



EMERGENCY MANAGER
CITY OF DETROIT

ORDER No. 34

**ORDER APPROVING THE ARTICLES OF INCORPORATION OF GREAT LAKES
WATER AUTHORITY AND RELATED TRANSACTIONS**

BY THE AUTHORITY VESTED IN THE EMERGENCY MANAGER
FOR THE CITY OF DETROIT
PURSUANT TO MICHIGAN PUBLIC ACT 436 OF 2012,
KEVYN D. ORR, THE EMERGENCY MANAGER,
ISSUES THE FOLLOWING ORDER:

Whereas, on March 28, 2013, Michigan Public Act 436 of 2012 ("PA 436") became effective and Kevyn D. Orr became the Emergency Manager ("EM") for the City of Detroit (the "City") with all the powers and duties provided under PA 436; and

Pursuant to Section 9(2) of PA 436, the EM "shall act for and in the place and stead of the Detroit Mayor (the "Mayor") and City Council (the "Council"); and

Section 9(2) of PA 436 also grants the EM "broad powers in receivership to rectify the financial emergency and to assure the fiscal accountability of the [City] and the [City's] capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare;" and

Further, Section 9(2) of PA 436 prohibits, during the pendency of receivership, the Mayor and the Council from exercising "any powers of those offices except as may be specifically authorized in writing by the [EM] or as otherwise provided by [PA 436] and are subject to any conditions required by the [EM];" and

Pursuant to Section 10(1) of PA 436, the EM may "issue to the appropriate local elected and appointed officials and employees, agents, and contractors of the local government the orders the emergency manager considers necessary to accomplish the purposes of [PA 436], including, but

not limited to, orders for the timely and satisfactory implementation of a financial and operating plan" or "to take actions, or refrain from taking actions, to enable the orderly accomplishment of the financial and operating plan;" and

Section 12(1)(a) of PA 436 authorizes the EM, "notwithstanding any charter provision to the contrary," to "[a]nalyze the factors and circumstances contributing to the financial emergency of the local government and initiate steps to correct the condition;" and

Section 12(1)(dd) of PA 436 authorizes the EM, "notwithstanding any charter provision to the contrary," to "[e]xercise solely, for and on behalf of the local government, all other authority and responsibilities of the chief administrative officer and governing body concerning the adoption, amendment, and enforcement of ordinances or resolutions of the local government" as provided in the Michigan Home Rule City Act, Act 279 of 1909, Michigan Compiled Laws §§ 117.1 to 117.38 (the "Home Rule Act"); and

Section 12(1)(ee) of PA 436 authorizes the EM, "notwithstanding any charter provision to the contrary," to "[take any other action or exercise any power or authority of any officer, employee, department, board, commission, or other similar entity of the local government, whether elected or appointed, relating to the operation of the local government. The power of the [EM] shall be superior to and supersede the power of any of the foregoing officers or entities;" and

Pursuant to Section 12(2) of PA 436, "during the pendency of the receivership, the authority of the chief administrative officer and governing body to exercise power for and on behalf of the local government under law, charter, and ordinance shall be suspended and vested in the [EM];" and

On September 9, 2014, pursuant to Section 12(1)(r) of PA 436, the EM, the Mayor, the County Executives of Wayne, Oakland and Macomb Counties and the Governor a Memorandum of Understanding (the "Memorandum of Understanding") attached hereto as Exhibit B, detailing the framework and parameters for establishing a regional authority under Act 233 of 1955, as amended ("Act 233"), to be called the Great Lakes Water Authority (the "Authority"), to operate and manage the Detroit Water Supply System and Sewage Disposal System and the proposed Articles of Incorporation therefor, including the lease of the Systems (other than the Detroit infrastructure serving residents, businesses and other customers within the City); and

On the same date, the EM executed and filed the Memorandum of Understanding and the proposed Articles of Incorporation for the Authority with the City Council for consideration; and

The Articles of Incorporation and the Memorandum of Understanding provide that the City retains control of the local water and sewer systems (the "Detroit Systems") and ownership of the Systems; and

The Articles of Incorporation and the Memorandum of Understanding require supermajority vote, including at least one City board member vote, for major Authority decisions; and

The Articles of Incorporation and the Memorandum of Understanding provide that Authority will provide \$50 million annually for new investment in the Detroit Systems; and

The Articles of Incorporation and the Memorandum of Understanding provide that 0.5% of base operating revenues of the Authority per year will be contributed to a Water Residential Affordability Program to assist customers who are financially unable to afford water or sewer service; and

The Memorandum of Understanding provides that the Authority will honor all collective bargaining agreements for those employees who are transferred to work for the Authority; and

The Memorandum of Understanding retains at the existing level (approximately \$26 million) annual rate supports for Detroit ratepayers in recognition of the City's ownership of the Systems; and

The EM has determined, at this time, it is necessary and appropriate and in the best interests of the City to approve the Articles of Incorporation establishing the Authority and to provide for the negotiation and execution of the related transactions contemplated thereby and by the Memorandum of Understanding within the parameters set forth therein.

