Cline, Richard (Treasury)

From:	Cline, Richard (Treasury)
Sent:	Thursday, May 01, 2014 9:21 AM
To:	Maxine Murray
Cc:	Dempkowski, Angela (Treasury)
Subject:	RE: FW: One-Resolution for Approval EME2282014
Attachments:	State Tres No Bid Contract Approval.04-30-14.pdf
Categories:	Orange Category

Maxine,

Good morning.

Attached is the approval from the State Treasurer to proceed with this purchase.

Sorry about the delay on this; one of those "en route" snafu's.

Regards,

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility
State of Michigan | Michigan Department of Treasury
430 W. Allegan Street, 3rd Floor | Lansing, MI 48922
(517) 335-2078 | cliner1@michigan.gov | Traverse City Extension (231) 922-5228

From: Maxine Murray [mailto:mmurray@cityofflint.com]
Sent: Tuesday, April 22, 2014 12:30 PM
To: Cline, Richard (Treasury)
Cc: Dempkowski, Angela (Treasury)
Subject: Fwd: FW: One Resolution for Approval EME2282014

Good afternoon Mr. Cline,

Below is the Purchasing Manager's response to your inquiry regarding resolution EME2282014.

Thank you.

Maxine

---------- Forwarded message ----------
From: **Derrick Jones** <djones@cityofflint.com>
Date: Tue, Apr 22, 2014 at 9:45 AM
Subject: Re: FW: One Resolution for Approval EME2282014
To: Maxine Murray <mmurray@cityofflint.com>

Good Morning Max;

Listed below is the additional information for Mr. Cline for the approval of the resolution for ozone parts:

The City purchased ozone generators in 2005 as part of a facility upgrade at the Water Plant. The manufacturer selected for these generators was Ozonia North America. This manufacturer was selected instead of the Fuji or General Electric brand. The Water Plant is requesting to purchase dielectrics and there corresponding components for said generators. These are internal parts of the Ozonia generators, and other manufacturer parts are not compatible. Therefore, Ozonia is the only vendor that can provide these parts.

The City originally canvass vendors that service the generators to procure the requested parts, however, it was determined that these vendors also order their parts from Ozonia. It was determined that the City order parts directly from Ozonia.

If you need additional information, please let me know. Thanks.

On Wed, Apr 16, 2014 at 9:31 AM, Maxine Murray <mmurray@cityofflint.com> wrote:

Good morning Derrick,

Mr. Cline is requesting additional information on EME2282014. Please see below.

Thank you.

Maxine

---------- Forwarded message ----------
From: **Cline, Richard (Treasury)** <cliner1@michigan.gov>
Date: Tue, Apr 15, 2014 at 4:11 PM
Subject: FW: One Resolution for Approval EME2282014
To: "mmurray@cityofflint.com" <mmurray@cityofflint.com>
Cc: "Dempkowski, Angela (Treasury)" <DempkowskiA@michigan.gov>, "Byrne, Randall (Treasury)" <ByrneR1@michigan.gov>

Maxine,

Good afternoon.

Earlier today you received a copy of a memo explaining how Treasury is going to change its review process for EM Spending Resolutions.

The attached resolution falls under these new rules. The attached resolution is a no bid contract that is in-excess of $50,000 in value. As such, approval of the State Treasurer is needed.

In order to formulate a recommendation, I need more information as to why the contract is no bid. The resolution states that the recommended vendor is the original producer of the equipment but are they the only source? Will only their equipment work? More detail is needed.

Please forward this request to the proper department.

Thank you for your ongoing help on these projects.

Regards,

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility

State of Michigan | Michigan Department of Treasury

430 W. Allegan Street, 3rd Floor | Lansing, MI 48922

(517) 335-2078 | cliner1@michigan.gov | Traverse City Extension (231) 922-5228

From: Dempkowski, Angela (Treasury)
Sent: Tuesday, April 15, 2014 2:32 PM
To: Cline, Richard (Treasury)
Subject: FW: One Resolution for Approval EME2282014

Under the new rules, will this be reviewed by us? If not, I'll clear it out of the folder with Maxine. Thanks

Angela Dempkowski

Senior Executive Management Assistant

Michigan Department of Treasury

dempkowskia@michigan.gov

(517) 373-4415

From: Maxine Murray [mailto:mmurray@cityofflint.com]
Sent: Wednesday, April 09, 2014 5:06 PM
To: Dempkowski, Angela (Treasury)
Subject: One Resolution for Approval EME2282014

Good afternoon Angela,

We are submitting the following resolution for State approval:

EME2282014 - Resolution to Ozonia for Various Ozone Parts - $55,815.00 (Water Fund)

Thank you.

--

Maxine Murray

Executive Assistant to

Mayor Dayne Walling

Darnell Earley, Emergency Manager

1101 S. Saginaw Street

Flint, MI 48502

810.237.2035 Telephone

810.766.7218 Fax

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SUPPLEMENT DATED MAY 1, 2014
TO OFFICIAL STATEMENT DATED APRIL 1, 2014
relating to

KAREGNONDI WATER AUTHORITY
COUNTIES OF GENESEE, LAPEER AND SANILAC
STATE OF MICHIGAN

$220,500,000
WATER SUPPLY SYSTEM BONDS
(KAREGNONDI WATER PIPELINE), SERIES 2014A

This Supplement, dated May 1, 2014, supplements and amends the above referenced Official Statement, dated April 1, 2014, relating to the above referenced bonds (the "Bonds"). On April 30, 2014, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., lowered its rating on the Bonds from "A+" to "A." The outlook is stable.

NEW ISSUE **Rating:** See "RATING" herein

Book-Entry-Only

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, assuming compliance with certain covenants by the Issuer, the interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See" TAX MATTERS" and "FORM OF APPROVING OPINION" herein for a description of certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), which may affect the tax treatment of interest on the Bonds for certain Bondholders.

KAREGNONDI WATER AUTHORITY
COUNTIES OF GENESEE, LAPEER AND SANILAC
STATE OF MICHIGAN

$220,500,000
WATER SUPPLY SYSTEM BONDS
(KAREGNONDI WATER PIPELINE), SERIES 2014A

Dated: Date of Delivery **Principal Due: November 1, as shown on Inside Cover Page**

The Water Supply System Bonds (Karegnondi Water Pipeline), Series 2014A (the "Bonds") are issued under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and a resolution adopted by the Board of Trustees of the Karegnondi Water Authority, Counties of Genesee, Lapeer and Sanilac, State of Michigan (the "Issuer") on November 20, 2013 The Bonds are being issued for the purpose of paying a portion of the cost of acquiring and constructing the Issuer's Water Supply System (the "System") to serve initially the City of Flint and the County of Genesee (individually a "Local Unit" and collectively, the "Local Units"), funding a debt service reserve account, paying capitalized interest and paying the costs of issuing the Bonds. The Bonds are to be issued in anticipation of, and are payable primarily as to principal and interest from, payments (the "Contractual Payments") to be made by the Local Units to the Issuer pursuant to a Contract among the Issuer and the Local Units dated as of August 1, 2013 (the "Contract"). The Contractual Payments will be in installments that will equal the principal and interest payments on the Bonds. Further, each Local Unit has pledged its limited tax full faith and credit for the payment of its Contractual Payments and is obligated, to the extent necessary, as a first budget obligation to levy ad valorem taxes on all taxable property within its boundaries for such purpose, subject to applicable constitutional, statutory and charter tax limitations. Each Local Unit is expected to make its Contractual Payments from revenues collected from charges imposed on the customers of its respective water supply system. The County of Genesee in the Contract has pledged to make all payments that the City of Flint fails to make to the Issuer under the Contract. The Issuer has irrevocably pledged the Contractual Payments for the payment of the principal of and interest on the Bonds

The Bonds are issuable only as fully registered Bonds without coupons, and when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds Purchases of beneficial interests in the Bonds will be made in book-entry only form, in the denominations of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial interest in Bonds purchased. So long as Cede & Co. is the Bondholder, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See *BOOK-ENTRY ONLY SYSTEM* herein.

Interest on the Bonds will be payable semiannually on May 1 and November 1 of each year commencing on November 1, 2014. The Bonds will be registered Bonds, of the denomination of $5,000 or multiples thereof not exceeding for each maturity the principal amount of such maturity. The principal and interest shall be payable at the corporate trust office of The Huntington National Bank, Grand Rapids, Michigan or such other transfer agent as the Issuer may hereafter designate by notice mailed to the registered owner not less than sixty (60) days prior to any change in interest payment date (the "Transfer Agent"). Interest shall be paid when due by check mailed to the registered owner as shown by the registration books as of the fifteenth day of the month preceding the payment date for each interest payment. Payment of principal and interest to Beneficial Owners shall be made as described in *BOOK-ENTRY ONLY SYSTEM* herein.

The Bonds are subject to redemption at par, as described herein.

The Bonds are offered when, as and if issued by the Issuer and subject to receipt of the approving opinion of Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Dickinson Wright PLLC, Troy and Lansing, Michigan. It is expected that delivery of the Bonds through DTC will be made in New York, New York on or about April 16, 2014.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT.

J.P. Morgan

Wells Fargo Securities **Stifel, Nicolaus & Company, Incorporated**

Dated: April 1, 2014

MATURITY SCHEDULE

WATER SUPPLY SYSTEM BONDS (KAREGNONDI WATER PIPELINE), SERIES 2014A

SERIAL BONDS
(Base CUSIP[§]: 48563U)

Year	Amount	Interest Rate	Yield	CUSIP[§]	Year	Amount	Interest Rate	Yield	CUSIP[§]
2017	$2,000,000	3 000%	1 460%	AA9	2024	$5,595,000	5 000%	3 660%*	AY7
2017	$2,105,000	5 000%	1 460%	AR2	2025	$5,875,000	5 000%	3 820%*	AZ4
2018	$1,300,000	4 000%	1 870%	AB7	2026	$6,165,000	5 000%	3 940%*	BA8
2018	$2,975,000	5 000%	1 870%	AS0	2027	$6,475,000	5 250%	4 050%*	AF8
2019	$2,000,000	3 000%	2 320%	AC5	2028	$6,815,000	5 250%	4 110%*	AG6
2019	$2,475,000	5 000%	2 320%	AT8	2029	$7,175,000	5 250%	4 200%*	AH4
2020	$2,000,000	4 000%	2 780%	AD3	2030	$7,550,000	5 250%	4 290%*	AJ0
2020	$2,655,000	5 000%	2 780%	AU5	2031	$7,945,000	5 250%	4 380%*	AK7
2021	$2,000,000	3 000%	3 050%	AE1	2032	$8,365,000	5 250%	4 450%*	AL5
2021	$2,870,000	5 000%	3 050%	AV3	2033	$8,800,000	4 500%	4 670%	AM3
2022	$5,075,000	5 000%	3 310%	AW1	2034	$9,200,000	5 250%	4 570%*	AN1
2023	$5,325,000	5 000%	3 490%	AX9	2035	$9,680,000	5 250%	4 620%*	AP6

TERM BONDS

Year	Amount	Interest Rate	Yield	CUSIP[§]
2040	$56,590,000	5 250%	4 740%*	BB6
2043	$41,490,000	5 000%	4 890%*	AQ4

*Yield to the November 1, 2023 first call date

[§] Registered trademark of American Bankers Association. CUSIP numbers 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 issuance of the Bonds and the Issuer does not make any representation with respect to such number or undertake any responsibility for its accuracy now or at any time in the future The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity

KAREGNONDI WATER AUTHORITY

G-4610 Beecher Road
Flint, Michigan 48532-2617
(810) 732-7870
Fax: (810) 732-9773

PROFESSIONAL SERVICES

TRANSFER AGENT .... *The Huntington National Bank*

BOND COUNSEL .... *Miller, Canfield, Paddock and Stone, P.L C*

FINANCIAL ADVISOR .... *Stauder, BARCH & ASSOCIATES, Inc*

No dealer, broker, salesman or other person has been authorized by the Issuer to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth in this Official Statement has been obtained from the Issuer, the County of Genesee, the City of Flint and other sources which are believed to be reliable, including The Depository Trust Company with respect to the information contained under the heading BOOK-ENTRY ONLY SYSTEM, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above or that the other information or opinions are correct as of any time subsequent to the date of this Official Statement. The Transfer Agent has not participated in the preparation of this Official Statement and assumes no responsibility for it.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as "may," "intend," "will," "expect," "anticipate," "plan," "management believes," "estimate," "continue," "should," "strategy," or "position" or the negatives of those terms or other variations of them or by comparable terminology. In particular, any statements express or implied, concerning future receipts of federal grants or the ability to generate cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the Issuer's management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Official Statement should not be regarded as a representation by the Issuer or that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. The Issuer undertakes no duty to update any forward-looking statements.

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OFFICIAL STATEMENT

KAREGNONDI WATER AUTHORITY
COUNTIES OF GENESEE, LAPEER AND SANILAC
STATE OF MICHIGAN
$220,500,000
WATER SUPPLY SYSTEM BONDS
(KAREGNONDI WATER PIPELINE)
SERIES 2014A

The purpose of this Official Statement, which includes the cover page and Appendices, is to furnish information in connection with the issuance and sale by the Karegnondi Water Authority, Counties of Genesee, Lapeer and Sanilac, State of Michigan (the "Issuer") of its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2014A (the "Bonds") in the aggregate principal amount of $220,500,000.

