94%; CUSIP⁽¹⁾ 2512558G3

\$57,365,000 5.50% Term Bonds due July 1, 2035 --- Priced to yield 4.74%⁽²⁾, CUSIP⁽¹⁾ 2512558H1

\$57,500,000 5.25% Term Bonds due July 1, 2035 --- Priced to yield 4.83%⁽²⁾, CUSIP⁽¹⁾ 2512558J7

⁽¹⁾ Copyright 2008, American Bankers Association, CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of remarketing of the Fixed Rate Bonds and the City and Remarketing Agent do not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after remarketing of the Fixed Rate Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to the Fixed Rate Bonds.

⁽²⁾ Priced to July 1, 2018 optional redemption date.



CITY OF DETROIT

MAYOR
KWAME M. KILPATRICK

CITY COUNCIL
KENNETH V. COCKREL, JR., PRESIDENT

MONICA CONYERS, President Pro Tem
JOANN WATSON
SHEILA M. COCKREL
BARBARA-ROSE COLLINS

ALBERTA TINSLEY-TALABI
MARTHA REEVES
BRENDA JONES
KWAME KENYATTA

CITY CLERK
JANICE WINFREY

FINANCE DIRECTOR
NORMAN L. WHITE

WATER AND SEWERAGE DEPARTMENT DIRECTOR
VICTOR M. MERCADO

BOARD OF WATER COMMISSIONERS
MARY E. BLACKMON, PRESIDENT

HILLIARD L. HAMPTON
CARLA WALKER-MILLER
MARILYNN E. GOSLING

JIMMY L. COOPER
WILLIAM G. WESTRICK
KENNETH DANIELS

SPECIAL SERVICES

LEWIS & MUNDAY, A PROFESSIONAL CORPORATION
Bond Counsel

ROBERT W. BAIRD & CO., INCORPORATED
Co-Financial Advisor

PHOENIX CAPITAL PARTNERS
Co-Financial Advisor and Swap Advisor

THE FOSTER GROUP, LLC
Feasibility Consultant

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

INTRODUCTION..... 1
 Authorization..... 1
 Senior Lien Bonds, Second Lien Bonds, SRF Junior Lien Bonds 2
 Municipal Bond Insurance 3
 Recent Developments in the Bond Insurance Industry 3
 Water Supply System 3
 Miscellaneous..... 4

THE FIXED RATE BONDS..... 4
 General 4
 Redemption Provisions..... 4

BOOK ENTRY ONLY SYSTEM..... 5

PLAN OF REMARKETING 7
 Remarketing Plan 7
 Amendments..... 7
 Related Interest Rate Swaps 8
 Sources and Uses of Funds..... 9

DEBT SERVICE AND OUTSTANDING INDEBTEDNESS 10

INTEREST RATE SWAP AGREEMENTS..... 12
 Interest Rate Swaps Related to the Remarketed Bonds..... 12

SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS 14
 Nature of Obligations 14
 Revenues, Net Revenues and Pledged Assets 14
 Priority of Lien and Payment Status..... 14
 Bond Ordinance Flow of Funds 15
 Reverse Flow of Funds..... 16
 Reserve Accounts and Reserve Requirements 16
 Rate Stabilization Fund 18
 Operating and Rate Covenants 18
 Additional Bonds..... 19
 Enforceability of Rates 19
 Amendments Without Consent..... 20
 Trustee’s Responsibilities..... 21
 Bondholder Rights and Remedies 21

BOND INSURANCE..... 22
 Berkshire Hathaway Assurance Corporation Bond Insurance Policies 22
 Financial Guaranty Insurance Policies 23

THE WATER AND SEWERAGE DEPARTMENT 26
 Organization 26
 The Board 26
 Management and Personnel..... 27
 Employee Bargaining Units 28
 Pension Plan 29

THE WATER SUPPLY SYSTEM	29
Service Area	29
Master Plan	30
Wholesale Municipal Service	31
Partnering Efforts	33
Retail Service	33
Physical Facilities	33
Environmental Matters	35
Security Improvements	35
FEASIBILITY CONSULTANTS REPORT	35
THE CAPITAL IMPROVEMENT PROGRAM	35
FINANCIAL PROCEDURES	37
Budget and Accounting Matters	37
Management Initiatives	38
Collections and Delinquencies	38
Cash Management	39
Investment Policy	40
Rates	40
Water Rate Comparison	41
FINANCIAL OPERATIONS	42
Summary of Historical Revenues and Expenses	43
Analysis of Recent Operations	44
Projected Revenues and Revenue Requirements for Fiscal Years 2008 to 2012	45
Upcoming Reporting Change	46
LITIGATION	46
Detroit Water and Sewerage Department Litigation	46
Other Litigation	47
CONTINUING DISCLOSURE UNDERTAKING	47
The Continuing Disclosure Undertaking	47
The Disclosure Dissemination Agent – DAC	48
TAX MATTERS	48
Federal Tax Matters	48
State Tax Matters	49
Original Issue Discount	49
Amortizable Bond Premium	50
Market Discount	50
Recent Developments	50
Future Developments	51
Tax Advisors	51
FEASIBILITY CONSULTANT	51
VERIFICATION OF MATHEMATICAL COMPUTATIONS	51

INDEPENDENT AUDITORS51

CERTAIN LEGAL MATTERS51

REMARKETING52

RATINGS52

MISCELLANEOUS52

APPENDICES:

- A Financial Feasibility Report
- B Audited Financial Statements of the Water Fund of the City of Detroit,
Michigan as of and for the years ended June 30, 2006 and June 30, 2005
- C Bond Ordinance
- D Amendments to Certain Provisions of the Authorizing Documents
- E Characteristics of the Water Supply System Service Area
- F Summary of the Continuing Disclosure Undertaking
- G Specimen of BHAC Bond Insurance Policy
- H Form of Favorable Bond Counsel’s Opinion

Map of Service Area Inside Back Cover

This Remarketing Circular has been prepared by the City and provides certain information relating to the City and its Water Supply System in connection with the remarketing of the Fixed Rate Bonds. This Remarketing Circular is distributed in connection with the remarketing of the Fixed Rate Bonds and may not be reproduced or used, in whole or in part, for any other purpose. No dealer, broker, salesman or other person has been authorized by the City or the Remarketing Agent to give any information or to make any representations with respect to the City or its Fixed Rate Bonds other than those contained in this Remarketing Circular and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Remarketing Agent. Neither the City nor the Remarketing Agent has undertaken any independent investigation of the operations of Berkshire Hathaway Assurance Corporation (“BHAC”), or Financial Guaranty Insurance Company (“FGIC”) and they make no representation herein as to the accuracy or adequacy of such information or as to the ability of BHAC or FGIC to make payments under the separate policies to be issued by BHAC (the “BHAC Policies”) or the separate policies issued by FGIC (the “FGIC Policies”). The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Circular. The Remarketing Agent has reviewed the information in this Remarketing Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

This Remarketing Circular does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Fixed Rate Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Remarketing Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Water Supply System, the City or BHAC or FGIC since the date hereof.

Upon conversion to the Fixed Rate Mode, the Fixed Rate Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity other than the City will have passed upon the accuracy or adequacy of this Remarketing Circular.

IN CONNECTION WITH THIS REMARKETING, THE REMARKETING AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE FIXED RATE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning BHAC and FGIC contained under the caption “BOND INSURANCE” and in the appendices to the herein defined Predecessor Official Statements which are incorporated herein, none of the information in this Remarketing Circular has been supplied or verified by BHAC or FGIC and neither BHAC nor FGIC makes any representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Fixed Rate Bonds, or (iii) the tax exempt status of the interest on the Fixed Rate Bonds.

The order and placement of materials in this Remarketing Circular, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance and this Remarketing Circular, including the Appendices, must be considered in its entirety.

\$385,305,000
CITY OF DETROIT, MICHIGAN
Water Supply System

\$190,405,000
Revenue Refunding Second Lien Bonds
(Fixed Rate), Series 2001-C

\$194,900,000
Revenue Senior Lien Bonds
(Fixed Rate), Series 2005-B

INTRODUCTION

This Remarketing Circular provides certain information in connection with the remarketing by Siebert Brandford Shank & Co., LLC (the "Remarketing Agent") of the Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C (the "2001C Fixed Rate Bonds") and the Water Supply System Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B (the "2005B Fixed Rate Bonds", and together with the 2001C Fixed Rate Bonds, the "Fixed Rate Bonds"), issued by the the City of Detroit, Michigan (the "City"). For definitions of certain capitalized terms used but not otherwise defined in this Remarketing Circular, see Appendix C – "Bond Ordinance."

The 2001C Fixed Rate Bonds will be converted from \$190,630,000 outstanding principal amount of Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C (the "2001 Predecessor Bonds") initially issued by the City on June 7, 2001, and the 2005-B Fixed Rate Bonds will be converted from \$195,000,000 outstanding principal amount of Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B (the "2005 Predecessor Bonds") originally issued by the City on March 23, 2005 (collectively, the "Predecessor Bonds"). The Predecessor Bonds were issued in the Weekly Mode and currently bear interest at a Weekly Rate. Pursuant to the Variable Rate Demand Bonds Supplement and Agreement, dated as of May 31, 2001, between the City and U.S. Bank Trust National Association (now U.S. Bank National Association) in its capacities as Trustee, Tender Agent and Transfer Agent, with respect to the 2001 Predecessor Bonds the "2001 Supplement") and a Variable Rate Mode and Auction Rate Mode Supplement and Agreement, dated March 22, 2005, between the City and U.S. Bank National Association, as Tender Agent, with respect to the 2005 Predecessor Bonds (the "2005 Supplement" and, together with the 2001 Supplement, the "Supplements"), the Predecessor Bonds will be converted from the Weekly Mode to the Fixed Rate Mode. Under each of the Supplements, no further Mode changes are permitted after conversion to the Fixed Rate Mode.

Authorization

Issuance. The Predecessor Bonds were authorized under the Revenue Bond Act of 1933, Act No. 94, Public Acts of Michigan, 1933, as amended (the "Act"). The 2001 Predecessor Bonds were issued pursuant to Ordinance No. 32-85, as supplemented and amended (the "Predecessor Ordinance"), as supplemented by a Resolution adopted by the City Council on January 31, 2001 as amended and restated April 25, 2001 (the "2001 Resolution") and a Sale Order of the Finance Director of the City dated May 31, 2001 (the "2001 Sale Order") as supplemented by the 2001 Supplement (collectively, the "2001 Sale Order"). The Predecessor Ordinance was subsequently amended and restated by the Bond Ordinance (hereinafter defined). The Bond Ordinance, the 2001 Resolution, the 2001 Sale Order and the 2001 Supplement are collectively referred to herein as the "2001 Authorizing Documents."

The 2005 Predecessor Bonds were issued pursuant to Amended and Restated Bond Ordinance No. 01-05, adopted on January 26, 2005, which amended and restated the Predecessor Ordinance (the "Bond Ordinance"), as supplemented by an Amended and Restated Resolution adopted by the City Council on January 26, 2005 (the "2005 Resolution"), a Sale Order of the Finance Director of the City dated March 22, 2005 the "2005 Sale Order", as supplemented by the 2005 Supplement. The 2005 Ordinance, the 2005 Resolution, the 2005 Sale Order and the 2005 Supplement are collectively referred to herein as the "2005 Authorizing Documents," and together with the 2001 Authorizing Documents, the "Authorizing Documents".

Remarketing. The Predecessor Bonds to be remarketed are being remarketed pursuant to the Remarketing Agreement, dated May 6, 2008 (the "Remarketing Agreement"), between the Remarketing Agent and the City. The conversion of the Predecessor Bonds to Fixed Rate Bonds is expected to occur on or about May 14, 2008, (the "Conversion Date"), subject to certain conditions precedent as described in the Remarketing Agreement. **Should the conversion to Fixed Rate Mode fail to occur, the Predecessor Bonds to have been converted will remain**

outstanding in the Weekly Mode. In connection with the remarketing described herein, certain amendments have been made to the Authorizing Documents to shorten certain notice periods in the event the initial Fixed Rate Conversion is not consummated and the City elects to again attempt a fixed rate conversion shortly thereafter. See “PLAN OF REMARKETING – Amendments”, and “Appendix D – Amendments to Certain Provisions of the Authorizing Documents” herein. Until such conversion to a Fixed Rate Mode, the respective Liquidity Facility (described below) will be available to pay the Purchase Price of Predecessor Bonds that have not been remarketed. The purchase price of 2001 Predecessor Bonds that have not been remarketed will be paid pursuant to a Liquidity Facility provided by DEPFA Bank plc, acting through its New York branch, the liquidity facility provider for the 2001 Predecessor Bonds, and the Purchase Price of the 2005 Predecessor Bonds that have not been remarketed will be paid pursuant to a Liquidity Facility provided by Dexia Credit Local, acting through its New York branch, the liquidity facility provider for the 2005 Predecessor Bonds. See “PLAN OF REMARKETING,” herein for more information.

Except with respect to the amendments described in the immediately preceding paragraph, this Remarketing Circular only contains information regarding bonds while in the Fixed Rate Mode. Reference is made to the respective Predecessor Official Statements (defined below) for information relating to any of the Predecessor Bonds prior to the conversion to the Fixed Rate Mode.

Underlying Documents. Except with respect to the amendments referenced herein, this Remarketing Circular describes the Fixed Rate Bonds in the Fixed Rate Mode only. It is not intended to be used in connection with any offer to sell or remarket any Predecessor Bonds in any mode other than the Fixed Rate Mode. Should conversion of the Predecessor Bonds to Fixed Rate Mode fail to occur, the Predecessor Bonds will remain in the Weekly Mode. Reference should be made to the Official Statement dated May 31, 2001, with respect to the 2001 Predecessor Bonds (the “2001 Official Statement”) and the Official Statement dated March 11, 2005, with respect to the 2005 Predecessor Bonds (the “2005 Official Statement”) (collectively, the “Predecessor Official Statements”), on file with the Municipal Securities Rulemaking Board (the “MSRB”), for information concerning the authorization for the Predecessor Bonds, and other information related to the Predecessor Bonds. Reference to the Predecessor Official Statements is made solely for informational purposes, and, except as otherwise provided herein, information in the Predecessor Official Statements is not incorporated herein. Reference should also be made to certain amendments to the 2001 Supplement, the 2005 Supplement and the 2005 Sale Order which are effective and will be employed in connection with the remarketing, which are set forth in Appendix D hereto.

Interest Rate Swap Agreements. In connection with the remarketing of the Fixed Rate Bonds, the City has executed, effective as of the Conversion Date, three (3) fixed-to-floating interest rate swaps, the purpose of which is to offset the effect of the floating-to-fixed rate payments of the existing floating-to-fixed rate swaps relating to the Predecessor Bonds. See, “PLAN OF REMARKETING - Related Interest Rate Swaps” and “INTEREST RATE SWAP AGREEMENTS” herein.

Senior Lien Bonds, Second Lien Bonds, SRF Junior Lien Bonds

The Bond Ordinance constitutes a contract between the City and the holders of all bonds issued thereunder. All bonds issued and to be issued under the Bond Ordinance are payable solely from the Pledged Assets, which include the Net Revenues of the Water Supply System and amounts available in certain funds and accounts established under the Bond Ordinance. Water Supply System Bonds secured by a senior lien on Pledged Assets constitute and are sometimes referred to in this Remarketing Circular as “Senior Lien Bonds.” All Water Supply System Bonds issued under the Bond Ordinance that are not Senior Lien Bonds constitute “Junior Lien Bonds,” and are secured by a lien on Pledged Assets that is junior to the lien securing all Senior Lien Bonds. Among Junior Lien Bonds, Water Supply System Bonds issued as “Second Lien Bonds” are secured by a lien on Pledged Assets that is superior to the liens securing all other Junior Lien Bonds, and Water Supply System Bonds issued as State Revolving Fund (“SRF”) Junior Lien Bonds are secured by a lien on Pledged Assets that is junior to the liens securing all other Junior Lien Bonds. In addition to being subordinate in lien to all other Water System Bonds, SRF Junior Lien Bonds do not have a debt service reserve fund. There are currently no Junior Lien Bonds other than Second Lien Bonds and SRF Junior Lien Bonds.

Upon conversion, the Fixed Rate Bonds will have the same benefits of the security and sources of payment, covenants and other provisions of the Bond Ordinance as did the related Predecessor Bonds. The 2001C Fixed Rate Bonds will be on a parity with all Water Supply System Bonds heretofore or hereafter issued as Second Lien Bonds. The 2005B Fixed Rate Bonds will be on a parity with all other Water Supply System Bonds heretofore or hereafter issued as Senior Lien Bonds.

See “DEBT SERVICE AND OUTSTANDING INDEBTEDNESS” and “SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS”.

Municipal Bond Insurance

Concurrently with the remarketing of the Predecessor Bonds, Berkshire Hathaway Assurance Corporation (“BHAC”) will issue separate bond insurance policies for the 2001-C Fixed Rate Bonds and the 2005-B Fixed Rate Bonds (the “BHAC Insurance Policies”) on the respective Conversion Dates. The BHAC Insurance Policies will guarantee the scheduled payment when due of the principal of and interest on the Fixed Rate Bonds. BHAC’s obligation to make payments under the BHAC Insurance Policies is subject to the failure of FGIC to make payments under the FGIC Insurance Policies that were issued concurrently with the issuance of the Predecessor Bonds for such Predecessor Bonds. See “BOND INSURANCE – Berkshire Hathaway Assurance Corporation Bond Insurance Policies” herein. The FGIC Insurance Policies remain in effect and unconditionally guarantee the payment of that portion of the principal of and interest on the Fixed Rate Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. See “BOND INSURANCE – Financial Guaranty Bond Insurance Policies.”

Recent Developments in the Bond Insurance Industry

In recent months, Standard & Poor’s, a division of The McGraw-Hill Companies (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch” and, collectively, the “Rating Agencies”), have expressed growing concern about the potential effects of downturns in the market for structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies. As a result of exposure to such risks, the Rating Agencies have issued press releases and/or reports addressing their ratings on a number of bond insurance companies. These companies include: (a) FGIC, which provided the policies on the Predecessor Bonds, bond insurance on other Water Supply System Bonds, and various surety policies providing Reserve Account credit enhancement; (b) MBIA Insurance Corporation (“MBIA”), which provided bond insurance on other Water Supply System Bonds and various surety policies providing Reserve Account credit enhancement; and (c) Financial Security Assurance Inc. (“FSA”), which provided bond insurance on other Water Supply System Bonds and various surety policies providing Reserve Account credit enhancement. See “BOND INSURANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Reserve Accounts and Reserve Requirements” herein. The paragraphs below address recent actions by the Rating Agencies on the bond insurance companies referenced above that have provided bond insurance and/or Reserve Account credit enhancement for outstanding Water Supply System Bonds. There could be further deterioration in the financial condition of any of the bond insurance companies, and further credit rating downgrades, which could potentially impact the market price of outstanding Water Supply System Bonds and/or the funding of the Water Supply System’s Reserve Accounts.

FGIC. As of March 31, 2008, the financial strength ratings of FGIC were as follows: Fitch – “BBB”, Rating Outlook Negative; S&P – “BB”, Outlook Negative; and Moody’s – “Baa3”, under review for possible downgrade. Each rating of FGIC should be evaluated independently. The ratings reflect the respective Rating Agency’s current assessment of the insurance financial strength of FGIC, and further explanations of any rating may be obtained only from the applicable Rating Agency. These ratings are not recommendations to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by the Rating Agencies. The further downgrade or withdrawal of any of these ratings may have an adverse effect on the market price of the Fixed Rate Bonds. See “BOND INSURANCE” herein for more information.

MBIA. In a February 26, 2008 press release, Moody’s confirmed its “Aaa” rating of MBIA, with a negative outlook. The release is available on the Moody’s website at www.moody.com. In a press release dated February 25, 2008, S&P removed its “AAA” rating of MBIA from CreditWatch and assigned a negative rating outlook. In an April 4, 2008 press release, Fitch downgraded the rating of MBIA from “AAA” to “AA”, removed its rating from rating watch negative and assigned a negative rating outlook. The release is available on the Fitch website at www.fitchratings.com. There can be no assurance that the views expressed in those documents represent the current views of the Rating Agencies or that those views will not change in the future.

FSA. In a March 11, 2008 press release Moody’s affirmed its “Aaa” rating of FSA, with a stable outlook. In a press release dated January 31, 2008, S&P affirmed its “AAA” rating of FSA, with a stable rating outlook. In a January 24, 2008 press release, Fitch affirmed its “AAA” rating of FSA, with a stable outlook. There can be no assurance that the views expressed in those documents represent the current views of the Rating Agencies or that those views will not change in the future.

Water Supply System

The Water Supply System (sometimes referred to herein as the “System”) is owned by the City and is operated, managed and accounted for by the City as a separate enterprise fund through the Water and Sewerage

Department (the “Department”), which is established under the City Charter. All funds and accounts of the Water Supply System are maintained separate from other City funds, including those of the City’s Sewage Disposal System. See “FINANCIAL PROCEDURES – Cash Management.” The Department is headed by a seven-member board appointed by the Mayor, known as the Board of Water Commissioners (the “Board of Commissioners” or the “Board”), which meets monthly. The Department and the Board oversee both the Water Supply System and the Sewage Disposal System. See “THE WATER AND SEWERAGE DEPARTMENT”

The Water Supply System is one of the largest in the nation in terms of water produced and population served. The System provides retail service within the City and wholesale service to 124 surrounding communities through 86 contracts with public entity customers. The System’s service area covers 981 square miles and an estimated population of 3.9 million, representing approximately 43% of the population of the State of Michigan. See “THE WATER SUPPLY SYSTEM” and Appendix A – “Financial Feasibility Report.”

Miscellaneous

There follow in this Remarketing Circular descriptions of the Fixed Rate Bonds, the BHAC Insurance Policies and the FGIC Insurance Policies and BHAC, FGIC, the Department, the Water Supply System, its service area and financial position, and other matters generally relating to the issuance of the Fixed Rate Bonds, including Appendices relating to demographic, financial and legal matters. *Persons considering a purchase of the Fixed Rate Bonds should read this Remarketing Circular in its entirety.* All capitalized terms used in this Remarketing Circular, unless otherwise defined herein or the context otherwise indicates, have the same meanings as in the Bond Ordinance.

THE FIXED RATE BONDS

General

The Fixed Rate Bonds, are issuable in authorized denominations of \$5,000 or integral multiples thereof and will be issued in book-entry form. The Fixed Rate Bonds will be dated their respective original dates of issuance and delivery and will mature on July 1 in the years and principal amounts and bear interest at the rates set forth on the inside cover of this Remarketing Circular. Interest on the Fixed Rate Bonds will accrue from the applicable date of conversion (collectively, “Conversion Dates”), and will be payable semiannually on each January 1 and July 1, commencing July 1, 2008 (each an “Interest Payment Date”) to the registered owners as of the 15th day of the month immediately preceding the Interest Payment Date (a “Regular Record Date”). Interest on the Fixed Rate Bonds will be computed using a 360-day year and twelve 30-day months, and will be payable when due by check drawn on U.S. Bank National Association, Detroit, Michigan, as Transfer Agent (the “Transfer Agent”).

Redemption Provisions

Optional Redemption. The Fixed Rate Bonds maturing on or before July 1, 2018 are not subject to redemption prior to maturity. The Fixed Rate Bonds maturing on or after July 1, 2019 are subject to redemption at the option of the City in whole or in part in such order of maturity as the City shall determine and within any maturity by lot, on any date on or after July 1, 2018 at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The 2001C Fixed Rate Bonds, bearing interest at the rate of 4.50% and maturing on July 1, 2029 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the Sinking Fund established for such purpose under the 2001 Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

July 1	Principal Amount
2028	\$ 7,090,000
2029*	13,000,000

*Final Maturity

The 2001C Fixed Rate Bonds, bearing interest at the rate of 4.75% and maturing on July 1, 2029 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the

Sinking Fund established for such purpose under the 2001 Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

<u>July 1</u>	<u>Principal Amount</u>
2028	\$ 10,115,000
2029*	8,700,000

*Final Maturity

The 2005B Fixed Rate Bonds bearing interest at the rate of 4.75% and maturing on July 1, 2034 are subject to mandatory redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, from moneys to be deposited by the City in the Sinking Fund established for such purpose under the 2005 Resolution in satisfaction of applicable Mandatory Redemption Requirements, on July 1 in the respective years and principal amounts set forth below.

<u>July 1</u>	<u>Principal Amount</u>	<u>July 1</u>	<u>Principal Amount</u>
2029	\$ 4,215,000	2032	\$ 4,840,000
2030	4,425,000	2033	5,050,000
2031	4,630,000	2034*	5,255,000

*Final Maturity

The principal amount of the above-described bonds (the “Term Bonds”) of a series, interest rate and maturity to be redeemed on the dates set forth above shall be reduced by the principal amount of Term Bonds of the same series, interest rate and maturity that have been redeemed (other than by application of Mandatory Redemption Requirements) or otherwise acquired by the City and delivered to the Transfer Agent prior to giving the notice of redemption described below. The City may satisfy any Mandatory Redemption Requirement by the purchase and surrender of Term Bonds of the same series, interest rate and maturity in lieu of calling such Term Bonds for mandatory redemption.

General Redemption Provisions. Any Fixed Rate Bonds to be redeemed will be redeemed only in authorized denominations. Fixed Rate Bonds duly called for redemption will cease to bear interest on and after the date fixed for redemption, whether or not presented for payment, provided that funds are on hand with the Transfer Agent to redeem such Fixed Rate Bonds. A registered owner of a Fixed Rate Bond selected for redemption in part, upon surrender of such Fixed Rate Bond for redemption shall receive without cost a new Fixed Rate Bond of the same series, interest rate and maturity, and in the principal amount of the unredeemed portion of such Fixed Rate Bond that was surrendered.

Notice of Redemption. The Transfer Agent will mail notice of redemption to the registered owners of Fixed Rate Bonds not less than 30 days prior to the date fixed for redemption. *So long as DTC or its nominee is the registered owner of the Fixed Rate Bonds, the Transfer Agent will send any notice of redemption only to DTC, as described under “GENERAL FIXED RATE BOND PROVISIONS - Book-Entry-Only System” below.*

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Fixed Rate Bonds (referred to in this section as, the “Bonds”). The Bonds will be remarketed 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 Bond certificate will be issued for each maturity of the Bonds, each 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, 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 Standard & Poor's highest rating: AAA. 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. and www.dtc.org.

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

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 issuer of the Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Transfer Agent, 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, the City or the Transfer Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest and redemption premiums, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Transfer Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of the Fixed Rate Bonds in connection with a mandatory tender will be deemed satisfied when the ownership rights in the Fixed Rate Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Fixed Rate Bonds to the Transfer Agent's DTC account.

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

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

The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Disclaimer of Liability for Failures of DTC

The City and the Remarketing Agent cannot and do not give any assurances that DTC, the Direct and Indirect Participants or others will distribute payments of principal, interest or redemption proceeds with respect to the Fixed Rate 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 Remarketing Circular. The City and the Remarketing Agent 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 Fixed Rate Bonds or an error or delay relating thereto.

PLAN OF REMARKETING

Remarketing Plan

The City intends to convert the 2001 Predecessor Bonds and the 2005 Predecessor Bonds from the Weekly Mode to the Fixed Rate Mode, via remarketing pursuant to the Remarketing Agreement and as provided for in the respective underlying 2001 Authorizing Documents and the 2005 Authorizing Documents. In conjunction with the remarketing, the existing Liquidity Facilities and Remarketing Agreements will be terminated. Each series of the Fixed Rate Bonds will continue to carry the associated Bond Insurance policy. See "BOND INSURANCE" herein for more detail.

Amendments

Certain amendments to the 2001 Supplement, the 2005 Supplement, and the 2005 Sale Order (collectively, the "2001 and 2005 Authorizing Documents"), which will be effective in connection with the remarketing, are set forth in Appendix D hereto. The 2001 and 2005 Authorizing Documents are governed by their own amendment provisions but are also subject to the amendment provisions of the Bond Ordinance, which is included as Appendix C to this Remarketing Circular. Section 22(B)(3) of the Bond Ordinance, "Amendments With Consent," states in relevant part as follows:

[T]he 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.

Each of the Supplements contain substantially the same language. **Accordingly, Holders of the Predecessor Bonds being remarketed hereby which are acquired in the remarketing thereof on or after the date of this Remarketing Circular, whether or not the fixed rate conversion and related optional redemption are consummated in accordance with the initial notice of Mode Change or optional redemption, will be considered to have consented to the amendments set forth in Appendix D without the necessity of receipt of actual formal consent.**

Following is a summary of the amendments. The amendments apply to all of the Predecessor Bonds being remarketed pursuant to this Remarketing Circular and to only the Predecessor Bonds. Reference should be made to Appendix D for specific amendment provisions and the authority therefor.

1. The definition of "Favorable Bond Counsel's Opinion" will be amended to provide that in lieu of the opinion that the remarketing will not adversely affect the exemption of the interest on the Fixed Rate Bonds from federal and state income taxation (subject to customary exceptions), Bond Counsel may provide an opinion to the

effect that the interest on the Fixed Rate Bonds is excluded from gross income for federal and state income tax purposes (subject to customary exceptions).

2. In the event that certain structural changes to debt service are made in the conversion to fixed rate, the Supplements require that the converted Securities meet the requirements for issuance as new bonds of the corresponding parity and for the corresponding purpose under the Bond Ordinance. This requirement will not be required in connection with any remarketing of the Predecessor Bonds that is completed prior to September 30, 2008, but only if the City certifies, in a manner acceptable to Bond Counsel at the time of such remarketing, that such lack of compliance is not materially adverse to the Holders of all outstanding Bonds of the Water Supply System.

3. The Supplements require that the interest rate in remarketings, subject to certain exceptions not applicable to a Fixed Rate remarketing, shall be determined by the Remarketing Agent as the interest rate that in the judgment of the Remarketing Agent would allow such Securities to be sold at par plus accrued interest to the purchase date, under prevailing market conditions. The amendment will allow the Predecessor Bonds to be remarketed at a net premium, provided that the par amount thereof may not increase.

4. In the event that notice of Mode Change or notice of optional redemption is sent to Holders of the Predecessor Bonds, but the Mode Change or the optional redemption is not consummated on the date specified in the original notices, the amendments shorten the period for giving a subsequent notice of Mode Change or optional redemption. The amendments provide that in such a situation, if the Finance Director again elects to change the Mode for the Predecessor Bonds to the Fixed Rate Mode within 30 days of the initial Mode Change Date and, in connection therewith, optionally redeem a portion of the Predecessor Bonds, his/her election shall be effective if he/she delivers to the Holders of the Predecessor Bonds, the Tender Agent, and each of the other Notice Parties, simultaneously, not later than the 3rd day next preceding the new Mode Change and optional redemption date, a subsequent notice of Mode Change and optional redemption stating that such Mode Change Date is the Purchase Date and the redemption date, as applicable. In such circumstances the new Mode Change Date and optional redemption date for the 2001 Predecessor Bonds may be any Business Day, rather than an Interest Payment Date.

Related Interest Rate Swaps

In connection with the remarketing of the Predecessor Bonds, the City has executed three (3) fixed-to-floating interest rate swaps (the "Mirror Swaps"), which will be effective on the Conversion Date. The purpose of the Mirror Swaps is to offset three (3) floating-to-fixed rate swaps related to the Predecessor Bonds. Two swaps related to the 2001 Predecessor Bonds will be terminated upon conversion of the 2001 Predecessor Bonds to the Fixed Rate Mode. The 2001 Predecessor Bonds will have two (2) remaining swaps which terminate July 1, 2026 and July 1, 2029 (the "2001 Existing Swaps"). The 2005 Predecessor Bonds have one (1) remaining related swap which terminates July 1, 2035 (the "2005 Existing Swap" and together with the 2001 Existing Swaps the "Existing Swaps"). The Mirror Swaps have been executed with the same counterparty as on the Existing Swaps and the notional amounts and amortization of the Mirror Swaps exactly match the notional amounts and amortization of the Existing Swaps. Under the Mirror Swaps, the City will receive a fixed rate from the respective swap provider and pay a floating rate based on the SIFMA Index to the swap provider related to the Mirrors Swaps. Under the Existing Swaps, the City currently pays a fixed rate to the swap provider and receives a floating rate based on the SIFMA Index from the swap provider. The floating rate receipts of the City under the Existing Swaps and floating rate payments made by the City under the Mirror Swaps are expected to completely offset each other. The Mirror Swap related to the 2001 Existing Swap which terminates July 1, 2026 will not embed an optional termination provision to offset the existing counterparty owned optional termination provision on the Existing Swap which terminates July 1, 2026. The City will be left with a net fixed rate payment to the respective swap provider which equals the difference between the fixed rate payment made by the City on the Existing Swaps and the fixed rate receipts of the City on each Mirror Swap. The net fixed rate payment will be added to and treated as a part of debt service on the applicable Fixed Rate Bonds. See "INTEREST RATE SWAP AGREEMENTS" for more information on the System's outstanding interest rate swap agreements.

Sources and Uses of Funds

The sources and uses of funds in connection with the remarketing of the Fixed Rate Bonds are as follows:

	2001C Fixed Rate Bonds	2005B Fixed Rate Bonds	Total
SOURCES OF FUNDS			
Par Amount of Bonds	\$ 190,405,000.00	\$ 194,900,000.00	\$ 385,305,000.00
Net Reoffering Premium	15,127,438.05	8,575,327.25	23,702,765.30
TOTAL SOURCES	\$ 205,532,438.05	\$ 203,475,327.25	\$ 409,007,765.30
USES OF FUNDS			
Remarketing Account	\$ 191,942,534.43	\$ 195,895,081.97	\$ 387,837,616.40
Termination Payment ⁽¹⁾	6,216,000.00	-	6,216,000.00
Costs of Issuance ⁽²⁾	7,373,903.62	7,580,245.28	14,954,148.90
TOTAL USES	\$ 205,532,438.05	\$ 203,475,327.25	\$ 409,007,765.30

(1) Represents termination payment made by the City to the Swap Counterparty in consideration of the City's termination of two swap agreements with Goldman Sachs, Mitsui Marine Derivative Products, L.P. with respect to the 2001 Predecessor Bonds.

(2) Includes underwriting discount, printing costs, rating agency fees, bond insurance premiums, legal and financial advisory fees and other costs of issuance.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

DEBT SERVICE AND OUTSTANDING INDEBTEDNESS

As of the Conversion Date, there will be \$2,307,995,131 aggregate principal amount of Water Supply System Bonds outstanding, consisting of \$1,618,370,000 Senior Lien Bonds, \$677,365,000 Second Lien Bonds, and \$12,260,131 SRF Junior Lien Bonds. The following schedules set forth information with respect to outstanding Water Supply System Bonds, including total outstanding Water Supply System Bonds debt service.

Water Supply System Revenue Bonds and Revenue Refunding Bonds

<u>Senior Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Outstanding as of May 14, 2008</u>
Water Supply System Revenue & Revenue Refunding Bonds, Series 1993	\$ 193,805,000	\$ 24,725,000
Water Supply System Revenue Refunding Bonds, Series 1995-B	60,485,000	45,480,000
Water Supply System Revenue (Senior Lien) Bonds, Series 1997-A	215,300,000	112,270,000
Water Supply System Revenue (Senior Lien) Bonds, Series 1999-A	256,340,000	6,000,000
Water Supply System Revenue Senior Lien Bonds, Series 2001-A	302,485,000	75,110,000
Water Supply System Revenue Senior Lien Bonds, Series 2003-A	234,805,000	181,835,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2003-C	46,355,000	30,015,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2003-D	151,370,000	142,300,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2004-B	163,590,000	149,845,000
Water Supply System Revenue Senior Lien Bonds, Series 2005-A	105,000,000	105,000,000
Water Supply System Revenue Senior Lien Bonds, Series 2005-B	195,000,000	194,900,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2005-C	126,605,000	125,185,000
Water Supply System Revenue Senior Lien Bonds, Series 2006(A)	280,000,000	280,000,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2006(D)	146,590,000	145,705,000
Total Senior Lien Bonds	\$ 2,508,285,000	\$ 1,618,370,000
 <u>Second Lien Bonds</u>		
Water Supply System Revenue Second Lien Bonds, Series 1995-A	\$ 112,445,000	\$ 16,570,000
Water Supply System Revenue Second Lien Bonds, Series 2001-C	192,290,000	190,405,000 ¹
Water Supply System Revenue Second Lien Bonds, Series 2003-B	172,945,000	58,425,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2004-A	77,010,000	72,745,000
Water Supply System Revenue Second Lien Bonds, Series 2006(B)	120,000,000	120,000,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2006(C)	220,645,000	219,220,000
Total Second Lien Bonds	\$ 1,004,320,000	\$ 677,365,000
 <u>SRF Junior Lien Bonds</u>		
Water Supply System Revenue Bonds, Series 2005-SRF-1	\$ 15,265,000	\$ 6,085,450
Water Supply System Revenue Bonds, Series 2005-SRF-2	10,710,000	4,607,115
Water Supply System Revenue Bonds, Series 2006-SRF-1	\$6,035,000	\$1,567,566
Total SRF Junior Lien Bonds	\$ 32,010,000	\$ 12,260,131 ²
Total Water Supply System Bonds	\$ 3,544,615,000	\$ 2,307,995,131

SOURCE: The Department

¹ Reflects redemption of \$225,000 of the 2001 Predecessor Bonds and \$100,000 of the 2005 Predecessor Bonds on the Conversion Date.