It is hereby ordered that:

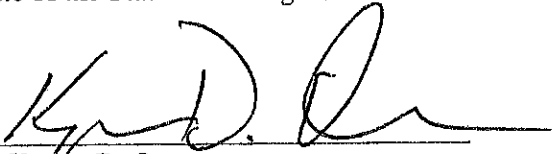
1. The Articles of Incorporation for the Great Lakes Water Authority as set forth in Exhibit A are approved and the Mayor and the City Clerk are authorized and directed to execute the Articles of Incorporation on behalf of the City.
2. When fully executed by the City and the counties approving the Articles of Incorporation on or prior to October 10, 2014, they shall be filed and published and become effective in accordance with their terms and the requirements of Act 233.
3. The Mayor is hereby authorized to negotiate the terms of and execute and deliver a lease of each System, an agreement between the City and the Authority relating to the operation, management and improvement of the Detroit local system, a transition agreement consistent with the parameters established by the Memorandum of Understanding, and take such other actions as may be necessary or desirable to complete the transfer of the Systems to the Authority as described in the Memorandum of Understanding.
4. The EM directs the Directors of the Budget and Human Resources Departments to take any necessary steps to effectuate the requirements of the Articles of Incorporation

and Memorandum of Understanding as determined by the Mayor, including modifications to the budget and the transfer of employees.

- 5.. All orders of the EM, any ordinances, resolutions of the City Council, and all parts of orders, ordinances, or resolutions, in conflict with this Order are hereby repealed to the extent of such conflict.
6. If any component of this Order is declared illegal, unenforceable, or ineffective by a court of competent jurisdiction, such component shall be deemed severable so that all other components contained in this Order shall remain valid and effective.
7. The EM may modify, amend, rescind, replace, supplement, or otherwise revise this Order, including the delegation of authority contained herein, at any time.
8. Nothing in this Order shall be, or be deemed to be, a limitation, modification, waiver, or relinquishment by the EM of any right or power available under PA 436, all of which rights and powers are expressly preserved.
9. This Order shall be effective immediately.

10. This Order shall be distributed to the Mayor, Council members, City Clerk, all department heads, and the Secretary of State of the State of Michigan.

Dated: September 9th, 2014

By: 
Kevyn D. Orr
Emergency Manager
City of Detroit

cc: Secretary of State of the State of Michigan
Mayor Michael Duggan
City Clerk
City Department Heads
Members of Detroit City Council
Michigan Department of Treasury

EXHIBIT A

ARTICLES OF INCORPORATION
GREAT LAKES WATER AUTHORITY

**ARTICLES OF INCORPORATION
OF
GREAT LAKES WATER AUTHORITY**

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

ARTICLE 1 - NAME

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

ARTICLE 2 - INCORPORATING MUNICIPALITIES

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

ARTICLE 3 - PURPOSE

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

ARTICLE 4 - POWERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(12) Establish and maintain an office.

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

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

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

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

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

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

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

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

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

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

ARTICLE 5 - TERM OF EXISTENCE

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 6 - FISCAL YEAR

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

ARTICLE 7- BOARD OF DIRECTORS AND OFFICERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 8 – VACANCIES

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

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

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

ARTICLE 9 - BOARD MEETINGS, VOTING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 10 - BOARD AFFAIRS

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

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

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

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

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

ARTICLE - 11 REVENUES

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 13 - EMPLOYEES

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

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

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

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

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

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

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

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

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

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

ARTICLE 14 - FEDERAL, STATE OR LOCAL GRANTS IN AID

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

ARTICLE 15 - AUDIT

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

ARTICLE 16 - PUBLICATION

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

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

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

ARTICLE 17 - EFFECTIVE DATE

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

ARTICLE 18 - EXEMPTION FROM TAXATION

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

ARTICLE 19 - AMENDMENTS

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

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

ARTICLE 20 - MISCELLANEOUS

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

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

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

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

City of Detroit

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

County Clerk
Macomb County

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

County Clerk
Oakland County

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

County Clerk
Wayne County

EXHIBIT B

MEMORANDUM OF UNDERSTANDING

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

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

GOVERNANCE

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

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

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

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

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

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

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

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

LEASE

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

KEY FINANCIAL TERMS

The Authority shall have no taxing power.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OPERATION AND MANAGEMENT OF DETROIT AND OTHER LOCAL SYSTEMS

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

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

CAPITAL IMPROVEMENTS

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

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

TREATMENT OF EXISTING CONTRACTS

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

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

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

EVALUATION AND TRANSITIONAL/TRANSACTIONAL COSTS

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

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

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

MANAGEMENT OF THE SYSTEMS FOR BENEFIT OF CUSTOMERS

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

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

TERMINATION OF AUTHORITY OR WITHDRAWAL FROM MEMBERSHIP

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

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

CONDITIONS PRECEDENT TO TRANSFER

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

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

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

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

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

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

Tender Financing and Creditor Settlement Terms regarding Transfer

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

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

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

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

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

STATEMENT REGARDING STATE COMMITMENTS

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

PLAN OBJECTIONS

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

COUNTERPARTS

This MOU may be executed in counterparts.