PURPOSE

The Bonds are issued under the provisions of Act 233, Public Acts of Michigan, 1955, as amended ("Act 233"), and a resolution authorizing the issuance of the Bonds (the "Resolution") adopted by the Board of Trustees of the Issuer on November 20, 2013. The Bonds are being issued for the purpose of paying a portion of the cost of acquiring and constructing the Issuer's Water Supply System (the "System") that is being established for the purpose of supplying raw water to its member communities, funding the Debt Service Reserve Account as hereinafter described, paying capitalized interest on the Bonds and paying the costs of issuing the Bonds. The Issuer was incorporated in October, 2010 pursuant to Act 233 by the County of Genesee ("Genesee"), the County of Lapeer, the County of Sanilac, the City of Flint ("Flint") and the City of Lapeer for the purpose of providing its member communities with a new source of water. Although the Issuer was incorporated in 2010, planning and design for the System in its present configuration began in 2001.

The System is expected ultimately to supply raw water for the three county area consisting of over 2,232 square miles and a population of over one half million residents, but the System will initially provide raw water to Genesee and Flint (individually a "Local Unit" and collectively, the "Local Units"). Currently, Genesee and Flint receive finished water from the City of Detroit, through its Detroit Water and Sewerage Department ("DWSD"), but Flint expects that it will no longer receive water from DWSD after April 17, 2014 and as a result, Genesee is pursuing a separate contract for an interim water supply from DWSD. Genesee and Flint participated in the establishment of the Issuer in order to have a more reliable supply of water at rates that they expect ultimately to be less than what would otherwise be payable to DWSD. For a description of the proposed System and the interim arrangements for water supply for Genesee and Flint until the System is completed and operational, see the heading KAREGNONDI WATER AUTHORITY SYSTEM herein.

SECURITY

Contractual Payments

The Bonds are being issued in anticipation of, and are payable primarily as to principal and interest from, payments (the "Contractual Payments") to be made by the Local Units to the Issuer pursuant to the Karegnondi Water Authority Financing Contract among the Issuer and the Local Units dated as of August 1, 2013 (the "Contract"). The Contractual Payments will be in installments that will equal the principal and interest payments on the Bonds. Further, each Local Unit has pledged its limited tax full faith and credit for the payment of its Contractual Payments and is obligated, to the extent necessary, as a first budget obligation to levy ad valorem taxes on all taxable property within its boundaries for such purpose, subject to applicable constitutional, statutory and charter tax limitations as to rate and amount. After credit is given to Genesee for payment of the principal of and interest on the Genesee Bonds (as described under the heading KAREGNONDI WATER AUTHORITY – The System below), Genesee is responsible for paying approximately 66% of the principal of and interest due on the Bonds, and Flint is responsible for paying approximately 34% of the principal of and interest on the Bonds. In addition, pursuant to the Contract, if Flint fails to make any of its Contractual Payments when due, Genesee is obligated under the Contract to make such Contractual Payments within one day of being notified of Flint's failure to pay. Further, the Issuer is obligated under the Contract to undertake all legal action and make use of all remedies available under the Contract to enforce the payment obligations of Flint under the Contract.

Each Local Unit expects to make its Contractual Payments from revenues collected from charges imposed on the customers of its respective water supply system. The water supply system of Genesee is hereinafter referred to as the "Genesee System" and the water supply system of Flint in hereinafter referred to as the "Flint System." The Issuer has irrevocably pledged the Contractual Payments for the payment of the principal of and interest on the Bonds. See The Report of the Engineering Consultant in APPENDIX I for a description of the Genesee System and the Flint System.

The rights or remedies of bondholders may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination.

A copy of the Contract is included as APPENDIX H. For additional information on Genesee, see APPENDIX A and APPENDIX B hereto, and for additional information on Flint, see APPENDIX C and APPENDIX D hereto.

Debt Service Reserve Account

Pursuant to the Resolution, the Issuer has established a Debt Retirement Fund, and within the Debt Retirement Fund has established a Debt Service Reserve Account. All Contractual Payments as received are required to be deposited in the Debt Retirement Fund and used to pay the principal of and interest on the Bonds. The Debt Service Reserve Account will be funded from the proceeds of the Bonds in an amount equal to $15,237,437.50, which is equal to the lesser of (1) maximum annual principal and interest requirements during any calendar year on the

Bonds then outstanding, (2) ten percent (10%) of the original principal amount of the Bonds, and (3) one hundred twenty-five percent (125%) of the average annual principal and interest requirements during any calendar year on the Bonds then outstanding (the "Reserve Account Requirement"). Moneys in the Debt Service Reserve Account shall be used solely for the payment of the principal of and interest on the Bonds when due whenever and to the extent that the Contractual Payments being held by the Issuer shall be insufficient for such purposes.

There shall be credited to the Debt Service Reserve Account beginning on the first day of the month following any month in which the amount in the Debt Service Reserve Account shall be less than an amount equal to the Reserve Account Requirement as a result of the failure of a Local Unit to pay its Contractual Payments, and continuing on the first day of each month thereafter, an amount equal to one-thirty-sixth (1/36) of any deficit therein, until the amount on deposit is equal to the Reserve Account Requirement; however, if the amount on deposit in the Debt Service Reserve Account is less than 100% of the Reserve Account Requirement as a result of investment losses with respect to the Debt Service Reserve Account, commencing on the first day of the month following such evaluation, and continuing on the first day of each month thereafter, an amount equal to one-fourth (1/4) of the amount necessary to restore the Debt Service Reserve Account to 100% of the Reserve Account Requirement, unless and until the amount on deposit in the Debt Service Reserve Account shall equal 100% of the Reserve Account Requirement. Further, if a Local Unit fails to pay its Contractual Payment causing a shortfall and the Debt Service Reserve Account is drawn upon to pay the Bonds, the replenishment of such Debt Service Reserve Account shall be an obligation of the Local Unit that failed to pay such Contractual Payment, in the manner described in the preceding sentence; provided, however, if Flint fails to fulfill its obligation to replenish the Debt Service Reserve Account, as with the failure to make Contractual Payments under the Contract, Genesee has agreed in the Contract to make such payments.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds

Par amount of Bonds	$220,500,000.00
Net Original Issue Premium	11,815,544.05
Total Sources	$232,315,544.05

Use of Funds

Deposit to Construction Fund	$187,137,367.59
Capitalized Interest	28,282,364.06
Deposit to Debt Service Reserve Account	15,237,437.50
Costs of Issuance	712,000.00
Underwriters' Discount	946,374.90
Total Uses	$232,315,544.05

THE BONDS

The Bonds will be dated the date of delivery thereof, will bear interest from the date of delivery at the rates and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement and will be subject to redemption prior to maturity as described below. Interest on the Bonds will be payable semiannually on May 1 and November 1 of each year commencing on November 1, 2014. Interest on the Bonds shall be computed using a 360-day year and twelve 30-day months.

The Bonds will be issued as fully registered Bonds as described in APPENDIX G, BOOK-ENTRY-ONLY SYSTEM. Subject to the provisions for the book-entry system, the principal of and any redemption premium on the Bonds will be payable upon surrender thereof at the designated office of the Transfer Agent, and interest will be payable by check or draft mailed by the Transfer Agent to the registered owners of the Bonds as shown on the registration books of the Issuer maintained by the Transfer Agent as of the close of business on the fifteenth day of the calendar month preceding the month in which the interest payment is due. The Transfer Agent also may pay interest on Bonds by wire transfer or such other method as is acceptable to the Transfer Agent and the Bondholder to whom payment is being made.

PRIOR REDEMPTION OF BONDS

Optional Redemption

Bonds maturing in the years 2017 to 2023, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of Bonds in multiples of $5,000 maturing in the year 2024 and thereafter shall be subject to redemption prior to maturity, at the option of the Issuer, in any order of maturity and by lot within any maturity, on any date on or after November 1, 2023, at par and accrued interest to the date fixed for redemption.

Mandatory Redemption of Term Bonds

The Bonds maturing in the years 2040 and 2043 (the "Term Bonds") shall be subject to annual mandatory redemption on November 1 of the following years and in the following amounts, at par, plus accrued interest to the date of mandatory redemption.

Term Bonds due November 1, 2040

Redemption Dates	Principal Amounts
November 1, 2036	$10,190,000
November 1, 2037	$10,725,000
November 1, 2038	$11,290,000
November 1, 2039	$11,880,000
November 1, 2040 (Maturity)	$12,505,000
TOTAL	$56,590,000

Term Bonds due November 1, 2043

Redemption Dates	Principal Amounts
November 1, 2041	$13,160,000
November 1, 2042	$13,820,000
November 1, 2043 (Maturity)	$14,510,000
TOTAL	$41,490,000

When Term Bonds are purchased by the Issuer and delivered to the Transfer Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of Term Bonds affected shall be reduced by the principal amount of the Term Bonds so purchased or redeemed in the order determined by the Issuer.

In case less than the full amount of an outstanding Bond is called for redemption, the Transfer Agent, upon presentation of the Bond called for redemption, shall register, authenticate and deliver to the registered owner of record a new Bond in the principal amount of the portion of the original Bond not called for redemption.

Notice of redemption shall be given to the registered owner of any Bond or portion thereof called for redemption by mailing of such notice not less than thirty (30) days prior to the date fixed for redemption to the registered address of the registered owner of record. A Bond or portion thereof so called for redemption shall not bear interest after the date fixed for redemption, whether presented for redemption or not, provided funds are on hand with the Transfer Agent to redeem said Bond or portion thereof.

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DEBT SERVICE SCHEDULE

The following schedule sets forth the principal and interest payable with respect to the Bonds.

Fiscal Year Ended 12/31	Principal	Interest	Total P&I
2014		$6,027,389*	$6,027,389
2015		11,127,488*	11,127,488
2016		11,127,488*	11,127,488
2017	$4,105,000	11.127,488	15,232,488
2018	4,275,000	10,962,238	15,237,238
2019	4,475,000	10,761,488	15,236,488
2020	4,655.000	10,577,738	15.232,738
2021	4,870,000	10,364,988	15,234,988
2022	5,075,000	10,161,488	15,236,488
2023	5,325,000	9,907,738	15,232,738
2024	5,595,000	9,641,488	15,236,488
2025	5.875,000	9,361,738	15.236,738
2026	6,165,000	9,067,988	15,232,988
2027	6,475,000	8,759,738	15,234,738
2028	6,815,000	8,419,800	15,234,800
2029	7,175,000	8,062,013	15,237,013
2030	7,550,000	7,685,325	15,235,325
2031	7,945,000	7,288,950	15,233,950
2032	8,365,000	6,871,838	15,236,838
2033	8,800,000	6,432,675	15,232,675
2034	9,200,000	6,036,675	15,236,675
2035	9,680,000	5,553,675	15,233,675
2036	10,190,000	5,045,475	15,235,475
2037	10,725,000	4,510,500	15,235,500
2038	11,290,000	3,947,438	15,237,438
2039	11,880,000	3,354,713	15,234,713
2040	12,505,000	2,731,013	15,236,013
2041	13,160,000	2,074,500	15,234,500
2042	13,820,000	1,416,500	15,236,500
2043	14,510,000	725,500	15,235,500
TOTAL	$220,500,000	$219,133,064	$439,633,064

*Capitalized interest; paid from Bond proceeds.

KAREGNONDI WATER AUTHORITY SYSTEM

The Issuer is expected ultimately to supply raw water for the three county area (Genesee, Lapeer and Sanilac) consisting of over 2,232 square miles and a population of over one half million residents. The Issuer will supply metered, untreated water to each contracting member. The actual cost for appurtenances and maintenance of the System will be allocated based on water sold and each contracting member will be responsible for its proportional share of the cost. Each contracting member will be responsible for treating and distributing treated water to its individual customers.

The Issuer currently has entered into two water purchase contracts (the "Water Purchase Contracts"), effective October 1, 2013: one with Flint to supply up to 18 mgd and one with the Genesee County Drain Commissioner, as County Agency of Genesee under Act 342, Public Acts of Michigan, 1939, as amended (the "County Agency"), on behalf of Genesee, to supply 42 mgd. The charges to be paid by Flint and the County Agency in the Water Purchase Contracts are broken down into two distinct portions: an annual fixed or capital fee and an annual commodity or operations and maintenance fee. Flint and the County Agency expect to pay such charges from the revenues of their respective water supply systems as an operation and maintenance expense in the same manner that each presently pays for water furnished by DWSD.

The size of the System is based on the volume identified in the Water Purchase Contracts and any additional water purchase contracts entered into with additional parties, up to a maximum of 85 mgd, the Issuer's permit limit. Each contracting party will be responsible for the annual fixed fee regardless of the amount of water taken. The other members of the Issuer had until October 16, 2013 to enter into a water purchase contract with the Issuer at the same rates set forth in the Water Purchase Contracts. No additional water purchase contracts were entered into on or before such date and as a result, members entering into water purchase contracts with the Issuer subsequent to such date will pay any incremental costs associated with accommodating their water purchase contracts.

The System

To supply water to its contracting members, the Issuer will be required to construct a lake intake on Lake Huron, approximately 63 miles of pipe from the intake plant to the City of Flint and 2 pump stations, one of which will be located near the intake facility. Such facilities collectively constitute the System. The engineering design of the System is to withdraw water from Lake Huron and pump it to a standpipe in Lynn Township in St. Clair County, and from there the water will be pumped to a site in Oregon Township in Lapeer County, approximately 14 miles east of Flint, which site will contain a 150 million gallon earthen reservoir and Genesee's new water treatment plant (discussed below). The reservoir and new treatment plant will be owned by Genesee. Raw water flowing to the site in Oregon Township will be directed to Flint's water treatment plant and to Genesee's water treatment plant and reservoir. Figure 1 shows the location of the System facilities, the Flint water treatment plant and the proposed Genesee treatment plant and reservoir.