² Original Principal Amount reflects maximum stated amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Loan Program; outstanding amount reflects principal amount of loan by Department. As the Department draws additional amounts from time to time hereafter, the outstanding principal amounts of such Bonds will correspondingly increase.

Debt Service Schedule

Fiscal Year Ending ⁽¹⁾	Outstanding Senior Lien Debt Service ^{(2),(3)}	2005-B Principal	2005-B Interest ^{(4),(5)}	Total Senior Lien Debt Service ⁽⁴⁾	Outstanding Second Lien Debt Service ^{(2),(3),(5)}	2001-C Principal	2001-C Interest ^{(4),(5)}	Total Second Lien Debt Service	Total SRF Junior Lien Debt Service ⁽⁶⁾	Total System Debt Service
2008	\$86,893,297	\$0	\$10,638,228	\$97,531,526	\$25,159,159	\$0	\$10,925,484	\$36,084,643	\$1,540,341	\$135,156,510
2009	97,901,620	0	12,235,613	110,137,232	29,162,249	480,000	12,007,191	41,649,440	1,731,602	153,518,275
2010	95,858,055	1,750,000	12,235,613	109,843,667	29,416,298	495,000	11,988,515	41,899,813	1,919,847	153,663,328
2011	102,191,175	1,855,000	12,129,069	116,175,243	29,646,829	515,000	11,969,179	42,131,008	1,965,922	160,272,173
2012	101,901,600	1,940,000	12,034,766	115,876,366	30,144,759	325,000	12,615,173	43,084,932	1,961,225	160,922,523
2013	101,234,755	2,020,000	11,936,007	115,190,761	30,832,679	340,000	12,596,949	43,769,627	1,965,891	160,926,279
2014	101,610,361	2,125,000	11,812,789	115,548,150	30,444,413	350,000	12,577,832	43,372,245	1,969,813	160,890,207
2015	101,637,861	2,225,000	11,683,262	115,546,124	30,417,088	365,000	12,557,998	43,340,085	1,968,044	160,854,253
2016	101,766,289	2,305,000	11,569,929	115,641,217	30,295,900	380,000	12,534,490	43,210,390	1,965,638	160,817,245
2017	101,762,041	2,385,000	11,452,337	115,599,378	30,313,875	390,000	12,509,978	43,213,853	1,962,594	160,775,824
2018	101,219,129	2,465,000	11,330,486	115,014,615	30,863,238	415,000	12,484,672	43,762,910	1,963,859	160,741,385
2019	92,807,419	2,575,000	11,167,404	106,549,822	27,216,200	12,510,000	12,457,824	52,184,024	1,964,381	160,698,227
2020	92,819,694	2,690,000	10,997,213	106,506,906	27,209,975	13,235,000	11,623,663	52,068,638	1,964,159	160,539,704
2021	92,737,031	2,905,000	10,819,638	106,461,670	27,210,275	14,025,000	10,674,313	51,909,588	1,963,194	160,334,451
2022	92,759,781	3,025,000	10,628,123	106,412,905	27,200,813	14,865,000	9,669,916	51,735,729	1,966,431	160,115,065
2023	93,117,656	3,145,000	10,428,951	106,691,607	27,191,063	15,750,000	8,607,039	51,548,101	1,958,925	160,198,633
2024	92,866,406	3,270,000	10,222,119	106,358,526	27,184,975	16,690,000	7,482,628	51,357,603	1,965,622	159,681,750
2025	92,807,906	3,490,000	10,007,355	106,305,262	27,189,425	17,690,000	6,293,004	51,172,429	1,966,416	159,444,106
2026	92,951,656	3,620,000	9,778,376	106,350,032	27,204,750	18,735,000	5,034,043	50,973,793	1,961,413	159,285,237
2027	92,816,056	3,850,000	9,541,188	106,207,244	27,200,750	19,945,000	3,702,710	50,848,460	1,960,613	159,016,316
2028	92,882,456	3,980,000	9,289,234	106,151,690	27,197,500	21,205,000	2,392,912	50,795,412	0	156,947,101
2029	92,818,606	4,215,000	9,029,072	106,062,678	27,188,750	21,700,000	1,182,805	50,071,555	0	156,134,233
2030	92,852,475	4,425,000	8,785,481	106,062,956	49,408,500	0	0	49,408,500	0	155,471,456
2031	92,809,119	4,630,000	8,529,800	105,968,918	49,404,000	0	0	49,404,000	0	155,372,918
2032	92,884,750	4,840,000	8,262,265	105,987,015	49,399,500	0	0	49,399,500	0	155,386,515
2033	93,257,625	5,050,000	7,982,638	106,290,263	49,390,750	0	0	49,390,750	0	155,681,013
2034	92,934,100	5,255,000	7,690,922	105,880,022	49,843,500	0	0	49,843,500	0	155,723,522
2035	7,189,600	114,865,000	7,387,351	129,441,951	5,980,000	0	0	5,980,000	0	135,421,951
2036	0	0	0	0	123,375,000	0	0	123,375,000	0	123,375,000
Total	\$2,587,288,520	\$194,900,000	\$289,605,225	\$3,071,793,744	\$1,002,692,209	\$190,405,000	\$213,888,318	\$1,406,985,527	\$38,585,928	\$4,517,365,200

- (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 due July 1, 2008 are shown in the Fiscal Year ending June 30, 2008. All figures are net of capitalized interest.
- (2) Net of interest on the Predecessor Bonds, including for Fiscal Year 2008. See footnote (5) below.
- (3) Debt service on variable rate bonds with interest rate swap agreements is included at the fixed rate to be paid under the related swap agreement. There is no unhedged variable rate debt outstanding. Does not include liquidity fees.
- (4) All interest figures include the estimated impact of net swap payments. See "PLAN OF REMARKETING – Related Interest Rate Swaps" and "INTEREST RATE SWAP AGREEMENTS – Interest Rate Swaps Related to the Remarketed Bonds" for more information.
- (5) Reflects interest on the Predecessor Bonds at a fixed interest rate payable by the City under the Existing Swaps until March 1, 2008. As a result of recent developments in the bond insurance industry discussed herein, from March 1, 2008, until the conversion to a Fixed Rate, interest on such Predecessor Bonds was the approximate average variable rate borne by such Predecessor Bonds. Debt Service on the Fixed Rate Bonds after the Conversion Dates includes the net fixed payment by the City under the Mirror Swaps; see "INTRODUCTION - Recent Developments in the Bonds Insurance Industry," "PLAN OF REMARKETING – Related Interest Rate Swaps" and "INTEREST RATE SWAP AGREEMENTS - Interest Rate Swaps Related to the Remarketed Bonds" for more information.
- (6) Based on projected drawdown and expenditure of SRF-funded projects.

NOTE: Totals may not add due to rounding.

SOURCE: The Department

INTEREST RATE SWAP AGREEMENTS

In accordance with its Swap Management Plan adopted November 26, 2002, the City uses interest rate swaps as part of prudent fiscal management to limit its interest rate exposure and to lower its overall cost of borrowing. The City is currently a party to a number of separate interest rate swap agreements that were entered into in conjunction with the issuance of certain variable rate Water Supply System Bonds, or in anticipation of Water Supply System Bonds expected to be issued prior to the effective date of the swap. Arrangements between the City and its swap counterparties do not alter the City's obligation to pay the principal of and interest on such Water Supply System Bonds.

Net payments received by the City from the swap counterparty under each swap agreement constitute Revenues under the Bond Ordinance. The periodic net interest payments made by the City to the counterparty under each swap agreement, and any termination payment that may be payable by the City to the counterparty upon early termination of the swap agreement, constitute Ancillary Obligations of the City under the Bond Ordinance. The Bond Ordinance permits the City to secure Ancillary Obligations by a lien on Pledged Assets having the same or a lower priority as the lien securing the related Water Supply System Bonds; provided, however, that any lien securing Ancillary Obligations in respect of Senior Lien Bonds is 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. The City has secured its Ancillary Obligations under all current swap agreements listed in the following chart by a lien on Pledged Assets of the same priority as the lien securing the related Water Supply System Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Priority of Lien and Payment Status."

The chart set forth on the following page provides a brief description of the principal features of each current interest rate swap agreement related to outstanding or anticipated Water Supply System Bonds to which the City is a party. See also Note 10 in Appendix B – "Audited Financial Statements of the Water Fund of the City of Detroit, Michigan."

Interest Rate Swaps Related to the Remarketed Bonds

Until recent market credit events occurred, the floating rate received by the City under the Existing Swaps generally approximated the floating rate owed by the City on the related Predecessor Bonds, so that the swaps successfully hedged the City's interest rate exposure. As a result of recent market events, however, the Existing Swaps have not provided the City with a nearly complete hedge against interest rate volatility.

In connection with the remarketing of the 2001 Predecessor Bonds and the 2005 Predecessor Bonds, the City has executed three (3) fixed-to-floating interest rate Mirror Swaps, which will be effective on the Conversion Date, the purpose of which is to offset the effects of the floating-to-fixed rate payments of the Existing Swaps related to the 2001 Predecessor Bonds and the 2005 Predecessor Bonds. The Mirror Swap related to the 2001 Existing Swap which terminates July 1, 2026 will not embed an optional termination provision to offset the existing counterparty owned optional termination provision on the Existing Swap which terminates July 1, 2026. Additionally, the City has terminated two swaps with Goldman Sachs, Mitsui Marine Derivative Products, L.P., related to the 2001 Predecessor Bonds, effective on the Conversion Date. See "PLAN OF REMARKETING – Related Interest Rate Swaps" herein for more information.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

**CITY OF DETROIT MICHIGAN – Water Supply System Bonds
Summary of Outstanding Interest Rate Swap Agreements**

Related Bond Series	*Water Forward Starting SIFMA Series 2010C Mirror Swap	*Series 2010C	*Series 2010C	Series 2010D	Series 2004A	Series 2004B	*Series 2005B	*Series 2005B Mirror Swap	Water Forward Starting SIFMA *	Water Forward Starting SIFMA ?
Original Notional Amount	\$76,510,000	\$113,360,000	\$4,335,000	\$151,370,000	\$77,010,000	\$163,590,000	\$195,000,000	\$195,000,000	\$150,000,000	\$50,000,000
Current Notional Amount	\$76,510,000	\$113,360,000	\$4,335,000	\$149,655,000	\$77,010,000	\$158,490,000	\$195,000,000	\$195,000,000	\$150,000,000	\$50,000,000
Termination Date(s)	1-Jul-29	1-Jul-26	July 1, 2013 and July 1, 2014	1-Jul-33	1-Jul-25	1-Jul-23	1-Jul-35	1-Jul-35	1-Jul-39	1-Jul-39
Termination/Exercise Provisions	The City can terminate with five days written notice. Termination of this Mirror Swap requires simultaneous termination of original swap.	Counterparty can terminate at any time after January 1, 2010 if SIFMA averages 7.00% or higher for a consecutive 180 day period.	None	Counterparty can exercise after July 2, 2011 if SIFMA averages 7.00% or higher for a consecutive 180 day period.	Counterparty can exercise after July 1, 2005 if SIFMA averages 7.00% or higher for a consecutive 180 day period.	Counterparty can exercise after July 1, 2005 if SIFMA averages 7.00% or higher for a consecutive 180 day period.	The City can terminate with five days written notice. Termination of this Mirror Swap requires simultaneous termination of original swap.	The City can terminate with five days written notice. Termination of this Mirror Swap requires simultaneous termination of original swap.	The City can terminate with five days written notice.	The City can terminate with five days written notice.
Type of Swap	Floating to Fixed	Floating to Fixed	Floating to Fixed	Fixed to Floating Swap	Fixed to Floating Swap	Fixed to Floating Swap	Fixed to Floating	Fixed to Floating	Floating to Fixed	Floating to Fixed
Rate Paid By Counterparty	3.998%	SIFMA	CPI plus constant rate (between 1.34% and 1.36%)	4.06%	3.94%	3.845%	3.652%	3.652%	SIFMA	SIFMA
Rate Paid by City	4.36875%	4.90%	Between 3.87% and 4.06%	SIFMA	SIFMA	SIFMA	4.71%	SIFMA	4.912%	4.932%
Counterparty	SBS Financial Products Company, LLC (Merrill Lynch as Credit Support Provider)	Morgan Stanley Capital Services Inc.	Morgan Stanley Capital Services Inc.	JP Morgan Chase Bank	JP Morgan Chase Bank	JP Morgan Chase Bank	Morgan Stanley Capital Services Inc.	Morgan Stanley Capital Services Inc.	Morgan Stanley Capital Services Inc.	SBS Financial Products Company, LLC (Merrill Lynch as Credit Support Provider)
Counterparty Rating	A1/A+/A+ (CSP Rating)	Aa3/AA-/AA-	Aa3/AA-/AA-	Aaa/AAA	Aaa/AA-/AA-	Aaa/AA-/AA-	Aa3/AA-/AA-	Aa3/AA-/AA-	Aa3/AA-/AA-	A1/A+/A+ (CSP Rating)
Swap Insurer	None	None	MBIA	MBIA	MBIA	MBIA	None	None	None	None
Counterparty Bond Rating Downgrade Event	Merrill Lynch senior unsecured < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	Counterparty's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	Counterparty's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	Counterparty's senior unsecured withdrawn, suspended or < A1/A+ (1 of 2) and collateral agreement not executed in 30 days.	Counterparty's senior unsecured withdrawn, suspended or < A1/A+ (1 of 2) and collateral agreement not executed in 30 days.	Counterparty's senior unsecured withdrawn, suspended or < A1/A+ (1 of 2) and collateral agreement not executed in 30 days.	Counterparty's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	Counterparty's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	Morgan Stanley's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	Merrill Lynch senior unsecured < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.
Bond Rating Downgrade Event	The City's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	City's second lien withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on second lien debt.	City's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	MBIA withdrawn, suspended or < Aa3/AA-(1 of 2) or MBIA < Aaa/AAA (1 of 2) and fails to pay claim greater than \$20,000,000.	MBIA withdrawn, suspended or < Aa3/AA-(1 of 2) or MBIA < Aaa/AAA (1 of 2) and fails to pay claim greater than \$20,000,000.	MBIA withdrawn, suspended or < Aa3/AA-(1 of 2) and fails to pay claim greater than \$20,000,000.	City's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	City's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	City's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.	City's senior unsecured withdrawn, suspended or < Baa3/BBB-(1 of 2) or fails to have any rating on senior unsecured debt.
Bond Rating Downgrade Remedies	None	None	None	The City must provide third party guarantee rated A- by Moody's or S&P; post acceptable collateral, or provide S&P or Moody's ratings of at least A or A1 for senior debt.	The City must provide third party guarantee rated A- by Moody's or S&P; post acceptable collateral, or provide S&P or Moody's ratings of at least A or A1 for senior debt.	The City must provide third party guarantee rated A- by Moody's or S&P; post acceptable collateral, or provide S&P or Moody's ratings of at least A or A1 for senior debt.	None	None	None	None
Lien Status of Swap Payments	Second Lien	Second Lien	Senior Lien	Senior Lien	Second Lien	Senior Lien	Senior Lien	Senior Lien	TBD	TBD
Termination Payments	Second Lien	Second Lien	Senior Lien	Senior Lien	Second Lien	Senior Lien	Senior Lien	Senior Lien	TBD	TBD

(1) These Swaps become effective July 1, 2011.
 (2) These Swaps become effective March 1, 2010.
 * See "INTEREST RATE SWAP AGREEMENTS – Interest Rate Swaps Related to the Remarketed Bonds" herein. Floating-to-fixed rate payments of the Existing Swaps will be offset by Mirror Swaps that have been executed in connection with the remarketing of the Remarketed Bonds. (The Mirror Swap related to the Series 2010C Existing Swap with Morgan Stanley will not embed an optional termination provision to offset the existing counterparty-owned optional termination provision on the Existing Swap.)

SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS

Nature of Obligations

Water Supply System Bonds and Ancillary Obligations are self-liquidating obligations of the City, payable solely from the Pledged Assets under the Bond Ordinance. "Ancillary Obligations" are obligations incurred by the City with respect to particular Water Supply System Bonds and consist of Hedge Obligations and Reimbursement Obligations. Hedge Obligations are payment obligations under any hedge agreements, such as the periodic net payments and any termination payments that the City is required to make under interest rate swap agreements. Reimbursement Obligations are repayment obligations under any credit enhancement and liquidity facilities, such as bond insurance, letters of credit, interest rate swap insurance and standby bond purchase agreements. The fees and expenses payable by the City in connection with such hedge agreements, credit enhancement and liquidity facilities ("Ancillary Obligation Fees and Expenses") are treated separately from payments on Water Supply System Bonds and Ancillary Obligations under the Bond Ordinance and have a different payment priority, as described under "Priority Lien and Payment Status" below.

Revenues, Net Revenues and Pledged Assets

The Bond Ordinance defines "Revenues" as the revenues of the City from the Water Supply System construed in accordance with the Act, and includes amounts receivable by the City under any interest rate swaps and hedge agreements in connection with Water Supply System Bonds, including any net payments and termination payments payable to the City, and income earned and gain realized from investment of amounts in the various funds and accounts established under the Bond Ordinance, other than the Construction Fund for any fiscal year earnings on the Construction Fund are not credited to the Receiving Fund by the Board. "Net Revenues" are defined as all Revenues except those transferred to the Operation and Maintenance Fund.

"Pledged Assets" under the Bond Ordinance consist of:

- Net Revenues;
- Funds and accounts established by the Bond Ordinance (except the Operation and Maintenance Fund and the Construction Fund) and investments of amounts credited to such funds and accounts; and
- Any income or gain realized from investments that are Pledged Assets to the extent that such income or gain is not Net Revenue.

Priority of Lien and Payment Status

Water Supply System 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 by a lien on Pledged Assets having the same or a lower priority than the lien securing the particular Water Supply System Bonds to which the Ancillary Obligations relate. Ancillary Obligation Fees and Expenses have a higher payment status than Water System Bonds and Ancillary Obligations, as described below.

- 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 System, with the result being that they are paid before debt service on the Water Supply System Bonds and before Ancillary Obligations.
- Senior Lien Bonds and Ancillary Obligations secured on a parity (including regularly scheduled net payments and any termination payments by the City under interest rate swap agreements related to Senior Lien Bonds, and reimbursement payments under liquidity facilities, bond insurance and swap insurance policies related to Senior Lien Bonds) 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 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.

- Junior Lien Bonds include all Water Supply System Bonds issued under the Bond Ordinance other than Senior Lien Bonds. To date, the City has issued two priorities of Junior Lien Bonds:

Second Lien Bonds and Ancillary Obligations secured on a parity therewith are secured by a lien on Pledged Assets that is senior to the liens securing all other Junior Lien Bonds and second only to the Senior Lien Bonds and their parity secured Ancillary Obligations, and rank second in order of payment from Net Revenues.

SRF Junior Lien Bonds have the lowest priority of lien on Pledged Assets, junior to the liens securing the Senior Lien Bonds and the Second Lien Bonds and their respective parity secured Ancillary Obligations and rank last in order of payment from Net Revenues.

Bond Ordinance Flow of Funds

In accordance with the requirements of the Act and the City Charter, the Bond Ordinance establishes certain funds for the System, separate from all other funds of the City. All Revenues are 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 succeeding 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 all Senior Lien Bonds and parity secured Ancillary 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 of 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, the SRF Junior Lien Bonds:

- 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 Bonds and parity secured Ancillary Obligations of such Priority of Lien, as of the first day of such month; and
- 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 the Bond Ordinance 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 Board of 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.

The use and application of amounts in the Funds and Accounts established by the Bond Ordinance is set forth in Appendix C – "Bond Ordinance."

Reverse Flow of Funds

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 Accounts, 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.

Reserve Accounts and Reserve Requirements

The Bond Ordinance establishes a Senior Lien Bond Reserve Account and a Second Lien Bond Reserve Account, and provides that no Reserve Account is established for SRF Junior Lien Bonds. Under the Bond Ordinance, Reserve Accounts may be established by supplemental action of the Finance Director for other Junior Lien Bonds, but no Junior Lien Bonds other than Second Lien Bonds and SRF Junior Lien Bonds have been issued to date. Amounts in a Reserve Account may be used solely for the payment of the principal (and premium, if any) of and interest on the Water Supply System Bonds 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.

The Reserve Requirement for Senior Lien Bonds is the maximum Annual Debt Service on all Senior Lien 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"). The Reserve Requirement for Second Lien Bonds is the maximum Annual Debt Service on all Second Lien Bonds then outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code. If a Reserve Account is established for any other priority of Junior Lien Bonds, the Reserve Requirement for such other Junior Lien 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 Bonds of the same Priority of Lien then outstanding for the current or any future Fiscal Year or the maximum amount permitted by the Code.

Concurrently with the issuance of Water Supply System Bonds of a priority for which a Reserve Account has been or is being established, the Bond Ordinance requires there be credited to such Reserve Account the amount that, added to the amount on deposit in such account or credited thereto, equals the Reserve Requirement for the Bonds then to be issued and all Bonds of the same priority then outstanding. In connection with remarketings contemplated herein, the Senior Lien Bond Reserve Account and the Second Lien Bond Reserve Account will be revalued, and any deposits necessary to satisfy the respective Reserve Requirement will be made at the time of the remarketing. 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 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 Bonds. There is no Bond Ordinance requirement that the rating of the Credit Enhancement which has been properly credited to a reserve Account be maintained. See "INTRODUCTION – Recent Developments in the Bond Insurance Industry" herein.

As of the Conversion Date the Reserve Requirement for the Senior Lien Bond Reserve Account will be \$129,441,951 and available funding includes:

1. Cash: \$10,086,822
2. Forward Supply Agreements in the form of commercial paper as follows:
 - (a) Morgan Stanley Forward Supply Agreement dated November 1, 2001 that is earning 6.012%, has a value of \$22,769,343.35 and matures on July 1, 2023.
 - (b) Bank of America Forward Supply Agreement dated March 8, 1999 that is earning 5.862%, has a value of \$28,304,247.14 and matures on July 1, 2023.
3. Credit Enhancement in the form of surety policies provided by the following surety bond providers in the amounts noted:
 - (a) Financial Guaranty Insurance Company ("FGIC") surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien 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 Bonds up to a maximum aggregate available amount of \$15,954,125 and with a termination date of July 1, 2033.

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

(e) Financial Security Assurance Inc. (“FSA”) surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien Bonds up to a maximum aggregate available amount of \$3,000,000 and with a termination date equal to the earlier of July 1, 2034 or the date on which the Series 2006(A) and Series 2006(D) Bonds are no longer outstanding.

(f) MBIA surety policy unconditionally guarantying the payment of principal of and interest on any Senior Lien 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 water revenue bonds.

As of the Conversion Date the Reserve Requirement for the Second Lien Bond Reserve Account will be \$49,414,278 and available funding includes:

1. Cash: \$3,600,000
2. Credit Enhancement in the form of surety policies provided by the following surety bond providers in the amounts noted:

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

(b) MBIA surety policy unconditionally guarantying the payment of the payment of principal of and interest on any Second Lien 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) FSA surety policy unconditionally guarantying the payment of principal of and interest on any Second Lien 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 or the date on which the Series 2006(B) and Series 2006(C) Bonds are no longer outstanding.

The table below summarizes the funding of the Reserve Requirements for the Senior Lien Reserve Account and Second Lien Reserve Account as of the Conversion Date.⁽¹⁾

	Senior Lien Bonds	Second Lien Bonds	Aggregate System
Reserve Requirement	\$129,441,951	\$49,414,278	\$178,856,229
Funding Amounts:			
Cash	10,086,822	3,600,000	13,686,822
Forward Supply Agreements	51,073,590	0	51,073,590
Credit Enhancement	93,653,288	45,815,645	139,468,933
Total Funding Amounts	\$154,813,700	\$49,415,645	\$204,229,345

(1) Represents funding requirements and amounts as of the Conversion Date (as of May 14, 2008).

As noted, certain Reserve Account requirements currently are satisfied through surety policies issued by MBIA, FGIC and FSA. The ratings of MBIA and FGIC have recently been downgraded. See “INTRODUCTION – Recent Developments in the Bond Insurance Industry” herein. Although the Bond Ordinance requires that Credit Enhancement used to fund a Reserve Account be held 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 their 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 as described herein under “SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Bond Ordinance Flow of Funds” and in Appendix C – “Bond Ordinance.”

Rate Stabilization Fund

The Bond Ordinance authorizes the City to establish a Rate Stabilization Fund, the purpose of which is to enable the City to set aside Prior Revenues to augment Revenues in future years in order to satisfy the requirements of the Bond Ordinance with respect to rate covenants and the Additional Bonds Tests (as hereinafter defined); provided, however, that rates still must be set so as to produce Net Revenues, exclusive of any transfer from the Rate Stabilization Fund, in an amount at least equal to the principal of and interest on all Senior Lien and Second Lien Bonds coming due during any fiscal year in which monies are transferred from the Rate Stabilization Fund.

“Prior Revenues” are Revenues of the System that, in the fiscal year of receipt, remain in the Receiving Fund after all required deposits described above under “Flow of Funds,” and are otherwise available to be applied to any lawful purpose of the Water Supply System, and may be deposited into the Rate Stabilization Fund only if (a) such Prior Revenues are deposited in the fiscal year in which they are received or within 90 days after the end of the fiscal year in which they are received, (b) the amount of Prior Revenues deposited into the Rate Stabilization Fund is deducted from the amount of Net Revenue recognized in such fiscal year, and (c) after making such deposit, the amount of Net Revenues recognized in such fiscal year continues to meet the applicable rate coverage requirements of the Bond Ordinance (see “Operating and Rate Covenants” below). Amounts on deposit in the Rate Stabilization Fund are part of the Pledged Assets on which the Bond Ordinance creates a statutory lien to secure payment of all bonds issued on behalf of the System under the Bond Ordinance, in the order of their respective priorities. In addition, amounts on deposit in the Rate Stabilization Fund may be applied for any lawful purpose of the System. Any funding of the Rate Stabilization Fund is at the sole discretion of the Board of Commissioners. To date, the City has not transferred any funds into the Rate Stabilization Fund.

Operating and Rate Covenants

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

The Bond Ordinance requires that rates be fixed and revised from time to time as may be necessary to produce the greater of:

1. The amounts required to provide for:
 - a. payment of operating and maintenance expenses of the System;
 - b. payment of Indebtedness coming due for the fiscal year;
 - c. creation and maintenance of reserves required by the Bond Ordinance; and
 - d. such other expenditures and funds for the System as the Bond Ordinance may require; and
2. The Required Combined Coverage.

The City has covenanted at all times to fix and maintain 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.

For purposes of the rate covenant, “Required Combined Coverage” is determined by dividing the projected Net Revenues for the fiscal year of calculation by the prescribed Indebtedness coming due during such fiscal year: The coverage requirements for determining Required Combined Coverage for the rate covenant are as follows:

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

The Bond Ordinance defines “Indebtedness” as (i) principal of and interest on Water Supply System 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. Net fixed swap payments payable by the City under the Mirror Swaps will be treated as interest on the Water Supply System Bonds and will therefore be included in indebtedness for the purposes of the Bond Ordinance.

The Bond Ordinance provides that the interest rate on Water Supply System Bonds that are 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, or if such Variable Rate Securities have been outstanding for less than a full fiscal year on the date of calculation, the interest rate shall be calculated as 125% of the average of the BMA Municipal Index (now known as the SIFMA Municipal Index), for the five-year period ending not more than one week before the date of calculation. For purposes of determining if Water Supply System Bonds are Fixed Rate Securities, a rate is “fixed” if the economic effect of the Water Supply System Bond bearing interest at a fixed rate is produced by a Qualified Hedge or by Counterpart Securities (as defined in the Bond Ordinance), and a rate is “variable” if the economic effect of the Water Supply System Bond bearing interest at a variable rate is produced by a Qualified Hedge.

Additional Bonds

The City may not incur any obligations payable from Pledged Assets except for Water Supply System 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 for the issuance of additional Water Supply System Bonds are as follows:

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

The Sections of the Supplements that require the above coverage requirements to be met for conversion of the Predecessor Bonds from the Weekly Mode to the Fixed Rate Mode under certain circumstances, will be amended prior to the Remarketing of the Fixed Rate Bonds. See “PLAN OF REMARKETING – Amendments” herein.

The Bond Ordinance provides that a coverage percentage shall be established in connection with the issuance of a new priority of Water Supply System Bonds and that such percentage shall not be less than 100. If any additional Water Supply System Bonds are to be issued to refund Outstanding Water Supply System Bonds, the Annual Debt Service to be used for determining the Required Combined Coverage shall be the Annual Debt Service on the refunding Water Supply System Bonds and not the Annual Debt Service on the Water Supply System Bonds to be refunded. “Annual Debt Service” is a defined term in the Bond Ordinance, and reference is made to Appendix C — “Bond Ordinance” for the definition and the rules for determining Annual Debt Service.

Enforceability of Rates

The charges for sewage disposal service are a lien on the respective premises, and the Bond Ordinance provides for certain means of enforcement including the right to shut off and discontinue the supply of water to any premises for the nonpayment of sewage disposal rates when due. The Act provides that the rates charged for services furnished by any public improvement constructed under the Act shall not be subject to supervision or regulation by any State bureau, board, commissioner or other like instrumentality or agency thereof.

General Authority. The City may issue additional Water Supply System Bonds 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 Water Supply System Bonds and paying the costs of issuing such additional Water Supply System Bonds, including deposits, if any, to be made to any Reserve Account established or to be established for such additional Water Supply System Bonds or any other Water Supply System Bonds if, but only if, there is Required Combined Coverage under either the Projected Net Revenues Test or the Historical Net Revenues Test.

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 Water Supply System Bonds and the additional Water Supply System 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 System to be paid for in whole or in part from the proceeds of the additional Water Supply System 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.

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 Water Supply System Bonds and the additional Water Supply System 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 additional Water Supply System Bonds.
- 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 Water System Bonds, 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.
- 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 Water Supply System 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.
- Audited financial statements may be relied upon if no augmentation of Net Revenues is required.

Debt Service Reduction – An Additional Means of Refunding. The City may issue additional Water Supply System Bonds of any Priority of Lien without regard to the above tests for the purpose of refunding all or part of Water Supply System Bonds then Outstanding and paying costs of issuing such additional Water Supply System Bonds, including deposits which may be made to any Reserve Account established or to be established for such additional Water Supply System Bonds or any other Water Supply System 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 additional Water Supply System Bonds and (B) giving effect to the refunding, all Outstanding unrefunded Water Supply System Bonds of equal and higher Priority of Lien, 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 Water Supply System Bonds of an equal and higher Priority of Lien, without giving effect to the refunding.

For a detailed discussion relating to the terms and conditions upon which additional Water Supply System Bonds may be issued, see Appendix C – “Bond Ordinance.” The City intends to issue additional Water Supply System Bonds for financing the System's current Capital Improvement Program. Such Water Supply System Bonds may be issued either as Senior Lien Bonds, Second Lien Bonds or SRF Junior Lien Bonds. See “THE CAPITAL IMPROVEMENT PROGRAM.”

Amendments Without Consent

The Bond Ordinance may be amended or supplemented from time to time by a resolution or ordinance of City Council, as required or permitted by law, or by a sale order or other document signed by the Finance Director pursuant to a resolution or ordinance of City Council authorizing such action, without the consent of the Holders of Water Supply System Bonds:

- To issue Water Supply System 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 Water Supply System 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 Ordinance, or in regard to matters or questions arising under the Ordinance, as the City may deem necessary or desirable;

- To increase the size or scope of the System; and

- To amend or supplement the Bond Ordinance in any respect with regard to Water Supply System Bonds of one or more Priorities of Lien so long as such amendment does not materially adversely affect the Holders of Outstanding Water Supply System Bonds.

The Bond Ordinance provides that no Holders of Water Supply System 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 Water Supply System 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 Water Supply System Bonds or incurs Ancillary Obligations or Ancillary Obligations Fees and Expenses, in either case, of any Priority of Lien shall “materially adversely affect” the Holders of Water Supply System 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 Water Supply System Bonds because it (i) reduces the aforesaid percentage of Holders of Water Supply System Bonds required to consent to an amendment to the Bond Ordinance, (ii) extends the fixed maturity of such Holder’s Water Supply System 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 Water Supply System Bonds or deprives such Holder of the right to payment of such Water Supply System Bonds from Pledged Assets.

The Bond Ordinance also provides that where bondholder consent to amendment of the Ordinance or Supplement is required in an offering remarketing, such consents shall be considered obtained as if such consents were being solicited under the Ordinance if the offering or remarketing circular or other disclosure document fully discloses the terms of such amendment or supplement, and no actual consent shall be required, and no more than one such disclosure shall be required. See, “PLAN OF REMARKETING – Amendments” and Appendix D – “Amendments to Certain Provisions of the Authorizing Documents” herein.

So long as the FGIC policies are in effect, any amendment to the Bond Ordinance requiring bondholder consent also requires the consent of FGIC. FGIC also has certain consent rights in its capacity as insurer. So long as BHAC’s policies are in effect, any amendment to the Bond Ordinance requiring bondholder consent also requires the consent of BHAC. BHAC also has certain consent rights in its capacity as bond insurer.

Trustee’s Responsibilities

The City has appointed U.S. Bank National Association, Detroit, Michigan as trustee (the “Trustee”) for the purpose of monitoring and enforcing compliance with the provisions of the Act and the Bond Ordinance. The funds and accounts established under the Bond Ordinance are not held by the Trustee, and the Trustee is not responsible for the administration, investment or disbursement of the monies allocated to such funds and accounts.

Bondholder Rights and Remedies

The Holder or Holders of Water Supply System Bonds representing in the aggregate not less than 20% of the entire principal amount there of 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 give the Holders of the Water Supply System Bonds the authority to compel the sale of the Water Supply System or any part thereof. So long as FGIC’s policies are in effect, FGIC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision. If FGIC’s policy is not in effect, BHAC shall be deemed to be the sole holder of the Fixed Rate Bonds for purposes of this provision, so long as BHAC’s policy is in effect. See Appendix C – “Bond Ordinance” for additional rights and remedies of Water Supply System Bondholders.

BOND INSURANCE

Concurrently with the remarketing of the Predecessor Bonds, Berkshire Hathaway Assurance Corporation (“BHAC”) will issue separate bond insurance policies for the 2001-C Fixed Rate Bonds and the 2005-B Fixed Rate Bonds (the “BHAC Insurance Policies”) on the respective Conversion Dates, guaranteeing the scheduled payment when due of the principal of and interest on the Fixed Rate Bonds. BHAC’s obligation to make payments under the BHAC Insurance Policies is subject to the failure of Financial Guaranty Insurance Corporation to make payments under separate financial guaranty insurance policies issued by FGIC (the “FGIC Policies”) concurrently with the issuance of the Predecessor Bonds, for such Predecessor Bonds. See “BOND INSURANCE – Berkshire Hathaway Assurance Corporation Bond Insurance Policies” herein. The FGIC Insurance Policies remain in effect and unconditionally guarantee the payment of that portion of the principal of and interest on the Fixed Rate Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. See “BOND INSURANCE – Financial Guaranty Bond Insurance Policies.”

Berkshire Hathaway Assurance Corporation Bond Insurance Policies

Berkshire Hathaway Assurance Corporation (referred to herein as “BHAC”) has supplied the following information for inclusion in this Remarketing Circular. No representation is made by the City or the Remarketing Agent as to the accuracy or completeness of this information.

BHAC Bond Insurance Policies. Concurrently with the issuance of the Fixed Rate Bonds, BHAC will issue its financial guaranty insurance policy for the Fixed Rate Bonds (collectively, the “BHAC Policy”). The BHAC Policy guarantees the scheduled payment of principal and interest on the Fixed Rate Bonds when due as set forth in the form of BHAC Policy included as Appendix G to this Remarketing Circular. BHAC’s obligation to make any payment under the BHAC Policy is subject to the condition precedent contained in the BHAC Policy that a proper claim for payment has been made on the FGIC Insurance Policy and FGIC has failed to pay such claim in the period permitted by the FGIC Insurance Policy for reasons other than a failure to provide proper documentation required by FGIC to pay such claim.

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

Berkshire Hathaway Assurance Corporation. BHAC is a New York stock insurance corporation that writes financial guaranty insurance. BHAC was organized on December 21, 2007, and received its New York Certificate of Authority on December 28, 2007. BHAC is licensed in New York to write financial guaranty insurance, surety insurance and credit insurance. As of April 11, 2008, BHAC was licensed to write financial guaranty insurance in 47 additional states and the District of Columbia.

BHAC’s shareholders and their respective percentage of outstanding common stock are as follows: Columbia Insurance Company (“Columbia”), a Nebraska corporation – 51%, and National Indemnity Company, a Nebraska corporation – 49%. Columbia and National Indemnity Company are each indirect, wholly owned subsidiaries of Berkshire Hathaway Inc.