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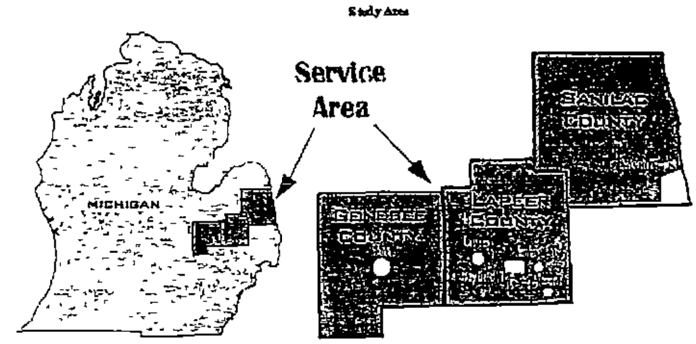
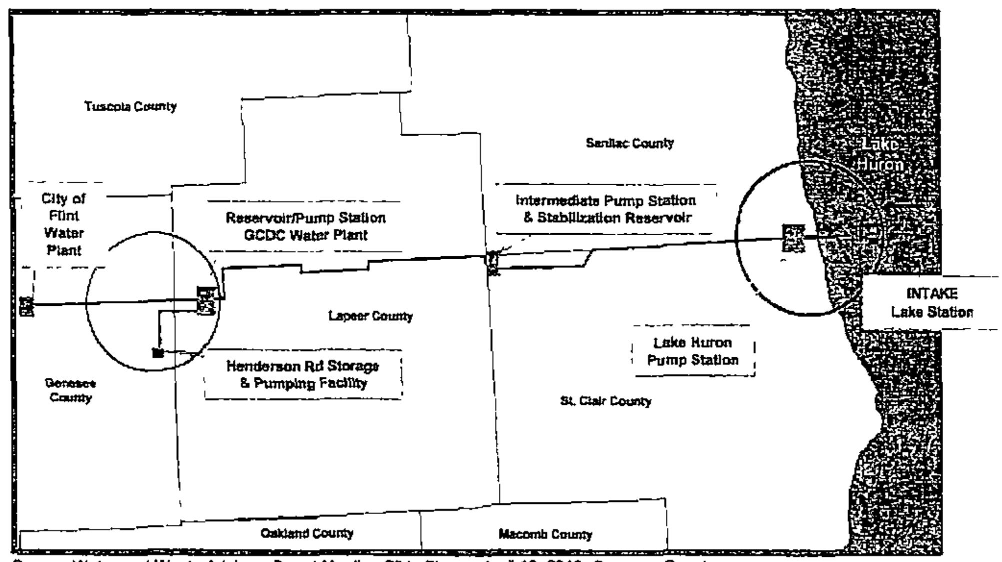
Figure 1



Source www.karegnondi com



Source Water and Waste Advisory Board Meeting Slide Show – April 10, 2013, Genesee County

The intake facility and the site therefor (the "Genesee Project") were financed through the issuance of bonds by Genesee in the principal amount of $35,000,000 in October, 2013 (the "Genesee Bonds"), with the understanding that Genesee would make the Genesee Project available to the Issuer for use by the Issuer as part of the System. Genesee is solely responsible for paying the principal of and interest on the Genesee Bonds from the net revenues derived from the users of the Genesee System and Genesee has pledged its limited tax full faith and credit as additional security for the Genesee Bonds. The lake intake is currently under construction, the County Agency having supervised the design of the facility and the receipt and award of construction bids for the facility. The lake intake is expected to be completed in October, 2014.

The Issuer has retained the services of the County Agency to administer the design and construction of the System. In addition, it is expected that the Issuer will also contract with the County Agency for operation and maintenance of the System after the System is completed and fully operational. The County Agency has significant experience in planning, operating and managing wastewater systems, having been responsible for planning, operating and managing the Genesee System since 1972. The County Agency currently employs approximately 128 people in connection with the operation and management of the Genesee System, and it is expected that from this group, 5 full time equivalent employees will be involved in the operation and maintenance of the System. The Issuer is not expected to have any full time employees.

On behalf of the Issuer, the County Agency has acquired 40 acres of land with 100 feet of frontage on Lake Huron in Sanilac County for the intake plant and pump station and 40 acres of land on the northwest corner of Martin Road and Hull Road in Lynn Township in St. Clair County for the standpipe and second pump station. The County Agency has also acquired approximately 76 acres of land on the northeast corner of Marathon Road and Stanley Road in Oregon Township in Lapeer County to serve as the site for Genesee's new water treatment plant and reservoir.

In anticipation of the construction of the System, the County Agency has obtained a permit from the Michigan Department of Environmental Quality ("MDEQ") authorizing the withdrawal of up to 85 million gallons per day ("mgd") from Lake Huron. Such permit will not need to be renewed at any time while the Bonds are outstanding. In addition, the County Agency has hired project managers which have to date secured the route of the pipe line, identified all environmental issues and prepared preliminary permits for the entire 63-mile route, and also has retained consulting firms to complete the design of the remaining System facilities.

The County Agency has commissioned the design of the two pump stations and 63 miles of pipeline (36" to 66" in size). The design and construction is broken up into seven individual projects. They are as follows:

Lake Huron Pump Station
12 miles of 66-inch transmission main
12 miles of 66-inch transmission main
Intermediate Pump Station and Standpipe
12 miles of 60-inch transmission main
13 miles of 60-inch transmission main
14 miles of 36-inch transmission main

Since the contractor needs 15 months of good weather to complete each pipeline project, the pipeline projects were broken down into projects for a construction period of 15 months each. The design of the pipelines is 60 percent complete. The pipelines will be bid in a staggered format beginning in April, 2014 through September, 2014. Each contract will be awarded within two months of bid opening. Final pipeline contracts will be awarded no later than November, 2014, and with a 15-month construction period, the final pipeline is expected to be completed on or before March, 2016.

The System facilities call for 63 miles of large diameter piping, and the Issuer recognized that with limited capacity in the United States to produce the needed materials within the necessary time frame for construction, alternative methods of procurement would be required. In 2013, the Issuer Authority requested proposals for large diameter piping and valves, and in October, 2013, the Issuer entered into a contract with American Cast Iron Pipe Company (ACIPCO) for the delivery of all 66-inch diameter, 60-inch diameter, and 36-inch diameter pipe. In addition, ACIPCO will provide all large diameter valves for the pipeline and pump station yard piping and valves.

The Issuer has acquired all lands and easements necessary for construction of the System. In January 2014, MDEQ held four public hearings with regard to the Issuer's wetland crossing permit. MDEQ has participated in the 30 percent, 60 percent and 90 percent reviews of the design, and its comments have been incorporated. Upon 100% design completion of each pipeline project, the Issuer will submit an application to MDEQ for its construction permit for such project. In addition, the Issuer will submit for its local permits from the local road commissions and soil erosion enforcement agencies. The Issuer expects to receive all such permits for the construction of the System in time to complete the System as anticipated.

The design of the two pump stations is 90 percent complete. Final site plans have been submitted to the local municipalities, and bids for the pump stations are expected to be received in April, 2014, with the contracts to be awarded no later than June, 2014. There is a 22-month construction schedule for the pump stations, and they are expected to be completed and in operation on or before May, 2016.

Based upon the foregoing, the System is expected to be available for service no later than May 1, 2016. Each contract for construction has a completion date of at least 30-days prior to May 1, 2016 and a liquidated damage clause for failure to complete on a timely basis. Each contract identifies substantial completion (operation of the pipeline) and final completion (pipeline, clean-up, and paperwork). The County Agency can begin operation of the pipeline on behalf of the Issuer after substantial completion but prior to final completion.

The estimated construction costs for the System, including the lake intake and site financed by Genesee, are $268,844,053 based on water purchase contracts of 60 mgd. The Issuer and the Local Units have entered into the Contract, whereby the Issuer has agreed to issue the Bonds and other bonds of the Issuer, in an aggregate amount not to exceed $300,000,000 (collectively, the "System Bonds"), to finance the remaining facilities for the System in anticipation of the Contractual Payments to be made by the Local Units as provided therein. The estimated construction costs of the remaining facilities for the System is $233,725,381, and the amount of System Bonds to be issued to finance the costs of the remaining System facilities, including capitalized interest, amounts to fund the Debt Service Reserve Account, and issuance costs, is estimated to be $300,000,000. The Contract is contemplated in the Water Purchase Contracts and sets forth the manner in which the capital costs of the System facilities will be allocated. Under the Contract, Flint and Genesee are responsible for paying 34.2% and 65.8%, respectively, of the debt service on the System Bonds. This allocation takes into account and credits Genesee for financing and being responsible for the payment of 100% of the costs of the Genesee Project. In addition, in the event and to the extent that Flint fails to pay its share of the debt service on the System Bonds, Genesee will be responsible for making up the shortfall. Flint and Genesee each expects to make such payments from the revenues to be derived from the customers of the Genesee System and the Flint System, respectively, but each has pledged its limited tax full faith and credit to the making of such payments.

Interim Water Supply Arrangements for Genesee and Flint

Flint has purchased treated water from DWSD for approximately 30 years. The County Agency has a contract with Flint that requires Flint to purchase water from DWSD and provide that water to the County Agency. Historically, the County Agency has not had a contract directly with DWSD.

On April 17, 2013, DWSD notified Flint that it was terminating its contract with Flint for the supply of water in one (1) year as required by the contract. As a result, no later than April 17, 2014, Flint intends to begin withdrawing water from the Flint River, treat the water in its water treatment plant and then make such treated water available to the customers of the Flint System until the System is completed and operational. After the notification from DWSD, Flint sought another source of water and determined to use its water treatment plant to provide water to its customers. In order to do so it negotiated an administrative consent order with MDEQ that permitted the temporary use of the Flint River (the "ACO"). The ACO requires Flint to either undertake a public improvement project to connect to the System or undertake other public improvements to continue to use the Flint River. In order to comply with the ACO, Flint has determined that connecting to the System is the most cost effective means to obtain untreated water and to comply with the ACO.

However, the Flint River will not be able to supply the volume of water needed to provide water to the customers of the Genesee System. Inasmuch as the County Agency has a valid contract with Flint for the supply of water via DWSD, Flint is contractually obligated to continue to purchase water from DWSD in order to supply water to the County Agency. This may be accomplished, notwithstanding Flint utilizing the Flint River for a water source, by Flint continuing to purchase water from DWSD and directing the water to be transmitted directly to the County Agency by isolation valves currently installed in the Flint System.

In January, 2014, the County Agency entered into contract negotiations with DWSD to secure a water supply directly from DWSD for the customers of the Genesee System without using Flint as a pass through, until the System has been completed and is operational. DWSD representatives have indicated that in the event that an agreement cannot be reached with the County Agency during these negotiations, DWSD will continue to supply water to the County Agency via Flint without a contract in place. The County Agency and DWSD are negotiating two separate contracts, the first to satisfy Genesee's need for a short-term (3 year) contract for the supply of water during the time in which the System is being constructed, and the second that would require DWSD to provide a long-term emergency stand-by service to ensure the delivery of water to customers of the Genesee System if the System fails at any time in the future. Although no assurances can be made as to the eventual outcome of contract negotiations, both parties are negotiating in good faith.

In the event that the County Agency and DWSD are unable reach agreement on a proposed short-term contract for the supply of water during the construction period for the System, the County Agency has the ability to adjust Genesee's rates to the extent necessary, but cannot predict with certainty the price to be paid by customers of the Genesee System for water from DWSD until the System is completed and operational. See BONDHOLDERS' RISKS herein.

Related Facilities

In order to provide finished water to its customers, Flint expects to utilize its existing water treatment plant, which is currently operating in a back-up role with a capacity of 36 mgd and will be permitted to treat water drawn from the Flint River until the System is operational. Flint will be required to make an estimated $8,000,000 in improvements to convert the plant from stand-by to fully operational and to accommodate the flow of water from the System.

Additional improvements to Flint's water treatment plant may be made in the future. In order to provide finished water to Genesee's customers, the County Agency will be required to build a new water treatment plant, reservoir, pump station and approximately 5 miles of watermain running from the new treatment plant to Genesee's main distribution facility at Henderson Road, at an estimated cost of $60,000,000. The County Agency has acquired 76 acres approximately 14 miles east of the City of Flint in Oregon Township in Lapeer County, which is expected to serve as the site of Genesee's new water treatment plant, reservoir and pump station. In addition, on or before April 17, 2014, the County Agency expects to acquire 9 miles of 72-inch watermain from Flint, which will be used to support Genesee's distribution system to its customers. The new water treatment plant, reservoir, pump station and watermain are expected to be constructed and fully operational on or before May 1, 2016, the date on which the System is expected to be fully operational.

The completion date for the System is projected for May 1, 2016, at which time Flint expects to cease pumping water from the Flint River and the County Agency expects to discontinue purchasing water from DWSD, and Flint and the County Agency expect to begin purchasing water from the Issuer and producing their own water.

REPORT OF THE ENGINEERING CONSULTANT

Jones & Henry Engineers, Ltd., Toledo, Ohio, has prepared the Report of the Engineering Consultant, dated as of March 17, 2014, a copy of which is attached hereto as Appendix I. The Report of the Engineering Consultant describes key factors that will affect water rates to be charged by Flint and the County Agency to customers of the Flint System and the Genesee System, respectively, from 2014 through 2018, and sets forth the assumptions on which the conclusions in the Report are based.

As set forth in the Report of the Engineering Consultant, the long term projections comparing the rates to be charged by KWA to Flint and the County Agency for use of the System plus other expenses related to operating, maintaining and improving their current treatment systems compared with rates historically charged to Flint and the County Agency by DWSD for comparable service show more stable rates from KWA for customers of both the Flint System and the Genesee System. Most of the future expenses for the Flint System and the Genesee System are expected to be capital which will not increase annually and operating costs which will increase annually due to inflation. DWSD charges to Flint and the County Agency, which historically have constituted a significant portion of both Flint's and the County Agency's total water expenses, have increased annually at a rate greater than the rate of inflation. Rates are not expected to increase under KWA as they have under DWSD, and with appropriate rate increases Flint and the County Agency will be able to pay their respective share of the debt service on the System Bonds and the operation and maintenance expenses of the System plus other expenses related to operating, maintaining and improving, respectively, the Flint System and the Genesee System.

The Report of the Engineering Consultant should be read in its entirety for a complete understanding of the assumptions and conclusions contained therein. As noted in the Report of the Engineering Consultant, any conclusions are subject to uncertainties, and some assumptions used to develop the conclusions will not be realized, and unanticipated events and circumstances may occur. Therefore, there could be differences between the conclusions and the actual results and those differences could be material.

BONDHOLDERS' RISKS

The following discussion of some of the risk factors associated with the Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

This Official Statement does not describe all of the risks of an investment in the Bonds and the Underwriters disclaim any responsibility to advise prospective investors of such risks as they exist at the date of this Official Statement or as they change from time to time. Prospective investors should consult their own legal and tax advisors as to the risks associated with an investment in the Bonds and the suitability of investing in the Bonds in light of their particular circumstances. Prospective investors should be able to bear the risks relating to an investment in the Bonds and should carefully consider, among other factors, the matters described below.

Assumptions With Regard to Local Unit Revenues

Certain assumptions have been made with regard to the ability of Genesee and Flint to charge and collect revenues from the customers of the Genesee System and the Flint System, respectively, in amounts sufficient to pay their respective Contractual Payments. These assumptions are believed to be reasonable, but to the extent that such revenues are not sufficient to enable Genesee and/or Flint to pay their Contractual Payments, the Contractual Payments would nevertheless be required to be paid from the general fund of Genesee and/or Flint, which could strain such general fund. The assumptions are based on factors beyond Genesee's and Flint's control and there is no assurance that these projections will be achieved. Many factors may prevent the projections from being achieved. These include yearly changes in water consumption, population, population growth, household income, competitive facilities, accessibility, absorption, occupancy, vacancy and market penetration.

NO GUARANTEE CAN BE MADE THAT THE PROJECTIONS CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE IN FORMULATING THE PROJECTIONS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES, CHANGES IN EMPLOYEE RELATIONS, APPLICABLE GOVERNMENTAL REGULATION, ECONOMIC AND DEMOGRAPHIC TRENDS, AND COMPETITION.

Inability to Finance the System; System Completion Risk

As described under the heading KAREGNONDI WATER AUTHORITY SYSTEM, the System is intended initially to supply raw water for customers of the Genesee System and the Flint System. If for any reason the Issuer is unable to acquire, construct, complete or place the System in service, the System facilities to be financed with the proceeds of the Bonds will not be useful to the Genesee System or the Flint System unless Genesee and/or Flint constructs its own pipeline. At this time, it is unclear whether Genesee and/or Flint would undertake constructing its own pipeline.

The rates and charges currently established by Genesee and Flint are projected to be sufficient to pay the Contractual Payments and their share of the principal of and interest on the Bonds. However, if the System is not placed in service, the additional costs associated with paying for the debt service on the Bonds without a tangible benefit to be derived from the System could ultimately have an adverse effect on the ability of Genesee and Flint to generate sufficient revenues from the customers of their respective water supply systems and their ability to pay their share of debt service on the Bonds.

In order to provide customers for the System, the County Agency and Flint have entered into the Water Purchase Contracts. Genesee and Flint have also entered into the Contract, under which they are responsible for paying their respective share of the Bonds and the second series of the System Bonds to be issued to finance the costs of the remaining System facilities (approximately $80,000,000). Genesee's share of the Bonds and the approximately $80,000,000 of the second series of the System Bonds will be the entire amount if Flint fails to fulfill its obligation to pay its Contractual Payments under the Contract for any reason.

Genesee and Flint each faces potential exposure to its general fund and to the rates and charges to be paid by its water customers served by the Genesee System and Flint System, respectively, for the debt service associated with the Genesee Bonds (only in the case of Genesee) and up to an estimated $300,000,000 for the System Bonds if for any reason the remaining System facilities are not completed. The remaining System facilities could fail to be completed because of an inability to gain market access for the financing for all or part of such facilities, cost overruns in construction, or acts of God.

Genesee intends for its obligations with respect to the Genesee Bonds and the System to be paid for by rates and charges from the users of the Genesee System. If Flint fails to pay its share of the System Bonds, either from rates and charges to users of the Flint System or from its general fund, Genesee would be responsible for making up the shortfall. If Genesee's general fund is needed to pay a significant portion of the System Bonds, it could cause significant financial strain on Genesee.

As noted under the heading KAREGNONDI WATER AUTHORITY SYSTEM, in order for Flint to provide finished water to its customers, it needs to undertake approximately $8,000,000 in improvements to its existing water treatment plant. If Flint is unable to timely complete such improvements for any reason (including without limitation, a referendum on the financing, an inability to gain market access for the financing for the improvements, cost overruns in construction, or acts of God), Flint may be unable to generate sufficient rates and charges from its customers to cover its share of the debt service on the System Bonds as provided in the Contract. Without sufficient rates and charges, it is unclear whether Flint's general fund will have sufficient funds to fulfill its obligations under the Contract, which in turn could strain Genesee's general fund or the amount of rates and charges to be charged to Genesee's customers.

Finally, similar to Flint, Genesee needs to construct a water treatment plant, reservoir, pump station and 5 miles of watermain at an estimated cost of $60,000,000 as described under the heading KAREGNONDI WATER AUTHORITY SYSTEM in order to provide finished water to its customers. If Genesee is unable to timely complete the new treatment plant, reservoir, pump station and watermain for any reason (including without limitation, an inability to gain market access for the financing, cost overruns in construction, or acts of God), Genesee may be unable to generate sufficient rates and charges from its customers to cover its share of the debt service on the System Bonds as provided in the Contract, which could strain Genesee's general fund.

Financial Condition of the City of Flint and Genesee for future Obligations to Issuer

Flint is currently operating under a State-appointed Emergency Manager under the Local Financial Stability and Choice Act, Act No. 436, Public Acts of Michigan, 2012 ("Act 436"). Flint's options to improve its fiscal health are limited. The United States Bankruptcy Code, 11 U.S.C. Section 101. *et. seq.* (the "Bankruptcy Code") does not authorize municipalities to be subject to involuntary bankruptcy cases. Flint must be specifically authorized to be a debtor under chapter 9 of the Bankruptcy Code by State law or by a governmental officer or organization empowered by State law to authorize Flint to be a debtor under chapter 9 of the Bankruptcy Code. Act 436 provides such authorization after Flint first complies with certain requirements set forth therein. The effect of a Flint bankruptcy on its obligations to the Issuer is unknown at this time, including without limitation its obligations to continue to make payments to the Issuer under its Water Purchase Contract with the Issuer and under the Contract. If Flint fails to fulfill its payment obligations under the Contract for any reason, including a bankruptcy filing by Flint, Genesee will be required to pay Flint's share of the debt service on the System Bonds. While this provides protection for the Issuer, such payments could cause significant financial strain on the general fund of Genesee and the net revenues of the Genesee System, potentially limiting the extent of this protection. Similarly, if Flint fails to fulfill its payment obligation under its Water Purchase Contract, the Issuer could be obligated to continue supplying raw water to Flint without payment for a period of 60 days, or longer in the event of a Flint bankruptcy case.

For a discussion of litigation that could affect Flint's financial condition and the rates that are charged to customers of the Flint System, see the heading LITIGATION – Other Litigation herein, and for a discussion of the financial condition of Flint see the information under the heading "Update on City of Flint Financial Position" in APPENDIX C.

Although no Act 436 proceedings have ever occurred with respect to Genesee, nor has the Michigan Department of Treasury ever indicated the intent to begin such proceedings, if Genesee were to experience severe financial difficulties, the same analysis that applies to Flint applies with respect to the County Agency's and Genesee's respective obligations under the Water Purchase Contract and the Contract.

LITIGATION

Pending Litigation

The Issuer has no litigation pending or, to its knowledge, threatened, wherein an unfavorable decision, ruling or finding would adversely affect the issuance of the Bonds or materially affect the Issuer's ability to pay the principal of and interest on the Bonds.

Other Litigation

Flint Health Care Retirement Benefits

Flint's Emergency Manager has issued several orders under Act 436 which modified existing contracts and collective bargaining agreements with respect to health care benefits of municipal retirees. While the modifications stand to save Flint $5 million per year and potentially more in future years, the changes also shift some out-of-pocket medical expenses to retirees.

As a result of such orders, a class action lawsuit has been filed by individual retired municipal workers, their eligible spouses, dependents, and the United Retired Governmental Employees ("URGE"), an organization that represents the interests of municipal retirees (collectively, the "Plaintiffs") seeking injunctive relief and damages under 42 U.S.C. § 1983, against Flint, its current and former Emergency Managers, its Retirement Officer Manager, and its Finance Director (collectively, "Defendants"). (Welch et al v. Brown, et al. Case No.12-13808, Judge Arthur Tarnow, ED Michigan). According to Plaintiffs, Defendants violated the Contract and Bankruptcy Clauses of the United States Constitution and deprived them of a property interest without due process or just compensation. The class has not yet been certified by the federal district court.

Plaintiffs requested a preliminary injunction to enjoin Defendants from modifying the contracts and ordinances governing their health-care benefits and to restore any already modified agreements to the status quo ante. Defendants maintain that reducing retiree benefits is a necessary change to avoid bankruptcy. The federal district court was not persuaded by Defendants' position based on the evidence and argument presented and granted preliminary injunctive relief to the Plaintiffs. Defendants appealed to the United States Court of Appeals for the Sixth Circuit. The Sixth Circuit reviewed the matter and affirmed the district court's order granting preliminary injunctive relief. (COA Case # 13-1476 decided 1/3/14).

The Sixth Circuit made clear the door remains open for Flint to prove its case, stating that "additional fact finding may illuminate whether the orders were indeed appropriate under the circumstances of this case." The Welch case comes down to whether Flint's modifications of retiree healthcare benefits were reasonable and necessary to remedy the economic problems facing Flint. In order to prove that, Flint must show that the modifications were virtually the only choice it had to avoid significant social harm, including:

1. That bankruptcy was/is imminent if the changes were not made;
2. That Flint was/is contemplating bankruptcy if it cannot modify the retiree healthcare benefits;

3. That alternative strategies to addressing the economic problems have been considered and will not work to address the economic problems; and
4. That the alternatives proposed by the Plaintiffs to address the economic problems will not work.

Flint intends to vigorously contest this litigation and pursue all available remedies to have the orders of the Emergency Manager sustained. If the Plaintiffs ultimately prevail in this litigation, Flint projects that it will incur an additional $5 million annually for retiree health care costs and that it will be in an extremely precarious financial position, with insufficient resources to meet basic functions. This projection of $5 million in additional costs could increase significantly based on future increases in premium costs that the City's modifications require be borne by retirees. The health care changes as well as all of the other changes made by the Emergency Manager were deemed to be necessary for Flint to avoid insolvency. Flint is unable to predict the outcome of this litigation at this time. See the information under the heading "Update on City of Flint Financial Position" in APPENDIX C.

Flint Water Rates

On August 15, 2011, the Mayor of Flint directed a rate increase for Flint's water and sewer rates because the City was spending more to provide water and sewer services than it was receiving in user funds. Flint increased rates for 2012 by approximately 35 percent. The President of the Flint Council, William Kincaid, and others filed an original action in the Michigan Court of Appeals, Kincaid v City of Flint, alleging that the fee increases were unconstitutional taxes levied without the approval of the electors of Flint that violated the Headlee Amendment to the Michigan Constitution. Flint filed a motion for summary disposition, arguing that there was no issue of fact that the fees charged were proportionate to the costs of providing water and sewer service, and as such were valid user fees, not taxes. Flint introduced evidence that the fee increases were required to pay the projected costs of the water and sewer systems for Fiscal Year 2012. The Michigan Court of Appeals agreed that the water and sewer fees charged by the City were valid user fees, not disguised taxes, as they were proportionate to the costs of providing service. As such, the Headlee Amendment did not apply. The plaintiffs filed an application for leave to appeal the decision to the Michigan Supreme Court, and for peremptory reversal of the Court of Appeals' decision. The Supreme Court denied the application for leave to appeal.

The plaintiffs then filed an action in Genesee County Circuit Court alleging that water rate increases which were accomplished by a directive dated August 15, 2011 were implemented in a manner that was in violation of a Flint ordinance which required that action to modify water rates be done on or before April 15 of the year in which it was to take effect. Additionally, the plaintiffs alleged that the City failed to create a first lien in favor of bondholders for water and sewer funds, as required by the Revenue Bond Act (Act 94, Public Acts of Michigan, 1933, as amended). The Court granted Flint's motion for summary disposition, finding that the powers of the Emergency Manager pursuant to Act 4, Public Acts of Michigan, 2011 rendered the alleged violation of the Flint ordinance moot and dismissed the claim with respect to the Revenue Bond Act. The plaintiffs have since filed an appeal with the Court of Appeals, which is currently pending. Flint is unable to predict the outcome of this litigation at this time.