BHAC is subject to the insurance laws and regulations of the State of New York, BHAC’s state of domicile. Pursuant to New York’s financial guaranty insurance law, financial guaranty insurers are limited to writing financial guaranty insurance and related lines, including surety and credit insurance. In addition, New York’s financial guaranty insurance law (i) requires such insurers to maintain a minimum surplus as regards policyholders, (ii) establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as a percentage of surplus as regards policyholders; and (iii) establishes contingency, loss and unearned premium reserve requirements. BHAC is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations vary by jurisdiction.

At March 31, 2008, BHAC had surplus as regards policyholders of slightly less than \$1,000,000,000, determined in accordance with statutory accounting practices (“SAP”) prescribed or permitted by the New York Department of Insurance.

Copies of BHAC’s most recently published SAP Annual Statement is available upon request to: Berkshire Hathaway Assurance Corporation, 100 First Stamford Place, Stamford, CT 06902, Attention: General Counsel. BHAC’s telephone number is (203) 363-5200.

BHAC's Credit Rating. Standard & Poor's Rating Services ("S&P"), a Division of the McGraw Hill Companies, Inc., has assigned its "AAA" financial strength and financial enhancement ratings to BHAC. S&P has assigned its "AAA" financial enhancement rating to Columbia. The ratings on BHAC are based on a guaranty from Columbia in favor of BHAC. The guaranty issued by Columbia applies to BHAC's policy issued with respect to the Fixed Rate Bonds. Any explanation of these ratings may only be obtained from S&P. The ratings are not a recommendation to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by S&P. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Fixed Rate Bonds. BHAC does not guarantee the market price or investment value of the Fixed Rate Bonds nor does it guarantee that the ratings on the Fixed Rate Bonds will not be revised or withdrawn.

In addition, Moody's Investors Service ("Moody's") has assigned its "Aaa" insurance financial strength ratings to BHAC and Columbia. Any explanation of these ratings may only be obtained from Moody's. On April 25, 2008, the date that Moody's assigned its rating to BHAC, BHAC's parent company, Berkshire Hathaway, Inc., maintained an investment in Moody's parent company of approximately 19.6% of the common shares then outstanding. The ratings are not a recommendation to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by Moody's. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Fixed Rate Bonds. BHAC does not guarantee the market price or investment value of the Fixed Rate Bonds nor does it guarantee that the ratings on the Fixed Rate Bonds will not be revised or withdrawn.

Neither BHAC nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Remarketing Circular or any information or disclosure that is provided to potential purchasers of the Fixed Rate Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to BHAC or the Policy under the heading "BOND INSURANCE – Berkshire Hathaway Assurance Corporation Bond Insurance Policies." In addition, BHAC makes no representation regarding the Fixed Rate Bonds or the advisability of investing in the Fixed Rate Bonds.

Financial Guaranty Insurance Policies

The financial guaranty insurance policies for the Predecessor Bonds will remain in effect upon their conversion to Fixed Rate Bonds. Recently, S&P, Moody's and Fitch have downgraded their ratings on FGIC. See "INTRODUCTION – Recent Developments in the Bond Insurance Industry" herein.

Financial Guaranty Insurance Company (referred to herein as "Financial Guaranty") has supplied the following information for inclusion in this Official Statement. No representation is made by the City or the Remarketing Agent as to the accuracy or completeness of this information.

The policies issued by Financial Guaranty for the Predecessor Bonds will remain in effect upon conversion of the Predecessor Bonds to the Fixed Rate Mode.

Recently, S&P, Moody's and Fitch have downgraded their ratings on Financial Guaranty. See "INTRODUCTION – Recent Developments in the Bond Insurance Industry" herein.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Remarketing Circular or any information or disclosure that is provided to potential purchasers of the Fixed Rate Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policies (hereinafter defined) under the heading "BOND INSURANCE" – Financial Guaranty Insurance Policies." In addition, Financial Guaranty makes no representation regarding the Fixed Rate Bonds or the advisability of investing in the Fixed Rate Bonds.

Financial Guaranty's Ratings. As of March 31, 2008, the financial strength ratings of Financial Guaranty were as follows: Fitch Ratings – 'BBB', Rating Outlook Negative; Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. – 'BB', Outlook Negative; and Moody's Investors Service, Inc. – 'Baa3', under review for possible downgrade. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective rating agencies' current assessments of the insurance financial strength of Financial Guaranty, and further explanations of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Fixed Rate Bonds, and are subject to revision or withdrawal at any time by the rating agencies. The further downgrade or withdrawal of any of these ratings may have an adverse effect on the market price of the Fixed Rate Bonds. Financial Guaranty does not guarantee the market price of the Fixed Rate Bonds, nor does it guarantee that the ratings on the Bonds will not be reduced, withdrawn or put on review for possible downgrade.

Financial Guaranty's financial strength ratings have been an integral part of its business, since the value of the financial guaranty and insurance products sold by Financial Guaranty has generally been a function of the rating applied to obligations insured by Financial Guaranty. **Recent ratings downgrades, reflected above, and the watches referred to above have adversely impacted the market price of the Fixed Rate Bonds, Financial Guaranty's ability to compete and otherwise to engage in its business, and its results of operations and financial condition, and will continue to have such adverse effects unless FGIC's ratings are restored (as to which Financial Guaranty can give no assurance).**

Payments Under the Policies. Concurrently with the issuance of the Predecessor Bonds, Financial Guaranty issued its bond insurance policies for such Predecessor Bonds (the "FGIC Policies"). The FGIC Policies unconditionally guarantee the payment of that portion of the principal or accreted value (if applicable) of and interest on the Fixed Rate Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Fixed Rate Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust Association, or its successor as agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the FGIC Policies) from an owner of Fixed Rate Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Fixed Rate Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Fixed Rate Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Fixed Rate Bond 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.

The FGIC Policies are non-cancelable by Financial Guaranty. The FGIC Policies cover failure to pay principal (or accreted value, if applicable) of the Fixed Rate Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Fixed Rate Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policies also cover the failure to pay interest on the stated date for its payment. In the event that payment of the Fixed Rate Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal of and interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The FGIC Policies do not insure any risk other than Nonpayment by the Issuer, as defined in the FGIC Policies. Specifically, the FGIC Policies do not cover: (i) payment or acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Fixed Rate Bonds, Financial Guaranty was granted certain rights under the Bond Documentation. The specific rights granted to Financial Guaranty in connection with its insurance of the Fixed Rate Bonds may be set forth in the description of the principal legal documents appearing elsewhere in the Remarketing Circular for the applicable Predecessor Bonds, and reference should be made thereto.

The FGIC Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company. Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At December 31, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each was as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or

affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At December 31, 2007, Financial Guaranty had net admitted assets of approximately \$4,298 billion, total liabilities of approximately \$4,038 billion, and total capital and policyholders' surplus of approximately \$260 million, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principals ("GAAP"), as of December 31, 2007 and December 31, 2006, which will be filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRS"), are hereby included by specific reference in this Remarketing Circular. Any statement contained herein under the heading "BOND INSURANCE – Financial Guaranty Insurance Policies", or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRS, and shall not be deemed, except as so modified or superseded, to constitute a part of this Remarketing Circular. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRS subsequent to the date of this Remarketing Circular and prior to the termination of the remarketing of the Fixed Rate Bonds shall be deemed to be included by specific reference into this Remarketing Circular and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Financial Guaranty's most recently published GAAP and SAP financial statements are available on Financial Guaranty's website at <http://www.fgic.com/investorrelations/financialreports/> or upon request to Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is 212.312.3000. Reference is made to those financial statements, including the notes thereto (in particular, Notes 2,8,11 and 23 to the GAAP financial statements for the year ended December 31, 2007) for important information concerning Financial Guaranty.

Specimens of the bond insurance policies issued by Financial Guaranty in connection with the issuance of the Predecessor Bonds and as set forth in the applicable Official Statement for the respective Predecessor Bonds are hereby incorporated herein by reference: the "Appendix D – Specimen Bond New Issue Insurance Policy and Municipal Bond Debt Service Reserve Fund Policy" as to the 2001 Bonds and the "Appendix E – Specimens of Financial Guaranty Insurance Policy and the Debt Service Reserve Policy" as to the 2005 Bonds.

THE WATER AND SEWERAGE DEPARTMENT

Organization

The Water Supply System is owned by the City and is operated, managed and accounted for by the City as a separate enterprise fund (the "Water Fund") through the Department. The Department was established under the City Charter and is empowered to supply water within and outside the City. The Department is governed by a seven-member Board of Water Commissioners (the "Board") appointed by the Mayor and operates out of its own 20-story office building in downtown Detroit.

The City Charter provides that the Board shall periodically establish equitable rates for retail and wholesale water supply services to be paid by occupants of homes or buildings using water and by any person, municipality or public or private agency making a wholesale purchase of water. Such rates are established with the concurrence of the City Council. See "FINANCIAL PROCEDURES - Rates". The Board authorizes and executes all service and construction contracts. Certain contracting and other policy-making powers of the Board are subject to the approval or rejection of the City Council and the approval or veto of the Mayor.

Sewage disposal service to the residents of the City and to a substantial portion of the Water Supply System service area outside the City is also provided by the City through the Department. However, the sewage system is operated, managed and accounted for as a separate enterprise fund of the City apart from the Water Fund.

The Board

The members of the Board are appointed by and serve at the pleasure of the Mayor. The members serve four-year terms and the terms are staggered so that not more than two members' terms expire each year. Board members must be citizens of the United States and residents of Michigan. The City Charter provides that at least four members of the Board must be residents of the City. At present the Board consists of four City residents plus one member each from Oakland County, western Wayne County (not including the City) and Macomb County.

The current members of the Board are as follows (dates in parentheses are dates of original appointment to the Board):

Mary E. Blackmon, President (1989). Mrs. Blackmon was elected President in January 2003. She 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 (SEMCOG), where she is a Vice President. A graduate of Leadership Detroit, Mrs. Blackmon remains active in a number of civic and community organizations

Marilynn E. Gosling (1995). Ms. Gosling was elected Vice President in January 2003. She was a member of the Oakland County Board of Commissioners for 14 years before retiring in January 1995. She currently serves on the Board of Directors of the Dispute Resolution Settlement Center and is active as a community mediator. She is also a board member of Camp Oakland Youth Programs, Inc. and the Local Development Company. Ms. Gosling has served as a member of the Community Mental Health Board and the Southeast Michigan Council of Governments (SEMCOG).

Hilliard L. Hampton (1994). Mr. Hampton is the Mayor of the City of Inkster. He also has twenty-eight years with Wayne County government. He currently serves as Sergeant with the Wayne County Sheriff's Department, where he is Supervisor of Community Justice. He has a Bachelor of Arts degree from Wayne State University in Mass Communications and has also received extensive training and certification in law enforcement.

Jimmy L. Cooper (2007). Mr. Cooper is Business Manager for Laborers' Local 1191 – a 3,500 member organization – and has held that position since 1997. A member of Local 1191 for 30 years and a co-founder of the Michigan Labor Alliance, Mr. Cooper is vice president of the executive board of the Michigan Laborers' District Council and secretary of the Laborers' International Union African American Caucus. He is also a member of the Michigan Transportation Team, a group that lobbies Congress for funding state highway projects; and his is a past president of Detroit Works!, a pre-apprenticeship and union training program established by the skilled trade unions.

Carla Walker-Miller (2000). Ms. Walker-Miller is the President of Walker Miller Energy Services, a distributor of power transmission and distribution equipment manufactured for use by electric utilities. She holds a Bachelor of Science Degree in Civil Engineering from Tennessee State University.

William G. Westrick (2000). Mr. Westrick was President of the engineering firm of Anderson, Eckstein and Westrick, Inc., and served as a member of the Board of Directors. He is a member of the Southern Michigan Water and Sewer Utilities Association. He serves on the Board of Directors of the Macomb County Traffic Association and the Northeast Water and Sewer Superintendent Association. Previously, he was employed by the Macomb County Road Commission for nearly 10 years, first as a Project Engineer in charge of design and construction of individual projects, and finally as the Design and Construction Engineer, coordinating road and bridge projects. Mr. Westrick has a Bachelor of Science Degree in Civil Engineering from the University of Detroit and a Master of Science Degree in Civil Engineering from Wayne State University. He is a Registered Professional Engineer in the State of Michigan.

Kenneth Daniels (2006). Mr. Daniels has been employed by the Michigan Economic Development Corporations since 2005 and served as a community champion for the Governor Granholm's Cool Cities Initiative. Mr. Daniels is a former Michigan State Representative, having served in the Michigan Legislature from 1999 through 2004. He also served for three years on the Detroit Board of Education. Mr. Daniels has served as a member on the Mohican Regent Residents Association, National Association of School Boards and the advisory boards of St. John's Hospital and the Holden Center Boys and Girls Cub.

The Board appoints, with the approval of the Mayor, a Director and Deputy Director who serve at the pleasure of the Board and are responsible for day to day operations of the Department.

Management and Personnel

The Department's budget for Fiscal Year 2008 provides funding for 3,104 positions, of which 1,025 positions are classified as strictly Sewage System and 206 positions are classified as strictly Water Supply System. The remaining 1,873 positions are budgeted in the administrative and support divisions, which provide service to both the Sewage and Water Supply Systems. The cost associated with these positions is allocated to the two systems either on the basis of actual time spent on projects or on estimates developed by the Department. The Department estimates that approximately 50% to 60% of the time allocation of the work force in these areas is attributable to the Water Supply System.

The Department is organized into five operating groups: Engineering, Asset Maintenance, Financial Services, Wastewater Operations and Water Supply Operations. Each of the operating groups is headed by an Assistant Director. The Department's key personnel and their qualifications are summarized below.

Victor M. Mercado, Director. Mr. Mercado was named Director of the Detroit Water and Sewerage Department on June 12, 2002. Mr. Mercado brings with him more than 25 years of experience in both the public and private sectors. He previously served as Vice President of Thames Water North America, and President and General Manager of Thames Water Puerto Rico (1999-2002); Vice President and General Manager of United Water Delaware and President of United Water Bethel and United Water Virginia (1997-1999); Chief of Emergency Construction for the Department of Environmental Protection in New York City (1996-1997); and Director of Operations for the Jamaica Water Supply Company in Jamaica, New York (1989-1996). Mr. Mercado has considerable experience in distribution and transportation, construction, and the electric and gas industries. He holds a Bachelor of Science degree in Economics and Industrial Management from the City University of New York.

The Director of the Department of Water and Sewerage, announced his resignation May 6, 2008, effective August, 2008, to accept another position. Mr. Mercado will be on leave from the Department beginning June 20, 2008. In accordance with the City Charter, the Deputy Director will exercise the powers and duties of the Director during Mr. Mercado's absence and after the position of Director becomes vacant.

Gary Fujita, P.E., Deputy Director Appointed Deputy Director in November 2002, Mr. Fujita had served as Interim Deputy Director since January 2002 and as Assistant Director of Wastewater since 1993. He has a Bachelor of Science degree in Civil Engineering from Wayne State University. He is a Registered Professional Engineer and holds a Class "A" Wastewater Treatment Operator's license. Mr. Fujita has been with the Department since 1972 and has also served as Chief Sewerage Plant Engineer. Mr. Fujita has considerable experience in engineering design, construction of major pipelines and related facilities, planning, wastewater treatment, industrial pretreatment, and combined sewer overflow control planning.

Sam Smalley, Assistant Director - Asset Maintenance. Mr. Smalley was appointed to his current position in February 2008. He joined the Department in June of 2007 after having spent two years participating in the Department's customer outreach program as a customer representative. He brings considerable experience in engineering design, construction management, and utility management. He is a registered professional engineer in California and Michigan, and has over 20 years of experience in the water and wastewater industry. He obtained a

Bachelor of Science in Civil Engineering from San Diego State University, and holds both an F-1 Water Treatment Plant Operator license and an S-1 Water Distribution System Operator license.

Woodrow McCarty, Interim Assistant Director - Financial Services. Mr. McCarty was assigned to his current position in May 2005. Mr. McCarty holds a Bachelor in Accounting from Wayne State University. He has experience with the City of Detroit in areas of Accounting, Budget, and Cash Management. Mr. McCarty has been with the Department since 1976. Prior to his current assignment he served as Manager of the Financial Reporting Section.

Stephen Kuplicki, Interim Assistant Director-Wastewater Operations. Mr. Kuplicki was named the Assistant Director of Wastewater Operations in January 2008, and is responsible for the operation of the Wastewater Treatment Plant and Combined Sewerage Overflow Facilities, and the Industrial Waste Control Division. Mr. Kuplicki previously served as the Manager of the Industrial Waste Control Division, where he developed, administered and enforced regulatory control programs on behalf of the City of Detroit. Prior to joining the Department in 1983, Mr. Kuplicki worked as a hydrologist and filtration consultant supporting projects in the chemical, power and petroleum industries throughout the United States, Canada and Mexico. He is a licensed Professional Engineer in the State of Michigan, and a member of the State Bar of Michigan. He holds a B.S. degree in Chemical Engineering from Wayne State University, a Master of Engineering degree with a Chemical Engineering major from the University of Detroit, and a Juris Doctor degree from the University of Detroit Mercy.

Pamela Turner, Assistant Director – Water Supply Operations. Ms. Turner was named Assistant Director in April 2003. Prior to her selection Ms. Turner served as Water Quality Division Manager. She has worked in the Department since 1977. Ms. Turner holds a Bachelor of Science degree in Environmental Science and a Masters in Public Administration from the University of Michigan. Ms. Turner has served on the Michigan Department of Environmental Quality Technical Advisory Committee for the Source Water Assessment Program. She is currently serving her second three-year term on the American Water Works Research Foundation, Research Advisory Council.

Ramesh Shukla, Interim Assistant Director – Engineering. Mr. Shukla is a Registered Professional Engineer and was appointed to the current position in February 2006. Prior to his appointment, he had served as Interim General Superintendent of Engineering and has been with the Department for more than 17 years. Prior to joining the Department in 1988, Mr. Shukla worked with consulting firms and governmental agencies in the U.S. and abroad in India. Mr. Shukla has over 34 years of experience in planning, design, construction, and management of water and wastewater systems. Mr. Shukla received a B.S. degree in Mechanical Engineering and a Masters degree in Business Administration in India.

PJ Dada, Assistant Director for Information Technology. Ms. Dada was named Assistant Director in July 2007. Prior to her position, she served as General Manager of the Process Networks and SCADA Systems Division. Prior to joining the department in September 2006, Ms. Dada worked with consulting firms and the automotive industries. Ms. Dada has over 15 years experience in process controls and instrumentation. Ms. Dada holds a B.S. degree in Electrical Engineering and a minor in Computer Science. She holds a Level III ISA certification.

George Ellenwood, Assistant Director for Public Affairs. Mr. Ellenwood was named Assistant Director of Public Affairs in September 2006. Previously, he served as General Manager of the DWSD Public Affairs Group consisting of the Commercial Operations, Meter Operations and Public Affairs Divisions. He holds a B.A. in English and Modern Languages from Oakland University and an M.A. in Spanish from Wayne State University. Mr. Ellenwood serves on the National Public Affairs Council of the American Water Works Association (AWWA) and the Project Advisory Committee of the Michigan Section of AWWA and is a member of the Public Relations Society of America and the Water Environment Federation.

Most of the Department's key personnel have considerable managerial experience, either with the Department or with other municipal agencies or large utility systems. The Deputy Director and most of the Assistant Directors have significant experience with the Department, each having advanced through the ranks of the Department to his or her present position. The Assistant Director of Asset Maintenance was recruited from outside the Department to facilitate the performance improvements targeted for that operation. The experience and qualifications of the Department's executive staff are commensurate with their duties and responsibilities.

Employee Bargaining Units

The City budgeted 15,04 employees (including part-time and seasonal employees) for fiscal 2007. Approximately 10% of these employees are non-union, and the remaining 90% are represented by one of the City's 50 bargaining units. The largest bargaining units are: the American Federation of State, County and Municipal

Employees (“AFSCME”); the Detroit Police Officers Association (“DPOA”); the Detroit Fire Fighters Association (“DFFA”); the Teamsters; and the Amalgamated Transit Union (“ATU”). There are current collective bargaining agreements in place for AFSCME and the majority of the non-uniformed bargaining units, covering approximately 93% of our civilian unionized employees. These agreements expire on June 30, 2009, and include employee concessions in both wages and health care.

The City recently received a binding arbitration award (Michigan Public Act 312) with the DPOA covering the period July 1, 2005 through June 30, 2009. The award included health care concessions similar to those negotiated with the non-uniformed employees. The City is just beginning Act 312 proceedings with the Detroit Police Lieutenant and Sergeant’s Association (DPLSA), and expect hearings to conclude in the early fall of 2007.

Historically, the DFFA agreements provide for automatic parity of DFFA with DPOA and the DPLSA with respect to wages and benefits. Accordingly, although there has been no effective DFFA agreement since June 30, 2001, DFFA members continue to receive the same wage and health care and pension benefits as in the DPOA and the DPLSA. The City and DFFA also are in an Act 312 mandatory binding arbitration proceeding for a successor agreement.

The City has no reason to believe it will face any interruption of service from the unionized work force.

Pension Plan

Department employees are members of the City’s General Retirement System. Payments to the pension fund are made as a percentage of payroll, based on annual actuarial studies. These studies determine the amount necessary to fund the financial benefits as earned as well as an amount necessary to amortize unfunded accrued liabilities. For employees budgeted strictly as Water Supply System employees, contributions are made directly to the retirement fund. For employees common to both the Water Supply and Sewage Systems, payments are generally made by the Water Supply System, which is then periodically reimbursed from Sewage System revenues. Although the actuarially computed pension contribution rates are different for the two systems, “common” employees are considered as Water Supply System employees and accordingly, the Sewage System is billed at the Water Supply System’s rate. See Appendix B – “Audited Financial Statements of the Water Fund of the City of Detroit, Michigan.” The City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006, the last fiscal year for which Comprehensive Annual Financial Reports are available), is available at www.ci.detroit.mi.us/finance/Default.htm.

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 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 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 System include three intake facilities, five treatment plants and 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), 22 booster pumping stations and 22 water storage reservoirs located throughout the Water Supply System. Water flow and pressure throughout the System are monitored and controlled by a Systems Control Center housed in the Department’s Central Services Facility.

Service Area

The Water Supply System provides retail service to customers in the City and wholesale service to 124 communities in the surrounding metropolitan area through contracts with 86 public entities. As a matter of policy, the City does not generally contract with individual or corporate consumers outside the City, but only with public entities including cities, villages, townships and public water and utility authorities. For the fiscal year ended June 30, 2007, wholesale consumption and sales were estimated to account for approximately 80% of total water usage and 75% of billed operating revenues.

The service area covers 981 square miles and includes a population of approximately 3.9 million, representing approximately 43% of the population of the State of Michigan. Over 87% of the population served by the System resides in the Detroit Primary Metropolitan Statistical Area (the "PMSA"). A more detailed description of the service area is set forth in Appendix E – "Characteristics of the Water Supply System Service Area." Additionally, a map of the service area is printed on the inside back cover of this Remarketing Circular.

The overall population served by the System has been essentially stable during the past 20 years. Generally, the System has expanded to correspond with population increases and movements in the municipalities surrounding the City. Within the service area, the percentage of population served on a wholesale basis has increased. The Department anticipates continued expansion of the service area as well as moderate growth in water consumption as a result of projected increases in the population of the wholesale service area and continued business expansion throughout the entire service area. The Department has a "growth pays for growth" policy regarding funding the costs of extending service to new contract communities, which is designed to ensure that existing customers are not adversely impacted by the extension of service to new service areas. This policy was enacted for extension of service to the City of Wixom in the late 1990s. Specific details regarding the further implementation of this policy are being discussed and finalized in several technical workgroups made up of Department personnel and wholesale customer representatives.

The following table shows certain historical estimates of the population of the service area and 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 unaccounted for water. As is common for all large water systems, the System experiences a differential between the quantity of water produced and the quantity of water billed to customers, and the difference is referred to as "unaccounted for water." Unaccounted for 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, 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 unaccounted for 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 percent. Considering the age of the System, the Department believes the average level of unaccounted for water is not uncommon.

Wholesale and Retail Population, Water Sales and Unaccounted for Water

	<u>Water Sales (a)</u>				<u>Unaccounted for Water</u>			
	<u>Suburban Wholesale</u>		<u>Detroit Retail</u>		Total	Total	Volume	As a %age
	Population	Water Sales (Mcf)	Population	Water Sales (Mcf)	Water Sales (Mcf)	Water Produced (Mcf)	Unaccounted (Mcf)	of Production
2003	3,008,300	20,197,000	951,300	5,305,000	25,502,000	31,902,900	6,400,900	20.1%
2004	3,024,800	19,262,800	951,300	5,405,000	24,667,800	29,643,700	4,975,900	16.8%
2005	3,024,800	19,381,900	951,300	4,850,800	24,232,700	28,367,300	4,134,600	14.6%
2006	3,024,800	19,156,300	951,300	4,927,000	24,083,300	29,266,700	5,183,400	17.7%
2007	3,024,800	18,417,900	951,300	4,672,800	23,090,700	28,063,000	4,972,300	17.7%

Mcf = 1,000 cubic feet per day

Source: The Department

Master Plan

The Department recently completed a master planning study that evaluated the physical System needs over the next 50 years. That study included participation from community leaders and other representatives of all customer communities served by the System, in order to determine potential demands that would be placed on the System. The 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 master plan primarily focused on necessary investments in transmission and distribution facilities that will be necessary to ensure reliability of service to all customers.

One of the major transmission main projects in the Master Plan consists of a series of mains in northern Oakland and Macomb Counties designed to increase the reliability in the service area that is being supplied by the Orion, Adams and Franklin pump stations. This connection will also enable the Department to provide water to potential new customer communities, including Wolverine Lake, Oakland Township, Oxford Township, Oxford, Brandon, Addison, Milford and Bruce Township. The Department (through the Technical Advisory Committee – see “Partnering Efforts” below) has formed a work group to provide interested parties with vital information on potential routes and implementation plans for this connection, and to solicit input from those parties. Implementation of this aspect of the master plan, including the construction of this proposed connection, is based upon a number of factors including: addressing System and customer needs as they develop and the development, implementation and execution of new long term water service contracts.

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 System serves 124 municipalities through 86 contracts with municipal and other public entity customers. Each water service agreement generally provides for (i) delivery of water by the Department to the best of its ability to the municipality or other public entity at designated metered points at rates of flow and pressure adequate to meet the reasonable requirements of the customers of the municipality or other public entity and (ii) payment by the municipal or other public entity for all water supplied at reasonable rates established by the Department, subject to review by and concurrence of the City Council, including an annual minimum charge. The municipal entity is solely responsible for distributing water from the points of delivery to its customers. The agreements are typically for periods of at least 35 years and, unless renewed, are continued on a year to year basis. Most agreements also include other provisions required for 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 consent of the Department; (ii) measurement of water furnished by meters; (iii) the metered flow of water furnished is the basis for billing; (iv) method of computing the annual minimum charge, generally based on applying the prevailing rate to a contractually specified minimum level of consumption (based on population estimates at the time the contract was signed); (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; and (vi) prohibition against combining of 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.

The Department is paid monthly by each municipality and other public entity, and payment is not contractually dependent upon collections by the municipality or other public entity from its respective retail consumers. The Department assesses a 5% late payment charge on bills not paid when due. While the Department has the legal right to discontinue water service to wholesale users if not paid within 60 days, such a measure would not be practical, and wholesale 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, 2006, (the last fiscal year for which audited financial statements are available), these customers provided approximately 30% of the gross operating revenues of the Water Supply System, and accounted for 40% of billed revenue to wholesale water supply customers.

Summary of Wholesale Water Supply Contracts

	Total Billed Flow (Mcf)	Total Billed Revenue	Contract Date
	<u>FY 2007</u>	<u>FY 2007</u>	<u>Date</u>
Flint	1,449,578	\$16,075,816	1967
Southeast Oakland County Water Authority	1,275,236	10,469,683	1960 ^(a)
Warren	939,949	7,510,193	1940
Sterling Heights	811,686	8,993,479	1953
Dearborn	729,019	5,409,324	1931
Ypsilanti Community Utility Authority	637,748	6,288,197	1931
Livonia	618,521	6,840,847	1972
Troy	613,675	9,156,027	1964
Clinton Township	525,302	4,233,932	1973
Farmington Hills	517,495	7,767,606	1963

Mcf = thousands of cubic feet.

^(a) Date of incorporation of the Authority. Constituent municipalities initiated service in different years between 1929 and 1980.

SOURCE: The Department

No municipality or other public entity having once contracted for water service with the Water Supply System has thereafter terminated its contract with the 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 System. In 2004, however, the cities of Centerline, Fraser, Grosse Pointe Shores, Troy, Warren and St. Clair Shores and the Southeast Oakland County Water Authority commissioned a study to begin exploring potential alternative water supply options. The findings of that study indicated an estimated cost of construction of \$1.4 billion. Several community leaders who sponsored the study have indicated that proceeding with an independent system at this time does not seem feasible. In addition, most regional leaders and the media have opined that separation does not appear to be in the best interest of the region.

Even if the communities decided to proceed, separation from the System would not be possible for at least 7 years. Many of the communities involved would still be under contract with the System at that time. The Department believes that all communities currently under contract will conclude that remaining with the System is the most economic, responsible, and correct decision for their constituents and that service will continue as currently provided in the service agreements. The Department intends to protect its contractual rights in this matter and to pursue renegotiation of all service agreements to ensure long-term stability to the service area.

Over the past several years there has been a continuing dispute between the City and certain wholesale municipal customers over control of the System. 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 System. Among these have been proposals to create a regional water and sewerage authority and transfer to this authority the ownership of the City's Water Supply and Sewerage Disposal Systems, excluding certain retail facilities. On March 31, 2006, Governor Granholm vetoed Senate Bill 372, which would have given control of the Department to a new regional authority dominated by the suburbs. The bill did not receive enough votes in either house to override the veto. The City will continue to oppose any efforts to transfer control of the City's Water Supply and Sewerage Disposal Systems.

House Bill 6105 was introduced in the legislature on May 24, 2006. The bill would have made the Department's rates subject to review and approval by the Michigan Public Service Commission. The City opposed the bill and it was not adopted in the 2005 2006 legislative session. As of the date of this Remarketing Circular, the Michigan legislature has not introduced any new legislation seeking control of the City's System or review of its rates.

Partnering Efforts

The Department has entered into a series of "partnering" agreements with representatives of its suburban customer communities. These agreements, which have established a Technical Advisory Committee ("TAC") have established a framework for discussion of major issues between the Department and its suburban wholesale customers. The TAC has established multi-faceted teams to explore several issues on a variety of topics, including emergency preparedness, service contracts, water rates, and communication strategies.

The TAC Water Rates Work Group has made 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. This work group 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.

The TAC Contracts Work Group has developed a new model contract with standardized contract language. This document will ensure that all wholesale customers are treated equitably and similarly. This will also provide the Department with the same rights and controls across all agreements. Standardized model contract language has been 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. Many of the communities served by the Department have expressed interest in negotiating new service agreements with the Department, utilizing the model contract as the basis. The Department is in various stages of negotiations with 33 of these communities and believes that several new contracts will be put in place during 2008. Representatives of customer communities have expressed appreciation of the Department's willingness to sponsor these partnering programs and the opportunity to be involved in the process.

Retail Service

The Water Supply System is the sole provider of all water service in the City. The System also provides retail services on a very limited basis to certain customers outside the City. The Water Supply System in the City includes lateral mains, meters and reading devices directly connecting customers to the System. The Department has full responsibility for retail service, rate setting, billing and collection of charges from customers in the City, subject to review and concurrence by the City Council.

Pursuant to the Act, the charges for water and sewerage service furnished to a premises become a lien on such premises when the service is provided. If an account becomes delinquent the lien may be enforced in the same manner as the collection and enforcement of a lien for property taxes (assuming proper statutory notice to the party responsible for the payment of the charges). The Board may also enforce the payment of charges by discontinuing water service to the premises. Historically, the Department has not pursued enforcement of liens, believing discontinuance of service to be the most timely method of collection. However, the Department has a policy of transmitting delinquent accounts to the City Assessor for placement on the property tax roll. Other active measures adopted by the Department with respect to enforcement of delinquent bills include a bad debt write-off policy and common protocols for pursuit of delinquent customers. In addition, in 2006, the Department converted all retail customer accounts to a monthly billing cycle. Residential accounts had previously been billed quarterly. This conversion is intended to produce a beneficial impact to both the Department and its customers. Customers will receive more regular bills and they will be lower. The Department will receive a more uniform revenue stream and will be able to monitor and react to anomalies in bills to individual customers. In recent years, the aggregate balance of delinquent accounts has increased somewhat, reflecting recent rate increases and a moderate decline in collection rates. 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 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 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	360
Springwells ^(a)	1931/1959	540
Water Works Park	2003	240

^(a) 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.

SOURCE: The Department

The Water System is physically inspected approximately every 18 to 24 months (in conjunction with issuance of new money revenue bonds) for purposes of assessing its condition and the appropriateness of the capital improvement programs. The most recent evaluation was completed in May 2006. At that time the evaluation concluded that overall the treatment facilities are in good operating condition and, while the condition of the distribution facilities, the facilities generally are in adequate to good condition. The Department is unaware of any materially adverse changes to the general physical condition of the facilities of the Water System Plant and the Collection System since the date of that inspection. Some repairs, replacements and major improvements are necessary to improve operations and ensure continued compliance with environmental standards. These repairs, replacements and improvements are part of the CIP.

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. See the map, inside rear cover, for the siting of such transmission mains. 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 System. Operators in the Control Center can remotely control the pump stations at the treatment plants and the 22 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 Capital Improvement Program.

Environmental Matters

The Water Supply System is subject to rules, regulations and standards established and enforced by federal and State agencies. In the opinion of the Department, based on the continual monitoring of the treatment, supply and distribution facilities by the Department's Water Supply Operations Group, the System is currently operating well within all applicable water quality standards. Further rules or regulations which may be promulgated pursuant to the 1986 and 1996 amendments to the Safe Drinking Water Act could require the Department to modify operations and/or construct facilities beyond those currently contemplated by the Capital Improvement Program.

Security Improvements

The Department has a project under contract that will improve and upgrade security at all of its facilities. On March 17, 2003 the Department completed its vulnerability assessment ("VA"). The risk assessment methodology used by the Department is a performance based methodology developed by Sandia National Laboratories in conjunction with the American Water Works Association and the U.S. Environmental Protection Agency. Certain vulnerabilities that were identified in the assessment are being addressed by a project that is under contract. The remaining vulnerabilities will be addressed within the Department's Capital Improvement Program.

Currently, each fresh water treatment facility is equipped with twenty-four hour security personnel, an intrusion detection system, video surveillance or assessment, and an access control system. The fence lines of these facilities are patrolled and checked each shift by the Department's internal security staff. The VA conducted by the Department recognized security measures that can mitigate the vulnerabilities that were identified. A Capital Improvement Program project is anticipated that will implement these security measures as upgrades to the physical security at these facilities.

The booster stations and system reservoirs are equipped with an intrusion detection system, a fence line detection system, and mechanical security gates. The fence lines of these facilities are patrolled and checked by contract security service personnel. The security systems at these facilities were tested in 2003 and a project is currently under contract to improve electronic security systems at these facilities. The improvements will include video assessment, access control, and upgrades to the existing intrusion detection system.

The Department has initiated internal security-related activities in addition to the security contracts currently being implemented. All internal physical security improvements relative to specific facility upgrades were completed in November 2002 with the last of the reservoir tank hatchways and external access appurtenances secured with custom-made locking devices. Minor perimeter fence repairs, vegetation removal and reduction, and temporary electronic surveillance improvements have been made until such time as the new security renovations contract is fully deployed.

FEASIBILITY CONSULTANT'S REPORT

The Department has engaged The Foster Group, LLC (the "Feasibility Consultant") to prepare a Financial Feasibility Report. A copy of the report summarizing the findings of the Foster Group LLC's evaluation is included as Appendix A.

THE CAPITAL IMPROVEMENT PROGRAM

The Department has financed its ongoing Capital Improvement Program (the "CIP") for the System from the issuance of Water Supply System Bonds and from revenues of the System. From 1988 through 2007,

approximately \$1.4 billion has been spent for capital improvements to the System. The Department's Capital Management Group coordinates all capital planning activities and is responsible for evaluating capital needs and developing programs to meet those needs. This committee formally reviews the Capital Improvement Program and incorporates revisions on an annual basis. The current CIP for the five fiscal years ending June 30, 2012 is estimated to cost approximately \$1.4 billion and is based on estimates of future capital costs as of June 30, 2007. The Capital Improvement Program is a dynamic one, and requires continual review and modification as conditions warrant.

In fiscal year 2006, the Department began to finance some of the capital improvements to the System with loans by the Michigan Municipal Bond Authority from the Drinking Water Revolving Fund. The City's obligation to repay such loans is evidenced by SRF Water System Bonds issued as Junior Lien Bonds on a subordinated basis to any Second Lien Bonds.