TAX MATTERS

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, the interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. 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. Bond Counsel is also of the opinion that, under existing law, the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. Bond Counsel will express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The opinion on federal and State of Michigan tax matters is based on the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer contained in the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excludable from gross income for federal and State of Michigan income tax purposes. The Issuer has covenanted to take the actions required of it for the interest on the Bonds to be and to remain excludable from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. Bond Counsel's opinion assumes the accuracy of the Issuer's certifications and representations and the continuing compliance with the Issuer's covenants. Noncompliance with these covenants by the Issuer may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal and State of Michigan income tax purposes of interest on the Bonds or the market prices of the Bonds.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to the excludability of interest on the Bonds from gross income for federal and State of Michigan income tax purposes but is not a guarantee of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel cannot give and has not given any opinion or assurance about the effect of future changes in the Internal Revenue Code of 1986, as amended (the "Code"), the applicable regulations, the interpretations thereof or the enforcement thereof by the IRS.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Bonds. Bond Counsel will express no opinion regarding any such consequences.

Tax Treatment of Accruals on Original Issue Discount Bonds

Under existing law, if the initial public offering price to the public (excluding bond houses and brokers) of a Bond is less than the stated redemption price of such Bonds at maturity, then such Bond is considered to have "original issue discount" equal to the difference between such initial offering price and the amount payable at maturity (such Bonds are referred to as "OID Bonds"). Such discount is treated as interest excludable from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period) from the date of original issue with straight-line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of OID Bonds who purchase such OID Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such OID Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds.

All holders of the OID Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition of an OID Bond to the extent such loss is attributable to accrued original issue discount.

Amortizable Bond Premium

For federal income tax purposes, the excess of the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold over the amount payable at maturity thereof constitutes for the original purchasers of such Bonds (collectively, the "Original Premium Bonds") an amortizable bond premium. Bonds other than Original Premium Bonds may also be subject to an amortizable bond premium determined generally with regard to the taxpayer's basis (for purposes of determining loss on a sale or exchange) and the amount payable on maturity or, in certain cases, on an earlier call date (such bonds being referred to herein collectively with the Original Premium Bonds as the "Premium Bonds"). Such amortizable bond premium is not deductible from gross income. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the taxpayer's yield to maturity determined by using the taxpayer's basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the taxpayer's adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Premium Bonds.

All holders of the Premium Bonds should consult with their own tax advisors as to the amount and effect of the amortizable bond premium.

Market Discount

The "market discount rules" of the Code apply to the Bonds. Accordingly, holders acquiring their Bonds subsequent to the initial issuance of the 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.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid after March 31, 2007 on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing the Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the IRS.

Future Developments

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds and, unless separately engaged, bond counsel is not obligated to defend the Issuer in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit.

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS WHICH COULD CAUSE THE INTEREST ON THE BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE BONDS, OR OTHERWISE PREVENT THE HOLDERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY PENDING OR PROPOSED FEDERAL OR STATE OF MICHIGAN TAX LEGISLATION.

FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE BONDS FOR AUDIT EXAMINATION, OR THE COURSE OR RESULT OF ANY EXAMINATION OF THE BONDS, OR OTHER BONDS WHICH PRESENT SIMILAR TAX ISSUES, WILL NOT AFFECT THE MARKET PRICE OF THE BONDS.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS, INCLUDING THE IMPACT OF ANY PENDING OR PROPOSED FEDERAL OR STATE OF MICHIGAN TAX LEGISLATION.

APPROVAL BY THE MICHIGAN DEPARTMENT OF TREASURY

The Issuer has received a letter from the Department of Treasury of the State of Michigan, dated February 28, 2014, approving the issuance of the Bonds as provided in the Revised Municipal Finance Act, Act No. 34, Public Acts of Michigan, 2001, as amended.

BOND COUNSEL'S RESPONSIBILITY

The fees of Miller, Canfield, Paddock and Stone, P.L.C. ("Bond Counsel") for services rendered in connection with its approving opinion are expected to be paid from Bond proceeds. Except to the extent necessary to issue its approving opinion as to the validity of the Bonds and tax matters relating to the Bonds and the interest thereon, and except as stated below, Bond Counsel has not been retained to examine or review, and has not examined or reviewed, any financial documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Bonds and accordingly will not express any opinion with respect to the accuracy or completeness of any such financial documents, statements or materials.

Bond Counsel has reviewed the statements in this Official Statement under the headings entitled "PURPOSE," "SECURITY," "THE BONDS," "PRIOR REDEMPTION OF BONDS," "TRANSFER OUTSIDE BOOK-ENTRY-ONLY SYSTEM," "TAX MATTERS," "APPROVAL BY THE MICHIGAN DEPARTMENT OF TREASURY," "BOND COUNSEL'S RESPONSIBILITY," and "CONTINUING DISCLOSURE" (first two paragraphs only). Bond Counsel has not been retained to review and has not reviewed any other portions of the Official Statement for accuracy or completeness, and has not made inquiry of any official or employee of the Issuer or any other person and has made no independent verification of such other portions hereof, and further has not expressed and will not express an opinion or belief as to any such other portions hereof.

CONTINUING DISCLOSURE

Prior to the delivery of the Bonds, the Issuer and each Local Unit will execute a Continuing Disclosure Undertaking (individually an "Undertaking" and collectively, the "Undertakings") for the benefit of the holders of the Bonds or Beneficial Owners to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and

Exchange Commission under the Securities Exchange Act of 1934. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis, and the other terms of the Undertaking are set forth in *APPENDIX E-FORM OF CONTINUING DISCLOSURE UNDERTAKINGS* to this Official Statement.

A failure by the Issuer or a Local Unit to comply with its Undertaking will not constitute an event or default under the Resolution authorizing the issuance of the Bonds and holders of the Bonds or Beneficial Owners are limited to the remedies described in the Undertakings.

Genesee discovered in the summer of 2013 it had failed to comply with certain of its continuing disclosure obligations under previous undertakings entered into pursuant to the Rule with respect to annual information filings required for fiscal years 2008-2010. Genesee was required to file this information within a period of time specified in each previous undertaking after the end of the fiscal year which ends on September 30. The filings were subsequently made for fiscal year 2008 in December 2010, for fiscal year 2009 in June 2010 and for fiscal year 2010 in December 2011 for the Genesee's sewer, water supply, capital improvement and general obligation bonds. The filings for fiscal years 2008-2010 were subsequently made for the Issuer's building authority bonds on July 23, 2013. Genesee has filed its annual audited financial statements for fiscal years 2011 and 2012 on a timely basis.

In addition, Genesee failed to provide notice of certain underlying rating changes that occurred in 2010 affecting its sewer, water supply, building authority, capital improvement and general obligation bonds. Genesee subsequently filed notice of these rating changes and the current ratings on those bonds with a filing dated July 16, 2013. Furthermore, Genesee failed to provide notice of certain insured rating downgrades affecting its sewer, water supply and building authority bonds, of which Genesee was not separately notified by the relevant rating agencies, and which resulted from a series of widely reported downgrades of the applicable municipal bond insurer for those bonds. Genesee subsequently filed notice of these rating changes and the current ratings on those bonds with a filing dated July 16, 2013. Genesee has taken steps to assure that it will comply with its Undertaking and its previous undertakings, including the annual filing requirements, in the future. Genesee entered into an agreement in October, 2011 with Stauder, Barch & Associates, Inc. to serve as disclosure agent and assist Genesee in completing all required filings on a timely basis.

Flint has not entered into any previous continuing disclosure undertakings under the Rule.

A failure by the Issuer or either Local Unit to comply with its Undertaking must be reported by the Issuer or such Local Unit 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 transferability and liquidity of the Bonds and their market price.

LEGAL OPINION

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Miller, Canfield, Paddock and Stone, P.L.C., attorneys of Detroit, Michigan, Bond Counsel. A copy of the opinion of Bond Counsel will be furnished with the Bonds, which opinion will be substantially in the form set forth in APPENDIX F.

FINANCIAL ADVISOR

Stauder, Barch & Associates, Inc., Ann Arbor, Michigan, (the "Financial Advisor") has been retained by the Issuer to provide certain financial advisory services including, among other things, preparation of portions of the deemed "final" Preliminary Official Statement and the final Official Statement (the "Official Statements"). The information contained in the Official Statements was prepared in part by the Financial Advisor and is based on information supplied by various officials from records, statements and reports required by various local county or state agencies of the State of Michigan in accordance with constitutional or statutory requirements.

To the best of the Financial Advisor's knowledge, all of the information contained in the Official Statements, which it assisted in preparing, while it may be summarized is (i) complete and accurate; (ii) does not contain any untrue statement of material fact; and (iii) does not omit any material fact, or make any statement which would be misleading in light of the circumstances under which these statements are being made. However, the Financial Advisor has not and will not independently verify the completeness and accuracy of the information contained in the Official Statements.

The Financial Advisor's duties, responsibilities and fees arise solely from that as financial advisor to the Issuer and they have no secondary obligations or other responsibility. The Financial Advisor's fees are expected to be paid from Bond proceeds.

UNDERWRITING

The Bonds are being purchased by the Underwriters listed on the cover page of this Official Statement. The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Issuer at an underwriters' discount of $946,374.90 from the initial offering prices set forth in this Official Statement. The Underwriters are obligated to purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement with respect to the Bonds, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the Bonds may be changed from time to time by the Underwriters. The Bonds may be offered and sold by the Underwriters to certain dealers (including dealers depositing the Bonds in unit investment trusts, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower than the public offering prices set forth in this Official Statement.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement ("Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters have, from time to time, and may in the future perform, various investment banking services for the Issuer for which it received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities may involve securities and instruments of the Issuer.

RATING

Moody's Investors Service has assigned the Bonds a rating of "A2," and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., has assigned the Bonds a rating of "A+." No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. Any explanation of the significance of each such rating may only be obtained from the rating agency. Generally, a rating agency bases its rating on such information and materials and on investigations, studies and assumptions by the rating agency. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of the rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

OTHER MATTERS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

KAREGNONDI WATER AUTHORITY

By: /s/ Jeffrey Wright
Jeffrey Wright, Chief Executive Officer

Karegnondi Water Documents - February 10, 2016

- November 28, 2012 – Notice of Contract with Tucker, Young, Jackson, Tull, Inc. for Water Supply Assessment for City of Flint – Contract No. 271N3200089.

- December 21, 2012 – Rowe Professional Services Company analysis of "draft" Tucker, Young, Jackson, Tull Inc. City of Flint Water Supply Assessment.

- January 14, 2013 – Tucker, Young, Jackson, Tull Inc. response to Rowe Professional Services Company analysis to "draft" water supply assessment.

- January 30, 2013 – Proof of payment ($33,281.40) to Tucker, Young, Jackson, Tull Inc. for invoice #1 for services on City of Flint Water Supply Assessment contract

- February 22, 2013 – Proof of final payment ($6,218.60) to Tucker, Young, Jackson, Tull Inc. for invoice #2 for services on City of Flint Water Supply Assessment contract.

- February 2013 – Tucker, Young, Jackson, Tull Inc. Final City of Flint Water Supply Assessment.

- No Date – Tucker, Young, Jackson, Tull Inc. – Response to water supply alternatives and other questions requested from Treasury regarding the Final City of Flint Water Supply Assessment.

- March 25, 2013 – News article - City of Flint approves resolution to purchase water from KWA.

- March 29, 2013 – Letter from Ed Kurtz, Emergency Manager to Andy Dillon, State Treasurer requesting approval for the City of Flint to adopt a resolution and enter into a contract with KWA, not subject to competitive bid.

- April 11, 2013 – Letter from Andy Dillon, State Treasurer to Ed Kurtz, Emergency Manager in response to the March 29, 2013 letter authorizing the City of Flint to adopt a resolution and enter into a contract with KWA.

- April 15, 2013 – Letter from Sue McCormick, DWSD Director to Ed Kurtz, Emergency Manager and KWA regarding cost estimates and proposed alternative scenarios for long-term water supply to the City of Flint.

- April 16, 2013 – Letter to Andy Dillon, State Treasurer from Ed Kurtz, Emergency Manager in response to April 15, 2015 letter from DWSD regarding cost estimates and proposed alternative scenarios for long-term water supply to the City of Flint.

- April 16, 2013 – Email from Eric Cline, Unit Operations Specialist to Ed Koryzno, Bureau Director regarding observations/comments on the April 15, 2013 letter from DWSD regarding cost estimates and proposed alternative scenarios for long-term water supply to the City of Flint.

- April 18, 2013 – Memo to Brom Stibitz, Sr. Policy Advisor from Eric Cline, Unit Operations Specialist – Summary Report on Flint Water System.