The following tables detail the planned Capital Improvement Program expenditures for the five Fiscal Years ending June 30, 2012, and the projected funding sources for the Capital Improvement Program. The five year program is estimated to cost \$1,374,910,000. Of this amount, it is anticipated that \$1,026,945,100 (approximately net amount) will be raised through the issuance of bonds during and after fiscal year 2010 with the balance of the System's share to be generated out of System revenues, additional SRF Loans and funds currently available.

Capital Improvement Program Projected Expenditure Schedule

Category	<i>Fiscal Year Ending June 30,</i>					<u>Total</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Plant Replacement and Renovation						
General Plant	\$ 23,263,000	\$ 22,335,000	\$ 13,024,000	\$ 5,128,000	\$ 1,995,000	\$ 65,745,000
Water Works Park	845,000	3,100,000	4,000,000	3,100,000	20,500,000	31,545,000
Springwells	4,130,000	14,350,000	28,950,000	40,275,000	103,525,000	191,230,000
Northeast	4,674,000	10,870,000	14,950,000	22,093,000	38,248,000	90,835,000
Southwest	5,885,000	24,493,000	23,480,000	20,958,000	38,340,000	113,156,000
Lake Huron	1,824,000	7,850,000	2,300,000	1,150,000	0	13,124,000
Pumping Stations & Reservoirs	<u>9,491,000</u>	<u>25,775,000</u>	<u>38,916,000</u>	<u>17,125,000</u>	<u>13,700,000</u>	<u>105,007,000</u>
Subtotal - Plant	50,112,000	108,773,000	125,620,000	109,829,000	216,308,000	610,642,000
Metro Area Construction	60,631,000	148,321,000	183,856,000	169,449,000	141,250,000	703,507,000
Urban System Improvements	58,884,000	49,206,000	23,302,000	21,200,000	20,600,000	173,192,000
Mechanical Maintenance	21,746,000	22,775,000	22,050,000	3,700,000	0	70,271,000
Computer Systems	<u>4,163,000</u>	<u>3,450,000</u>	<u>3,500,000</u>	<u>3,525,000</u>	<u>3,000,000</u>	<u>17,638,000</u>
Subtotal	145,424,000	223,752,000	232,708,000	197,874,000	164,850,000	964,608,000
Total System	\$ 195,536,000	\$ 332,525,000	\$ 358,328,000	\$ 307,703,000	\$ 381,158,000	\$ 1,575,250,000

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**Water Supply Disposal System Capital Improvement Program
Projected Funding Sources**

	Fiscal Year Ending June 30,					Total
	2008	2009	2010	2011	2012	
Existing Improvement and Extension Funds(a)	\$ 28,408,700	\$ -	\$ -	\$ -	\$ -	\$ 28,408,700
Existing Construction Funds(a)	528,868,400	-	-	-	-	528,868,400
Current Revenues	22,289,200	13,304,600	33,982,700	38,692,000	43,326,900	151,595,400
Bond Proceeds	-	-	450,000,000	275,000,000	375,000,000	1,100,000,000
Less: Capitalized Interest	-	-	(21,656,300)	(7,218,800)	(9,843,800)	(38,718,900)
Issuance Expenses(b)	-	-	(13,700,000)	(8,450,000)	(11,450,000)	(33,600,000)
Bond Reserve Account(c)	-	-	(301,100)	(184,000)	(250,900)	(736,000)
Net Bond Proceeds Available	-	-	414,342,600	259,147,200	353,455,300	1,026,945,100
State Drinking Water Revolving Fund Loans	2,180,000	5,000,000	-	-	-	7,180,000
Total Funding Sources(d)	\$ 581,746,300	\$ 18,304,600	\$ 448,325,300	\$ 297,839,200	\$ 396,782,200	\$ 1,742,997,600

- (a) Balance available June 30, 2007 (Applies only to Fiscal Year 2008).
- (b) Reflects underwriting discount, original issue discount and issuance expenses for the remarketing of the Fixed Rate Bonds in 2008 and, in subsequent years assumes issuance expenses totaling 3 percent of the bond issue amount plus \$200,000. Net of estimated premium for Fixed Rate Bonds.
- (c) Amount required to purchase surety or fund reserve requirement.
- (d) 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 2012.

SOURCE: The Department

FINANCIAL PROCEDURES

Budget and Accounting Matters

The Department prepares an annual budget in conformity with the City's requirements and procedures, and this budget sets forth estimated revenues and appropriations. No expenditures may be made without an authorized appropriation approved by the Board and City Council. Appropriations are made in lump sum by major program and such amounts cannot be exceeded without Board and City Council approval. Appropriation increases must be funded either by transfer from other appropriations within the funds of the System or by excess revenues generated within the System. The annual budget is reviewed and may be revised by the Mayor prior to submission to the City Council. The City Council conducts hearings and reviews and may alter the budget prior to adoption. Any revisions by the City Council are subject to veto by the Mayor and subsequent override of veto by the City Council. The entire preparation and review process encompasses approximately six months and the final budget is approved approximately June 1 of each year, to be effective July 1. The expenditure level of the proposed budget is taken into account as a revenue requirement for establishing Water Supply System rates.

Certain differences should be noted between budget presentation and the financial statements for a given period. The annual budget represents amounts which might be spent in the fiscal year and it records equipment and other long-term purchases against the current period. The financial statements include accrual of expenditures and revenues and depreciation of plant and equipment over the useful life of such capital items.

Generally, the Department pays for various employees, supplies and equipment that are shared between the Water Supply and Sewage Systems from water operations. The Sewage System is then billed periodically (currently monthly) based on actual operations and an estimate of certain personnel and equipment usage.

Because the 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 System. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Bond Ordinance Flow of Funds."

The Department uses an Oracle financial management system which 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, work order and inventory applications to provide a nearly complete financial reporting system.

The Department uses a Legacy human resources/payroll application for employee compensation. Preliminary funding has been approved to begin planning the replacement of the Legacy system with the human resources/payroll modules. The complete integration of the human resources/payroll application with the core financial applications is expected to take about 3 years.

The City of Detroit's audited financial statements for the fiscal year ended June 30, 2006, available on the City's website, at [http://www.ci.detroit.mi.us/Portals/\)/docs/finance/CAFR/CAFR2006.pdf](http://www.ci.detroit.mi.us/Portals/)/docs/finance/CAFR/CAFR2006.pdf), includes an unqualified independent auditors' report with exception to a reference to the unaudited financial statements of the Detroit Public Library. The auditors provided the City with a second document, which highlights certain recommended improvements to the City's internal control environment. In its report, the City's auditors noted certain "Reportable Conditions" involving the City's internal control over financial reporting and operations including 22 it considered material. With respect to each Reportable Condition, the auditors described the criteria, condition, cause, effect and recommended solution. The City takes such recommendations seriously. Accordingly, the City has developed plans and has begun executing such planned action steps to address each concern identified by the auditors. The City is confident that each issue will be addressed, with substantially all issues being addressed prior to the conclusion of the audit of financial statements for the fiscal year ended June 30, 2007. However, the City may be unable to remediate these matters in a complete and timely manner. If the City is unable to improve its financial and management controls, in a timely and effective manner, its ability to comply with the financial and reporting requirements and other rules that apply to it would be impaired. The audited financial statements of the Water Supply System for the fiscal year ended June 30, 2006, which are included as Appendix B, also includes the unqualified opinion of the City's auditors. See also "TAX MATTERS - Recent Developments" herein.

Management Initiatives

The Department continues to employ several cost-saving measures instituted in recent years. These programs were streamline operations and make them more efficient, and included; limiting outsourcing of work to contractors; an overtime management plan; elimination of almost all unfilled budgeted positions; voluntary reductions in force through attrition; a work force reduction program; liquidation of surplus vehicles installation of new work practices and performance targets to improve efficiency and productivity of field crews; and implementation of a performance management tool which provides real-time reporting for performance metrics and supports the overall performance improvement initiative.

These efforts have produced significant results. Department-wide operating expenses for 2005 were actually lower than those experienced in 2002. While recent increases in utility costs have lead to slightly higher expenses in the last two years, the (unaudited) 2007 department-wide operating expenses represent an average annual increase of less than 2 percent from 2002 levels.

The Department has also initiated an energy management plan for water and sewer system operations. Finally, the Department has launched a program to replace all retail billing meters in the System and install automatic meter reading devises. This program is designed to provide more accurate, timely water use information in an efficient manner.

Collections and Delinquencies

The Department operates a computerized billing system for its approximately 280,000 retail customers. All retail customers are billed monthly. All retail customers are allowed 20 days to pay, after which a one-time 5% late payment charge is applied. Wholesale municipal customers maintain their own retail billing systems and also pay the Department monthly in accordance with contractual agreements. The charge for late payment of wholesale customers' bills varies by individual contract, but generally is also 5%.

Retail water and sewer charges constitute a lien on the premises served, enforceable upon entry on the tax roll as described herein, unless notice is given that a tenant is responsible for such charges. In 2007 the Department implemented a program of enforcing these liens and began transmitting accounts to the City's Law Department for processing in this manner. To date the City's Treasurer's Office has collected \$8.1 million on the Department's behalf. However, the Department continues to believe that discontinuance of service is the most timely method of collection. If water or sewer charges are delinquent, the City official in charge of the collection of such charges may certify to the tax assessing officer of the City the fact of such delinquency, whereupon such charge will be entered

upon the next tax roll as a charge (lien) against the premises and the lien will be enforced in the same manner as general taxes of the City are collected; provided, that where notice is given that a tenant is responsible for such charges and service, no further service shall be rendered to such premise until a cash deposit equal to the estimated amount of the next ensuing bill is made. In addition to other remedies provided, the City has a right to shut off and discontinue the supply of water to any premises for the non-payment of bills for water or sewer when due. The termination of any services by the City to any residents may be subject to constitutional safeguards regarding due process, including notice and hearing requirements.

In order to enforce payment of retail billings, the Department pursues an aggressive collection program. Retail customers may have service shut off for non-payment after 6 months in arrears. During fiscal year 2008 (through February), shutoffs totaled approximately 13,200. Historically, the number of shutoffs decline from November through March due to weather conditions making shutoffs difficult.

The Board of Commissioners currently practices a "Bad Debt" write off policy common in many other large utilities, whereby establishing common protocol in aid determination of financial feasibility with regard to the pursuit of delinquent customers.

The Department's computerized billing system produces data on aged accounts receivable and breaks delinquencies into several aged categories. The February 2008 report indicated total retail delinquencies (in excess of 6 months) of approximately \$37.3 million. The amount of delinquencies has not caused cash flow problems as sufficient operating capital has been available to the System. The System has not experienced significant problems relating to wholesale municipal delinquencies. Normally, wholesale delinquencies have arisen from disputed billings which can often be resolved through negotiation. As of December 31, 2007 no wholesale municipal customer carried a delinquent balance in excess of one year. The allowance for doubtful accounts reflected in the financial statements 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 \$44.5 million was reserved as an allowance for doubtful accounts at June 30, 2007. To the extent that the Department includes a projected increase in the allowance for doubtful accounts in developing prospective water rates, this revenue requirement is allocated to retail customers only.

Cash Management

In accordance with the City Charter, all funds and accounts of the System are separate and distinct from all other City funds. Except as described below, no System monies are commingled with general fund or other monies of the City.

All revenues of the System are deposited to the Water Receiving Fund. Because one payment is received from retail customers billed on a combined basis for water and sewerage service, the full amount of payment is initially deposited in the Water Receiving Fund. Periodic (generally bi-weekly) transfers are made from the Water Receiving Fund to the Sewage Receiving Fund, based on the proper allocation between funds. Next, transfers are made from the Water Receiving Fund to the Operation and Maintenance Fund, Senior Lien Bond Interest and Redemption Fund, Junior Lien Bond Interest and Redemption Fund and other System funds and, until needed, balances are invested in accordance with the provisions of the Bond Ordinance. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Bond Ordinance Flow of Funds."

With the exception of direct payments made for debt service and special "manual" payments, expenditures are made through the City's Central Clearing Account. The City maintains a central account which disburses all vendor payments. Once an invoice has been processed for payment, a wire transfer from the appropriate fund of the City is made to the Central Clearing Account. Monies from the particular fund must be received before a check is released. Accordingly, no System monies may be used to "cover" payments to be made from any other fund of the City. While all City payroll checks are drawn upon a special payroll account, funds are cleared through the Central Clearing Account in the same manner as vendor payments.

Debt service payments for Water Supply System Bonds (as well as other City debt obligations) are not cleared through the Central Clearing Account. Such payments are made directly from the appropriate debt service account to the paying agent for the particular debt obligation.

The Department maintains a budget system that monitors and controls funding in accordance with actual funds available. While the budget includes appropriations for specific projects to be funded out of the Improvement and Extension Fund at the beginning of each fiscal year, the Department re-authorizes such appropriations and

approves the award of a contract for specific projects only when cash is on hand in such fund, which is then fully encumbered in an amount equal to the amount of the award.

Investment Policy

Funds in excess of current System requirements are invested by the City for the Department in accordance with State law. The City 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 City's investment policy is to provide for effective cash management. The City's 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 City has not experienced material investment-related losses in any City managed funds. As of April 1, 2008, the Water Fund held investments with a total market value of approximately \$633,550,004 and the longest investment had a maturity date of March 20, 2013.

Rates

Under the City Charter, the Board has the authority to establish rates for water service. In accordance with the Act, rates are subject to the review by and concurrence of the City Council. Certain of the wholesale contracts require certain notice requirements relating to rate changes, generally 90 or 120 days. Public hearings are required by statute under the Michigan Home Rule Act to be held prior to action on rate changes. No other statutory procedures are required as a condition precedent to a change in rates. Rates, once established, become effective the following July 1.

Under the Bond Ordinance, the City covenants that, with respect to each Fiscal Year, the rates shall be fixed and revised from time to time as may be necessary to produce the greater of: (1) the sum of (a) administrative and operating expenses of the System, (b) debt service on Senior Lien Bonds, (c) creation and maintenance of a debt service reserve for Senior Lien Bonds, (d) debt service on Junior Lien 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 System as the Bond Ordinance and the Act 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 FOR PAYMENT OF THE FIXED RATE BONDS – Operating and Rate Covenants." The City has covenanted at all times to fix and maintain such rates for services furnished by the System as shall be sufficient to provide for the foregoing. As a matter of operating policy, the Department has established a goal of fixing rates so that net revenues exceed the debt service coverage requirements of the Bond Ordinance. This policy may be changed from time to time by the Board without approval by Bondowners or any other party.

Under the Act, rates must be fixed and revised as necessary to comply with the Bond Ordinance. The contracts with wholesale municipal customers typically provide that rates be reasonable in relation to the costs incurred for the supply of water. The Department maintains a small staff to review and make recommendations on rates for water and sewer service. The Department has routinely retained outside consultants to supplement the efforts of its staff. The current water rate schedule became effective July 14, 2007. The Act provides that the rates charged by the System should not be subject to supervision or regulation by any State bureau, board, commission, or like agency or instrumentality of the State.

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 System is required to use by 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 following table indicates a summary of retail and wholesale water rates in effect over the past ten years. The fiscal year 2008 rates for wholesale customers per Mcf range from a low of \$5.63 to a high of \$274.94.

A new schedule of water rates developed to generate an overall revenue increase of approximately 8.0 percent over those produced by the existing water rates has been approved by the Board, was approved by the City Council May 6, 2008, and will become effective on all bills issued on or after September 3, 2008.

SOURCE: The Department

Water Rate Comparison

As shown in the following table, current charges for consumption of a like amount of water are generally less in Detroit than in most other major cities. The Department anticipates increasing rates as is necessary to continue the funding of the Capital Improvement Program that 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 System, and that the price and availability of water in the area should continue to be a positive factor in the attraction of industry to the area.

City	Small (a)		Medium (b)		Large (c)	
	Amount	Rank	Amount	Rank	Amount	Rank
Chicago	\$ 117	1	\$ 1,561	2	\$ 156,137	7
Phoenix	132	2	2,970	12	301,157	14
Memphis	137	3	1,946	3	99,303	1
Jacksonville	172	4	1,484	1	103,522	2
Dallas	181	5	2,155	6	164,935	8
Detroit	184	6	2,152	5	169,174	9
New York	198	7	2,653	10	265,320	11
Milwaukee	199	8	2,317	8	116,996	4
Baltimore	220	9	1,953	4	125,306	5
Austin	220	9	4,106	18	349,183	19
Columbus	222	11	2,219	7	149,885	6
Indianapolis	247	12	2,336	9	114,761	3
San Francisco	260	13	3,161	14	277,421	13
San Jose	263	14	3,129	13	270,216	12
San Antonio	271	15	3,588	17	305,353	15
Houston	277	16	3,287	15	310,830	16
Los Angeles	284	17	3,361	16	336,072	18
Philadelphia	288	18	2,753	11	228,427	10
Boston	353	19	4,947	20	511,514	20
San Diego	380	20	4,271	19	317,585	17
Average (d)	\$ 233		\$ 2,852		\$ 237,049	

- (a) Based on water use of 90,000 gallons (12 Mcf) per year and 5/8" meter.
- (b) Based on water use of 1.2 million gallons (160 Mcf) per year and 2" meter.
- (c) Based on water use of 1.2 million gallons (160 Mcf) per year and 2" meter.
- (d) Excluding Detroit.

SOURCE: Black & Veatch Corporation 2005 Survey.

FINANCIAL OPERATIONS

Summary of Historical Revenues and Expenses

The table below shows historical revenues and expenses of the Water Supply System for each of the past five fiscal years ended June 30, 2007. Information is derived from the audited financial statements of the Water Fund for fiscal years ended June 30, 2003 through and included the fiscal year ended June 30, 2006. The financial statement of the Water Fund for fiscal year ended June 30, 2007 has not been audited. Financial statements and notes thereto as of and for the fiscal years ended June 30, 2006 and June 30, 2005 are included in Appendix B – “Audited Financial Statements of the Water Fund of the City of Detroit, Michigan.”

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**Summary of Historical Revenues and Expenses
For Fiscal Years 2003-2007**

	Fiscal Year Ending June 30,				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> <i>(Unaudited)</i>
Operating Revenues:					
Water Sales - Detroit	\$ 61,814,702	\$ 70,881,142	\$ 58,921,494	\$ 68,736,614	\$ 66,383,095
Water Sales - Suburban	175,537,813	180,816,227	200,050,339	205,581,302	208,028,964
Other	<u>3,678,190</u>	<u>3,719,815</u>	<u>1,641,252</u>	<u>1,912,850</u>	<u>2,322,380</u>
Total Operating Revenues	\$ 241,030,705	\$ 255,417,184	\$ 260,613,085	\$ 276,230,767	\$ 276,734,438
Operation and Maintenance Expenses					
Source of Supply	\$ 1,400,820	\$ 2,599,262	\$ 2,244,535	\$ 2,856,385	\$ 1,570,104
Low Lift Pumping	5,402,838	5,628,218	6,081,177	8,258,270	6,411,189
Purification	15,967,195	17,406,399	18,983,784	18,441,764	15,436,846
High Lift Pumping	26,208,834	18,614,963	19,338,389	15,306,817	20,602,556
Water Quality Operations	3,044,338	3,447,504	1,876,012	1,705,680	1,407,394
Transmission and Distribution	56,294,653	56,548,520	52,449,347	42,241,472	41,899,632
Commercial	5,578,007	6,244,587	7,227,323	5,084,493	6,219,119
Administrative and General	<u>43,716,332</u>	<u>42,072,318</u>	<u>48,753,131</u>	<u>52,320,068</u>	<u>58,059,479</u>
Total Operating Expenses	\$ 157,613,017	\$ 152,561,771	\$ 156,953,698	\$ 146,214,949	\$ 151,606,319
Net Operating Revenues (a)	83,417,688	102,855,413	103,659,386	130,015,817	125,128,120
Non-Operating Income (b)	<u>6,453,901</u>	<u>4,223,627</u>	<u>7,175,672</u>	<u>18,843,877</u>	<u>34,065,168</u>
Net Revenues	\$ 89,871,589	\$ 107,079,040	\$ 110,835,058	\$ 148,859,694	\$ 159,193,288
Debt Service Requirements (c)					
Senior Lien Bonds	\$ 61,450,538	\$ 63,808,400	\$ 71,795,200	\$ 73,404,900	\$ 82,262,200
Senior Lien and Second Lien Bonds	\$ 82,912,996	\$ 95,330,500	\$ 105,575,100	\$ 107,287,800	\$ 115,174,700
All Bonds including SRF Junior Lien Bonds				\$ 107,305,000	\$ 115,449,700
Debt Service Coverage (d)					
Senior Lien Bonds	1.46	1.68	1.54	2.03	1.94
Senior Lien and Second Lien Bonds	1.08	1.12	1.05	1.39	1.38
All Bonds including SRF Junior Lien Bonds				1.39	1.38

- (a) Net Revenues not required to flow into the Interest and Redemption Funds or the Extraordinary Repair and Replacement Reserve Fund are available for capital expenditures. It should be noted that the table reflects accounting on an accrual basis in accordance with generally accepted accounting principles and does not necessarily reflect cash available since revenues include accounts receivable and expenditures include a number of "non-cash" items such as increases in the amounts reserved for doubtful accounts.
- (b) Does not include "Miscellaneous Non-Operating Income (Expense)," which amounts are reflected on the Statement of Operations as a net adjustment to Non-Operating Income (Expense). Historically, miscellaneous non-operating income has been actual cash receipts not derived from operations and has not been material.
- (c) Includes liquidity fees, as these have traditionally been treated as interest payments for accounting purposes. Projections of debt service in this Remarketing Circular do not include such fees, in accordance with the Bond Ordinance treatment of such fees as Ancillary Obligation Fees and Expenses.
- (d) "Coverage" calculations include all Net Revenues available for payment of debt service, and include Construction Fund investment earnings. See "SECURITY AND SOURCES OF PAYMENT FOR THE FIXED RATE BONDS – Pledged Assets" regarding treatment of Construction Fund investment earnings.

SOURCE: The Department

Analysis of Recent Operations

The following information summarizes the financial operations of the System for the last five fiscal years. Audited financial statements are available for fiscal years 2003 through 2006, and additional detailed information related to the financial statements for the fiscal years ended June 30, 2006 and June 30, 2005 can be found in Appendix B – “Audited Financial Statements of the Water Fund of the City of Detroit, Michigan.” The fiscal year 2007 figures contained herein are unaudited.

Operating Revenues. As indicated in the above table, System operating revenues (primarily generated from water sales) have increased approximately \$36 million, or 15%, since fiscal 2003. This increase is primarily attributable to water rate increases during that period, as water sales have experienced a moderate decline during that time. However, the variance from year to year is also partially attributable to varying levels of bad debt expense throughout the period. In order to align with the presentation of financial results in a manner consistent with the 2005 audited financial statements, operating revenues in this schedule are expressed net of bad debt expense, which was recorded as an operating expense prior to 2005. Bad debt expense is recognized on the Department’s financial statements based on an analysis of the size and age of accounts receivable and the expected ability to collect those receivables. During 2004, the Department did not record any bad debt expense, as existing reserves were deemed adequate based on the analysis conducted at the time. The corresponding bad debt expense figures for 2005, 2006 and 2007 were approximately \$11.0 million, \$4.4 million and \$6.3 million, respectively. Miscellaneous operating revenue, which refers to other operating revenue not directly generated from the sale of water, remained fairly consistent over the past three years.

Operating Expenses. Total operating expenses in 2007 were actually approximately \$6 million (or 4 percent) lower than those experienced in 2003.

The relatively stable cost levels are primarily attributable to the cost efficiency measures implemented by Department management over the last three fiscal years. See “FINANCIAL PROCEDURES – Management Initiatives.” A portion of the annual variation in operating 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 two utilities 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.

Nonoperating Income. As indicated in footnote (b) to the above table, the category “Miscellaneous Nonoperating Income (Expense)” reflected in the financial statements is a “net” amount and has historically represented relatively small amounts of nonoperating income or certain non-cash write offs. Recently this category also includes “contributions” of assets and other non-monetary amounts. 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 System operations or debt service. The presentation in the preceding table does not reflect any elements of Miscellaneous Nonoperating Income (Expense).

The indicated debt service coverage levels for all liens of debt have experienced a significant increase during the last two years. These coverage levels have been in excess of the prospective figures required by the Bond Ordinance and the Board’s policy goal. These improved levels are a product of several elements, including the ongoing implementation of the Departments efficiency initiatives, more conservative planning for regarding water sales levels, bad debt expense and other “non-cash” operating expenses, and a moderate reduction in the occurrence of such “non-cash” expenses during the last two years. The Department continues to take steps to ensure improved fiscal performance.

The Department has made and continues to make significant efforts to ensure that financial plans accurately accommodate each of these issues and that its financial accounting systems accurately report activity for each of these matters.

Summary of Projected Revenues and Additional Revenue Requirements For Fiscal Years 2008-2012

	Fiscal Year Ending June 30,				
	2008	2009	2010	2011	2012
Operating Revenue Under Existing Rates(a)	\$ 304,259,800	\$ 317,142,400	\$ 326,905,000	\$ 329,365,500	\$ 331,846,800
<u>Projected Revenue from Rate Increases(b)</u>			20,112,000	20,263,400	20,416,000
FY 2010: 6.2%				23,724,600	23,903,300
FY 2011: 6.8%					24,951,600
FY 2012: 6.6%					
<hr/>					
Total Projected Revenue from Water Rates	304,259,800	317,142,400	347,017,000	373,353,500	401,117,700
Miscellaneous Operating Revenue	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Projected Non-Operating Revenue	<u>15,765,400</u>	<u>12,275,900</u>	<u>7,911,900</u>	<u>9,075,300</u>	<u>9,586,000</u>
Total Projected Operating Revenue	\$ 321,525,200	\$ 330,918,300	\$ 356,428,900	\$ 383,928,800	\$ 412,203,700
<hr/>					
Operation and Maintenance Expense(c)	<u>156,579,600</u>	<u>156,593,400</u>	<u>160,508,200</u>	<u>164,520,900</u>	<u>168,633,900</u>
Projected Net Operating Revenues	164,945,600	174,324,900	195,920,700	219,407,900	243,569,800
<hr/>					
Senior Lien Debt Service	97,531,500	110,137,200	109,843,700	127,987,700	145,989,000
Junior Lien Debt Service	36,084,600	41,649,400	41,899,800	42,131,000	43,084,900
DWRF Junior Lien Debt Service	<u>1,540,300</u>	<u>1,731,600</u>	<u>1,919,800</u>	<u>1,965,900</u>	<u>1,961,200</u>
Total Debt Service(d)(e)	\$ 135,156,400	\$ 153,518,200	\$ 153,663,300	\$ 172,084,600	\$ 191,035,100
<hr/>					
Projected Senior Lien Debt Service Coverage	169%	158%	178%	171%	167%
Projected Senior and Second Lien Debt Service Coverage	123%	115%	129%	129%	129%
Projected Total Debt Service Coverage	122%	114%	127%	128%	128%
<hr/>					
Balance for CIP and Other Purposes	\$ 29,789,200	\$ 20,806,700	\$ 42,257,400	\$ 47,323,300	\$ 52,534,700

- (a) Revenues for 2008 assume rates currently in effect. Revenues for 2009 – 2012 reflect rates scheduled to take effect in September 2008.
- (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 2009. Operating expense projected to also include certain fees to remarketing providers.
- (d) Reflects debt service (principal and interest) on all existing indebtedness, the Predecessor Bonds, and the Fixed Rate Bonds as provided in the immediately succeeding sentence, and future bonds. Reflects debt service on the Predecessor Bonds at a fixed interest rate payable by the City under the Existing Swaps until March 1, 2008. As a result of recent developments in the bond insurance industry discussed herein, from March 1, 2008, until the conversion to a Fixed Rate, debt service on the Predecessor Bonds was the approximate average variable rate borne by such Predecessor Bonds. Debt Service on the Fixed Rate Bonds after the Conversion Date included the net fixed payment by the City under the Mirror Swaps; see "INTRODUCTION - recent Developments in the Bond Insurance Industry", "PLAN OF REMARKETING - Related Interest Rate Swaps" and "INTEREST RATE SWAP AGREEMENTS – Interest Rate Swaps Related to the Remarketed Bonds" for more information.
- (e) Assumes bond sales in subsequent years at an annual interest rate of 5.25%. Although the Department may issue Additional Water System Bonds as Second Lien or Senior Lien Bonds, for purposes of this table future debt is assumed to be issued as Senior Lien Bonds.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). This change will cause the financial statements of the City to recognize the cost and related liability of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. For the City, this will result in increased expenses and a related liability, which will likely be significant. The City is currently evaluating the effect that GASB No. 45 will have on its financial statements. The City commissioned an actuarial valuation as of December 31, 2004. The present value of all benefits expected to be paid to current plan members as of December 31, 2004 is \$8,033 million (\$3,931 million for current retirees and \$4,102 million for active employees). The actuarial accrued liability, which is the portion of the \$8,033 million attributable to the service accrued by plan members as of December 31, 2004, is \$6,244 million. The City has not yet determined the Department's share of this liability. As of December 31, 2004, there were no plan assets available to offset the liabilities of the plan. Statement No. 45 is effective for the year ending June 30, 2008.

LITIGATION

Detroit Water and Sewerage Department Litigation

The City of Detroit recently constructed a new 800 Megahertz (MHz) radio communications system that provides communication capabilities to all City departments for both day to day operations and emergency situations. The total cost of the 800 MHz was approximately \$138 million.

In May 2003 the City of Detroit Budget Department, on behalf of all of the general fund departments, and the Detroit Water and Sewerage Department (the "DWSD"), an enterprise fund department) entered into a Memorandum of Understanding (the "MOU"), pursuant to which DWSD took the lead in contracting for and overseeing the construction of the 800 MHz radio project. Pursuant to the MOU, DWSD agreed that it would pay 60% of the capital (i.e. infrastructure) cost of the project and the general fund departments would pay 40% of those costs. That allocation was based on the larger footprint of DWSD's service area (1,000 square miles in eight counties in southeast Michigan) as compared to the approximately 100 square mile area of the City served by the general fund departments. This allocation was also based on the understanding that 15 of the 25 radio communication towers (60%) needed to support the system would be constructed outside the City of Detroit and utilized only by DWSD. Thus, of the total infrastructure costs of \$64.4 million, DWSD paid \$38.6 million and the general fund departments paid the balance. The City subsequently succeeded in negotiations with the State of Michigan for the use of its Michigan Public Safety Communications System (MPSCS) radio towers for communications support outside the City of Detroit, in exchange for various payments and the improvements both to the MPSCS towers and the towers planned to be constructed inside the City of Detroit for use of those towers by the State.

In late 2005 Wayne, Oakland and Macomb Counties challenged the 60:40 infrastructure cost allocation in litigation pending in U.S. District Court. Those counties are wholesale sewerage customers of DWSD. They argued that the allocation of the costs of the system passed on, in part, to those Counties through DWSD's rates was improper. They argued that DWSD's allocated share of the infrastructure costs should have been closer to 8%, based on DWSD's actual air time use of the radio system.

On March 23, 2007 the Court issued an opinion in which the Court determined that DWSD's share of the infrastructure cost was too high. A final order implementing that opinion has not yet been entered. The Court has ordered the parties to engage in negotiations supervised by the Court to determine the exact amount of the overpayment by DWSD that must be reimbursed by the general fund departments. The negotiations are ongoing.

On October 9, 2002 the City of Warren filed a lawsuit in Macomb County Circuit Court challenging the water rate increases for the City of Warren that took effect on July 1, 2001 and July 1, 2002. The Department is defending the lawsuit with retained counsel. The Department removed the case to the United States District Court for the Eastern District of Michigan. The Department did so because the plaintiff challenged the allocation of certain costs between the water and sewage funds. The challenge implicated the terms of settlement agreements and

consent judgments entered by the District Court. On February 13, 2006 the U.S. District Court granted the Department's motion to dismiss the lawsuit. The plaintiff filed an appeal of that ruling with the Sixth Circuit Court of Appeals. On July 23, 2007 the Court of Appeals reversed the District Court's decision to take jurisdiction over the case and ordered that it be remanded to Macomb County Circuit Court. The Department filed a motion for change of venue to a neutral county, which was granted. The case was recently transferred to Saginaw County Circuit Court.

On April 18, 2007 EBI-Detroit Inc. filed suit against the Department in a lawsuit over a construction project at the Lake Huron Water Treatment Plant. EBI was the general contractor. The lawsuit seeks compensation for alleged delay damages and breach of contract. The lawsuit was originally filed in St. Clair County Circuit Court. That court has granted the Department's motion for a change of venue to Wayne County. The Department will contest the lawsuit.

Other Litigation

The Department is involved in numerous other lawsuits related to the System. These lawsuits arise primarily out of personal injuries or property damage, or assert breach of contract claims on construction projects for the System. The Department and its legal counsel have determined an estimated contingent reserve against the potential outcome of such claims or the amount of potential damages.

On March 24, 2008 the Wayne County Prosecutor filed charges of obstruction of justice and perjury against the Mayor of Detroit. The charges relate to his testimony in a wrongful discharge lawsuit filed by two former police officers. That underlying litigation, which has been settled, had no connection to the Detroit Water and Sewerage Department. The Mayor has asserted his innocence and announced that he will fight the charges. The Department believes that the charges against the Mayor should not have any effect on the revenues of the Department or the security for the bonds.

CONTINUING DISCLOSURE UNDERTAKING

The Continuing Disclosure Undertaking

The City has covenanted for the benefit of the Beneficial Owners (as hereinafter defined) of the Fixed Rate Bonds pursuant to the Continuing Disclosure Undertaking heretofore delivered by the City (the "Disclosure Undertaking") (a summary of which is set forth in Appendix F, hereto), to provide or cause to be provided: (i) each year, audited financial statements (unaudited if audited are unavailable) and certain financial information and operating data pertaining to the System (collectively, the "Annual Report") by not later than the date 210 days after the last day of the fiscal year for the City, commencing with the Annual Report for the City's fiscal year ending June 30, 2007, and (ii) timely notices of the occurrence of certain enumerated events, if material. Currently, the City's fiscal year commences on July 1. "Beneficial Owners" means, under this caption only, the registered owner of any Fixed Rate Bond, or any person with the power, directly or indirectly, to vote or consent with respect to, or to dispose of Fixed Rate Bond (including any person holding a Fixed Rate Bond through a nominee, depository or other intermediary) or who is treated as the owner of any Fixed Rate Bond for federal income tax purposes.

An Annual Report will be filed by the City with each nationally recognized municipal securities information repository (each a "NRMSIR") and with Michigan's state information depository (the "SID"), in each case as then recognized as such by the Securities and Exchange Commission (the "SEC"). If the City is unable to provide to each NRMSIR and the SID an Annual Report by the date required, the City shall send, in a timely manner, to each NRMSIR or the Municipal Securities Rulemaking Board (the "MSRB"), and to the SID, a notice of the failure to file the Annual Report by such date. The notices of material events will be filed by the City with the MSRB or each NRMSIR, and with the SID. Any filing with each NRMSIR and the SID may be made by transmitting such filing to Disclosure USA as provided at www.disclosureusa.org unless the SEC withdraws the interpretive advice contained in its letter to the Municipal Advisory Council of Texas, dated September 7, 2004. These covenants have been made in order to assist the Remarketing Agent and registered brokers, dealers and municipal securities dealers in complying with the requirements of subsection (b)(5) of Rule 15c2-12 promulgated by the SEC pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule").

In recent years, the City has been unable to meet its obligation under continuing disclosure agreements related to prior bond issues, to provide annual financial information within the periods specified in the applicable

agreements. Annual financial information for the City for Fiscal Years ended June 30, 1999 through 2002 was filed on May 10, 2000, May 28, 2001, May 31, 2002 and March 10, 2003, respectively. Annual financial information for Fiscal Year ended June 30, 2003 was filed on March 1, 2004 (for other bonds), and for Fiscal Year ended June 30, 2004 was filed on February 16, 2005 (for water supply system bonds and sewage disposal system bonds) and on May 5, 2005 (for other bonds). Annual financial information for Fiscal Year ended June 30, 2005 was filed on June 1, 2006. Annual financial information for Fiscal Year ended June 30, 2006 was filed by the City on February 29, 2008. Annual financial information for the Fiscal Year ended June 30, 2007 will be filed after completion of an audit of such financial information. A failure by the City to comply with the Disclosure Undertaking 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 of the Fixed Rate Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of and the market price for the Fixed Rate Bonds.

The Disclosure Dissemination Agent – DAC

In order to provide continuing disclosure with respect to the Fixed Rate Bonds in accordance with the Rule, in connection with the issuance of the Fixed Rate Bonds the City will enter into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) for the benefit of the Beneficial Owners 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 this 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 Report, Audited Financial Statements, notice of Notice Event or Voluntary Report, 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 Beneficial Owners 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.

TAX MATTERS

Federal Tax Matters

In the opinion of Lewis & Munday, A Professional Corporation, Bond Counsel, based on their examination of the documents described in their opinion, under existing law, as presently interpreted, the interest on the Fixed Rate 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 is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, and all rules and regulations promulgated thereunder (the “Code”) that must be satisfied subsequent to the remarketing of the Fixed Rate Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements may include rebating certain earnings to the United States. Failure to comply with any of such requirements could cause the interest on the Fixed Rate Bonds to be included in gross income retroactive to the date of issuance of the Fixed Rate Bonds. The City has covenanted to comply with all such requirements.

Additional federal tax consequences relative to the Fixed Rate Bonds and interest thereon include the following matters. The following is a general description of some of these consequences, but is not intended to be

complete or exhaustive, and investors should consult their tax advisors with respect to these matters. For federal income tax purposes: (a) tax-exempt interest, including interest on the Fixed Rate Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Fixed Rate Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Fixed Rate Bonds; (d) interest incurred or continued to purchase or carry the Fixed Rate Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations such as the Fixed Rate Bonds; (f) interest on tax-exempt bonds, such as the Fixed Rate Bonds, will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; and (g) passive investment income, including interest on tax-exempt bonds such as the Fixed Rate Bonds, may be subject to federal income taxation for Subchapter S Corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S Corporation is passive investment income.

State Tax Matters

Bond Counsel is further of the opinion that, under existing law, as presently interpreted, the Fixed Rate Bonds and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan, except inheritance and estates taxes, and taxes on gains realized from the sale, payment or other disposition of the Fixed Rate Bonds.

Original Issue Discount

For federal income tax purposes, if the remarketing price of a Fixed Rate Bond as shown on the cover of this Official Statement is less than the stated redemption price at maturity, then such Fixed Rate Bond is considered to have an "original issue discount" equal to the difference between such remarketing price and the amount payable at maturity (such Fixed Rate Bonds are referred to as "Original Issue Discount Bonds"). The remarketing price of each Original Issue Discount Bond will be the remarketing price to the public at which a substantial amount of such Original Issue Discount Bonds are sold, and the issue date will be the date on which an Original Issue Discount Bond is first issued to the public.

In the opinion of Bond Counsel, under existing law as presently interpreted, the original issue discount on an Original Issue Discount Bond accrued in the hands of a registered owner is treated for federal income tax purposes as tax-exempt interest as described below. The registered owner's basis for determining gain or loss on a sale, maturity or other disposition of an Original Discount Bond generally will equal the registered owner's cost, increased by any original issue discount that accrued while the owner held the Original Discount Bond as described below. Generally, any gain or loss incurred by a U.S. registered owner on the sale, exchange or payment at maturity of an Original Discount Bond (based on the registered owner's basis) would be taxable as capital gain or loss (assuming the Original Discount Bond is held as a capital asset), which would be long term or short term depending on whether the Original Discount Bond was held for more than the applicable treatment of long term capital gain.

Subject to the modification in the next paragraph for certain subsequent registered owners, the original issue discount accrued in each "accrual period" will equal the remarketing price of the Original Issue Discount Bond (increased by the amount of the original issue discount accrued in all prior accrual periods without regard to the modifications discussed in the next paragraph) multiplied by the yield to maturity of the Original Issue Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less the interest payable on such Original Issue Discount Bond during such accrual period. For purposes of this paragraph, "accrual period" means a six month period (or shorter period from the date of remarketing of the Original Issue Discount Bond) which ends on a day in the calendar year corresponding to the maturity date of the Original Issue Discount Bond or the date six months before such maturity date. The original issue discount so accrued in a particular accrual period will then be considered to accrue ratably on each day of the accrual period.

A modification of the foregoing rules will generally apply to a registered owner who acquired an Original Issue Discount bond by "purchase" if the cost of the Original Issue Discount Bond to that purchaser exceeds the sum of (a) the remarketing price of the Original Issue Discount Bond and (b) the total original issue discount

accrued under the rules of the preceding paragraph during the entire period prior to the registered owner's purchase of the Original Issue Discount Bond. In that case, the amount of the original issue discount considered to accrue in an accrual period will equal (i) the amount determined under the rules of the preceding paragraph reduced by (ii) the portion of such excess purchase price allocable to the days beginning on the date of such purchase and ending on the stated maturity date of the Original Issue Discount Bond. Such excess would be allocated so as to equal a constant percentage of the original issue discount accrued on each such day in the remaining period to maturity as described above. For this purpose, a "purchase" is any acquisition of an Original Issue Discount Bond other than one in which the registered owner's basis in such Original Issue Discount Bond is determined by reference to the basis of the Original Issue Discount Bond in the hands of the person from whom acquired (such as a gift).

Amortizable Bond Premium

For federal income tax purposes, under existing law, as presently interpreted, if the remarketing price of a Fixed Rate Bond is greater than the stated redemption price at maturity (such bonds are hereafter referred to as "Premium Bonds"), then the difference between a purchaser's cost basis of the Premium Bonds and the amounts payable on the Premium Bonds (other than the payment of the stated interest thereon) constitutes an amortizable bond premium. Such amortizable bond premium 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 Premium Bonds and is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code.

In general, the amount of amortizable bond premium allocated to each "accrual period" is the excess of the stated interest on a Premium Bond allocable to such accrual period over the product of the bond purchaser's adjusted acquisition price at the beginning of such accrual period multiplied by the discount rate that, when used in computing the present value of all remaining payments to be made on such Premium Bond (including stated interest) produces an amount equal to the holder's basis in the Premium Bonds. For purposes of this calculation, the adjusted acquisition price at the beginning of any accrual period is equal to the purchaser's original basis in the Premium Bond decreased by (i) the amount of bond premium amortized in prior accrual periods and (ii) the amount of any payments previously made on the Premium Bond other than payments of stated interest on such Premium Bond.

The amount of amortizable bond premium allocable to each taxable year is deducted from the bond purchaser's adjusted basis on such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Fixed Rate Bonds.

Market Discount

Pursuant to amendments made to the Code by the Omnibus Budget Reconciliation Act of 1993, the "market discount rules" of the code apply to the Fixed Rate Bonds. Accordingly, holders acquiring their Fixed Rate Bonds subsequent to the remarketing of the Fixed Rate Bonds will generally be required to treat market discount recognized under the provisions of the Code as ordinary taxable income (as opposed to capital gain income). Holders should consult their own tax advisors regarding the application of the market discount provisions of the Code and the advisability of making any of the elections relating to market discount allowed by the Code.

Recent Developments

The City has determined that it has not implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax-exempt obligations. The City is engaged in discussions with the Internal Revenue Service with a view to establishing such procedures. The potential impact to the City is indeterminable at this time.

The opinion of Bond Counsel is based on existing law as of the date of the opinion and the opinion does not cover future changes in law. Michigan tax law could be affected by a decision of the United States Supreme Court in the case of *Kentucky Department of Revenue Services v. Davis*. The case was argued before the Court on November 5, 2007. The Kentucky Court of Appeals ruled that taxing interest income on out-of-state bonds while exempting interest on bonds issued by the Commonwealth of Kentucky and its political subdivisions violates the Commerce Clause of the United States Constitution. Like Kentucky and a number of other states, the State of Michigan taxes interest on bonds of out-of-state issuers but exempts the interest on bonds issued by the State of

Michigan and its political subdivisions. In the event that the United States Supreme Court upholds the Kentucky decision and rules that it is unconstitutional to exempt the interest on in-state bonds while taxing the interest on out-of-state bonds, the State of Michigan and other states may modify their tax laws as to the treatment of interest on in-state and out-of-state bonds. No assurances can be given as to the outcome of the Davis case or as to the nature of any legislative response by the State of Michigan or any other state if the decision in Davis is upheld. Owners of the Fixed Rate Bonds should consult their tax advisors with respect to the potential impact on ownership, disposition and market value of the Fixed Rate Bonds as a result of the Davis case at the Supreme Court.

Future Developments

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 Fixed Rate Bonds to be subject directly or indirectly to federal income taxation, or which could cause the interest on the Fixed Rate Bonds to be subject directly or indirectly to State of Michigan income taxation, adversely affect the market price or marketability of the Fixed Rate Bonds, or otherwise prevent the holders 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 Fixed Rate Bonds for audit examination, or the course or result of any examination of the Fixed Rate Bonds, or other bonds which present similar tax issues, will not affect the market price of the Fixed Rate Bonds.

Tax Advisors

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE FIXED RATE BONDS.

FEASIBILITY CONSULTANT

The Department retains The Foster Group, LLC as a Feasibility Consultant to develop reports and studies relating to the Water Supply System and certain financial matters. The Financial Feasibility Report appears in Appendix A.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton, LLP, independent certified public accountants and consultants, will deliver a report dated as of the applicable Conversion Date of the interest mode on the Predecessor Bonds from the Weekly Mode to the Fixed Rate Mode verifying the accuracy of the yield of the Fixed Rate Bonds. Such verification will be used by Bond Counsel in its determination that the interest on the Fixed Rate Bonds is not included in gross income for federal income tax purposes as a condition to the conversion and remarketing of the Fixed Rate Bonds. Such verifications will be based upon certain information supplied to Grant Thornton, LLP by the Remarketing Agent.

INDEPENDENT AUDITORS

The financial statements of the Water Fund as of and for the years ended June 30, 2006 and 2005, included in Appendix B – “Audited Financial Statements of the Water Fund of the City of Detroit, Michigan,” have been audited by KPMG LLP, independent auditors, as indicated in their report with respect thereto, which report also appears in Appendix B.

CERTAIN LEGAL MATTERS

Legal matters incident to the conversion of the Fixed Rate Bonds will be passed upon by Lewis & Munday, A Professional Corporation, Detroit, Michigan, and for the Remarketing Agent by its counsel, Allen Brothers, PLLC, Detroit, Michigan.

REMARKETING

Pursuant to the Remarketing Agreement, Siebert Brandford Shank & Co., LLC, as Remarketing Agent, agrees subject to certain conditions to purchase the 2001C Fixed Rate Bonds from the City at a purchase price of \$204,334,981.00 (being the principal amount of the 2001C Fixed Rate Bonds, plus a net reoffering premium of \$15,127,438.05 less an underwriter's discount of \$1,197,457.05) and to purchase the 2005B Fixed Rate Bonds from the City at a purchase price of \$202,249,601.15 (being the principal amount of the 2005B Fixed Rate Bonds, plus a net reoffering premium of \$8,575,327.25, less an underwriter's discount of \$1,225,726.10). The Remarketing Agent will be obligated to purchase all the Fixed Rate Bonds if any are purchased. The Fixed Rate Bonds may be offered and sold by the Remarketing Agent to certain dealers at prices lower than the initial public offering prices for the Fixed Rate Bonds, and the public offering prices may be changed from time to time. In connection with this offering, the Remarketing Agent may overallocate or effect transactions which stabilize or maintain the market price of the Fixed Rate Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Should the conversion of the Predecessor Bonds to the Fixed Rate Mode fail to occur, the Predecessor Bonds to have been converted will remain outstanding and Siebert Brandford Shank & Co., LLC will remarket the Bonds as Variable Rate Bonds in the Weekly Mode. This Remarketing Circular describes the Fixed Rate Bonds in the Fixed Rate Mode only. It is not intended to be used in connection with any offer to sell or remarket any Predecessor Bonds in any Mode other than the Fixed Rate Mode. Reference should be made to the Official Statements for the Predecessor Bonds on file with the MSRB for information concerning the remarketing of the Predecessor Bonds in the Weekly Mode in the event the conversion to the Fixed Rate Mode is not successful. See Appendix D – "Amendments to Certain Provisions of the Authorizing Documents."

RATINGS

S&P and Moody's are expected to assign their long-term municipal bond ratings of "AAA" and "Aaa" respectively to the Fixed Rate Bonds based upon the issuance by BHAC of the BHAC Insurance Policies for the Fixed Rate Bonds. In addition S&P, Moody's and Fitch have assigned their underlying long-term municipal bond ratings of "A+" "A2" and "A+" respectively, to the 2005B Fixed Rate Bonds based upon the underlying rating of Senior Lien Bonds of the City of Detroit, Water Supply System. and underlying long-term municipal bond ratings of "A" "A3" and "A" to the 2001C Fixed Rate Bonds based upon the underlying rating of Second Lien Bonds of the City of Detroit, Water Supply System.

An explanation of the significance of such ratings may only be obtained from S&P, Moody's and Fitch. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely, if in the sole judgment of S&P, Moody's or Fitch, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the trading value and the market price of the Fixed Rate Bonds. The City makes no representations as to the appropriateness of the ratings. The City makes no representations as to the appropriateness of the ratings.

The above ratings are not recommendations to buy, sell or hold the Fixed Rate Bonds, and such ratings may be subject to revision or withdrawn at any time by the Rating Agencies. Each of the Rating Agencies has recently issued press releases or reports stating that they are examining the potential effects of downturns in the market for structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies, including FGIC. See "INTRODUCTION – Recent Developments in the Bond Insurance Industry." Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Fixed Rate Bonds.

MISCELLANEOUS

This Remarketing Circular is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Fixed Rate Bonds. Any statements made in this Remarketing Circular involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as a representation of fact.

The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of this Remarketing Circular nor any sale made hereunder shall under any circumstances create any implication or permit any inference that there has been no change in the affairs of the City or the System since the date hereof. Certain projections contained herein are based upon assumptions as to future events and facts, including projections as to future water supply needs, and such projections may not be realized. While assumptions of facts appeared reasonable when made, no warranty is expressed or implied that they will be realized in fact. The information set forth herein has been obtained from the City and other sources believed to be reliable but the accuracy or completeness is not guaranteed by, and should not be construed as a representation by the Remarketing Agent. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire texts of the documents. Under no circumstances shall this Remarketing Circular constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Fixed Rate Bonds, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Additional information may be obtained upon request from the Office of Debt Management, Attention: Donita Crumpler, Assistant Debt Manager, whose address is 1210 Coleman A. Young Municipal Center, Detroit, Michigan 48226 (telephone: 313-224-7244) or from the Director of the Department, Victor M. Mercado, whose address is Water Board Building, 735 Randolph, Detroit, Michigan 48226 (telephone: 313-224-4701).

The Finance Director has approved this Remarketing Circular pursuant to the Remarketing Agreement.

CITY OF DETROIT, MICHIGAN

By: /s/ Norman L. White _____

Finance Director

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

Feasibility Report

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

May 6, 2008

Mr. Victor Mercado, Director
Detroit Water and Sewerage Department
Water Board Building
735 Randolph Street
Detroit, Michigan 48226

Dear Mr. Mercado:

In accordance with our agreement with the City of Detroit (the "City"), we submit herewith our Financial Feasibility Report to be included as an appendix to the remarketing circular (the "Remarketing Circular") prepared by the City in connection with its remarketing of \$385,305,000 Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C and Water Supply System Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B (collectively, the "2008 Remarketing Bonds"). The purpose of this report is to set forth information concerning financial factors relating to the 2008 Remarketing Bonds.

The report contains the financial feasibility information including analyses of water rates and rate methodology, projections of revenues under existing rates, projection of future operation and maintenance expenses, CIP financing, and the impact of projected revenue requirements on future revenues and water rates.

In addition, during the course of our review we have updated our overview of the water treatment and distribution system (the "System") owned by the City and operated by the Detroit Water and Sewerage Department (the "Department"). Our overview, traditionally contained in feasibility reports related to issuance of new money bonds, has instead been incorporated into the main body of the Remarketing Circular. In connection with the remarketing, compliance with the Additional Bonds Test set forth in the City's ordinance under which the 2008 Remarketing Bonds were issued (the "Bond Ordinance") will not be required and, accordingly, is not included herein.

It has been a pleasure to have been of service to the Department on this matter.

Very truly yours,

THE FOSTER GROUP



Bart Foster
President

[THIS PAGE INTENTIONALLY LEFT BLANK]

Contents

	<u>Page</u>
Introduction.....	1
Financial Feasibility for the 2008 Remarketing Bonds	2
Rate Methodology and Existing Rates	2
Projection of Revenues.....	4
Operation and Maintenance Expense Projections	5
Capital Improvement Program	6
Capital Improvement Program Financing.....	7
Impact of Projected Revenue Requirements on Water Service Rates	9

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 2008 Remarketing Bonds are not intended to finance capital improvement program expenditures – but rather to fix rates of interest on several currently outstanding variable rate bonds in order to achieve anticipated interest savings. Capital improvement expenditures in the Department's CIP through a portion of 2010 will be financed by a combination of available fund balances, loans from the Michigan State Revolving Fund ("SRF"), and internally generated funds. Capital improvement expenditures scheduled for 2010 and beyond are expected to be financed, in part, with future bond issues. *See "Capital Improvement Program Financing."*

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 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.

Financial Feasibility for the 2008 Remarketing Bonds

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.

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 for retail customers within the City, which became effective July 11, 2007, include three block rates ranging from \$13.56 per thousand cubic feet for the first block to \$11.15 per thousand cubic feet for the last block and a fixed service charge which varies by the size of the customer's water meter. The average rate charged to wholesale customers is \$11.81 per thousand cubic feet. A new schedule of water rates (the "2009 Rates"), has been approved by the Board of Water Commissioners and the City Council and is scheduled expected to take effect in August 2008. These rates represent an overall revenue increase of approximately 8.0 percent over the current rates.

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. Few challenges to the Department's water rates have been filed over the years, and the Department has prevailed in every instance. Because of the many variables used in the Department's water rate model to define use of the System by each customer community, it is quite complex. That complexity has occasionally contributed to perceptions of inequity among certain customer community representatives. In order to address these perceptions and achieve a greater understanding of the water rate development process, the Department has taken a number of steps to improve communication with the wholesale customers including the scheduling of individual meetings with the wholesale customers to discuss the basis for proposed rate adjustments. These efforts are embodied in the Department's partnering agreements with representatives of the customer communities. The TAC Water Rates Work Group has met on a regular basis over the past year to explore

issues impacting overall rate levels, cost allocation techniques, and how information regarding use of the System should impact cost responsibility amongst customers.

In addition, the 2009 Rates are the first that have been computed utilizing a new “Contract Method” water rate methodology that implements the terms of the model contract. This method, developed in concert with suburban customer representatives through the TAC process, allocates certain costs of service to customers based on their contracted maximum daily and hourly demands. In this manner, the planning between DWSD as the service provider and each customer community is tied to the new model contracts, capital investment decisions are made based on such planning, and cost recovery through water rates reflects the level of service stipulated in the contracts. While contracts are being negotiated, customer communities are assigned contract demand “proxies” based on a uniform process established by the TAC.

Recently, the partnering effort developed a formalized schedule for disseminating information regarding the development of proposed water rates. The intent of this initiative was to accelerate the availability of information used in rate development, allowing for a greater understanding and review opportunity for the Department and customers alike. This schedule included a series of customer meetings where information regarding water rates was formally distributed. Efforts such as these are creating a greater understanding of the water rate development process and have developing regional consensus on water rate issues.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Projection of Revenues

Table 1 presents the projected operating revenues for 2008 through 2012. 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 1 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.

Table 1
Projected Water System Sales and Revenues Under Existing Rates

	Fiscal Year Ending June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	\$	\$	\$	\$	\$
Operating Revenue (a)					
Wholesale Customers	228,555,000	243,624,300	246,069,800	248,530,300	251,011,600
Retail Customers					
Volume Charge Revenue	57,632,300	61,526,900	61,526,900	61,526,900	61,526,900
Meter Charge Revenue	<u>18,072,500</u>	<u>19,308,300</u>	<u>19,308,300</u>	<u>19,308,300</u>	<u>19,308,300</u>
Total Retail Customers	75,704,800	80,835,200	80,835,200	80,835,200	80,835,200
Miscellaneous Revenue	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total Operating Revenue	305,759,800	325,959,500	328,405,000	330,865,500	333,346,800
Revenues are based on projected water sales of:					
Wholesale (Mcf)	19,230,900	18,937,000	19,127,600	19,319,400	19,512,800
Retail (Mcf)	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>
Total Sales (Mcf)	24,030,900	23,737,000	23,927,600	24,119,400	24,312,800

(a) Based on application of FY 2009 rates for 2009 through 2012.

The projected water sales to wholesale customers were based on analyses of historical trends, discussion with the Department personnel, and analyses of specific information relating to individual customers. Water volume projections for 2008 through 2012 anticipate normal weather conditions and are based on an analysis of historical trends of ten years of actual data. Water sales for the wholesale customers are projected to increase moderately over the five-year period. The projected operating revenues are determined by applying the appropriate rates to the projected water sales for each wholesale customer and the City of Detroit retail customers. Projected revenues for 2008 reflect the water rate schedule currently in effect. Projected revenues for 2009 through 2012 reflect the new water rate schedule, which is scheduled to become effective in August 2008. Based on historical trends, retail water sales are projected to remain at current levels during the next five years.

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 2 presents the projected operation and maintenance expense for 2008 through 2012. These projections have been developed based on a detailed review of actual expenses for 2006 and 2007 as well as budgeted and year-to-date actual expenses for 2008, and budgeted expenditures for 2009.

The Department has been remarkably successful at holding operating expenses at current levels over the past several years. We are confident that the Department's recent efforts to control costs and ensure that all costs are accurately reported to the accounting system will continue to yield positive results. The cost-conscious environment established by management continues to be successful and performance could continue to improve as the programs are further implemented. However, new programs and the impacts of inflation will most likely not allow for the recent "no increases" in operating expense to continue.

The projections shown in Table 2 include recognition of the potential impact of anticipated escalation of costs due to inflation during the five-year planning period. While a detailed analysis of variable inflationary rates was conducted, in the final analysis all costs have been increased 2.5 percent annually beginning in 2010. Utilities, chemicals, contractual services and miscellaneous expenses for 2009 have generally been estimated at budgeted levels or at levels indicated by 2007 and 2008 expenditures.

Table 2
Projection of Operation and Maintenance Expense

	Fiscal Year Ending June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	\$	\$	\$	\$	\$
Plant Expenses					
Personnel Costs	16,858,400	16,859,900	17,281,400	17,713,400	18,156,300
Contractual Services	2,965,800	2,966,100	3,040,300	3,116,300	3,194,200
Utilities					
Electricity	22,789,300	22,791,300	23,361,100	23,945,100	24,543,700
Other	4,939,900	4,940,300	5,063,800	5,190,400	5,320,200
Chemicals	5,909,600	5,910,100	6,057,900	6,209,300	6,364,500
Other	<u>1,803,400</u>	<u>1,803,600</u>	<u>1,848,700</u>	<u>1,894,900</u>	<u>1,942,300</u>
Total Plant	55,266,400	55,271,300	56,653,200	58,069,400	59,521,200
Non-Plant Expenses					
Water Distribution	17,162,900	17,164,400	17,593,500	18,033,300	18,484,200
Maintenance	39,491,900	39,495,400	40,482,800	41,494,800	42,532,200
Commercial & Meter Operations	10,823,500	10,824,500	11,095,100	11,372,500	11,656,800
Engineering	3,821,600	3,821,900	3,917,400	4,015,400	4,115,800
Administrative & General	<u>30,013,300</u>	<u>30,015,900</u>	<u>30,766,200</u>	<u>31,535,500</u>	<u>32,323,700</u>
Total Non-Plant	101,313,200	101,322,100	103,855,000	106,451,500	109,112,700
Total Operation and Maintenance	156,579,600	156,593,400	160,508,200	164,520,900	168,633,900

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. The CIP is dynamic and requires continual review and modification during the course of each year. The current CIP is based on estimates of future capital costs as of June 30, 2007. The estimates for the 2008 ongoing projects are based on remaining costs as of June 30, 2007. As additional cost information is developed from design work being performed on the various projects, cost estimates are adjusted accordingly.

A summary of the CIP for 2008 through 2012 is presented in Table 3. 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 3
Water Supply System Capital Improvement Program
Projected Expenditure Schedule - Fiscal Years 2008 through 2012

Category	<i>Fiscal Year Ending June 30,</i>					Total
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
	\$	\$	\$	\$	\$	\$
Plant Replacement and Renovation						
General Plant	23,263,000	22,335,000	13,024,000	5,128,000	1,995,000	65,745,000
Water Works Park	845,000	3,100,000	4,000,000	3,100,000	20,500,000	31,545,000
Springwells	4,130,000	14,350,000	28,950,000	40,275,000	103,525,000	191,230,000
Northeast	4,674,000	10,870,000	14,950,000	22,093,000	38,248,000	90,835,000
Southwest	5,885,000	24,493,000	23,480,000	20,958,000	38,340,000	113,156,000
Lake Huron	1,824,000	7,850,000	2,300,000	1,150,000	0	13,124,000
Pumping Stations & Reservoirs	<u>9,491,000</u>	<u>25,775,000</u>	<u>38,916,000</u>	<u>17,125,000</u>	<u>13,700,000</u>	<u>105,007,000</u>
Subtotal - Plant	50,112,000	108,773,000	125,620,000	109,829,000	216,308,000	610,642,000
Metro Area Construction	60,631,000	148,321,000	183,856,000	169,449,000	141,250,000	703,507,000
Urban System Improvements	58,884,000	49,206,000	23,302,000	21,200,000	20,600,000	173,192,000
Mechanical Maintenance	21,746,000	22,775,000	22,050,000	3,700,000	0	70,271,000
Computer Systems	<u>4,163,000</u>	<u>3,450,000</u>	<u>3,500,000</u>	<u>3,525,000</u>	<u>3,000,000</u>	<u>17,638,000</u>
Subtotal	<u>145,424,000</u>	<u>223,752,000</u>	<u>232,708,000</u>	<u>197,874,000</u>	<u>164,850,000</u>	<u>964,608,000</u>
Total System	195,536,000	332,525,000	358,328,000	307,703,000	381,158,000	1,575,250,000

Capital Improvement Program Financing

Table 4 presents a plan for financing the System share of the CIP (Line 1) for the five-year period ending June 30, 2012. Within the constraints of the additional securities test and the Department's debt service coverage policies, the amount of bonds to be issued is designed to maximize the capital requirements financed with bond proceeds. Lines 2 through 15 outline the sources available to meet the CIP financing requirements. Line 2 shows the net balance in the Improvement and Extension Fund as of June 30, 2007, available to fund the CIP. Line 3 shows the amount projected to be transferred to the Improvement and Extension Fund each year from current operating revenues. Total funds available from the Improvement and Extension Fund are indicated on Line 4.

The capital financing sources available from the Construction Fund are indicated on Lines 5 through 13. Line 5 shows the net balance in the Construction Fund as of June 30, 2007. The 2008 Remarketing Bonds do not provide any capital financing, and are therefore not reflected in this table. The anticipated sizes of future bond issues are shown on Line 6. It is assumed that all future bond issues will be sold at the mid-point of the fiscal year and will include capitalized interest for a period of one year. Issuance expenses are estimated at three percent of the issue size plus \$200,000 per issue for future issues and are shown on Line 8. In addition, it is assumed that an amount equal to the maximum future principal and interest payment will be funded by Debt Service Reserve Surety Bonds and will be deducted from the proceeds of each issue, as shown on Line 9.

Line 11 presents the proceeds from State Drinking Water Revolving Fund Loans. Unlike other bond issues, funds from these loans are not fully received upon loan closing but are "drawn down" over time as dictated for associated projects costs. As the Department incurs expenditures for SRF funded projects, the invoices are transmitted to the state administrators of the SRF for remittance. As such, the amounts shown on Line 11 reflect the projected expenditure schedule of SRF funded projects. The figures on this line apply to existing loan commitments. The Department remains an active participant in the SRF program, and is planning on issuing additional SRF junior lien debt to obtain this low-cost financing during the study period. However, for purposes of the financial planning, this low cost financing is not reflected until the loan is approved. The projections contained herein are also based on this conservative assumption.

Lines 14 through 16 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 17 through 19 and is carried forward to Lines 2 and 5 in the next year.

Table 4
Capital Improvement Program Financing

Line No.	Item	Fiscal Year Ending June 30,					Total
		2008	2009	2010	2011	2012	
		\$	\$	\$	\$	\$	\$
Financing Requirements							
1	Capital Improvement Program (a)	195,536,000	332,525,000	358,328,000	307,703,000	381,158,000	1,575,250,000
Financing Sources							
<u>Improvement and Extension Fund</u>							
2	Beginning Balance (b)	28,408,700	22,289,200	13,304,600	33,982,700	38,692,000	28,408,700
3	Revenue Financed Capital	<u>22,289,200</u>	<u>13,304,600</u>	<u>33,982,700</u>	<u>38,692,000</u>	<u>43,326,900</u>	<u>151,595,400</u>
4	Subtotal - Improvement & Extension Fund	50,697,900	35,593,800	47,287,300	72,674,700	82,018,900	180,004,100
<u>Construction Bond Funds</u>							
5	Beginning Balance (b)	528,868,400	307,103,700	1,867,900	71,187,100	56,614,000	528,868,400
Bond Proceeds							
6	Water System Revenue Bonds (c)	0	0	450,000,000	275,000,000	375,000,000	1,100,000,000
7	Less: Capitalized Interest	0	0	(21,656,300)	(7,218,800)	(9,843,800)	(38,718,900)
8	Less: Issuance Expenses (d)	0	0	(13,700,000)	(8,450,000)	(11,450,000)	(33,600,000)
9	Less: Bond Reserve Account (e)	<u>0</u>	<u>0</u>	<u>(301,100)</u>	<u>(184,000)</u>	<u>(250,900)</u>	<u>(736,000)</u>
10	Net Bond Proceeds Available	0	0	414,342,600	259,147,200	353,455,300	1,026,945,100
11	State Drinking Water Revolving Fund Loans	<u>2,180,000</u>	<u>5,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,180,000</u>
12	Subtotal - Construction Bond Funds	<u>531,048,400</u>	<u>312,103,700</u>	<u>416,210,500</u>	<u>330,334,300</u>	<u>410,069,300</u>	<u>1,562,993,500</u>
13	Total Financing Sources Available	581,746,300	347,697,500	463,497,800	403,009,000	492,088,200	1,742,997,600
Application of Financing Sources							
14	Projects Funded with						
	Improvement and Extension Funds	28,408,700	22,289,200	13,304,600	33,982,700	38,692,000	136,677,200
15	Projects Funded with Construction Bond Funds	<u>223,944,700</u>	<u>310,235,800</u>	<u>345,023,400</u>	<u>273,720,300</u>	<u>342,466,000</u>	<u>1,495,390,200</u>
16	Total Financing Sources Applied	252,353,400	332,525,000	358,328,000	307,703,000	381,158,000	1,632,067,400
Financing Sources Available for Future Requirements							
17	Improvement & Extension Fund (f)	22,289,200	13,304,600	33,982,700	38,692,000	43,326,900	43,326,900
18	Construction Bond Funds (g)	<u>307,103,700</u>	<u>1,867,900</u>	<u>71,187,100</u>	<u>56,614,000</u>	<u>67,603,300</u>	<u>67,603,300</u>
19	Total Financing Sources Available for Future Requirements	329,392,900	15,172,500	105,169,800	95,306,000	110,930,200	110,930,200

(a) From Table 3.

(b) Balance available June 30, 2007 (applies only to fiscal year 2008).

(c) Does not include the 2008 Remarketing Bonds, as they do not generate net proceeds for capital financing.

(d) Includes 3 percent of bond size and \$200,000 for issuance expenses for future issues.

(e) Amount required from bond proceeds to purchase Debt Service Reserve Account Surety Bonds for future issues.

(f) Line 4 minus Line 14.

(g) Line 12 minus Line 15.

Impact of Projected Revenue Requirements on Water Service Rates

Table 5 presents a pro forma statement developed from revenue and revenue requirement projections for 2008 through 2012. The table provides an indication of the adequacy of the Department's revenues and the feasibility of the currently proposed and future anticipated revenue bond sales. The approximate magnitude of annual operating revenues shown in the table is projected to be needed to finance the remaining years of the current CIP.

Operating revenue projections, presented earlier in Table 1, are based on the Department's prior water rate schedule for 2008 and on the new schedule of water rates for 2009 through 2012. Lines 2 through 4 indicate additional increases in water rates projected to be required to meet projected total revenue requirements in fiscal years 2010 through 2012. The approximate annual percentage increases are 6.2 percent in 2010, 6.8 percent in 2011, and 6.6 percent in 2012, and are considered to be quite reasonable given the magnitude of the CIP. These projected increases 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, to 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. Annual interest rates of 2.75 percent and 4.0 percent have been assumed in projecting interest income for funds investing in short-term and long-term investments, respectively.

The projected operation and maintenance expenses shown on Line 10 reflect the impact of the anticipated escalation of costs and changes in operation as presented earlier in Table 2. The Department's debt service is depicted on Lines 11 through 18, separated by priorities of lien. These debt service figures include the new debt service on the 2008 Remarketing Bonds, and are net of the debt service for the predecessor variable rate bonds that were remarketed. The annual principal and interest due on future bond issues anticipated to finance the remaining total cost of the CIP is shown on Line 12. For purposes of these projections, it is assumed that future bonds will be senior lien bonds. A scale that produces an interest cost of approximately 5.25 percent and a 30-year term has been used to calculate debt service on future bond issues. A similar presentation of debt service on second lien bonds is presented on Lines 14 and 15. Projected repayments of SRF Loans are stated on Line 17. These figures only reflect existing loans as no new loans are anticipated for purposes of these projections.

Renewals and Replacements shown on Line 19 represent capitalized expenditures budgeted by the Department, which are not included in the CIP. Line 20 presents the projected level of revenue financed major capital improvements presented earlier in Line 3 of Table 4. These amounts are targeted to finance short lived assets in concert with the Department's capitalization and debt service coverage policies.

In accordance with the requirements of the Ordinance, an annual deposit (Line 21) is made to the Extraordinary Repair and Replacement 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. Annual deposits shown for 2008 through 2012 will be required to establish and maintain the required level due to increased expenses.

Table 5
Revenue Requirements Projections

Line No.	Item	Fiscal Year Ending June 30,				
		2008	2009	2010	2011	2012
		\$	\$	\$	\$	\$
Revenue (a)						
1	Operating Revenue Under Existing Rates	304,259,800	317,142,400	326,905,000	329,365,500	331,846,800
<u>Projected Revenue from Rate Increases</u>						
2	FY 2010: 6.2%			20,112,000	20,263,400	20,416,000
3	FY 2011: 6.8%				23,724,600	23,903,300
4	FY 2012: 6.6%					24,951,600
5	Total Projected Revenue from Water Rates	304,259,800	317,142,400	347,017,000	373,353,500	401,117,700
6	Miscellaneous Operating Revenue	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>
7	Total Operating Revenue	305,759,800	318,642,400	348,517,000	374,853,500	402,617,700
8	Non-Operating Revenue	<u>15,765,400</u>	<u>12,275,900</u>	<u>7,911,900</u>	<u>9,075,300</u>	<u>9,586,000</u>
9	Total Revenue Available	321,525,200	330,918,300	356,428,900	383,928,800	412,203,700
Revenue Requirements						
10	Operation and Maintenance Expense (b)	156,579,600	156,593,400	160,508,200	164,520,900	168,633,900
<u>Debt Service</u>						
Senior Lien Bonds						
11	Outstanding Bonds	97,531,500	110,137,200	109,843,700	116,175,200	115,876,400
12	Future Bonds (lien unspecified)	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,812,500</u>	<u>30,112,600</u>
13	Total Senior Debt Service	97,531,500	110,137,200	109,843,700	127,987,700	145,989,000
Second Lien Bonds						
14	Outstanding Bonds	36,084,600	41,649,400	41,899,800	42,131,000	43,084,900
15	Total Second Lien Bonds	<u>36,084,600</u>	<u>41,649,400</u>	<u>41,899,800</u>	<u>42,131,000</u>	<u>43,084,900</u>
16	Subtotal Debt Service	133,616,100	151,786,600	151,743,500	170,118,700	189,073,900
17	SRF Junior Lien Bonds	<u>1,540,300</u>	<u>1,731,600</u>	<u>1,919,800</u>	<u>1,965,900</u>	<u>1,961,200</u>
18	Total Debt Service	135,156,400	153,518,200	153,663,300	172,084,600	191,035,100
19	Renewals and Replacements	7,500,000	7,500,000	7,687,500	7,879,700	8,076,700
20	Revenue Financed Major Capital Improvements	22,289,200	13,304,600	33,982,700	38,692,000	43,326,900
21	Extraordinary Repair and Replacement Fund	0	2,100	587,200	601,900	617,000
22	Operating Reserve Requirement	<u>0</u>	<u>0</u>	<u>0</u>	<u>149,700</u>	<u>514,100</u>
23	Total Revenue Requirements	321,525,200	330,918,300	356,428,900	383,928,800	412,203,700
24	Indicated Balance (Deficiency)	0	0	0	0	0
Debt Service Coverages Under Required Rates						
25	Senior Lien for Rate Covenant Purposes	169%	158%	178%	171%	167%
26	Second Lien for Rate Covenant Purposes	123%	115%	129%	129%	129%
27	SRF Junior Lien for Rate Covenant Purposes	122%	114%	127%	128%	128%
Operating Reserve (c)						
28	Beginning Balance	20,415,400	20,415,400	20,415,400	20,415,400	20,565,100
29	Deposit from Operations	<u>0</u>	<u>0</u>	<u>0</u>	<u>149,700</u>	<u>514,100</u>
30	Ending Balance	20,415,400	20,415,400	20,415,400	20,565,100	21,079,200

(a) From Table 1. Based on application of FY 2009 rates for 2009 through 2012.