MICHIGAN DEPARTMENT OF TREASURY

Transaction Report

Fiscal Year:	2013	**Index :**	42600
Appropriation Year:	2012	**Fund:**	0001
Fiscal Month:	6 - March	**Appropriation:**	04201

TC:	222	**AOBJ:**	0321
Reverse Indicator:		***AOBJ Group:***	10
GL Debit:	3501	**COBJ:**	6125
Debit Amount:	$33,281 40		
GL Credit:	1211	**Organization:**	4210
Credit Amount:	33 281 40	**PCA:**	42001
Calculated Amount:	$33,281 40	**Appropriated / Fund:**	0110

Vendor:	TUCKER YOUNG JACKSON TULL INC	**Warrant:**	248044345
Vendor ID:	2382508733	**Bank ID:**	000
Document/Suffix:	V3200536 / 001	**Operator / Released By:**	#271CLT
Reference/Suffix:	N3200089 / 001	**Effective Date:**	03/11/2013
Current/Suffix:	V3200536 / 001	**Trans. Description.**	WATER SUPPLY ASSESSMENT
Invoice Number:	1	**Document Date:**	03/11/2013
Invoice Date:	01/30/2013	**Transaction Date:**	03/11/2013

TODAY ✓

Ct 3.11.13 V3200536 ✓ 3/11/13 ✓ LS

TUCKER, YOUNG, JACKSON, TULL, INC.
615 Griswold, Suite 600
DETROIT, MICHIGAN 48226-41316

(313) 963-0612 FAX (313) 963-2156

LETTER OF TRANSMITTAL

DATE 1/30/13	JOB NO. 8-120025
ATTENTION: Mr. Eric Cline, Unit Operation Specialist	
RE: P.O. No. 271N3200089, Statement of Work	
No. Flint Municipal Water Supply Assessment	
271Q3209	

TO: STATE OF MICHIGAN, DEPT OF TREASURY
430 WEST ALLEGAN STREET
LANSING, MI 48922

WE ARE SENDING YOU ☑ Attached ☐ Under separate cover via ______ the following items.
☐ Shop drawings ☐ Prints ☐ Plans ☐ Samples ☐ Specifications
☐ Copy of letter ☐ Change order X Contract Amendment

COPIES	DATE	NO.	DESCRIPTION
1	1/30/13		Original Invoice No. 1

MICH DEPT OF TREASURY RECEIVED FEB 07 2013 Receipts & Acctg. Division

THESE ARE TRANSMITTED as checked below.

☐ For approval ☐ Approved as submitted ☐ Resubmit ______ copies for approval
☑ For your use ☐ Approved as noted ☐ Submit ______ copies for distribution
☑ As requested ☐ Returned for corrections ☐ Return ______ corrected prints
☐ For review and comment ☐ ______
☐ FOR BIDS DUE ______ ☐ PRINTS RETURNED AFTER LOAN TO US

REMARKS

COPY TO 8-120025

Approval
2/26/2013

SIGNED: Coretta D. Richardson

If enclosures are not as noted, kindly notify us at once.

TUCKER, YOUNG,
JACKSON, TULL INC.
CONSULTING ENGINEERS-PLANNERS
615 Griswold Suite 600
Detroit, Michigan 48226
(313)963-0612 FAX (313)963-2156

INVOICE

State of Michigan, Department of Treasury
430 West Allegan Street
Lansing, Michigan 48922

Date: 30-Jan-2013
Project No: 8-120025
Invoice No: 1

Attention: Mr. Eric Cline
Unit Operations Specialist

Re: P.O. No. 271N3200089, Statement of Work No. Flint Municipal Water Supply Assessment 271Q3209

For Professional Services for the period ending: 31-Dec-2012

ITEM	Budget	Previously Invoiced		This Invoice		Cummulative to Date		Remaining
		% Complete	Amount	% Complete	Amount	% Complete	Amount	Amount
Completed Tasks								
Task 1 - Data Colleciton and Review	$ 6,500.00	0.0%			$ 6,415.40		$ 6,415.40	$ 34.60
Task 2 - Engineering Evaluation	$ 30,000.00	0.0%			$ 24,966.16		$ 24,966.16	$ 5,033.84
Task 3 - Provide Copies of Findings and Review Findings	$ 3,000.00	0.0%			$ 1,899.84		$ 1,899.84	$ 1,100.16
Totals	$ 39,500.00	0.0%	$ -	84.3%	$ 33,281.40	84.3%	$ 33,281.40	$ 6,218.60

AMOUNT DUE THIS INVOICE $ 33,281.40

Please make payment to Tucker, Young, Jackson, Tull, Inc.

George Y. Karmo, P.E., BCEE

615 GRISWOLD STREET, SUITE 600, DETROIT MI. 48226
TEL. (313) 963-06120 FAX (313) 963-2156

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending:	31-Dec-12	Invoice No:	1
		Project No:	8-120025

Task 1. - Data Collection

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	2.0	$	429.36
Vice President	Guastella	$209.98	18.0	$	3,779.64
Vice President	Qaqish	$209.98	8.0	$	1,679.84
Sr. Financial Advisor	Cubba	$110.00	4.8	$	526.56
			32.8		
Total Labor Cost				$	6,415.40

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-

TOTAL DUE	$	6,415.40

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending:	31-Dec-12		Invoice No:	1
			Project No:	8-

Task 2. - Engineering Evaluation

LABOR

Classificaiton	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	6.0	$	1,288.08
Vice President	Guastella	$209.98	52.0	$	10,918.96
Vice President	Qaqish	$209.98	44.0	$	9,239.12
Sr. Financial Advisor	Cubba	$110.00	32.0	$	3,520.00
			134.0		
Total Labor Cost				$	24,966.16

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-

TOTAL DUE	$	24,966.16

MICHIGAN DEPARTMENT OF TREASURY

Transaction Report

Fiscal Year:	2013	Index :	42600
Appropriation Year:	2012	Fund:	0001
Fiscal Month:	6 - March	Appropriation:	04201

TC:	222	AOBJ:	0321
Reverse Indicator:		AOBJ Group:	10
GL Debit:	3501	COBJ:	6125
Debit Amount:	$6,218 60		
GL Credit:	1211	Organization:	4210
Credit Amount:	6,218 60	PCA:	42001
Calculated Amount:	$6,218 60	Appropriated / Fund:	0110

Vendor:	TUCKER YOUNG JACKSON TULL INC	Warrant:	248089403
Vendor ID:	2382508733	Bank ID:	000
Document/Suffix:	V3200580 / 001	Operator / Released By:	#271KMM
Reference/Suffix:	N3200089 / 001	Effective Date:	03/15/2013
Current/Suffix:	V3200580 / 001	Trans. Description:	WATER SUPPLY ASSESSMENT
Invoice Number:	2	Document Date:	03/15/2013
Invoice Date:	02/22/2013	Transaction Date:	03/15/2013

V3200580
3/15/13

3/25

TUCKER, YOUNG, JACKSON, TULL, INC.
615 Griswold, Suite 600
DETROIT, MICHIGAN 48226-41316

2382508733 F

(313) 963-0612 FAX (313) 963-2156

LETTER OF TRANSMITTAL

DATE 2/22/13	JOB NO. 8-120025
ATTENTION: Mr. Eric Cline, Unit Operation Specialist	
RE: P.O. No. 271N3200089, Statement of Work	
No. Flint Municipal Water Supply Assessment	
271Q3209	

LS
Km 3/18/13

TO: STATE OF MICHIGAN, DEPT. OF TREASURY
430 WEST ALLEGAN STREET
LANSING, MI 48922

WE ARE SENDING YOU ☐ Attached ☐ Under separate cover via ____________ the following items.
☐ Shop drawings ☐ Prints ☐ Plans ☐ Samples ☐ Specifications
☐ Copy of letter ☐ Change order X Contract Amendment

COPIES	DATE	NO	DESCRIPTION
1	2/20/13		Original invoice No. 2

THESE ARE TRANSMITTED as checked below:

☐ For approval ☐ Approved as submitted ☐ Resubmit ______ copies for approval
☐ For your use ☐ Approved as noted ☐ Submit ______ copies for distribution
☐ As requested ☐ Returned for corrections ☐ Return ______ corrected prints
☐ For review and comment ☐ ____________
☐ FOR BIDS DUE ______ ☐ PRINTS RETURNED AFTER LOAN TO US

REMARKS ____________

COPY TO 8-120025

SIGNED: Coretta D. Richardson

If enclosures are not as noted, kindly notify us at once.

TUCKER, YOUNG,
JACKSON, TULL INC.
CONSULTING ENGINEERS-PLANNERS
615 Griswold Suite 600
Detroit, Michigan 48226
(313)963-0612 FAX (313)963-2158

INVOICE

State of Michigan, Department of Treasury
430 West Allegan Street
Lansing, Michigan 48922

Date. 20-Feb-2013
Project No 8-120025
Invoice No 2

Attention: Mr. Eric Cline
Unit Operations Specialist

Re: P.O. No. 271N3200089, Statement of Work No. Flint Municipal Water Supply Assessment 271Q3209

For Professional Services for the period ending: 15-Feb-2013

ITEM	Budget	Previously Invoiced		This Invoice		Cummulative to Date		Remaining
		% Complete	Amount	% Complete	Amount	% Complete	Amount	Amount
Completed Tasks								
Task 1 - Data Collection and Review	$ 6,500.00	98 7%	$ 6,415.40		$ 84.60	98.7%	$ 6,500 00	$ -
Task 2 - Engineering Evaluation	$ 30,000 00	83 2%	$ 24,966 16		$ 5,033 84	83 2%	$ 30,000.00	$ -
Task 3 - Provide Copies of Findings and Review Findings	$ 3 000 00	63 3%	$ 1,899.84		$ 1,100.16	63 3%	$ 3,000 00	$ -
Totals	*$ 39,500.00*	*84.3%*	*$ 33,281.40*	*15.7%*	*$ 6,218.60*	*100.0%*	*$ 39,500.00*	*$ -*

AMOUNT DUE THIS INVOICE *$ 6,218.60*

Please make payment to Tucker, Young, Jackson, Tull, Inc.

George Y. Karmo, P.E., BCEE

615 GRISWOLD STREET, SUITE 600, DETROIT MI. 48226
TEL. (313) 963-06120 FAX (313) 963-2156

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending	15-Feb-13		Invoice No:	2
			Project No:	8-120025

Task 1. - Data Collection

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	0.0	$	-
Vice President	Guastella	$209.98	0.4	$	84.60
Vice President	Qaqish	$209.98	0.0	$	-
Sr. Financial Advisor	Cubba	$110.00	0.0	$	-
			0.4		
Total Labor Cost				**$**	**84.60**

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		-
Auto		
Total Other Direct Costs	**$**	**-**
TOTAL DUE	**$**	**84.60**

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending:	15-Feb-13	Invoice No:	2
		Project No:	8-120025

Task 2. - Engineering Evaluation

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	4.0	$	858.72
Vice President	Guastello	$209.98	11.7	$	2,455.20
Vice President	Qaqish	$209.98	4.0	$	839.92
Sr. Financial Advisor	Cubba	$110.00	8.0	$	880.00
			27.7		
Total Labor Cost				$	5,033.84

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-
TOTAL DUE	$	5,033.84

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending:	15-Feb-13	Invoice No:	2
		Project No:	8-120025

Task 3. - Provide Copies of Findings and Review Findings

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	1.0	$	214.68
Vice President	Guastella	$209.98	3.2	$	675.50
Vice President	Qaqish	$209.98	1.0	$	209.98
Sr. Financial Advisor	Cubba	$110.00	0.0	$	-
			5.2		
Total Labor Cost				$	1,100.16

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-
TOTAL DUE	$	1,100.16

TUCKER, YOUNG,
JACKSON, TULL INC.
CONSULTING ENGINEERS-PLANNERS
615 Griswold Suite 600
Detroit, Michigan 48226
(313)963-0612 FAX (313)963-2156

INVOICE

State of Michigan, Department of Treasury
430 West Allegan Street
Lansing, Michigan 48922

Date: 20-Feb-2013
Project No: 8-120025
Invoice No: 2

Attention: Mr. Eric Cline
Unit Operations Specialist

Re: P.O. No. 271N3200089, Statement of Work No. Flint Municipal Water Supply Assessment 271Q3209

For Professional Services for the period ending: 15-Feb-2013

ITEM	Budget	Previously Invoiced		This Invoice		Cummulative to Date		Remaining
		% Complete	Amount	% Complete	Amount	% Complete	Amount	Amount
Completed Tasks								
Task 1 - Data Collection and Review	$ 6,500.00	98.7%	$ 6,415.40		$ 84.60	98.7%	$ 6,500.00	$ -
Task 2 - Engineering Evaluation	$ 30,000.00	83.2%	$ 24,966.16		$ 5,033.84	83.2%	$ 30,000.00	$ -
Task 3 - Provide Copies of Findings and Review Findings	$ 3,000.00	63.3%	$ 1,899.84		$ 1,100.16	63.3%	$ 3,000.00	$ -
Totals	$ 39,500.00	84.3%	$ 33,281.40	15.7%	$ 6,218.60	100.0%	$ 39,500.00	$ -

AMOUNT DUE THIS INVOICE $ 6,218.60

Please make payment to Tucker, Young, Jackson, Tull, Inc.

George Y. Karmo, P.E, BCEE

Approved
E. Kurtz
3/14/2013

615 GRISWOLD STREET, SUITE 600, DETROIT MI. 48226
TEL. (313) 963-06120 FAX (313) 963-2156

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending: 15-Feb-13

Invoice No. 2
Project No: 8-120025

Task 1. - Data Collection

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	0.0	$	-
Vice President	Guastella	$209.98	0.4	$	84.60
Vice President	Qaqish	$209.98	0.0	$	-
Sr. Financial Advisor	Cubba	$110.00	0.0	$	-
			0.4		
Total Labor Cost				$	84.60

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-
TOTAL DUE	$	84.60

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending: 15-Feb-13

Invoice No: 2
Project No: 8-120025

Task 2. - Engineering Evaluation

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	4.0	$	858.72
Vice President	Guastella	$209.98	11.7	$	2,455.20
Vice President	Gaqish	$209.98	4.0	$	839.92
Sr. Financial Advisor	Cubba	$110.00	8.0	$	880.00
			27.7		
Total Labor Cost				$	5,033.84

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-
TOTAL DUE	$	5,033.84

Tucker Young Jackson Tull Inc.