(b) From Table 2.

(c) Balance available June 30, 2007 (applies only to fiscal year 2008).

Line 22 of Table 5 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 on Lines 28 through 30 of the table. Annual deposits are targeted at five days of annual operation and maintenance expense or that amount that will result in an annual fund value equal to 45 days of budgeted operation and maintenance expense. The June 30, 2007 balance of this reserve has been established at the targeted level and additional annual deposits are projected through 2012 to maintain the required level due to increased expenses.

The indicated annual balance or deficiency under existing rates, Line 24 of Table 5, is calculated by subtracting total revenue requirement from the total revenue available. As indicated in the table, the projected rate increases on Lines 2 through 4 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 of Water Commissioners' 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 covenants of the Bond Ordinance. Under this policy (and the current rate covenant coverage figures of the Bond Ordinance), the minimum 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 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 25 through 27. These coverage levels are calculated on the same basis as required by the rate covenant. As indicated, annual coverage levels for 2010 through 2012, 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 of Water Commissioners. Due to a delay in implementing the 2009 Rates, the Second Lien and SRF Junior Lien debt service coverage levels for 2009 are projected to be slightly lower than the minimum policy coverage targets. However, all coverage levels for 2009 are projected to be in excess of the amounts required by the Bond Ordinance.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE WATER FUND
OF THE CITY OF DETROIT

[THIS PAGE INTENTIONALLY LEFT BLANK]



**CITY OF DETROIT
WATER FUND**

**Basic Financial Statements
and Required Supplementary Information**

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

**CITY OF DETROIT
WATER FUND**

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Basic Financial Statements:	
Statements of Net Assets	3 – 4
Statements of Revenues, Expenses, and Changes in Fund Net Assets	5
Statements of Cash Flows	6
Notes to Basic Financial Statements	7 – 30
Required Supplementary Information (Unaudited)	31



KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Board of Water Commissioners,
the Honorable Mayor, and
Members of the City Council
City of Detroit, Michigan:

We have audited the accompanying basic financial statements of the Water Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of the Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements referred to above present only the Water Fund of the City and are not intended to present fairly the financial position of the City as of June 30, 2006 and 2005, and the changes in its financial position, and, where applicable, cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund of the City as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also audited the financial statements of the City, as described above in this report on the Fund's financial statements. This report does not include the results of our testing of internal control over financial reporting and on our tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are reported on separately by us for the City. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an



opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Fund has not presented Management's Discussion and Analysis, which U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The schedule of funding progress on page 31 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Detroit, Michigan
March 20, 2008

**CITY OF DETROIT
WATER FUND**

Statements of Net Assets
June 30, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 3,997,111	870,259
Investments	22,345,923	7,520,716
Due from other funds	56,884,330	53,149,298
Accounts receivable (including \$28,558,437 and \$29,934,243, respectively, for unbilled water services and net of allowance for doubtful accounts of \$39,119,680 and \$36,887,901 for June 30, 2006 and 2005, respectively)	63,789,759	68,971,401
Inventories	8,967,419	6,330,165
Prepaid expenses	5,930,718	568,211
Restricted cash and cash equivalents	34,465,603	25,052,140
Restricted investments	362,605,066	412,158,969
Restricted due from other funds	6,021,460	40,475,299
Total current assets	<u>565,007,389</u>	<u>615,096,458</u>
Noncurrent assets:		
Restricted long-term investments	10,717,537	30,072,332
Net pension asset	148,590,274	150,452,508
Issuance costs – pension obligation certificates of participation	8,910,507	5,154,834
Unamortized bond issuance costs	30,603,648	32,088,822
Capital assets:		
Land and land rights	6,529,308	6,527,438
Structures	825,649,528	707,846,651
Mains	763,588,390	714,856,603
Services, meters, and improvements to land	106,085,312	103,323,777
Equipment	864,457,966	630,635,010
Construction work in progress	140,815,156	418,027,160
Total capital assets	2,707,125,660	2,581,216,639
Less accumulated depreciation	<u>(743,068,280)</u>	<u>(688,863,364)</u>
Net capital assets	<u>1,964,057,380</u>	<u>1,892,353,275</u>
Total noncurrent assets	<u>2,162,879,346</u>	<u>2,110,121,771</u>
Total assets	<u>\$ 2,727,886,735</u>	<u>2,725,218,229</u>

**CITY OF DETROIT
WATER FUND**

Statements of Net Assets

June 30, 2006 and 2005

Liabilities and Net Assets	<u>2006</u>	<u>2005</u>
Current liabilities:		
Accounts and contracts payable	\$ 22,718,139	16,543,893
Accrued salaries and wages	1,706,286	2,171,724
Accrued workers' compensation	2,913,177	3,470,751
Accrued compensated absences	3,715,980	8,604,763
Due to other funds	53,873,011	65,882,639
Other current accrued liabilities	8,142,609	3,053,509
Total current liabilities payable from current assets	<u>93,069,202</u>	<u>99,727,279</u>
Current liabilities payable from restricted assets:		
Revenue bonds payable within one year	25,535,000	24,595,000
Accrued bond interest payable	38,626,382	38,521,332
Accounts and contracts payable	20,501,071	20,117,305
Other current accrued liabilities	459,722	629,346
Due to other funds	10,982,590	6,515,574
Total current liabilities payable from restricted assets	<u>96,104,765</u>	<u>90,378,557</u>
Total current liabilities	<u>189,173,967</u>	<u>190,105,836</u>
Long-term liabilities:		
Revenue bonds payable, net	1,900,402,692	1,915,294,379
Pension obligation certificates of participation payable, net	159,017,458	157,548,214
Accrued workers' compensation	15,198,239	15,240,595
Accrued compensated absences	14,912,321	9,808,909
Deferred swap termination fees	16,213,524	16,797,795
Total long-term liabilities	<u>2,105,744,234</u>	<u>2,114,689,892</u>
Total liabilities	<u>2,294,918,201</u>	<u>2,304,795,728</u>
Net assets:		
Invested in capital assets, net of related debt	217,225,377	204,520,234
Restricted for capital acquisitions and bond payments	81,914,130	121,409,825
Unrestricted	133,829,027	94,492,442
Total net assets	<u>432,968,534</u>	<u>420,422,501</u>
Total net assets and liabilities	<u>\$ 2,727,886,735</u>	<u>2,725,218,229</u>

See accompanying notes to basic financial statements.

**CITY OF DETROIT
WATER FUND**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Water sales – Detroit	\$ 68,736,614	58,921,494
Water sales – suburban	205,581,302	200,050,339
Miscellaneous	1,912,850	1,641,252
Total operating revenues, net	276,230,766	260,613,085
Operating expenses before depreciation:		
Source of supply	2,856,385	2,244,535
Low-lift pumping	8,258,270	6,081,177
Purification	18,441,764	18,983,784
High-lift pumping	15,306,817	19,338,389
Water quality operations	1,705,680	1,876,012
Transmission and distribution	35,101,901	45,417,478
Services and meters	5,939,668	5,645,086
Hydrant division	1,199,902	1,386,783
Commercial	5,084,493	7,227,323
Administrative and general	52,320,068	48,753,131
Total operating expenses before depreciation	146,214,948	156,953,698
Operating income before depreciation	130,015,818	103,659,387
Depreciation	54,628,100	41,529,608
Operating income	75,387,718	62,129,779
Nonoperating revenue (expense):		
Earnings on investments	18,843,877	7,175,672
Interest expense, net of capitalized interest	(83,963,811)	(63,260,449)
Miscellaneous	2,278,249	(62,246)
Total nonoperating expense	(62,841,685)	(56,147,023)
Contributed capital	—	6,938,882
Increase in net assets	12,546,033	12,921,638
Net assets – beginning of year	420,422,501	407,500,863
Net assets – end of year	\$ 432,968,534	420,422,501

See accompanying notes to basic financial statements.

**CITY OF DETROIT
WATER FUND**

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Receipts from customers	\$ 283,573,844	260,740,367
Loans to other funds	23,176,195	(28,698,398)
Payments to suppliers	(86,907,411)	(115,305,031)
Payments to the General Retirement System in excess of annual required contribution	—	(150,452,508)
Payments to employees	(57,564,022)	(53,688,328)
Net cash provided by (used in) operating activities	162,278,606	(87,403,898)
Cash flow from noncapital and related financing activities:		
Proceeds from issuance of Personal Obligation Certificates of Participation	—	157,548,214
Issuance costs – Pension Obligation Certificates of Participation	(2,286,429)	(5,154,834)
Net cash (used in) provided by noncapital and related financing activities	(2,286,429)	152,393,380
Cash flows from capital and related financing activities:		
Contributions received from customers	2,278,249	6,938,882
Acquisition and construction of capital assets, net	(107,519,457)	(134,448,175)
Principal paid on revenue bond maturities	(24,595,000)	(22,440,000)
Interest paid on revenue bonds	(102,671,509)	(85,928,089)
Principal paid on refunded debt	—	(125,985,000)
Proceeds from bond issuance and increase in revolving note payable, net	4,723,954	424,791,474
Unamortized discount and bond issuance cost	7,404,533	5,175,110
Net cash (used in) provided by capital and related financing activities	(220,379,230)	68,104,202
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	449,752,017	309,876,577
Purchase of investments	(395,668,526)	(449,752,017)
Interest received on investments	18,843,877	7,175,672
Net cash provided by (used in) investing activities	72,927,368	(132,699,768)
Net increase in cash	12,540,315	393,916
Cash at beginning of year	25,922,399	25,528,483
Cash at end of year	\$ 38,462,714	25,922,399
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 75,387,718	62,129,779
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	54,628,100	41,529,608
Provision for uncollectible accounts	2,231,779	6,650,637
Changes in certain assets and liabilities:		
(Increase) decrease in accounts receivable	2,949,862	(10,919,185)
(Increase) decrease in inventories	(2,637,254)	501,841
(Increase) in prepaid expenses	(5,362,507)	(461,392)
Increase (decrease) in accounts and contracts payable	6,558,012	(13,787,881)
Increase (decrease) in accrued salaries and wages	(465,438)	354,027
Increase (decrease) in Issuance cost POC	1,862,234	(150,452,508)
Increase in other accrued liabilities, compensated absences, and workers' compensation	3,949,904	5,749,574
Net change in due to (from) other funds	23,176,196	(28,698,398)
Net cash provided by (used in) operating activities	\$ 162,278,606	(87,403,898)
Noncash capital financing activities:		
Capital assets of \$2,278,249 were acquired through contributions from developers.		

See accompanying notes to financial statements.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

The City of Detroit (the City) Charter established the Water Department (the Department) in the year 1836 to supply water within and outside the City under the administration of the Board of Water Commissioners. 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 following is a summary of the more significant accounting policies followed in the preparation of the Fund's financial statements. These policies conform to U.S. generally accepted accounting principles.

The financial statements of the Water Fund have been included in the City of Detroit's Comprehensive Annual Financial Report (CAFR) 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.

(a) Basis of Accounting

The accounting policies of the Fund conform to U.S. generally accepted accounting principles (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 and amortization) of providing services to the public are accrued when incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Fund applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Fund also has the option of following FASB guidance issued after November 30, 1989, but has elected not to do so.

(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 price.

(d) Inventories

Inventories consist of operating and maintenance and repair parts for water lines and are valued at the lower of cost or market, with cost being determined on an average cost method.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(e) Capital Assets

Capital assets are recorded at historical cost, together with interest capitalized during construction. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Improvements to land	67 years
Structures	40 years
Mains	67 years
Services	67 years
Meters and equipment	3 – 20 years

(f) Workers' Compensation

The Fund has no insurance coverage for workers' compensation claims. Workers' compensation expenses are recorded when the occurrence of the liability is probable and the amount is reasonably estimable. The amounts recorded as of June 30, 2006 and 2005 are based on compensation expected to be paid, along with estimated medical costs, for all claims known as of the balance sheet date, and historical data are used in computing the liability for estimated incurred but unknown claims as of the balance sheet date.

	June 30		
	2006	2005	2004
Balance at beginning of year	\$ 18,711,345	15,778,254	13,778,575
Current year claims and changes in estimates	4,356,803	7,345,178	6,756,198
Claims payments	(4,956,732)	(4,412,087)	(4,756,519)
Balance at end of year	\$ 18,111,416	18,711,345	15,778,254

(g) Capitalized Interest

The Fund capitalizes qualifying net interest costs of the System on bonds issued for capital construction in accordance with Statement of Financial Accounting Standards (SFAS) No. 34 *Capitalization of Interest Cost* and Statement No. 62 *Capitalization of Interest Cost in situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants an Amendment of FASB Statement No. 34*. Accordingly, capitalized interest for the years ended June 30, 2006 and 2005 was \$18,812,748 and \$28,942,595, respectively.

(h) 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.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(i) 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.

(j) Compensated Absences

The Fund records as a liability estimated vested vacation, sick pay, and banked overtime in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Unused vacation pay accumulates until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service.

(k) Accrued Revenue

The Fund records unbilled revenues for services provided prior to year-end by accruing actual revenues billed in the subsequent month.

(l) Net Assets

Net assets are categorized as follows:

Invested in Capital Assets: This consists of capital assets, net of accumulated depreciation and related debt.

Restricted: This consists of net assets that are 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 City's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted: This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

(m) Classification of Revenues

The Fund has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as revenue from charges for water service.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, which are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as investment income and interest expense.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) New Accounting Pronouncements

The Fund adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. The Fund implemented GASB Statement No. 42 with the year ended June 30, 2006.

The Fund adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing legislation or if legal enforceability is reevaluated. The Fund implemented GASB Statement No. 46 with the year ended June 30, 2006.

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined-benefit “other postemployment benefit” (OPEB) plan. The Fund will implement GASB Statement No. 45 beginning with the year ended June 30, 2008. The Fund is currently evaluating the impact of adopting Statement No. 45.

(2) Deposits and Investments

The following is a complete listing of deposits and investments held by the Fund at June 30, 2006:

Deposits	\$	12,237,801
Investments		<u>421,893,439</u>
Total deposits and investments	\$	<u><u>434,131,240</u></u>

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The deposits and investments of the Fund at June 30, 2006 are reflected in the financial statements as follows:

Unrestricted:	
Cash and cash equivalents	\$ 3,997,111
Investments	22,345,923
Restricted:	
Cash and cash equivalents	34,465,603
Investments – current	362,605,066
Investments – noncurrent	<u>10,717,537</u>
Total cash and investments	<u>\$ 434,131,240</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.

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, 2006 and 2005, the Fund had deposits of \$6,739,465 and \$27,464,345, respectively, which were exposed to custodial credit risk, as they were uninsured and uncollateralized.

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, 2006 and 2005, the Fund had no investments subject to custodial credit risk.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise 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 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.

	<u>Fair value</u>	<u>Investment maturities in years</u>	
		<u>Less than one year</u>	<u>one to five years</u>
Investment:			
U.S. government agency securities	\$ 118,632,147	107,914,610	10,717,537
Certificate of deposit	8,860,656	8,860,656	—
Commercial paper	52,283,902	52,283,902	—
Money market	242,116,734	242,116,734	—
Total investments	<u>\$ 421,893,439</u>	<u>411,175,902</u>	<u>10,717,537</u>

Credit Risk

The Fund's investment policy complies with state law. 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, 2006, the Fund had the following investments, maturities, and credit quality ratings of debt securities:

	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
Investment:			
U.S. government agency securities	\$ 46,790,138	AAA, Aaa	S & P and Moody's
U.S. government agency securities	61,124,472	A-1+	S & P
U.S. government agency securities	10,717,537	AAA, Aaa	S & P and Moody's
Money market	14,058,155	Aaa	Moody's
Money market	97,792,234	AAAm, Aaa	S & P and Moody's
Money market	130,266,345	N/A	N/A
Certificate of deposit	8,860,656	N/A	N/A
Commercial paper	52,283,902	N/A	N/A
Total investments	<u>\$ 421,893,439</u>		

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

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, 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 Home Loan Mortgage, and Federal National Mortgage Association securities. These investments are 7%, 13%, and 7%, respectively, of the Fund's total investments.

(3) 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.

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.

The Fund's statement of net assets reports \$81,914,130 of restricted net assets, of which \$71,543,172 is restricted by enabling legislation.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(4) Capital Assets

Capital asset activity for the fiscal years ended June 30, 2006 and 2005 is as follows:

	Balance, June 30, 2005	Additions	Disposals	Balance, June 30, 2006
Nondepreciated capital assets:				
Land and land rights	\$ 6,527,438	1,870	—	6,529,308
Construction in progress	418,027,160	132,675,454	(409,887,458)	140,815,156
	424,554,598	132,677,324	(409,887,458)	147,344,464
Depreciated capital assets:				
Services, meters, and improvements to land	103,323,777	2,823,010	(61,475)	106,085,312
Structures	707,846,651	477,053,519	(359,250,642)	825,649,528
Mains	714,856,603	151,730,672	(102,998,885)	763,588,390
Equipment	630,635,010	446,020,895	(212,197,939)	864,457,966
Accumulated depreciation	(688,863,364)	(54,628,100)	423,184	(743,068,280)
	1,467,798,677	1,022,999,996	(674,085,757)	1,816,712,916
Total	\$ 1,892,353,275	1,155,677,320	(1,083,973,215)	1,964,057,380
	Balance, June 30, 2004	Additions	Disposals	Balance, June 30, 2005
Nondepreciated capital assets:				
Land and land rights	\$ 6,527,438	—	—	6,527,438
Construction in progress	679,745,387	171,715,631	(433,433,858)	418,027,160
	686,272,825	171,715,631	(433,433,858)	424,554,598
Depreciated capital assets:				
Services, meters, and improvements to land	96,834,157	6,489,620	—	103,323,777
Structures	453,406,152	254,440,499	—	707,846,651
Mains	689,057,547	25,799,056	—	714,856,603
Equipment	492,782,490	138,004,268	(151,748)	630,635,010
Accumulated depreciation	(647,652,745)	(41,529,608)	318,989	(688,863,364)
	1,084,427,601	383,203,835	167,241	1,467,798,677
Total	\$ 1,770,700,426	554,919,466	(433,266,617)	1,892,353,275

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(5) Impaired Capital Assets

Beginning fiscal year ended June 30, 2006, the Fund implemented GASB Statement No. 42. As of June 30, 2006, the Fund did not have impaired assets reportable under GASB Statement No. 42.

(6) Long-Term Obligations

The outstanding indebtedness of the Fund for revenue bonds was approximately \$1,971,743,954 and \$1,991,615.00 at June 30, 2006 and 2005, respectively. The interest rates on the outstanding fixed-rate revenue bonds range from 4.30% to 6.38%. Net revenues of the Fund are pledged to repayment of bonds.

Future debt service requirements as of June 30, 2006 are as follows:

	<u>Principal</u>	<u>Bond interest</u>	<u>Swap interest</u>	<u>Total requirements</u>
Year ending June 30:				
2007	\$ 25,535,000	93,995,842	25,260,767	144,791,609
2008	27,025,000	93,168,039	25,540,372	145,733,411
2009	36,145,000	91,782,661	25,499,099	153,426,760
2010	35,755,000	90,148,553	25,453,115	151,356,668
2011	37,625,000	88,720,191	25,364,700	151,709,891
2012 – 2016	222,743,954	413,440,268	123,130,238	759,314,460
2017 – 2021	275,225,000	358,333,894	118,104,233	751,663,127
2022 – 2026	325,090,000	288,434,928	100,020,618	713,545,546
2027 – 2031	456,620,000	193,380,804	66,156,762	716,157,566
2032 – 2036	529,980,000	69,464,886	35,724,841	635,169,727
	<u>\$ 1,971,743,954</u>	<u>1,780,870,066</u>	<u>570,254,745</u>	<u>4,322,868,765</u>

In fiscal 2005, the Fund issued \$105,000,000 of City of Detroit, Michigan Water Supply System Revenue Senior Lien Bonds, Series 2005-A, \$195,000,000 of City of Detroit, Michigan, Water Supply System Revenue refunding Second Lien Bonds (Variable Rate Demand), and Series 2005-B, \$126,605,000 of City of Detroit, Michigan, Water Supply System Revenue Refunding Senior Lien Bonds, Series 2005-C. The net proceeds were used to refund a portion of the City's outstanding Water Supply Systems Revenue Bonds and Revenue Refunding Bonds and to pay cost of issuance associated with the 2005 Bonds.

The proceeds of the Revenue Refunding Senior Lien Bonds, Series 2005-C will be used to (a) to advance-refund \$69,285,000 principal amount of the City's Water Supply Revenue Senior Lien Bonds, Series 1997-A comprised of serial bonds maturing in the years 2010, 2016 and 2017: the 2018 through 2021 mandatory redemption payment for serial 1997-A term bonds maturing July 1, 2027 (Refunded 1997-A Bonds) with an average interest rate of 5.5% (b) to refund \$56,700,000 principal amount of the City's Water Supply System Revenue Senior Lien Bonds, Series 1999-A bonds maturing in the years 2011 through 2018 with interest rate of 7.48% (Refunded 1999-A bonds and collectively with the Refunded 1997-A Bonds, and the Refunded bonds) and (c) for payment of the related costs of issuance, including the premium for the municipal bond insurance.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Those refunded securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded 1999-A Bonds when due to including July 1, 2010 and redeem the Refunded 1997-A Bonds on July 1, 2007 at 101%.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,938,589. This difference, reported in the financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight-line method. The Fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,567,184.

In prior years, the Fund defeased certain bonds by placing the proceeds of new 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 financial statements. Similarly, the interest expenses related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2006 and 2005, approximately \$666,845,000 and \$511,265,000 respectively, of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2006 include \$1,718,013,954 of bonds callable at various dates after June 30, 2006. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(7) Pension Obligation Certificates (POC's)

2005 Issuance

In June 2005, the Detroit Retirement Systems Funding Trust issued \$1,440,000,000 (\$640 million of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable Pension Obligation Certificates of Participation (POCs). The 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 POC's were issued 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 & Fire Retirement System (PFRS), and a portion of the then current year normal contribution. 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.

A proportionate amount of the liability was recorded on the books of the City's Governmental Activities, Transportation Fund, Sewage Disposal Fund and Water Fund, based on each fund's portion of the overall UAAL liquidated by the use of the 2005 POC net proceeds. In connection with the 2005 transactions, the Service Corporations entered into interest rate exchange agreements (swap agreements) to hedge the variable rate interest exposure associated with the issuance of the 2005 Series-B Certificates.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The original Series A and Series B certificates were not specifically related to either of the Service Corporations. The amount of proceeds from the 2005 issuance recorded on each Service Corporation's books was based on the respective proportion of UAAL funding required for the corresponding Pension System.

Fiscal Year 2006 Events

Michigan law entitles each Retirement System to have its UAAL funded over a specified period (Amortization Period), which may be duly changed up to a 30-year maximum. Each 2005 Service Contract required the City to make 2005 POC service payments over a period that was limited to the PFRS or GRS Amortization Period (13 years for PFRS and 20 years for the GRS). The funding Ordinance anticipated the possible future extension of the PFRS and GRS Amortization Periods and authorized the Service Corporations, in that event, to assist the City in gaining the financial benefits of making its 2005 POC Service payments over a similarly lengthened period.

On February 8, 2006, the governing board of the GRS extended the Amortization Period for GRS UAAL from 20 to 30 years. On March 30, 2006, the governing board of the PFRS UAAL extended the amortization period for PFRS UAAL from 13 to 30 years. The Taxable Certificates of Participation Series 2006 were issued to enable the City to replace certain scheduled payment obligations that it incurred to provide funding for the 2005 Subject UAAL with new scheduled payment obligations payable over the extended 30-year periods under the 2006 Service Contracts. This will enable the City to achieve financial benefits from the lengthened payment periods compared to the payment period included within the 2005 Series A and B payment schedules.

Accordingly, the Detroit Retirement Systems Funding Trust 2006 issued \$948,540,000 (\$148,540,000 of fixed rate Series A, and \$800 million of floating rate Series B) of taxable Series 2006. The City also terminated the Swap agreements entered into in the 2005 transaction and received \$48,932,455 as a result of the swap termination.

The City did not pay off the \$104,055,000 of optionally redeemed Series A 2005 POC's until July 13, 2006. At June 30, 2006 the portion of the 2006 POC's proceeds to pay the \$104,055,000 POC's were in irrevocable trust investment accounts.

Retirement Trust 2006 account statements reflect that, on July 13, 2006 approximately \$104,404,000 of funds were disbursed to pay the POC's service obligation and accrued interest from June 15, 2006 (the last interest payment date) to July 13, 2006.

In economic substance, the City paid off \$904,055,000 of 2005 Series Certificates with the net proceeds from the \$948,540,000 received from the issuance of the 2006 POC. The net effect of this on the City's balance sheet is to add on additional \$44,485,000 of POC obligations to the governmentwide balance sheet.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The present value of the net economic loss from refunding of the COP's Series 2005 by the COP's Series 2006 is \$89,265,111.

	Certificates of Participation Series 2006 \$948,540,000
Cash flow requirements to service Series 2005 COP's	\$ 2,267,195,204
Less cash flow requirements for new COP's	<u>2,356,736,036</u>
Net loss from refunding actually realized in years 2026 to 2035	<u>\$ (89,540,832)</u>
Economic loss (annually)	<u>\$ (89,265,111)</u>

Certain maturities of the Series 2005-A POCs still remain outstanding concurrently with the 2006 Certificates. The 2005 POCs and the 2006 Certificates are wholly independent of each other.

The redemption dates and a summary of the aggregate principal and interest amounts for the remaining 2005 POC's are as follows:

<u>Maturity (June 15)</u>	Primary Government Principal				<u>Totals</u>
	<u>Governmental activities</u>	<u>Business-type activities</u>			
	<u>Sewer Disposal Fund</u>	<u>Transportation Fund</u>	<u>Water Fund</u>		
2007	\$ —	—	—	—	—
2008	—	—	—	—	—
2009	—	—	—	—	—
2010	3,861,370	28,880	340,053	519,698	4,750,001
2011	8,905,539	66,606	784,268	1,198,587	10,955,000
2012 – 2016	113,686,862	850,288	10,011,862	15,300,989	139,850,001
2017 – 2021	153,857,304	1,150,731	13,549,481	20,707,484	189,265,000
2022 – 2025	<u>155,369,335</u>	<u>1,162,040</u>	<u>13,682,639</u>	<u>20,910,986</u>	<u>191,125,000</u>
Total	<u>\$ 435,680,410</u>	<u>3,258,545</u>	<u>38,368,303</u>	<u>58,637,744</u>	<u>535,945,002</u>

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Maturity (June 15)	Primary Government Interest				Totals
	Governmental activities	Business-type activities			
		Sewer Disposal Fund	Transportation Fund	Water Fund	
2007	\$ 20,942,804	156,636	1,844,333	2,818,669	25,762,442
2008	20,942,804	156,636	1,844,333	2,818,669	25,762,442
2009	20,942,804	156,636	1,844,333	2,818,669	25,762,442
2010	20,942,804	156,636	1,844,333	2,818,669	25,762,442
2011	20,776,224	155,390	1,829,663	2,796,249	25,557,526
2012 – 2016	93,492,246	699,248	8,233,418	12,583,018	115,007,930
2017 – 2021	60,177,138	450,077	5,299,514	8,099,174	74,025,903
2022 – 2025	20,083,887	150,212	1,768,692	2,703,068	24,705,859
Total	\$ 278,300,711	2,081,471	24,508,619	37,456,185	342,346,986

The redemption dates and a summary of the aggregate principal and interest amounts for Series 2006 Pension Obligation Certificates are as follows:

Maturity (June 15)	Primary Government Principal				Totals
	Governmental activities	Business-type activities			
		Sewer Disposal Fund	Transportation Fund	Water Fund	
2007	\$ —	—	—	—	—
2008	—	—	—	—	—
2009	—	—	—	—	—
2010	—	—	—	—	—
2011	—	—	—	—	—
2012 – 2016	—	—	—	—	—
2017 – 2021	33,557,338	250,982	2,955,235	4,516,445	41,280,000
2022 – 2026	84,689,193	633,408	7,458,175	11,398,224	104,179,000
2027 – 2031	318,531,321	2,382,363	28,051,539	42,870,777	391,836,000
2031 – 2035	334,309,285	2,500,370	29,441,030	44,994,315	411,245,000
Total	\$ 771,087,137	5,767,123	67,905,979	103,779,761	948,540,000

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Maturity (June 15)	Primary Government Interest				
	Governmental activities	Business-type activities			Totals
		Sewer Disposal Fund	Transportation Fund	Water Fund	
2007	\$ 40,020,806	299,324	3,524,442	5,386,356	49,230,928
2008	44,079,824	329,682	3,881,901	5,932,655	54,224,062
2009	47,826,551	357,705	4,211,857	6,436,922	58,833,035
2010	47,826,551	357,705	4,211,857	6,436,922	58,833,035
2011	47,826,551	357,705	4,211,857	6,436,922	58,833,035
2012 – 2016	239,132,754	1,788,524	21,059,285	32,184,612	294,165,175
2017 – 2021	236,954,334	1,772,231	20,867,442	31,891,421	291,485,428
2022 – 2026	223,400,997	1,670,863	19,673,864	30,067,292	274,813,016
2027 – 2031	165,038,717	1,234,359	14,534,175	22,212,378	203,019,629
2031 – 2035	52,643,635	393,733	4,636,075	7,085,248	64,758,691
Total	\$ 1,144,750,720	8,561,831	100,812,755	154,070,728	1,408,196,034

(8) Deferred Amount on Refunding

The following shows the calculation of the total deferred amount on refunding and the effect on the Pension Obligation Payable by each fund. The total Deferred Amount on Refunding is comprised of the amount transferred from Series 2005 issuance costs of \$27,651,925 plus tender and redemption premiums paid of \$3,404,274, or a total of \$31,056,197. It will be amortized over the remaining life of the old POC's Series 2005 (19 years), which is shorter than the life of the new POC's Series 2006 (29 years).

	Governmental activities	Transportation Fund	Water Fund	Sewage Disposal Fund	Library
POC payable – 2005 Series	\$ 435,683,032	38,362,255	58,635,556	3,264,157	—
POC payable – 2006 Series	771,087,136	67,905,979	103,779,761	5,767,123	—
Advance payable Primary Government	—	—	—	—	24,554,826
Deferred amount on refunding	(24,733,155)	(2,223,313)	(3,397,859)	(188,822)	(513,048)
Net POC Payable	\$ 1,182,037,013	104,044,921	159,017,458	8,842,458	24,041,778
Net advance payable to Primary Government	\$ —	—	—	—	20,041,778

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements
June 30, 2006 and 2005

(9) Long-Term Liabilities

Long-term activity for the years ended June 30, 2006 and 2005 is as follows:

	<u>Balance, June 30, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2006</u>	<u>Amount due within one year</u>
Revenue bonds payable	\$ 1,991,615,000	—	(24,595,000)	1,967,020,000	25,535,000
State revolving loan	—	4,723,954	—	4,723,954	—
Total revenue bonds payable	1,991,615,000	4,723,954	(24,595,000)	1,971,743,954	25,535,000
Add unamortized premium	17,976,690	—	(1,078,078)	16,898,612	—
Less:					
Deferred charges on refunding	49,223,977	6,221,498	—	55,445,475	—
Discount	20,478,334	—	(13,218,935)	7,259,399	—
Net revenue bonds	<u>1,939,889,379</u>	<u>(1,497,544)</u>	<u>(12,454,143)</u>	<u>1,925,937,692</u>	<u>25,535,000</u>
Pension obligation certificates payable 2005 series	157,548,214	—	(98,912,658)	58,635,556	—
Pension obligation certificates payable 2006 series	—	103,779,761	—	103,779,761	—
Less deferred defeasance cost	—	3,397,859	—	3,397,859	—
Net pension obligation certificate payable	<u>157,548,214</u>	<u>100,381,902</u>	<u>(98,912,658)</u>	<u>159,017,458</u>	<u>—</u>
Other liabilities:					
Accrued workers' compensation	18,711,346	4,356,803	(4,956,733)	18,111,416	2,913,177
Accrued compensated absences	18,413,672	5,103,411	(4,888,782)	18,628,301	3,715,980
Deferred swap termination	16,797,795	—	(584,271)	16,213,524	—
Total other liabilities	<u>53,922,813</u>	<u>9,460,214</u>	<u>(10,429,786)</u>	<u>52,953,241</u>	<u>6,629,157</u>
Total	<u>\$ 2,151,360,406</u>	<u>108,344,572</u>	<u>(121,796,587)</u>	<u>2,137,908,391</u>	<u>32,164,157</u>

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

	<u>Balance, June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2005</u>	<u>Amount due within one year</u>
Revenue bonds payable	\$ 1,713,435,000	426,605,000	(148,425,000)	1,991,615,000	24,595,000
Add unamortized premium	6,257,305	12,302,729	(583,344)	17,976,690	—
Less:					
Deferred charges on refunding	44,223,565	8,298,346	(3,297,934)	49,223,977	—
Discount	21,604,144	—	(1,125,810)	20,478,334	—
Net revenue bonds	<u>1,653,864,596</u>	<u>430,609,383</u>	<u>(144,584,600)</u>	<u>1,939,889,379</u>	<u>24,595,000</u>
Pension obligation certificates payable	—	157,548,214	—	157,548,214	—
Other liabilities:					
Accrued workers' compensation	15,778,254	7,345,178	(4,412,086)	18,711,346	3,470,751
Accrued compensated absences	15,589,521	4,203,964	(1,379,813)	18,413,672	8,604,763
Deferred swap termination	16,943,863	—	(146,068)	16,797,795	—
Total other liabilities	<u>48,311,638</u>	<u>11,549,142</u>	<u>(5,937,967)</u>	<u>53,922,813</u>	<u>12,075,514</u>
Total	<u>\$ 1,702,176,234</u>	<u>599,706,739</u>	<u>(150,522,567)</u>	<u>2,151,360,406</u>	<u>36,670,514</u>

(10) Derivatives Not Reported at Fair Value

The Fund is party to derivative financial instruments consisting of interest rate swaps that are intended to effectively convert variable-rate financings to fixed-rate financings. These are not reported at fair value on the statement of net assets at June 30, 2006.

Objective of the Swaps. In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the Fund has entered into 15 separate fixed-payor interest rate swaps. The Fund is also a party in the City's POC's related to the GRS. The City has entered into two separate fixed-payor interest rate swaps related to the POC's and the GRS.

Market Access Risk. The Fund is exposed to market access risk on its hedge swaps or forward starting swaps in the event that it will not be able to enter credit markets or in the event that credit will become more costly.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Terms, Fair Values, and Credit Risk. Certain key terms, fair market values, and counterparty credit ratings relating to the outstanding swaps as of June 30, 2006 are presented below. The notional amounts of the swaps, except those with effective dates of September 1, 2006 and March 1, 2007, match the principal amounts of the outstanding financings. The swaps with effective dates of September 1, 2006 and March 1, 2007, were entered into to hedge future interest rate risk and will be associated with financings expected to be issued prior to the effective dates. Except as discussed under rollover risk, the Fund's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated financings.

Associated financing issue	Notional amounts (1)	Effective date	Fixed rate paid	Variable rate received	Fair values	Sweep termination date	Final maturity of bonds	Counterparty credit rating
Water 2001-C (3)	\$ 47,723,000	6/7/2001	4.07%	BMA	\$ —	1/1/2006	7/1/2029 (3)	Aaa/AA+NR
Water 2001-C (3)	29,972,000	6/7/2001	4.70	BMA	(1,214,171)	7/1/2011	7/1/2029 (3)	Aaa/AA+NR
Water 2001-C (3)	47,628,000	1/1/2006	5.42	BMA	(3,490,184)	7/1/2011	7/1/2029 (3)	Aaa/AA+NR
Water 2001-C	114,150,000	6/7/2001	4.90	BMA	(10,802,162)	7/1/2026	7/1/2026	Aa3/A+/AA
Water 2003-B	1,980,000	1/30/2003	3.02	CPI + 1.01%	57,777	7/1/2009	7/1/2009	Aa3/A+/AA
Water 2003-B	2,290,000	1/30/2003	3.31	CPI + 1.12%	67,167	7/1/2010	7/1/2010	Aa3/A+/AA
Water 2003-B	2,500,000	1/30/2003	3.55	CPI + 1.25%	74,359	7/1/2011	7/1/2011	Aa3/A+/AA
Water 2003-B	2,175,000	1/30/2003	3.74	CPI + 1.33%	59,662	7/1/2012	7/1/2012	Aa3/A+/AA
Water 2003-B	2,800,000	1/30/2003	3.87	CPI + 1.34%	66,848	7/1/2013	7/1/2013	Aa3/A+/AA
Water 2003-B	2,505,000	1/30/2003	4.00	CPI + 1.36%	47,560	7/1/2014	7/1/2014	Aa3/A+/AA
Water 2003-C	2,005,000	1/30/2003	3.87	CPI + 1.34%	47,885	7/1/2013	7/1/2013	Aa3/A+/AA
Water 2003-C	2,330,000	1/30/2003	4.00	CPI + 1.36%	44,237	7/1/2014	7/1/2014	Aa3/A+/AA
Water 2003-D	150,545,000	2/6/2003	4.06	BMA	(3,674,234)	7/1/2033	7/1/2033	Aa2/AA-/NR
Water 2004-A	77,010,000	5/13/2004	3.94	BMA	(903,397)	7/1/2025	7/1/2025	Aa2/AA-/NR
Water 2004-B	163,590,000	5/13/2004	3.85	BMA	(856,979)	7/1/2023	7/1/2023	Aa2/AA-/NR
Water 2005-B	195,000,000	4/1/2005	4.71	BMA	(6,703,870)	7/2/2035	7/2/2035	Aa3/A+/AA-
Water Forward								
Starting Swap	120,000,000	3/1/2007	5.00	BMA	(7,616,810)	7/3/2036	7/3/2036	Aa3/A+/AA-
Pension Obligation Certificates-GRS	99,621,000	6/7/2006	4.99	3 MTH LIBOR +.34%	(183,936)	6/15/2034	6/15/2034	Aa3/A+/AA-
Pension Obligation Certificates-GRS	42,252,000	6/7/2006	4.99	3 MTH LIBOR +.30%	(84,084)	6/15/2029	6/15/2029	Aa3/A+/AA-

(1) Notional amount balance as of June 30, 2006

(2) The Bond Market Association Municipal Swap Index™

(3) Denotes the the swap termination date does not match the final maturity of the financings

Fair Value. Because interest rates have generally declined since the time the swaps were negotiated, most of the Fund's swaps have a negative fair value as of June 30, 2006. The negative fair values may be countered by lower total interest payments required under the variable-rate financings, creating lower synthetic interest rates.

Credit Risk. As of June 30, 2006, the Fund was not significantly exposed to net credit risk, as the majority of the swaps had net negative fair values. However, should interest rates change and fair values of the swaps become positive, the Fund would be exposed to credit risk in the amount of the derivatives' positive fair value.

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, and/or Moody's Investors Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Basis Risk. The Fund is not exposed to significant basis risk on its swaps because most of the variable payments received are based on the Bond Market Association (BMA) index. The Consumer Price Index (CPI) indexed swaps are associated with CPI indexed financings and thus create no basis risk.

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 value of the swap at that time. In addition, the Fund is exposed to termination risk, but not termination payments, on certain of the Fund's swaps related to Water Series 2001-C, Water Series 2003-D, Water Series 2004-A, and Water Series 2004-B. These swaps provide the counterparty with the option to terminate the swap agreement beginning on January 1, 2010, July 2, 2011, July 1, 2008, and July 1, 2008, respectively, upon the passing of certain BMA thresholds. If any of these swaps were terminated, the associated variable-rate financings would no longer carry synthetic interest rates, but there would be no termination payment.

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 has this risk for the three (3) Water Series 2001-C financing issues.

(11) Employee Benefit Plan

Substantially all City employees, including the Water Fund employees, 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.

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 Retirement System's board of trustees. The GRS issues separate, stand-alone financial statements annually. Copies of these financial statements can be obtained at the Coleman A. Young Municipal Center, 2 Woodward Ave., Rm. 908, Detroit, Michigan, 48226.

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's board of trustees based on information provided by the GRS's 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's consulting actuary.

The recommended contribution rate is determined by the GRS's 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.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Based upon the June 30, 2005 actuarial valuation, which was the most recent actuarial data available when the budget was developed for the year ended June 30, 2006, the actuary recommended a Water Fund contribution rate of 20.84%. Contributions for the Water Fund totaled \$5,156,381.

Employees may elect to contribute 3%, 5%, or 7% of the first \$90,000 of annual compensation and 5% or 7% of any excess over \$90,000 for annuity savings. Contributions are voluntary for all union and nonunion employees. Contributions received from Water Fund employees during the year ended June 30, 2006 amounted to \$3,032,044.

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.

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.

	Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset
General Retirement System	June 30, 2004	\$ 16,814,426	100	\$ —
	June 30, 2005	17,571,543	956	150,452,508
	June 30, 2006	7,018,615	100	148,590,274

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The annual pension cost and net pension asset as of June 30, 2006 is as follows:

Annual required contributions	\$ 10,457,713
Interest on net pension asset	(11,885,748)
Adjustment to annual required contribution	<u>8,446,650</u>
Annual pension cost	7,018,615
Contributions made (employer)	<u>5,156,381</u>
Changes in net pension asset	(1,862,234)
Net pension asset, beginning of year	<u>150,452,508</u>
Net pension asset, end of year	<u><u>\$ 148,590,274</u></u>

The actuarial methods and significant assumptions used to determine the annual required contributions for June 30, 2006 were as follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period for unfunded accrued liabilities**	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases*	4% – 9.5%
Cost-of-living adjustments*	2.25%

*Includes inflation rate of 4%

**Amortization period was changed in FY 2006, see note 7.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(12) Other Post-Employment Benefits

In addition to the pension benefits described above, the City provides postretirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2006 is 22,451. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2006, are as follows:

<u>Benefits</u>	<u>City cost</u>	<u>Retiree cost</u>	<u>Total cost</u>
Hospitalization	\$ 139,306,757	14,933,508	154,240,265
Dental	6,160,524	—	6,160,524
Eye care	1,969,690	—	1,969,690
Life insurance	143,579	26,740	170,319
	<u>\$ 147,580,550</u>	<u>14,960,248</u>	<u>162,540,798</u>

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(13) Due to (from) Other Funds

During the course of operations, numerous transactions occur between individual funds and other City of Detroit funds for goods provided or services rendered. Related receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheets and are summarized as follows:

	<u>2006</u>	<u>2005</u>
Due from other funds (unrestricted):		
General Fund	\$ 804,919	757,819
Sewage Disposal Fund	<u>56,079,411</u>	<u>52,391,479</u>
Total due from other funds	<u>\$ 56,884,330</u>	<u>53,149,298</u>
Due from other funds (restricted):		
General Fund	\$ 357,919	33,628,639
Sewage Disposal Fund	<u>5,663,541</u>	<u>6,846,660</u>
Total due from other funds	<u>\$ 6,021,460</u>	<u>40,475,299</u>
Due to other funds (unrestricted):		
General Fund	\$ 6,038,572	17,324,357
General Fiduciary	506,181	
Sewage Disposal Fund	<u>47,328,259</u>	<u>48,558,282</u>
Total due to other funds	<u>\$ 53,873,012</u>	<u>65,882,639</u>
Due to other funds (restricted):		
General Fund	\$ 33,963	290,175
Sewage Disposal Fund	<u>10,948,627</u>	<u>6,225,399</u>
Total due to other funds	<u>\$ 10,982,590</u>	<u>6,515,574</u>

(14) Capital Improvement Programs

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 \$1.68 billion through fiscal year 2010. 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, 2006 and June 30, 2005 was approximately \$156 million and \$101 million, respectively.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

(15) Rate Adjustments

The U.S. Environmental Protection Agency (EPA), in attempting to ensure that user charges are proportional in effect as well as in their design, requires grantees to compare budgeted wastewater contributions, revenues from users, and user classes to actual results and make appropriate rate adjustments in the second succeeding year. The accompanying financial statements reflect management's estimates of the current and noncurrent amounts receivable from and refundable to customers in accordance with the regulations. Although subsequent adjustments to these amounts may occur, management does not believe the impact would be material to the Fund's financial position or results of operations.

(16) Contingencies

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 financial statements, for the potential outcome of such claims or the amount of 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 potential loss exposures.

(17) Subsequent Events

On August 14, 2006 the Water Supply System issued \$1,136,585,000 of Series 2006 bonds to finance a portion of the costs of the Water Supply System capital improvement program, refund certain prior outstanding bonds, fund reserve requirements and pay cost of issuance of the 2006 Bonds. These were comprised of: (1.) \$767,235,000 of new issued bonds (\$280,000,000 Revenue Senior Lien Bonds-Series 2006(A), \$120,000,000 System Revenue Second Lien Bonds (Variable Rate Demand), Series 2006 (B), \$220,645,000 Revenue Refunding Second Lien Bonds, Series 2006 (C), and, \$146,590,000 Revenue Refunding Senior Lien Bonds, Series 2006 (D)). The Series (A) bonds begin to mature July 1, 2007 and will fully mature in the year 2018. The Series (B) bonds mature July 1, 2036. The Series 2006 (C) and (D) both begin to mature July 1, 2007 and will fully mature in the years 2012 and 2013, respectively. (2.) \$142,755,000 of refunded fixed rate Revenue Senior Lien Bonds Series 2003(D). These were remarketed/converted on September 1, 2006 and begin maturing January 1, 2007. (3.) \$226,595,000 of Refunded Revenue Senior Lien Bonds, Series 2004(A) and (B). (\$72,765,000 Refunding Second Lien Bonds fixed rate Series 2004(A) and \$153,830,000 Refunding Senior Lien Bonds fixed rate Series 2004(B)). Both of the Series 2004 Bonds have a remarketing date of August 16, 2006.

In September 2005, several customers of the Fund challenged the method of allocating costs associated with the 800 MHz project. In early 2007, the court issued a preliminary ruling acknowledging that the Fund had been overcharged, but is yet to issue a final ruling. In management's opinion, the final resolution will not have a material effect on the Fund's financial statements.

**CITY OF DETROIT
WATER FUND**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The Fund issued Revenue Refunding bonds that are insured with bond insurance coverage purchased through rated bond insurers. The bond insurance helps the Fund to obtain a lower cost of borrowing. As of February 20, 2008 the major rating agencies downgraded one of the Fund's bond insurers. The rating of the Fund's bonds that are insured by the downgraded bond insurer has not been affected.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF DETROIT
WATER FUND**

Required Supplementary Information (Unaudited)

June 30, 2006

Schedule of Funding Progress (in millions) for the General Retirement System (unaudited):

Actuarial valuation date, June 30	Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio	Unfunded AAL (UAAL)	Covered payroll
2001 (a) (b)	\$ 2,912.1	3,179.6	91.6%	\$ 267.5	439.6
2002	2,761.2	3,276.6	84.3	515.4	440.7
2003	2,537.7	3,270.6	77.6	733.0	448.6
2004	2,470.2	3,383.9	73.0	913.7	444.6
2005	3,222.4	3,347.4	96.3	125.0	390.6

(a) After changes in actuarial assumptions.

(b) Plan amended.

See accompanying independent auditors' report.

APPENDIX C
BOND ORDINANCE

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 Determi-

nation 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 Out-

standing. 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 *se-riatim* 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 ap-

plied 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 Re-

serve 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 man-

ner 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 accep-

tance 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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

AMENDMENTS TO CERTAIN PROVISIONS OF THE AUTHORIZING DOCUMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

AMENDMENTS TO CERTAIN PROVISIONS OF AUTHORIZING DOCUMENTS

Following are the amendments to the 2001 Supplement, the 2005 Supplement, and the 2005 Sale Order (collectively, the “2001 and 2005 Authorizing Documents”), which will be effective in connection with the remarketing of the Predecessor Bonds. The 2001 and 2005 Authorizing Documents are governed by their own amendment provisions but are also subject to the amendment provisions of the Bond Ordinance, which is included as Appendix C to this Remarketing Circular. Section 22(B)(3) of the Bond Ordinance, “Amendments With Consent,” states in relevant part as follows:

[T]he 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.

Each of the 2001 Supplement and the 2005 Supplement contain substantially the same language. Accordingly, Holders of the Predecessor Bonds being remarketed hereby which are acquired in the remarketing thereof on or after the date of this Remarketing Circular, whether or not the fixed rate conversion is consummated in accordance with the initial notice of Mode Change or optional redemption, will be considered to have consented to the amendments set forth in this Appendix D.

In accordance with the provisions of each of the 2001 Supplement and the 2005 Supplement, consent of the Trustee, Transfer Agent and Tender Agent, each Provider, each Bond Insurer and the Remarketing Agent (as defined in the 2001 Supplement or the 2005 Supplement, as applicable), will be obtained or waived and notice will be provided to each Rating Agency.

To the extent certain of the amendments set forth in this Appendix D affect Holders of Water System Securities beyond those who have consented to such changes, as described above, the City has determined that such amendments can be made without Bondholder consent, as described in the Bond Ordinance. The amendment to Section 1.01 of each of the 2001 Supplement and the 2005 Supplement is pursuant to the authority of Section 22(A)(1)(c) of the Bond Ordinance, which permits amendments without consent of Securityholders for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provisions. The form of legal opinion regarding tax exemption set forth in Section 1.01 does not encompass the situation where a remarketing is deemed to be a reissuance for federal tax purposes. The amendment allows the opinion to be in the appropriate form for a reissuance but does not change the substance of the opinion. The amendments to Sections 2.03 and 3.02 of the 2001 Supplement and 2.03 and 3.03 of the 2005 Variable Rate Supplement are pursuant to the authority of Section 22(A)(1)(e) of the Bond Ordinance, which allows amendment without Securityholder consent so long as such amendment does not materially adversely

affect the Holders of Outstanding Securities (as such terms are defined in the Bond Ordinance). In connection with these amendments, the City's Finance Director will make a determination that, based upon market conditions, the effect on overall Water Supply System debt service of the implementation of these amendments in connection with the fixed rate remarketings described in this Remarketing Circular, and certain other factors, such amendments are not materially adverse to Holders of Outstanding Water Supply System Securities.

SERIES 2001-C AMENDMENTS

AMENDMENTS TO THE SUPPLEMENT.

A. Amendment of Section 1.01 – Definitions. The definition of Favorable Bond Counsel's Opinion is hereby amended to read as follows (*added language is in italics*):

Favorable Bond Counsel's Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement, the Bond Authorizing Resolution, the Ordinances and the Acts, and (ii) such action will not adversely affect the exemption of the interest on the Bonds from federal and state income taxation (subject to customary exceptions), *provided, however, that if Bond Counsel believes it necessary or appropriate, in lieu of the opinion described in (ii) above, Bond Counsel may provide an opinion to the effect that the interest on the Bonds is excluded from gross income for federal and state income tax purposes (subject to customary exceptions).*

B. Amendment to Section 2.03 - Changes in Connection with Mode Change. Section 2.03(b)(2) is hereby amended to read as follows (*added language is in italics*):

(b)(2) Such Modal Bonds could be issued as Parity Obligations under the Bond Authorizing Resolution (treating, for such purpose, the Modal Bonds with the amortization to be adjusted as no longer outstanding to the extent of the adjustment), *provided, however, that in connection with the remarketing of any Modal Bonds that is completed prior to September 30, 2008, compliance with this Section 2.03(b)(2) shall not be required, but only if the City certifies, in a manner acceptable to Bond Counsel at the time of such remarketing, that such lack of compliance with this Section 2.03(b)(2) is not materially adverse to the Holders of all outstanding bonds of the Water Supply System;* and

C. Amendment to Section 3.02 - Interest Rate Determinations. Section 3.02(a) is hereby amended to read as follows (*added language is in italics*):

(a) The interest rate for all Bonds in each Mode shall be determined by the Remarketing Agent on the Rate Determination Date for such Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Bonds to be sold at par plus accrued interest, under prevailing market conditions on such Rate

Determination Date; *provided, however, that for Bonds in the Weekly Mode, if required by prevailing market conditions in the judgment of the Remarketing Agent, the Remarketing Agent on the Rate Determination Date for such Mode may determine an interest rate that in the judgment of the Remarketing Agent would allow such Modal Bonds to be sold at a net premium, i.e. coupons exceed yields on a net basis, provided, further, that in the event of a premium remarketing permitted by the preceding clause, the total par amount of the Bonds so remarketed shall not increase by reason of such premium.*

D. Amendment of Section 4.06 – Election of Mode Change; How Effected; Irrevocability. Section 4.06(b) is hereby amended to read as follows (*added language is in italics*):

(b) In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, fifteen (15) days prior to the Mode Change Date, the minimum number of days required by Section 6.02 for notices given in connection with mandatory tenders plus 15 days (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties), *provided, however, that, for a Mode change from the Weekly Rate Mode to the Fixed Rate Mode, if on such Mode Change Date (herein the “First Mode Change Date”) all of the conditions to conversion to the Fixed Rate Mode are not met, if the Finance Director again elects to change the Mode for such Bonds to the Fixed Rate Mode within 30 days of the First Mode Change Date, his/her election shall be effective if he/she delivers to the Tender Agent, with copies concurrently to each of the other Notice Parties, not later than the minimum number of days required by the proviso to the second paragraph of Section 6.02(a) for notices given in connection with mandatory tenders in such situation:*

E. Amendment of Section 4.08 – Notice to Modal Bondholders. Section 4.08 is hereby amended to add Subsection (d) to read as follows (*added language is in italics*):

(d) *Notwithstanding the prior notice periods required by (a) and (c) of this Section 4.08, if the City is permitted to give the notice of Mode Change Date to Fixed Rate Mode described in the proviso to the second paragraph of Section 6.02(a), the Tender Agent shall give the notices required by this Section 4.08 not later than the 3rd day next preceding the Mode Change Date.*

F. Amendment of Section 5.01 – Optional Redemption-Short-Term Bonds. Section 5.01 is hereby amended to read as follows (*added language is in italics*):

Bonds in a Daily Mode or a Weekly Mode will be subject to redemption prior to their maturity date at the option of the Issuer, in whole on any Business Day or in part (and, if in part, in an Authorized Denomination) on any Interest Payment Date during such Daily Mode or Weekly Mode at a Redemption Price equal to 100 percent of the principal amount of such Bonds, plus accrued interest, if any, to the redemption Date, *provided, however, that if on a Redemption Date (herein the “First Redemption Date”)*

the attempt to redeem the Bonds is not successful, then Bonds in a Weekly Mode shall be subject to redemption prior to their maturity date at the option of the Issuer, in whole or in part, on any Business Day within 30 days of the First Redemption Date.

G. Amendment of Section 5.04 – General Provisions Regarding Redemption of Bonds. The first sentence of Section 5.04(a)(ii) is hereby amended to read as follows (*added language is in italics*):

Notice of the redemption of Bonds will be given by first class mail, postage prepaid, not less than 30 days or more than 60 days prior to the Redemption Date, to the registered owners of the Bonds to be redeemed, provided, however, that *if on a Redemption Date (herein the “First Redemption Date”) the attempt to redeem the Bonds is not successful, notice of a subsequent redemption of Bonds within 30 days of the First Redemption Date shall be given by electronic means and by first class mail, postage prepaid, not less than three (3) days nor more than 60 days prior to such Redemption Date and shall be deemed to have been given when sent.*

H. Amendment of Section 6.02 – Mandatory Tender. Section 6.02(a) is hereby amended to read as follows (*added language is in italics*):

(a) ...

A Holder of a Bond subject to mandatory tender may not elect to retain its Bonds.

With respect to a mandatory tender described in clause (i) above of Bonds bearing interest at a Daily Rate or a Weekly Rate, the Tender Agent is required to give notice to the Holders of such Bonds not later than the 15th day next preceding the Mode Change Date to Daily Rate or Weekly Rate and not later than the 30th day next preceding the Mode Change Date to Fixed Rate Mode stating the Mode Change Date and that such Bonds are required to be purchased on such Mode Change Date; *provided, however, that if a Mode Change Date to Fixed Rate Mode has been properly noticed as provided for in Section 6.02(a) above (herein the “First Mode Change Date”) and all of the conditions precedent to the conversion to the Fixed Rate Mode are not met, the Tender Agent shall be required to give notice to the Holders of such Bonds of a subsequent Mode Change Date to Fixed Rate Mode not later than the 3rd day next preceding such Mode Change Date, if such Mode Change Date is within 30 days of the First Mode Change Date, stating such Mode Change Date and that such Bonds are required to be purchased on such Mode Change Date. In these circumstances, the Mode Change Date for Bonds bearing interest at a Weekly Rate may be any Business Day, notwithstanding the requirement of Section 4.04(2) that the Mode Change of Weekly Rate Bonds may be changed only on an Interest Payment Date.*

SERIES 2005-B AMENDMENTS

AMENDMENTS TO THE SUPPLEMENT.

A. Amendment of Section 1.01 – Definitions. The definition of Favorable Bond Counsel’s Opinion is hereby amended to read as follows (*added language is in italics*):

Favorable Bond Counsel’s Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement and the Authorizing Documents, and (ii) such action will not adversely affect the exemption of the interest on the Series 2005 Securities from federal and state income taxation (subject to customary exceptions), *provided, however, that if Bond Counsel believes it necessary or appropriate, in lieu of the opinion described in (ii) above, Bond Counsel may provide an opinion to the effect that the interest on such Series 2005 Securities is excluded from gross income for federal and state income tax purposes (subject to customary exceptions).*

B. Amendment to Section 2.03 - Changes in Connection with Mode Change. Section 2.03(b)(3) is hereby amended to read as follows (*added language is in italics*):

(b)(3) such Variable Rate Securities could be issued as Series 2005 Securities of the corresponding Parity and for the corresponding purpose under the Bond Ordinance (treating, for such purpose, the Securities with the amortization to be adjusted as no longer outstanding to the extent of the adjustment), *provided, however, that in connection with the remarketing of any Series 2005 Securities that is completed prior to September 30, 2008, compliance with this Section 2.03(b)(3) shall not be required, but only if the City certifies, in a manner acceptable to Bond Counsel at the time of such remarketing, that such lack of compliance with this Section 2.03(b)(3) is not materially adverse to the Holders of all outstanding bonds of the Water Supply System; and*

C. Amendment to Section 3.03 - Interest Rate Determinations for Other Modes. Section 3.03(a) is hereby amended to read as follows (*added language is in italics*):

(a) The interest rate for each the Series 2005 Securities other than Commercial Paper Rate Securities and Auction Rate Securities shall be determined by the Remarketing Agent on the Rate Determination Date for such Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at par plus accrued interest to the purchase date, under prevailing market conditions on such Rate Determination Date; *provided, however, that for Securities in the Weekly Mode, if required by prevailing market conditions in the judgment of the Remarketing Agent, the Remarketing Agent on the Rate Determination Date for such Mode may determine an interest rate that in the judgment of the Remarketing Agent would allow such Modal Securities to be sold at a net premium, i.e. coupons exceed yields on a net*

*basis, provided, further, that in the event of a premium remarketing permitted by the preceding clause, the total par amount of the Securities so remarketed shall not increase by reason of such premium, it being understood that circumstances permitting the exercise of the discretion authorized to be exercised by the Remarketing Agent by this Section shall **not** constitute a Rate Suspension Event under Section 3.04 hereof.*

D. Amendment of Section 4.12 – Election of Mode Change; How Effected; Irrevocability. Section 4.12(b) is hereby amended to read as follows (*added language is in italics*):

(b) In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, for the proposed Mode Change Date, the minimum number of days required by **Section 6.02** for notices given in connection with mandatory tenders *plus 15 days (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties), provided, however, that, for a Mode change from the Weekly Rate Mode to the Fixed Rate Mode, if on such Mode Change Date (herein the “**First Mode Change Date**”) all of the conditions to conversion to the Fixed Rate Mode are not met, if the Finance Director again elects to change the Mode for such Securities to the Fixed Rate Mode within 30 days of the First Mode Change Date, his/her election shall be effective if he/she delivers to the Tender Agent, with copies concurrently to each of the other Notice Parties, not later than the minimum number of days required in Section 6.02(d) for notices given in connection with a Mode Change in such situation:*

E. Amendment of Section 4.15 – Notice to Variable Rate Security and Auction Rate Security Holders and Liquidity Facility Providers. Section 4.15 is hereby amended to add additional language at the end of subsection (b) to read as follows (*added language is in italics*):

(b) Such notice shall be given in advance of the Mode Change Date specified in such Mode Change Notice by at least the minimum number of days required by **Section 6.02**; provided that, a Liquidity Facility Provider shall always be given at least five Modal Business Days’ notice, *except in the circumstances set forth in the proviso to Section 4.12(b) hereof.*

F. Amendment of Section 6.02 – Mandatory Tender Events. Section 6.02 is hereby amended to add a new subsection (c) to read as follows (*added language is in italics*):

(c) *If a Mode Change from the Weekly Rate Mode to the Fixed Rate Mode has been properly noticed in accordance with Section 6.02(a) above (herein the “**First Mode Change Date**”) and all of the conditions precedent to the conversion to the Fixed Rate Mode are not met, notice of a subsequent Mode Change to the Fixed Rate Mode shall be given to Modal Holders not later than the 3rd day next preceding the Mode Change Date,*

if such Mode Change Date is within 30 days of the First Mode Change Date, stating that such Mode Change Date is the Purchase Date.

AMENDMENTS TO THE SALE ORDER.

Section 2.05(b) is hereby amended by adding a paragraph at the end of the Section to read as follows (*added language is in italics*):

(b) ...

In a situation where notice of optional redemption has been delivered to registered owners of Series 2005-B Securities in the manner required by this Section (the "First Redemption Date"), and all of the conditions precedent to the conversion to the Fixed Rate Mode are not met, if the City again elects to effect a conversion to the Fixed Rate Mode and, in connection therewith, optionally redeem Securities, a subsequent notice to such registered owners in the manner required by this Section shall be given to such registered owners not later than the 3rd day next preceding the date fixed for redemption, if such date is within 30 days of the First Redemption Date.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

CHARACTERISTICS OF THE WATER SUPPLY SYSTEM SERVICE AREA

[THIS PAGE INTENTIONALLY LEFT BLANK]

CHARACTERISTICS OF THE WATER SYSTEM SERVICE AREA

The Department operates a regional Water System that serves approximately 3.9 million people living in the City and 124 other southeastern Michigan communities. Water System customers may be classified into three categories: the City, surrounding communities, and local water authorities. Although the City is the single largest entity served by the Department, its relative importance has declined as nearby communities have increased in population and joined the Water System. As a percentage of total population served by the Department, the City has declined from 73% in 1950 to 24% in 2007.

The following sections provide summary information about the major components of the Water System service area: the City, the eight largest municipal entities (listed by population served) and various statistics relating to Detroit and the Detroit-Warren-Livonia MSA.

DETROIT

The City of Detroit is located in southeastern Michigan in Wayne County and has a land area of approximately 138 square miles. According to the U.S. Department of Commerce's 2000 National Data Book, the City is the nation's 10th largest city and the center of the nation's seventh largest MSA. 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 more than 50 firms have world headquarters within the confines of the City.

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, public lighting, transportation, water supply and sewage disposal, human services (including housing), airport and parking. In accordance with the 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. The last regular election for these positions was on November 8, 2005, in which the Mayor and five incumbent members and four new members of the City Council were elected. In January 2006, the Mayor and the newly constituted City Council commenced their new terms. There are no limits as to the number of terms that may be served by City elected officials. In addition, the City is the District Control Unit responsible for certain duties relating to the judicial branch of State government.

The Charter 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, however, these powers do not extend to the budget or any ordinance for the appropriation of money, and the referendum power does not extend to emergency ordinances.

Since 2000, unemployment has increased, with an estimated employed civilian labor force of 311,302 and a 2007 yearly unemployment rate average of 14.3%, compared to a 7.7% state-wide average and a 4.6% national unemployment rate.

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 DaimlerChrysler AG 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, trade, commerce, and tourism.

In the November 1996 election, the qualified electors of the State passed a statewide gaming initiative allowing three casino gaming establishments to be licensed in the City. The Michigan legislature amended the gaming initiative in July 1997 by the passage of Act 69 Public Acts of Michigan, 1997 ("Act 69"), which requires, among other things, that an applicant for licensure submit along with its application to the Michigan Gaming Control Board, a certified development agreement between itself and the City. Three casino developers were selected by the Mayor and approved by City Council. Until the permanent casinos open, each of the three casino developers is operating a temporary facility in and around the downtown area. The City has entered Development Agreements with each casino developer.

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.

LARGEST MUNICIPAL ENTITIES SERVED BY THE DEPARTMENT

Sets forth below are descriptions of the eight largest municipal entities receiving water supply service from the Department based on 2000 Census figures and, where available, 2006 population estimates.

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 1956, and in terms of population is the largest wholesale customer served by the Department. The area comprising the Authority covers approximately 58 square miles and is located north of and adjacent to Detroit. The 2006 estimated population served by the Authority was 191,556. 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 11.5 square miles and has an estimated 2006 population of 60,720. It is primarily a residential and commercial community. The City of Southfield covers approximately 25.9 square miles and has an estimated 2006 population of 90,104. Southfield is a residential community with substantial commercial development.

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 34.5 miles of the southwestern section of Macomb County and it is

adjacent to Detroit. The 2006 estimated population of Warren was 136,589. Warren's economy is closely linked with the automobile industry, much of it being research and development rather than manufacturing. General Motors Corporation and DaimlerChrysler AG have major facilities in Warren.

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 has an area of approximately 36.8 square miles. The 2006 estimated population was 127,991. Industrial development in Sterling Heights is a continuation of that which has taken place in the City of Warren, immediately to the south. The first major industry to locate in Sterling Heights was Ford Motor Company in 1956, followed later by Daimler Chrysler AG. General Dynamics, another major employer, has located its headquarters in Sterling Heights for the engineering and design of all its products except tanks. The Detroit News maintains its principal printing plant in Sterling Heights. Lakeside Associates, owners of the area's largest shopping mall, is one of the ten largest taxpayers.

Flint

The City of Flint is the county seat of Genesee County and the principal city of the Flint MSA. Incorporated in 1855, the City now covers approximately 33.1 square miles and has a 2006 estimated population of 117,068. Flint is located about 60 miles northwest of Detroit. It is one of the principal automotive manufacturing centers in the country. The General Motors Corporation represents a significant portion of Flint's tax base.

Livonia

The City of Livonia is located in Wayne County, about 2 miles west of Detroit's western limit. Incorporated in 1950, Livonia is a residential, commercial and industrial city that encompasses some 38 square miles. Livonia's major population growth occurred in the 1950s and 1960s. The 2006 estimated population was 96,736. Livonia's tax base is well diversified. General Motors Corporation and Ford Motor Company comprise approximately 16% of its tax base. Three large shopping centers attract shoppers from surrounding communities.

Clinton Township

Clinton Township is located in the central portion of Macomb County, approximately 14 miles north of downtown Detroit. It is primarily a residential community with a land area of 38 square miles. Population has grown from 48,865 in 1970 to 96,781 in 2006.

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 25.5 square miles. The location of Ford Motor Company's headquarters in Dearborn in the early 1930s shaped the economy and growth of Dearborn. The 2006 estimated population is 92,382. Ford Motor Company is by far the largest employer and taxpayer in Dearborn.

Westland

The City of Westland, with an area of 20.42 square miles, is located three miles west of the Detroit city limits. Land use is primarily residential and commercial in character. Conveniently located near an interstate freeway, industrial development continues with auto suppliers, injection molders and tool and die shops. The 2006 estimated population was 84,504.

DETROIT-WARREN-LIVONIA MSA

The Detroit-Warren-Livonia MSA is comprised of seven counties: Wayne, Oakland, Macomb, Livingston, Lapeer, St. Clair and Monroe. Except for Flint, which is located outside the Detroit-Warren-Livonia MSA, all of the Water Supply System service area is located in the Detroit-Warren-Livonia MSA. In terms of population, the Detroit-Warren-Livonia MSA is ranked the sixth largest MSA in the country.

Population

The Detroit-Warren-Livonia MSA experienced a growth in population from 3,170,315 in 1950 to 4,441,551 in 2000. The following table presents population trends of the Detroit-Warren-Livonia MSA and the United States since 1950.

Table 1
Population Trends

<u>Year</u>	<u>Detroit-Warren-Livonia MSA</u>		<u>U.S.</u>
	<u>Population</u>	<u>% Change</u>	<u>% Change</u>
1950.....	3,169,649	--	--
1960.....	4,050,840	27.8%	13.4%
1970.....	4,549,869	12.3%	13.4%
1980.....	4,488,072	(1.4%)	11.4%
1990.....	4,382,299	(2.3%)	10.2%
2000.....	4,441,551	1.35%	13.20%

SOURCE: US. Department of Commerce, Bureau of the Census.

Employment

The Detroit-Warren-Livonia MSA is located in a regional economy that 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.

Table 2
Annual Average Wage and Salary Employment by Place of Work (Non-Agricultural)

Industry Group:	Detroit-Warren-Livonia MSA							
	2003		2004		2005		2006	
	(000's)	%	(000's)	%	(000's)	%	(000's)	%
Natural Resources & Mining.....	85	4.1	86	4.2	85	4.1	85	3.8
Construction.....	11	0.5	11	0.5	11	0.5	11	0.5
Manufacturing.....	309	14.9	298	14.4	285	13.9	285	13.3
Trade, Transportation & Utilities....	388	18.6	383	18.6	380	18.5	380	18.4
Information.....	37	1.8	36	1.8	35	1.7	35	1.7
Financial Activities.....	119	5.7	117	5.7	118	5.7	118	5.7
Professional and Business Services	364	17.5	358	17.3	372	18.1	372	17.9
Education and Health Services.....	253	12.1	256	12.4	264	12.8	264	13.6
Leisure & Hospitality.....	181	8.7	182	8.8	182	8.8	182	9.1
Other Services.....	97	4.6	99	4.8	91	4.4	91	4.5
Government.....	<u>238</u>	<u>11.4</u>	<u>237</u>	<u>11.5</u>	<u>234</u>	<u>11.4</u>	<u>234</u>	<u>11.4</u>
Total.....	<u>2,083</u>	<u>100.0</u>	<u>2,062</u>	<u>100.0</u>	<u>2,057</u>	<u>100.0</u>	<u>2,018</u>	<u>100.0</u>

Industry Group:	U.S.							
	2003		2004		2005		2006	
	(000's)	%	(000's)	%	(000's)	%	(000's)	%
Natural Resources & Mining.....	572	0.4	591	0.4	625	0.5		
Construction.....	6,735	5.2	6,976	5.3	7,277	5.5		
Manufacturing.....	14,510	11.2	14,315	10.9	14,232	10.7		
Trade, Transportation & Utilities....	25,287	19.5	25,533	19.4	25,909	19.4		
Information.....	3,188	2.5	3,118	2.4	3,066	2.3		
Financial Activities.....	7,977	6.1	8031	6.1	8,141	6.1		
Professional and Business Services	15,985	12.3	16,395	12.5	16,882	12.6		
Education and Health Services.....	16,588	12.8	16,953	12.9	17,342	13.0		
Leisure & Hospitality.....	12,173	9.4	12,493	9.5	12,802	9.6		
Other Services.....	5,401	4.2	5,309	4.0	5,386	4.0		
Government.....	<u>21,583</u>	<u>16.6</u>	<u>21,621</u>	<u>16.5</u>	<u>21,803</u>	<u>16.3</u>		
Total.....	<u>129,999</u>	<u>100.0</u>	<u>131,355</u>	<u>100.00</u>	<u>133,465</u>	<u>100.00</u>		<u>100.00</u>

NOTE: Totals may not add due to rounding.

SOURCE: Michigan Department of Labor & Economic Growth, Office of Labor Market Information for Detroit-Warren-Livonia CBSA; U.S. Department of Labor, Bureau of Labor Statistics for U.S.

Unemployment in the Detroit-Warren-Livonia MSA in comparison to the City of Detroit, the State and the United States is illustrated in the following table:

**Table 3
Civilian Unemployment Rates**

	<u>Detroit</u>	<u>Detroit-Warren-Livonia MSA</u>	<u>State of Michigan</u>	<u>U.S.</u>
2003	14.6%	7.2%	7.1%	6.0%
2004	14.0%	7.1%	7.1%	5.5%
2005	14.2%	7.2%	6.7%	4.9%
2006	13.7%	7.2%	6.9%	4.6%
2007	14.3%	7.7%	7.2%	4.6%

SOURCE: Michigan Department of Labor & Economic Growth ("DL&EG"); U.S. Department of Labor, Bureau of Labor Statistics.

Housing Characteristics

**Table 4
City of Detroit Housing Inventory
(in thousands)**

<u>Occupancy Status</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Owner-occupied.....	298.6	250.9	197.9	184.6
Renter-occupied.....	199.1	182.6	176.1	151.8
Vacant	<u>31.3</u>	<u>37.7</u>	<u>36.0</u>	<u>38.7</u>
Total Housing Units...	529.0	471.2	410.0	375.1

SOURCE: U.S. Department of Commerce, Bureau of the Census.

NOTE: Data may not add due to independent recording. Excludes seasonal housing.

**Table 5
Housing Characteristics-2002**

	<u>City of Detroit</u>	<u>Detroit MSA</u>	<u>United States</u>
Percent owner-occupied	54.9%	72.4%	66.2%
Rental vacancy	8.3%	6.4%	6.8%
Median Value of owner-occupied units	\$63,000	\$127,800	\$119,600
Median contract rent	\$486	\$502	\$602
Persons per household.....	2.77	2.58	2.59

SOURCE: U.S. Department of Commerce, Bureau of Census.

NOTE: Value of Owner-Occupied Units is a self-reported estimate of the then-current market value, and therefore is not directly comparable to the State Equalized Value.