Professional Services for the Period Ending:	15-Feb-13	Invoice No:	2
		Project No:	8-120025

Task 3. - Provide Copies of Findings and Review Findings

LABOR

Classification	Employee	RATE	HOURS		AMOUNT
Principle-in-charge	Karmo	$214.68	1.0	$	214.68
Vice President	Guastella	$209.98	3.2	$	675.50
Vice President	Qaqish	$209.98	1.0	$	209.98
Sr. Financial Advisor	Cubba	$110.00	0.0	$	-
			5.2		
Total Labor Cost				$	1,100.16

OTHER DIRECT COSTS

Description		
Telephone	$	-
Equipment & Supplies		
Auto		
Total Other Direct Costs	$	-

TOTAL DUE	$	1,100.16

Form No. DTMB-3522 (Rev 4/2012)
AUTHORITY Act 431 of 1984
COMPLETION. Required
PENALTY Contract will not be executed unless form is filed

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
PURCHASING
P.O. BOX 30791, LANSING, MI 48909
OR
430 W. ALLEGAN, LANSING, MI 48933

NOTICE OF CONTRACT NO. 271N3200089
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF CONTRACTOR	PRIMARY CONTACT	EMAIL
Tucker, Young, Jackson, Tull, Inc 565 East Larned, Suite 300 Detroit, Michigan 48226	George Y Karmo, BCEE, P.E	gkarmo@tyjt.com
	TELEPHONE	CONTRACTOR #, MAIL CODE
	313-963-0612	On-file

STATE CONTACTS	AGENCY	NAME	PHONE	EMAIL
CONTRACT COMPLIANCE INSPECTOR	Treasury	Eric Cline	517-373-4415	cliner1@michigan.gov
BUYER	Treasury	Thomas Falik	517-373-3185	falikt@michigan.gov

CONTRACT SUMMARY			
DESCRIPTION:			
Municipal Water Supply Assessment			
INITIAL TERM	EFFECTIVE DATE	INITIAL EXPIRATION DATE	AVAILABLE OPTIONS
Two Months	11/28/2012	01/31/2013	0
PAYMENT TERMS	F.O.B	SHIPPED	SHIPPED FROM
NET30	Destination	N/A	N/A
ALTERNATE PAYMENT OPTIONS			AVAILABLE TO MiDEAL PARTICIPANTS
☐ P-card ☐ Direct Voucher (DV) ☐ Other			☐ YES ☒ NO
MINIMUM DELIVERY REQUIREMENTS			
N/A			
MISCELLANEOUS INFORMATION:			
The terms and conditions of Indefinite-Scope, Indefinite-Delivery Contract No 00383 (Discretionary Contract Number 00263), Statement of Work (SOW) #271Q3209 and clarification dated November 21, 2012 apply to this Contract.			
CONTRACT VALUE	$39,500.00		

This Contract Agreement is awarded on the basis of our inquiry bearing solicitation #271Q3208.

Notice of Contract #: 271N3200089

FOR THE CONTRACTOR:	FOR THE STATE:
Tucker, Young, Jackson, Tull, Inc	
Firm Name	Signature
	Thomas Falik/Purchasing Manager
Authorized Agent Signature	Name/Title
GEORGE Y. KARMO	Department of Treasury
Authorized Agent (Print or Type)	Enter Name of Agency
11-25-2012	11-28-12
Date	Date

Article 1 – Statement of Work (SOW)

***Note to Contractors:** Proposals must include detailed responses to all tasks as requested in Article 1. Contractors should provide thorough responses to each task, or, when appropriate, state their agreement that the Contractor will provide the requested services. Contractors are encouraged to provide detailed responses in order to allow the State to fully evaluate the Contractor's capabilities.*

Throughout this SOW, language referring to Contract or Contractor(s) refers to any Contract awarded from this SOW. This SOW in itself is not to be construed as a Contract.

1.010 Project Identification

1.011 Project Request

This is an SOW for a Municipal Water Supply Assessment on behalf of the Department of Treasury and the City of Flint in Genesee County This is a formal request to prospective Contractors to solicit bids or price quotations Contractors must submit written proposals according to the instructions contained within this document, discussing how they will meet the specific requirements

Any awarded Purchase Order(s) between the State and any awarded Contractor(s) is a separate document, whose terms are limited by the Contract

1.012 Background

The Treasury Department is charged with monitoring, oversight and provision of assistance to local units of government under various statutes, including but not limited to, the Home Rule City Act (Act 279 of 1909), the Uniform Budgeting and Accounting Act (Act 2 of 1968), and the Glenn Steil State Revenue Sharing Act (Act 140 of 1971). In providing such monitoring and assistance to local units of government, the Treasury Department strives to preserve the capacity of local units to provide those services essential to the public health, safety and welfare of the citizens of this State

The City of Flint is currently supplied potable water from the Detroit Water and Sewerage Department (DWSD) This supply is provided through a single 72-inch water main that terminates at a master meter The City of Flint's water treatment plant uses the Flint River as a back-up and redundancy supply source to the DWSD supply, as required by the Michigan Department of Environmental Quality (MDEQ) The City of Flint also provides potable water to Genesee County downstream of the DWSD master meter

The newly formed Karegnondi Water Authority (KWA) plans to construct a raw water supply system that will feed Flint's water treatment plant with water directly from Lake Huron. The Flint water treatment plant could be upgraded to accommodate and treat this new raw water source DWSD has also proposed alternatives to the existing agreement with the City of Flint that could also be pursued

A Contractor is needed to provide services to the Department of Treasury and the City of Flint upon request of the Treasury Department. The Department of Treasury is requesting a Contractor provide an analysis of the water supply options for the City of Flint to assist the Department of Treasury and the City of Flint in determining the best available option

1.020 Scope of Work and Deliverables

1.021 In Scope

The Contractor must provide Water Supply Assessment as requested by the Department of Treasury These services will include data collection and review, an engineering evaluation and the generation of recommendations.

Bidder Response:

Agreed; our attached Sample Project Plan describes our approach for these services

1.022 Work and Deliverable

Contractor must provide Deliverables/Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

A Data Collection and Review

1 Provide all labor, materials and equipment to fully perform the work of data collection and review for an assessment of water supply options for the City of Flint.

Bidder Response

Our Price Proposal in Attachment A includes all labor, materials and equipment to perform the base work described in our Sample Project Plan.

2 Perform an analysis and comparison of the KWA and DWSD proposals that includes all capital, financing, operational and maintenance costs

Bidder Response

Agreed; our attached Sample Project Plan describes our approach for these services.

3 Prepare and submit for Department of Treasury and City of Flint review a preliminary report on the findings by Thursday, December 20, 2012; additionally, a final inspection report of findings and recommendations must be presented no later than January 8, 2013 (also see Section 1 022.E).

Bidder Response

Agreed. however, meeting these dates are predicated on receiving a notice to proceed from the Treasury Department by November 26, 2012.

B Data collection and analysis services must include the following:

1 DWSD's proposed contract with the City of Flint.

Bidder Response:

Agreed; this is included in our attached Sample Project Plan

2. DWSD's proposed water rates with the City of Flint.

Bidder Response:

Agreed; this is included in our attached Sample Project Plan.

3. Other relevant DWSD documents or information regarding the provision of municipal water to the City of Flint.

Bidder Response.

Agreed

4 KWA's proposed contract with the City of Flint

Bidder Response·

Agreed, this is included in our attached Sample Project Plan

5 Any engineering or environmental reports that evaluate KWA's proposal to provide municipal water to the City of Flint.

Bidder Response·

Agreed

6 Other relevant KWA documents or information regarding the provision of municipal water to the City of Flint

Bidder Response·

Agreed

C **Engineering Evaluation:**

1. Evaluation and recommendation of a potential water supply for the City of Flint must be based upon: 1) Cost; 2) System redundancy and reliability; and 3) The capacity for the Flint River to supply all of the City of Flint's water needs

Bidder Response·

Agreed, this is included in our attached Sample Project Plan

2 Evaluation and recommendation of a potential water supply for the City of Flint will also be based upon any additional criteria mutually agreed upon by the Department of Treasury, the City of Flint and the Contractor

Bidder Response·

Agreed

D The Contractor must carry out its operations in strict accordance with local, state, federal regulations.

Bidder Response:

Agreed.

E. Provide electronic copies (in the most suitable format) of the final inspection report of findings and recommendations to the City of Flint and the Department of Treasury, Office of Fiscal Responsibility by January 8, 2013:

Bidder Response:

Agreed.

1. Describe format of findings and recommendations. Format should also include a description of all work performed.

Bidder Response.

Our attached Sample Project Plan describes our approach for the findings and recommendations. TYJT will draft a report for the Treasurer that identifies the information collected, the analysis process, our findings, and the recommendations made. Our recommendations will be based on the risks to Flint associated with the options identified

a) Preliminary inspection report of findings and recommendations must be presented by December 20, 2012.

Bidder Response

Agreed this is included in our attached Sample Project Plan and the date is predicated on receiving a notice to proceed from the Treasury Department by November 26, 2012

b) Final inspection report of findings and recommendations must be presented no later than January 8, 2013

Bidder Response

Agreed, this is included in our attached Sample Project Plan and the date is predicated on receiving a notice to proceed from the Treasury Department by November 26, 2012

2. Describe electronic formats available

Bidder Response.

Document formats would include PDF's or in their initial format (Word, Excel, GIS/CAD, etc.).

F Submit findings and recommendations to an independent Quality Control and Quality Assurance (QA/QC) review process for validation

Bidder Response:

Agreed; the independent QA/QC approach is included in our attached Sample Project Plan.

1 Provide electronic copies (in the most suitable format) of the independent QA/QC review to the City of Flint and the Department of Treasury, Office of Fiscal Responsibility by January 8, 2013, with the final inspection report

Bidder Response:

Agreed; however, meeting this date are predicated on receiving a notice to proceed from the Treasury Department by November 26, 2012.

1.030 Roles and Responsibilities

1.031 Contractor Staff, Roles, and Responsibilities

1. Contractor must identify staff who will be involved in the project, including the name of each individual, work locations, and detailed descriptions of their roles and responsibilities.

Note: If an overall organization chart has been developed, provide a reference to that chart as well. Note any part-time personnel

Bidder Response

The staff will be comprised of our senior management. Messrs David Guastella and Awni Qaqish Also, we will be supported by our part-time staff member, former Finance Director of Redford Their roles will include meeting with Flint, KWA, and DWSD; estimating capital costs of all options, estimating all operation and maintenance costs of all options a financial analysis for funding capital; and all other issues related to the costs of service

2 Specific work schedules for this project are Monday through Friday, 8:00 a.m. to 5:00 p m Eastern *Time, however, possible night and weekend hours may be required*

Bidder Response

Agreed

1.032 **State Staff, Roles, and Responsibilities**

1. Contract Compliance Inspector (CCI) The State's CCI provides oversight and monitoring of the selected Contractor's adherence to the terms and conditions of this project and the Contract

2 Project Manager: The State's Project Manager will monitor the project activities.

1.040 Project Plan

1.041 **Project Plan Management**

1 The Contractor will carry out this project under the direction and control of the CCI or designee.

2 Although there will be continuous liaison with the Contractor team, the CCI or designee will meet quarterly as a minimum, or as requested by the CCI or designee, with the Contractor's Project Manager for the purpose of reviewing progress and providing necessary guidance to the Contractor in solving problems which arise.

3 Contractors must provide a sample project plan with proposal for the deliverables proposed in section 1 022 The plan must include the details noted in section 1.041.4

Contractor Response

Agreed, the Sample Project Plan is attached.

4 Within five working days of Contract or purchase order award, the Contractor must submit to the CCI or designee for final approval a detailed project plan. This final project plan must be in agreement with the Contractor's proposal and accepted by the State for Contract, and must include the following:

a. The Contractor's project organizational structure.

b. The Contractor's staffing table with names and title of personnel assigned to the project. This must be in agreement with staffing of accepted proposal. Necessary substitutions due to change of employment status and other unforeseen circumstances may only be made with prior approval of the State

c. The project breakdown showing sub-projects, activities and tasks, and resources required and allocated to each (e.g., estimated levels of effort for each level of personnel for Contractor personnel, including any contractual employees, and State personnel).

1.042 Reports

1 The Contractor must submit written bi-weekly summaries of progress which outline the work accomplished during the reporting period, work to be accomplished during the subsequent reporting period, problems, real or anticipated, which should be brought to the attention of the CCI; and notification of any significant deviation from previously agreed-upon work plans

1.050 Acceptance – Deleted – N/A

1.060 Proposal Pricing

1.061 Proposal Pricing

1 For authorized Services and Price List, see Attachment A (Price Proposal) Please complete Attachment A and submit with proposal.

2 Bidders are encouraged to offer quick payment terms (i e. _0__% discount off invoice if paid within _____ days) This information can be noted on the Bidders price proposal (see Attachment A). This may be a factor considered in the award decision.

3. Contractor's out-of-pocket expenses are not separately reimbursable by the State or local unit of government unless, on a case-by-case basis for unusual expenses, the State has agreed in advance and in writing to reimburse Contractor for the expense at the State's current travel reimbursement rates See www.michigan.gov/dtmb for current rates

4. Invoicing and payment must occur per Article 2 (Compensation) of Indefinite Scope Indefinite Delivery Contract No 263 (Discretionary Contract Number 00263) and Attachment A.