Manufacturing

The following table shows a breakdown of manufacturing wage and salary employment by type for the Detroit-Warren-Livonia MSA from 2003 through 2007.

Table 6
Manufacturing Wage and Salary Employment

Industry Group:	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(In Thousands)				
Total durable goods industries	262.6	253.0	244.6	225.1	215.9
Total nondurable goods industries	<u>46.8</u>	<u>44.7</u>	<u>44.2</u>	<u>43.7</u>	<u>43.6</u>
Total manufacturing employment	309.4	297.7	288.8	268.8	259.4

SOURCE: Michigan Department of Labor and Economic Growth, Office of Labor Market Information.

Family Income

The following table sets forth certain information concerning personal income in the Detroit-Warren-Livonia CBSA, the State of Michigan and the United States.

Table 7
Effective Household Buying Income – 2005

	<u>Detroit-Warren- Livonia CBSA</u>	<u>State of Michigan</u>	<u>U.S.</u>
Under \$20,000.....	18.7%	20.6%	21.5%
\$20,000-34,999	20.1%	22.7%	22.5%
\$35,000-49,000	18.0%	19.1%	19.3%
\$50,000 and over.....	<u>43.2%</u>	<u>37.6%</u>	<u>36.7%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Median effective buying income.....	\$43,666	\$39,668	\$39,324

SOURCE: Sales Management & Marketing Magazine, Annual Survey of Buying Power, 2005.
Effective Buying Income is a widely used, copyrighted marketing statistic equivalent to disposable personal income.

Of the 20 largest CBSA's, Detroit ranks thirteen in terms of Effective Buying Income (EBI) in 2005 as shown in the following table:

Table 8
**Ranking of 20 Largest CBSA's by
Median Household Effective Buying Income – 2005**

Rank		<u>EBI</u>	<u>Population (000)</u>
1	Washington-Arlington-Alexandria, DC-VA-MD-WV.....	54,693	5,239.1
2	San Francisco-Oakland-Fremont, CA	54,541	4,215.4
3	Boston-Cambridge-Quincy, MA-NH.....	49,011	4,450.5
4	Minneapolis-St. Paul-Bloomington, MN-WI.....	48,419	3,138.3
5	Seattle-Tacoma-Bellevue, WA.....	46,789	3,200.9
6	Atlanta-Sandy Springs-Marietta, GA	46,249	4,765.8
7	Chicago-Naperville-Joliet, IL-IN-WI.....	45,876	9,433.6
8	Dallas-Fort Worth-Arlington, TX	45,468	5,786.9
9	Baltimore-Towson, MD	44,629	2,644.9
10	San Diego-Carlsbad-San Marcos, CA.....	44,506	2,998.6
11	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD.....	44,060	5,816.3
12	New York-Newark-Edison, NY-NJ-PA.....	43,978	18,768.2
13	Detroit-Warren-Livonia, MI	43,666	4,496.1
14	Houston-Baytown-Sugar Land, TX.....	43,055	5,239.5
15	Phoenix-Mesa-Scottsdale, AZ.....	42,458	3,730.6
16	Los Angeles-Long Beach-Santa Ana, CA.....	42,269	13,104.0
17	St. Louis, MO-IL.....	40,830	2,755.7
18	Riverside-San Bernardino-Ontario, CA	39,869	3,753.4
19	Miami-Fort Lauderdale-Miami Beach, FL.....	38,816	5,379.5
20	Tampa-St. Petersburg-Clearwater, FL.....	36,968	2,92.8

SOURCE: Sales & Marketing Management Magazine, Annual Survey of Buying Power, 2005.

Largest Employers

Below is a listing of the largest private sector employers by company and by number of employees actually or estimated to be employed within the metro Detroit area at the end of 2006.

Table 9
Largest Employers

<u>Company</u>	<u>Employment</u>
Ford Motor Company.....	55,342
General Motors Corp.....	41,861
University of Michigan.....	33,374
Chrysler L.L.C.....	32,597
Detroit Public Schools.....	17,329
U.S. Postal Service.....	15,385
U.S. Government.....	15,328
Henry Ford Health System.....	15,139
St. John Health.....	14,286
City of Detroit	13,762

SOURCE: Crain's *Book of Lists*, 2008 Edition, December 2007.

Construction

The following table shows residential construction (public and private) by number of units for the Detroit-Warren-Livonia MSA and the U.S. The number of units constructed in the Detroit-Warren-Livonia MSA has increased substantially since 1995, after several years of decline.

Table 10
Residential Construction
(Number of Units)

<u>YEAR</u>	<u>DETROIT- PMSA</u>	<u>U.S.</u>
2001.....	16,218	1,636,700
2002.....	17,779	1,747,700

<u>YEAR</u>	<u>DETROIT- WARREN- LIVONIA PMSA</u>	<u>U.S.</u>
2003 (1).....	19,900	1,889,200
2004.....	21,808	2,052,100
2005	16,442	2,147,600

SOURCE: US. Department of Commerce, Bureau of the Census.

(1) Beginning January 2003, building permit data reflect an increase in the universe of permits issuing places from 19,000 to 20,000 places.

Port of Detroit

The Detroit/Wayne County Port Authority is a public agency responsible for promoting trade and freight transportation through the Port of Detroit, 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.

Table 11
Waterborne Commerce of the Port of Detroit
(million tons – computed as short tons of 2,000 pounds)

	Foreign			Domestic <u>Total</u>	Grand <u>Total</u>
	<u>Canadian</u>	<u>Overseas</u>	<u>Total</u>		
2001.....	4.3	0.4	4.7	12.3	17.0
2002.....	3.7	0.7	4.4	12.9	17.3
2003.....	3.5	0.4	3.9	10.4	14.3
2004.....	3.6	0.6	4.2	12.6	16.8
2005.....	4.0	0.4	4.4	13.0	17.4

SOURCE: Detroit/Wayne County Port Authority.

Transportation Network

Five major rail lines provide direct service to the Detroit area by such railroad companies as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargoes 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, with general aviation, cargo and scheduled passenger services, and at the Detroit Metropolitan Wayne County Airport, the nation's 13th largest international airport and the largest hub for Northwest Airlines. More than 27 other scheduled airlines provided domestic and international service with more than 34 million annual passenger deplanements and enplanements, and 107,643 tons of annual enplaned cargo.

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.

APPENDIX F
SUMMARY OF THE CONTINUING DISCLOSURE UNDERTAKING

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF THE CONTINUING DISCLOSURE UNDERTAKING

Certain provisions of the Master Continuing Disclosure Agreement executed by the City (the "Disclosure Agreement") are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference of full terms of the Disclosure Agreement.

The Disclosure Agreement was executed and delivered by the City for the benefit of the Holders and the Beneficial Owners, as defined in this Appendix F, and in order to assist the Remarketing Agent in complying with SEC Rule 15c2-12(b)(5). The Fixed Rate Bonds are subject to the Disclosure Agreement.

Certain Definitions

Defined terms used in the Disclosure Agreement and not otherwise defined therein have the meanings set forth in the Bond Ordinance.

"Audited General Purpose Financial Statements" means annual general purpose financial statements (currently prepared as the City's Comprehensive Annual Financial Report), if any, of the City, audited by such independent public accountants as shall then be required or permitted by state law or the Bond Ordinance. The Disclosure Agreement requires that Audited Financial Statements be prepared in accordance with GAAP, applied on a consistent basis, *provided however*, that the City 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. The Disclosure Agreement requires that notice of any such modification be provided to (i) either to each NRMSIR or the MSRB and (ii) the SID.

"Audited Water Fund Financial Statements" means annual financial statements, if any, of the City's Water Fund audited by such independent public accountants as shall then be required or permitted by City ordinance or the Bond Ordinance. The Disclosure Agreement requires that Audited Water Fund Financial Statements be prepared in accordance with GAAP, applied on a consistent basis; *provided, however*, that the City may from time to time, in accordance with the GAAP and subject to applicable federal or state legal requirements, modify the basis upon which financial statements are prepared. The Disclosure Agreement requires that notice of any such modification be provided to (i) either to each NRMSIR or the MSRB and (ii) the SID.

"Beneficial Owner," for the purpose of this Appendix F, means a beneficial owner of Subject Bonds, as determined pursuant to the Rule.

"Fiscal Year" means that period established by the City with respect to which its Audited Water Fund Financial Statements or Unaudited Water Fund Financial Statements, as applicable, are prepared. The City's Fiscal Year begins on July 1 and ends on June 30 of the next calendar year.

“Fixed Rate Bonds” means, collectively, the City’s Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate), Series 2001-C and Revenue Senior Lien Bonds (Fixed Rate), Series 2005-B.

“GAAP” means generally accepted accounting principles, as such principles are prescribed, in part, by the Government Accounting Standards Board, supplemented by pronouncements of the American Institute of Certified Public Accountants and by the Financial Accounting Standards Board, made applicable to state and local governmental entities, and in effect from time to time.

“Holders” means the registered owners of the Subject Bonds.

“Listed Event” means any of the events listed below under the heading “Reporting Certain Events.”

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“NRMSIR” means, at any time, a then existing nationally recognized municipal securities information repository as recognized by the SEC from time to time for the purposes referred to in the Rule. The NRMSIRs currently approved by the SEC are set forth in Exhibit A hereto.

“Remarketing Agent” means the remarketing agent in connection with the offering of Subject Bonds.

“Remarketing Circular” means the City’s offering document related to the Fixed Rate Bonds.

“Rule” means the applicable provision of Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of the Disclosure Agreement, including any official interpretations thereof.

“SEC” means the United States Securities and Exchange Commission.

“Securities Counsel” means legal counsel expert in federal securities laws.

“SID” means the Municipal Advisory Council of Michigan or such other appropriate state information depository for the State of Michigan, if any, as recognized by the SEC for the purposes referred to in the Rule.

“Subject Bonds” means those bonds issued pursuant to the Bond Ordinance, including the Fixed Rate Bonds, which are made subject to the terms of the Disclosure Agreement in any resolution of the City Council authorizing the issuance of such bonds.

“Trustee” means U.S. Bank National Association, Detroit, Michigan, as the Trustee under the Bond Ordinance or any successor thereto.

“Unaudited General Purpose Financial Statements” means the same as Audited General Purpose Financial Statements, except that they shall not have been audited by independent public accountants.

“Unaudited Water Fund Financial Statements” means the same as Audited Water Fund Financial Statements, except that they shall not have been audited by independent public accountants.

Provision of Annual Financial Information

The City will, not later than 180 days after the end of each Fiscal Year, provide to the SID and each NRMSIR the annual financial information described below for such Fiscal Year (the “Annual Financial Information”) which is consistent with the requirements of the Disclosure Agreement. The Audited Water Fund Financial Statements, or Audited General Fund Financial Statements, as applicable, may be submitted separately from the balance of the Annual Financial Information, and later than the date required for the filing of the Annual Financial Information if not available by the date.

The Disclosure Agreement requires the City to provide, in a timely manner, notice of any failure by it to provide Annual Financial Information to each NRMSIR and the SID on or before the date described in the first paragraph under this heading, to the SID and either (i) each NRMSIR, or (ii) the MSRB, with a copy to the Trustee.

Content of Annual Financial Information

The City’s Annual Information shall contain or include by reference the following:

- a. the Audited Water Fund Financial Statements, if available;
- b. if the Audited Water Fund Financial Statements are not available, the Unaudited Water Fund Financial Statements and the Audited General Purpose Financial Statements (or the Unaudited General Purpose Financial Statements if the Audited General Purpose Financial Statements are not available); and
- c. financial information or operating data of the types included in tabular form in the Remarketing Circular under the headings “The Water Supply System,” “Financial Operations,” “Financial Procedures” (excluding the Water Rate Comparison information), and “The Department of Water and Sewerage”; actual data comparable to the projections contained under the heading “The Capital Improvement Program;” and actual operating data comparable to the projections contained under the following section headings of Appendix A -- “Feasibility Report:” “Rate Methodology and Existing Rates,” “Projections of Revenues,” and “Operation and Maintenance Expense Projections.”

If not provided as part of the Annual Financial Information by the date required (as described above under “Provision of Annual Financial Information”), the City shall provide Audited Water Fund Financial Statements or Audited General Purpose Financial Statements, as applicable, when and if available, to each NRMSIR and the SID.

Any and all of the items above may be included by specific reference to other documents, including official statements or debt issues of the City or related public entities, which have been submitted to each NRMSIR and the SID or the SEC. If such document is an official statement, it must also be available from the MSRB. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Other Obligated Persons

With respect to any wholesale customer of the System that an obligated person for whom financial information or operating data is presented in the Remarketing Circular, as determined pursuant to the Rule, the City shall provide or cause to be provided:

(a) to each NRMSIR and the SID, annual financial information of such obligated person of the type included in the Remarketing Circular with respect to such obligated person within 180 days after the end of the obligated person's fiscal year;

(b) to each NRMSIR and SID, financial statements of such obligated person, audited in accordance with GAAP, within 180 days after the end of the obligated person's fiscal year or, if not then available, when and if available; and

(c) in a timely manner either to the MSRB or each NRMSIR, and also the SID, with a copy to the Trustee, notice of any failure to provide the above-referenced information.

Reporting of Certain Events

The City will give timely notice to the SID, the Trustee, and to either each NRMSIR or the MSRB of the occurrence of any of the following events with respect to the Subject Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) modification to rights of Holders;
- (d) Subject Bond calls;
- (e) unscheduled draws on credit enhancements reflecting financial difficulties;
- (f) substitution of credit or liquidity providers, or their failure to perform;
- (g) defeasances;
- (h) rating changes;
- (i) adverse tax opinions, or events adversely affecting the tax-exempt status (if applicable), of any Subject Bonds;

- (j) unscheduled draws on the debt service reserves reflecting financial difficulties;
- and
- (k) release, substitution or sale of property securing repayment of the Subject Bonds.

Additional Information

Nothing in the Disclosure Agreement will be deemed to prevent the City from disseminating any other information, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Agreement. If the City chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Agreement, the City will have no obligation under the Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

Amendment of Disclosure Agreement

The Disclosure Agreement may be amended by the City, and any provisions of the Disclosure Agreement may be waived, without the consent of the Holders or Beneficial Owners, except as required pursuant to clause 4(ii) below, under the following conditions: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or Water Supply System or the type of business conducted thereby, (2) the Disclosure Agreement as so amended or waived could have complied with the requirements of the Rule as of the date of each primary offering of Subject Bonds affected by such amendment or waiver, after taking into account any amendments, or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have delivered to the Trustee an opinion of Securities Counsel, addressed to the City and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with the City (such as the Trustee or bond counsel), acceptable to the City and the Trustee, has determined that the amendment does not materially impair the interests of the Beneficial Owners, or (ii) the Holders consent to the amendment or waiver to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Bond Ordinance with consent of Holders, and (5) the City shall have delivered copies of such waiver or amendment to the SID and to either each NRMSIR or the MSRB.

In addition to the foregoing, the City may amend the Disclosure Agreement, and any provision of the Disclosure Agreement may be waived, if the Trustee shall have received an opinion of Securities Counsel, addressed to the City and the Trustee, to the effect that the adoption and the terms of such amendment or waiver would not, in and of themselves, cause the undertakings in the Disclosure Agreement to violate the Rule, taking into account any subsequent changes in or official interpretation of the Rule.

To the extent any amendment to the Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant thereto, and first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the

change and the impact of the change. If a change is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present 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. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Benefit; Enforcement

The provisions of the Disclosure Agreement will inure solely to the benefit of the Holders and the Beneficial Owners from time to time. Except as described in this paragraph, the provisions of the Disclosure Agreement will create no rights in any other person or entity. The obligation of the City to comply with the provisions of the Disclosure Agreement are enforceable by any Beneficial Owner of outstanding Subject Bonds and, in addition, by the Trustee on behalf of the Holders of outstanding Subject Bonds. The right to enforce the provisions of the Disclosure Agreement are limited to a right, by action or mandamus or for specific performance, to compel performance of the City's obligations under the Disclosure Agreement. Any failure by the City to perform in accordance with the Disclosure Agreement will not constitute a default or an event of default under the Bond Ordinance, and the rights and remedies provided by the Bond Ordinance upon the occurrence of a default or an event of default will not apply to any such failure.

Termination of Reporting Obligation

The City's obligations under the Disclosure Agreement with respect to the Subject Bonds will terminate upon (i) the legal defeasance under the Bond Ordinance, (ii) prior redemption, or (iii) payment in full of all of the Subject Bonds. The City shall give notice of any such termination to the SID and to either each NRMSIR or the MSRB.

The Disclosure Agreement, or any provision thereof, will be null and void in the event the City (1) delivers to the Trustee an opinion of Securities Counsel, addressed to the City and the Trustee, to the effect that those portions of the Rule which require the provisions of the Disclosure Agreement, or any of such provisions, do not or no longer apply to the Subject Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as will be specified in such opinion, and (2) delivers notice to such effect to the SID and to either each NRMSIR or the MSRB.

Governing Law

The Disclosure Agreement provides that it be construed and interpreted in accordance with the laws of the State, and that any suits and actions arising out of the Disclosure Agreement be instituted in a court of competent jurisdiction in the State, provided that, to the extent the Disclosure Agreement addresses matters of federal securities laws, including the Rule, the Disclosure Agreement is to be construed in accordance with such federal securities laws and official interpretations thereof.

EXHIBIT A

The nationally recognized municipal securities information repositories approved by the Securities and Exchange Commission as of April 29, 2008, are set forth below:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.com

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G
SPECIMEN OF BHAC BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

**BERKSHIRE HATHAWAY
ASSURANCE CORPORATION**
NEW YORK, NEW YORK

**FINANCIAL GUARANTY
INSURANCE POLICY**

DECLARATIONS

Policy No.:

Issuer: City of Detroit, Michigan

Description of Obligations:

Fiscal Agent: U.S. Bank National Association

Premium:

Effective Date:

Endorsements:

Prior Insurer: Financial Guaranty Insurance Company

INSURANCE POLICY TERMS AND CONDITIONS (Primary)

Berkshire Hathaway Assurance Corporation (“BHAC”), a New York corporation, in consideration of the payment of the Premium and subject to the terms and conditions of this Policy (which includes any endorsement hereto), hereby agrees unconditionally and irrevocably to pay U.S. Bank National Association or its successor, as its agent (the “Fiscal Agent”), for the benefit of the Holders of the Obligations (as set forth in the Bond Ordinance, bond resolution and other applicable authorizing documents providing for the issuance of and securing the Obligations), that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

BHAC will pay an amount equal to such Insured Payments to the Fiscal Agent on the later to occur of (i) the Business Day following the day on which BHAC shall have Received a completed Notice of Nonpayment, or (ii) the date applicable principal or interest becomes Due for Payment. If a Notice of Nonpayment to BHAC is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and BHAC shall promptly give notice to the Fiscal Agent that the purported Notice of Nonpayment is not deemed Received. Upon receipt of such notice, the Fiscal Agent may submit an amended Notice of Nonpayment. The Fiscal Agent will disburse the amounts paid to it by BHAC in respect of such Insured Payments to the Holders only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it of (i) evidence of the Holder’s right to receive such payments, and (ii) evidence, including, without limitation, any appropriate instruments of assignment, that all of the Holder’s rights to payment of such Insured Payments shall thereupon vest in BHAC. Upon such disbursement, BHAC shall become the owner of the Obligation, appurtenant coupon (if any) or right to payment of such Insured Payments and any interest thereon, and shall be fully subrogated to all of the Holder’s right, title and interest thereunder, including the Holder’s right to payment thereof. Payment by BHAC to the Fiscal Agent for the benefit of the Holders shall discharge the obligation of BHAC under this Policy to the extent of such payment.

This Policy is non-cancelable by BHAC for any reason. The Premium on this Policy is not refundable for any reason, including the payment prior to maturity of the Obligations. This Policy does not insure against any acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of BHAC, nor does this Policy insure against any risk other than Nonpayment.

Except to the extent expressly modified by the Declarations to this Policy or any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy.

“Avoided Payment” means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to any applicable bankruptcy law in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder.

“Business Day” means any day other than (i) a Saturday or Sunday, or (ii) any day on which the offices of the Fiscal Agent are authorized or required by law, executive order or governmental decree to be closed.

“Due for Payment” means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation 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 a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BHAC in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest.

“Holder” means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations.

“Insured Payments” means the principal of and interest on the Obligations that shall become Due for Payment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Issuer to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Issuer by reason of such failure.

“Nonpayment” means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term “Nonpayment” in respect of an Obligation includes any Avoided Payment.

“Notice” means telephonic or telegraphic notice subsequently confirmed in writing, or written notice given by overnight or other delivery service, or by certified or registered United States mail, from a Holder or a paying agent for the Obligations to BHAC. Notices to BHAC may be mailed by certified mail or may be delivered by telecopier to facsimile number (203) 363 5221, attn: Bond Insurance Claims, or to such other address as shall be specified by BHAC to the Fiscal Agent in writing.

“Obligation” means the bonds stated in the Declarations.

“Receipt” or “Received” means actual receipt of Notice of or, if Notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of BHAC.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAWS. Payments under this Policy may not be accelerated except at the sole option of BHAC.

Premium is due not later than the Effective Date.

This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, BHAC has caused this Policy to be executed on its behalf by its duly authorized officer, and to become effective and binding upon BHAC by virtue of such signature.

BERKSHIRE HATHAWAY ASSURANCE CORPORATION

By: _____
Name: _____
Title: _____

ATTEST:

By: _____
Name: _____
Title: _____

**BERKSHIRE HATHAWAY
ASSURANCE CORPORATION
*NEW YORK, NEW YORK***

PRIOR BOND INSURER ENDORSEMENT (Primary)
ATTACHED TO POLICY NUMBER

In consideration of the premium paid by Premium Obligor, the Policy is amended as follows:

The following definitions are added to the Policy:

"Condition Precedent" means a proper claim for payment has been made on the Prior Insurance and the Prior Insurer has failed to pay such claim in the period permitted by the Prior Insurance for reasons other than failure to provide proper documentation required by the Prior Insurer to pay such claim.

"Paid in Full" For purposes of this Endorsement, any Obligation shall be "paid in full" upon the first to occur of (a) the date when the Prior Insurer has paid all amounts which may become due under the Prior Insurance and (b) the date when all Insured Payments (as defined in this Endorsement, except that, for purposes of this sentence, without giving any effect to the words "during the Term of this Policy" in such definition) required to be paid by the Issuer, including all principal and accrued interest, have been paid or deemed to be paid (but for purposes of this Endorsement, "deemed to be paid" shall not include defeasance of the Obligation) in accordance with the terms of the Obligations, and any period during which any such payment could have been avoided in whole or in part as a preference payment under applicable law shall have expired before any proceeding requisite to such avoidance shall have been commenced and any Insured Payment shall be "paid in full" when such payment has been made by the Issuer, and any period during which any such payment could have been avoided in whole or in part as a preference payment under applicable law shall have expired before any proceeding requisite to such avoidance shall have been commenced.

"Prior Insurance" means the financial guaranty insurance policy delivered by the Prior Insurer with respect to each of the Obligations.

"Prior Insurer" means the entity identified as such in the Declarations, its successors and assigns.

The following definitions replace the definitions provided for in the Policy:

"Holder" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder but shall not include the Prior Insurer, the Issuer or any affiliate or successor thereof.

"Insured Payments" means payments which are scheduled to be made during the Term of this Policy in accordance with the original terms of the Obligations (including when amended in accordance with such original terms) when issued and without regard to any amendment or modification of such Obligations thereafter (other than an amendment in accordance with such terms); provided that no such amount shall constitute an "Insured Payment" unless and until the Condition Precedent has been fulfilled, in which event the Insured Payment insured under the Policy shall be the principal and interest scheduled to be made as aforesaid on the Obligations less any amount paid by the Prior Insurer in respect thereof. Payments which become due on an accelerated basis as a result of (a) a default by the Issuer, (b) an election by the Issuer to pay principal on an accelerated basis or (c) any other cause, shall not constitute "Insured Payments" unless BHAC shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. Insured Payments shall not include any amounts due in respect of the Obligations attributable to any increase in interest rate, penalty or other sums, if any, payable by the Issuer by reason of any default or event of default in respect of the Obligations. Insured Payments shall, subject to the Condition Precedent, include principal and interest due in respect of the Obligations payable in connection with the maturity thereof as well as mandatory sinking fund redemption. In the absence of written consent by BHAC, any (i) action by the Holder of an Obligation which releases, or diminishes the liability of, the Prior Insurance; or (ii) failure by the Holder to take such action(s) as BHAC may reasonably require in order to preserve BHAC's rights, if any, against the Prior Insurance, shall result in such Obligation ceasing to be insured under this Policy.

The following Terms and Conditions are added to the Policy:

1. In addition to all other requirements set forth in this Policy, with respect to an Avoided Payment only, BHAC shall have no obligation to make any payment to any Holder under this Policy until the fourth Business Day following receipt by BHAC from the Fiscal Agent of (i) a certified copy of the order of the court which exercised jurisdiction to the effect that the Holder is required to return a payment of principal or interest constituting a Insured Payment and paid on the Obligation during the Term of this Policy because such payment was an avoidable preference under applicable law (the "Order"), (ii) a certificate of the Holder that the Order has been entered and is not subject to any stay. With respect to an Avoided Payment, BHAC may disburse payment due under the Policy to the receiver, conservator, debtor-in-possession, trustee in bankruptcy

or other person named in the Order and not to the Fiscal Agent or Holder directly; unless such Holder has been required previously to disgorge all or part of such payment, as demonstrated to the satisfaction of BHAC.

In addition to all other requirements set forth in this Policy, with respect to all claims under this Policy BHAC shall have no obligation to make any payment to any Holder under this Policy until it has received (i) a certificate stating that the Condition Precedent has been fulfilled accompanied by a certified copy of the claim filed with the Prior Insurer; and (ii) an assignment duly executed and delivered by the Holder, in such form as is reasonably required by BHAC and provided to the Holder by BHAC or the Fiscal Agent, irrevocably assigning to BHAC all rights and claims of the Holder relating to or arising under the Obligation and the Prior Insurance against the Issuer and the Prior Insurer, as appropriate, upon disbursement of any payments by BHAC hereunder.

2. BHAC's obligation to make any payment under this Policy is subject to the Condition Precedent.

3. In addition to BHAC being subrogated to the rights of each Holder to receive payment under the Obligations to the extent of any payment by BHAC hereunder, BHAC shall be subrogated to the rights of each Holder to receive payment under the Prior Insurance to the extent of any payment by BHAC hereunder and shall be subrogated to the rights of the Prior Insurer to the extent of any payment by BHAC hereunder.

4. This Policy shall expire with respect to each Obligation on the date on which that Obligation is Paid in Full.

IN WITNESS WHEREOF, BHAC has caused this Policy to be executed on its behalf by its duly authorized officer, and to become effective and binding upon BHAC by virtue of such signature.

BERKSHIRE HATHAWAY ASSURANCE CORPORATION

By: _____

Name: Kara Raiguel

Title: Vice President

ATTEST:

By: _____

Name: Brian Snover

Title: Vice President

APPENDIX H
FORM OF FAVORABLE BOND COUNSEL'S OPINION

[THIS PAGE INTENTIONALLY LEFT BLANK]

Upon the delivery of the Bonds, Bond Counsel proposes to issue its Favorable Bond Counsel's Opinion in substantially the following form:

LAW OFFICES
LEWIS & MUNDAY
A PROFESSIONAL CORPORATION
2490 FIRST NATIONAL BUILDING
660 WOODWARD AVENUE
DETROIT, MICHIGAN 48226

TELEPHONE (313) 961-2550
TELECOPIER (313) 961-1270

[Closing Date]

City of Detroit
Detroit, Michigan

Dear Sir or Madam:

We have acted as Bond Counsel in connection with the remarketing of the City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Fixed Rate) Series 2001-C (the **2001-C Bonds**) and the City of Detroit Water Supply System Revenue Senior Lien Bonds (Fixed Rate) Series 2005-B (the **2005-B Bonds** and together with the 2001-C Bonds, the **Bonds**).

Reference is made to the following documents with respect to the 2001-C Bonds (the **2001-C Documents**): (i) the Variable Rate Demand Bonds Supplement and Agreement (a **Supplement**), dated May 31, 2001, between the City of Detroit, Michigan (the **City**), and U.S. Bank National Association acting in its separate capacities as Trustee, Transfer Agent and Tender Agent, as last amended on April 23, 2008; and (ii) the Sale Order of the Finance Director of the City dated as of May 31, 2001, as supplemented on May 6, 2008 (a **Sale Order**).

Reference is made to the following documents with respect to the 2005-B Bonds (the **2005-B Documents**): (i) the Variable Rate Mode and Auction Rate Mode Supplement and Agreement (a **Supplement**), dated March, 22, 2005, between the City and U.S. Bank, as Transfer Agent, as amended on April 23, 2008, and (ii) the Sale Order of the Finance Director of the City dated as of March 22, 2005, as amended on April 23, 2008 and as supplemented on May 6, 2008 (a **Sale Order**).

In connection with the remarketing, the mode of the Bonds was changed (the **Mode Change**) pursuant to the 2001-C Documents in the case of the 2001-C Bonds and the 2005-B Documents in the case of the 2005-B Bonds and the Supplements were amended. In addition, certain changes were made in the debt service structure and the redemption provisions as set forth in the Remarketing Agreement, dated May 6, 2008 (the **Remarketing Agreement**), between the City and Siebert Bradford Shank & Co., LLC.

Capitalized terms not defined herein and defined in either Supplement are used herein as therein defined.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the authorizing City ordinance (the **Ordinance**) and in the documents delivered by the City in connection with the initial issuance of the 2001-C Bonds and the 2005-B Bonds.

We have not, however, undertaken to verify the same by independent investigation. We have assumed, but have not independently verified, that the signatures on all documents and certificates we have examined are genuine, and that the Bonds conform to the specimen Bonds that we have examined.

Based on the foregoing, we are of the opinion, as of the date hereof and under existing law as presently interpreted, as follows:

1. The Mode Change and the changes to the debt service structure and redemption provisions set forth in the Remarketing Agreement are authorized or permitted by the Ordinance and the respective Supplements and Sale Orders.

2. The interest on the 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 alternative minimum tax imposed upon individuals and corporations under the Internal Revenue Code of 1986, as amended (the *Code*). It should be noted, however, that with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing income subject to the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 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 certain of these requirements could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

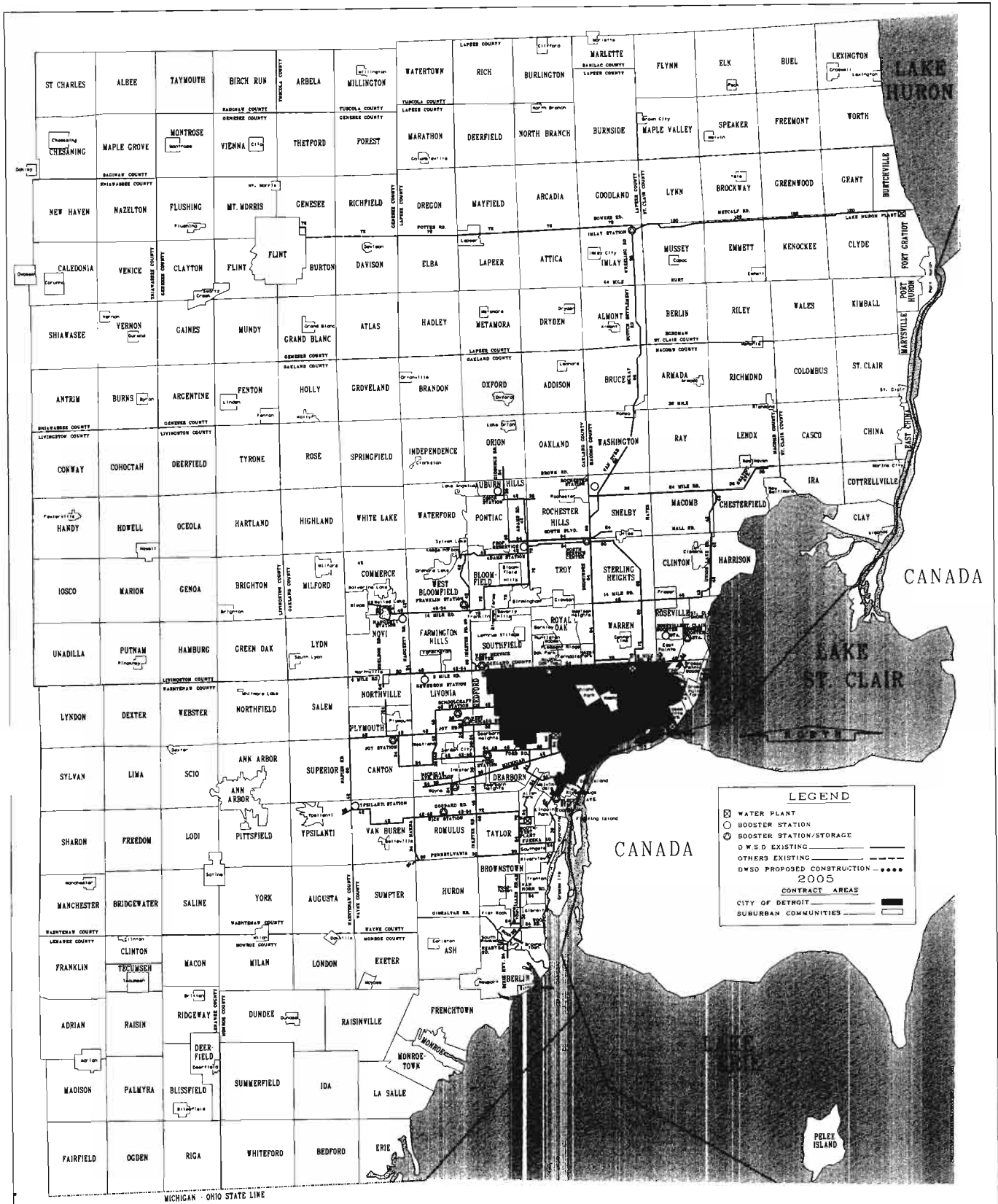
3. The Bonds and the interest thereon are exempt from all taxation imposed by the laws of the State of Michigan, except inheritance, gift and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Very truly yours,

H-2

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



DETROIT WATER AND SEWERAGE DEPARTMENT
 WATER TRANSMISSION SYSTEM
 FOR THE
 SOUTHEASTERN MICHIGAN METROPOLITAN AREA
 2005



Printed on Recycled Paper
IMAGEMASTER 800.452.5152

Exhibit 10



Financial Guaranty Insurance
 Company
 115 Broadway
 New York, NY 10006
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer: City of Detroit, Michigan

Policy Number: 01010573

Control Number: 0010001

Bonds: \$192,290,000 in aggregate principal amount of
 Water Supply System Revenue Refunding Second
 Lien Bonds (Variable Rate Demand), Series
 2001-C

Premium: \$749,053.01

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.
 Form 9000 (10/93) Page 1 of 2



Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: June 7, 2001

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance
 Company
 115 Broadway
 New York, NY 10006
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number: 01010573

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: June 7, 2001

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
 State Street Bank and Trust Company, N.A., as Fiscal Agent

Exhibit 11



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer: City of Detroit, Michigan

Policy Number: 05010189

Control Number: 0010001

Bonds: \$195,000,000.00 in aggregate principal amount of Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B

Premium: \$1,093,792.29

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.
 Form 9000 (10/93)

Page 1 of 2



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: March 23, 2005

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
 To Financial Guaranty Insurance Company
 Insurance Policy

Policy Number: 05010189

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

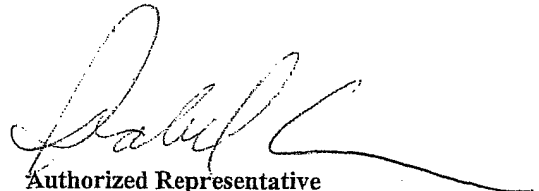
NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



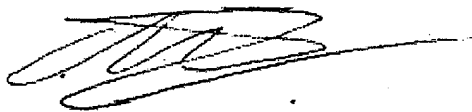
President

Effective Date: March 23, 2005



Authorized Representative

Acknowledged as of the Effective Date written above:



Authorized Officer
 U.S. Bank Trust National Association, as Fiscal Agent

Exhibit 12



Financial Guaranty Insurance
 Company
 115 Broadway
 New York, NY 10006
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer: City of Detroit, Michigan

Policy Number: 01012198

Control Number: 0010001

Bonds: \$139,080,000 in aggregate principal amount of
 Sewage Disposal System Second Lien Revenue
 Bonds (Variable Rate Demand), Series 2001(E)

Premium: \$707,577.33

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a



Financial Guaranty Insurance
 Company
 115 Broadway
 New York, NY 10006
 (212) 312-3000
 (800) 352-0001

FGIC Capital Company

Municipal Bond New Issue Insurance Policy

Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Richard M. Reif

President

Effective Date: October 23, 2001

James Stewart

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

[Signature]

Authorized Officer



Financial Guaranty Insurance
 Company
 115 Broadway
 New York, NY 10006
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number: 01012198

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: October 23, 2001

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
 State Street Bank and Trust Company, N.A., as Fiscal Agent