1.070 Additional Requirements – Deleted – N/A

Attachment A, Price Proposal

Bidders are encouraged to offer quick payment terms (i e __0__% discount off invoice if paid within _____ days) This information can be noted on the price proposal. This may be a factor considered in the award decision.

Provide the price per deliverable for the proposed services in section 1 022.	
Deliverable	Price
A. Municipal Water Supply Assessment	
1. Data Collection and Review	$ 6,500
2 Engineering Evaluation	$ 30,000
3 Provide Copies of Findings and Review Findings	$ 3,000
Grand Total	$ 39,500
B Optional Services	
1	$
2	$
3.	$
4.	$
5	$

Indefinite-scope, Indefinite-delivery Contract Number 00383
2012 Professional General Architectural/Engineering Services

CITY OF FLINT WATER SUPPLY ASSESSMENT
SAMPLE PROJECT PLAN

November 2012

1. Scope of Work

Tucker, Young, Jackson, Tull, Inc (TYJT), at the request of the State Treasurer is providing a proposal to perform an analysis of the water supply options being considered by the City of Flint The work would be completed as an authorized task under the reference contract, Contract No 00383 This proposal provides a background of our understanding of the issues, our approach, schedule dates, and the level of effort to perform the task.

2. Background

The City of Flint is presently supplied potable water from the Detroit Water and Sewerage Department (DWSD) This supply is from a single 72-inch water main that terminates at a master meter located at Potter and Baxter. Additionally, downstream of the DWSD master meter, Flint supplies its customer Genesee County. The City of Flint also operates a water treatment plant that uses the Flint River as its source of supply to provide back up and redundancy to the DWSD supply as required by MDEQ

The Karegnondi Water Authority (KWA) is planning on constructing a raw water supply system that could provide Lake Huron water to the Flint's Water Treatment Plant. Flint's existing plant would be upgraded to treat the new raw water source

The State Treasurer has appointed an emergency financial manager for the City of Flint. As such the Treasurer has requested TYJT to provide an analysis of the water supply options to assist the Treasurer in determining the best course going forward for the City of Flint.

3. Scope of Work

The proposed scope of work summarizes TYJT's approach to perform the analysis. The work includes data collection and review, an engineering evaluation, and recommendations. The recommendations would be provided in a report that would also include a description of all the work performed under this task.

3.1. Data Collection and Review

To perform an analysis of competing proposals it is important to provide a relative or "apples-to-apples" comparison. As example, DWSD's cost of service includes all capital, financing, and operation and maintenance costs to deliver the water to Flint's system. Therefore, it will be necessary for an assessment of KWA's proposal to also include all of these costs in the comparison.

Additionally, DWSD is proposing other alternatives to its existing agreement with Flint that will also need to be evaluated. The options currently proposed include:

- Using DWSD's new model contract that provides reduction in cost for communities with their own storage,
- *Moving the location of supply from* Potter and Baxter to the Imlay Pumping Station to reduce fees associated with elevation and distance from DWSD's water plants,
- Providing finished (potable) non-pumped water from the Lake Huron Water Treatment Plant, and
- Providing raw (not treated) non-pumped water from the Lake Huron Water Treatment Plant.

This phase of the work would include the collection and review of the following documents.

- The Lake Huron Water Supply Karegnondi Water Authority Preliminary Engineering Report, dated September 2009 and the 2012 update by Rowe Engineering;
- The Analysis of the Flint River as a Permanent Water Supply for the City of Flint Report, dated July 2011,
- Proposed or draft contract agreements that would be used between the KWA and the City of Flint;
- DWSD's contract rates based on the new model contracts,
- Information related to other DWSD proposals for service to Flint; and
- Other letters, minutes, etc. from all parties that provide information that could be used in the evaluation

All information provided would be evaluated and subsequent meetings would be held with the DWSD, Flint and the KWA to address any data gaps or clarifications that may be required. These meetings would be coordinated with the Treasurer so that its representatives can be present at the meetings. For the purpose of this proposal, TYJT has assumed a total of two meetings for both the DWSD and KWA.

3.2. Engineering Evaluation

The City of Flint Emergency Financial Manager has indicated that he believes the determination of who supplies water to the City's system should mainly be based on the following criteria (in order of importance).

- Cost,
- System redundancy/reliability, and
- The recognized limitation of the Flint River as a source to supplying all of Flint's water needs.

In consultation with the Treasurer, these factors plus additional ones that may be identified in the evaluation process would be used.

An analysis will be performed for the options identified and a comparison will be made based on cost, reliability of supply, and any limitations that may identified by both suppliers in providing the needed service.

TYJT will draft a report for the Treasurer that identifies the information collected, the analysis process, our findings, and the recommendations made. Our recommendations will be based on the risks to Flint associated with the options identified. TYJT will then incorporate comments from the Treasury's review and submit a final document to the Department of Treasury for their use.

Furthermore, as is done as a standard of practice at TYJT for quality control and quality assurance (QA/QC), an independent review will be completed by staff or outside consultants not directly involved in the project These reviewers will have noted experience in the field necessary to complete the QA/QC reviews. Two reviews are envisioned, one to review the evaluation process and the other to review the findings and recommendations.

4. Schedule

At the meeting between all interested parties on November 1, 2012, two dates were identified by the Treasurer The first date identified was December 20, 2012 for the preliminary evaluation to be provided to the State The second date was January 15, 2013 for the Treasury to make a decision on the City of Flint water supply TYJT proposes to complete the draft report for submittal on December 20th. This will provide a two week review period by the Treasury. The final report would then be completed and submitted one week prior to the January 15th deadline TYJT will also be available, if requested by the Treasurer, to attend a general meeting with all parties involved at the conclusion of the work.

Review of TYJT December 21, 2012 Presentation
City of Flint Water Supply Assessment
Prepared by Rowe Professional Services Company

DWSD Supply (Slides 7 through 9)

1 The 8 mgd maximum day supply by DWSD options can result in periods during the summer when most of the water to meet demands will be supplied by the City from the river. To aid in maintaining a consistent water quality, softening of the water from the river should be provided with this option, greatly increasing the City's costs

2 Upgrades to Flint's WTP and dams will be needed for options requiring blending, since the WTP will be required to provide continuous, reliable service and compliance with recent surface water treatment regulations

3 The rates for the options analyzed are shown on Slide 9 as "TYJT Estimates" Options and rates shown are different than presented by DWSD previously

	DWSD 11/29/2012	TYJT Estimates
18 mgd Maximum Day - P&B	$16.24	$16.37
12 mgd Maximum Day - P&B	$16.30	$16.31
8 mgd Maximum Day -P&B		$12 68
12 mgd Maximum Day - Imlay	$14.38	$14 38
8 mgd Maximum Day - Imlay		$11 11

4 Since the rates used in the analyses are shown as estimates, are they actual offers or just presented as "what if" scenarios?

5 We assume that the Imlay options are based on transfer of the 72" main through Lapeer County to Flint The analyses show a capital cost of $4 7 million, we assume that this is the proposed purchase / lease cost to Flint. This should be clarified along with pertinent details

6 If the transmission main is transferred to Flint, what are Flint's responsibilities regarding service to the Lapeer County customers? If they remain DWSD customers, then Flint should receive some revenue for the use the main. It does not appear this is included in the TYJT analyses.

7. If the transmission main is transferred to Flint, we assume that the city will be responsible for the maintenance of the 50 year old main. The TYJT analysis did not include this.

8 Do the rates shown include the credit for "reliability" which had been discussed with DWSD?

9. If the point of commerce is changed from Baxter and Potter to Imlay, a new meter pit will be required. The cost of this does not appear to be included in the TYJT cost analyses

Flint River Supply (Slide 10)

1 If any of the "blending" options are chosen, it will be necessary to upgrade the Flint WTP and dams to provide reliable, continuous service and compliance with recent surface water treatment regulations.

Data Collected (Slide 14)

1 The slide notes that Flint blending is based on DWSD supplying 2/3 and Flint supplying 1/3 of 12 MGD ADD For the maximum day demand (18 mgd), if DWSD supplies a maximum of 8 mgd, Flint will supply 10 mgd or 56% of the total. However, such a large portion will make it more difficult to blend and achieve consistent water quality. Flint will need to soften water for these options

Benchmarking Comparisons (Slide 16)

1 The slide subtitles are "KWA O&M Inflation Factor" and "DWSD and Flint Rate Inflation Factor" It seems appropriate to benchmark O&M costs for the KWA, because future costs of service will be dependent on how operating costs are impacted by inflation. For Flint, it does not seem appropriate that "rate inflation" from other utilities be used to determine the impact of inflation on future cost of service. Rates are impacted by inflation, but also by other factors such as debt and customer base. O&M expenses and rates are different and care should be exercised not to mix the two during analyses The TYJT analyses apply an inflation factor (based on rates from other utilities) to the Flint WTP operating expenses, which does not seem to be consistent

2 The KWA will supply raw water; SOCWA and YUCA both supply finished water Regulations impact the O&M for finished water suppliers but should not impact the KWA O&M. The use of data from SOCWA and YUCA does not seem like a comparable comparison with the KWA Finished water suppliers will have increased costs due to regulatory compliance, which really are not due to "inflation" of the costs of wages, power, chemicals, etc

3 DWSD has a history of rates to Flint and other suburban wholesale customers. Rates tend to be quite specific to each utility, based on much more than just the costs of operating and maintenance. It appears that DWSD historical rates have not been considered in projecting future DWSD rate increases

Capital Financing (Slide 17)

1. KWA bonds are planned to be general obligation bonds, backed by member counties.

O&M Inflation Factor (Slide 20)

1. SOCWA and YUCA are finished water suppliers; ever-changing regulatory requirements will impact their operating costs more than a raw water supplier, such as KWA
2 KWA will be a supplier of raw water. O&M costs should primarily be limited to power and labor, with a little chemical use for zebra mussel control. KWA will not provide treatment of the water.

3. The KWA study assumed power, labor, and chemical costs increase at an annual average of 3%. TYJT indicated this is too low and suggested 5%.

4 Following are examples of historical inflation, which support the 3% as a reasonable assumption for O&M expenses (not rates)
   a. *Labor- GCDC-WWS labor costs have increased at an annual average rate of 2.5% since* 2003
   b Electricity Rates in Michigan (per U.S Energy Information Administration) have increased an average of 3.2% since 1999
   c The U.S Bureau of Labor Statistics indicates that the inflation rate over the last 30 years has been an average of 2.8%.

Finished Water Rate Inflation (Slide 21)

1 TYJT bases their assumptions for rate inflation on a survey of rates from three other water suppliers, but ignored the actual rate history of DWSD TYJT assumed DWSD rate increases of 4.4% annually (if water is purchased from P&B) and 2 9% annually (if water is purchased from Imlay) Based on the actual charges by DWSD to Flint, DWSD historical rates are as follows:
   a. 10 year increase in DWSD rates to Flint 10.5% annually
   b Average annual increase through 45 year history· 6 7%

2 Note that for the KWA analyses, an inflation factor has just been applied to power, labor, and chemicals. Although higher prices for labor, power, and chemicals impacts utility rates; rates are impacted by many other factors, many of which are not related to inflation. Rate inflation will likely be different than O&M inflation. Other factors impacting rates·
   a. Debt – the amount of debt varies widely between utilities
   b Number of customers / quantity of water sold – there are many fixed expenses with a utility, that if are distributed amongst more users/more gallons sold will result in lower rates. Conversely, if there are fewer users or less water sold, the rates are higher. Assumptions regarding future water consumption will have a great impact on "rate inflation"

3 Unlike KWA and Flint operating expenses which will increase over time based on inflation, the cost of continued DWSD service should be based on the inflation of DWSD rates, to include the increasing cost of other DWSD expenses such as debt and the impact of reduced customers / demands in addition to increasing O&M expenses.

4 Even though there could be a one-time reduction in DWSD rates through adopting the model contract, limiting peak demands, and or changing the point of commerce; it doesn't seem reasonable to assume that subsequent annual increases will only average 4.4% through the 30 year period of analysis. This is significantly less than historical performance (yet TYJT suggests that inflation for KWA O&M expenses will increase at almost double the rate of historical indicators)

Capital Financing with Revenue Bonds (Slide 24)

1. Note that the KWA bonds will be general obligation bonds backed by the member counties

2. The 2009 KWA Study assumed 6%, 25 year financing. The interest rate for planning was reduced in the 2012 Study update to 5%, which is still higher than if bonds were sold today

3. Financial consultants determined the charges for purchasing capacity in the KWA supply based on the estimated project cost plus appropriate financing costs Based on 60 units of capacity, $538,764,000 will be generated for repayment of debt and project costs using the capacity charges in the KWA capacity agreement.

25 years * 60 units * $355,300 / unit =	$532,950,000
3 years * 60 units * $32,300 / unit =	$ 5,814,000
	$538,764,000

4. For a KWA project cost of $272,421,558, total P&I is $483 million The difference of $55,500,000 is available for financing expenses (capitalized interest, bond issuance costs, etc) and additional contingencies.

5. Bond holder reserve is not a requirement for general obligation bonds.

6. TYJT assumed that 3% interest would be earned on the bond holder reserve during the 25 year bond period Current interest rates are less than 1% and it seems inappropriate to assume such a high rate will be earned on retained funds

7. Bondholder reserve, if provided, should be applied against the last couple of P&I payments. The TYJT did not apply it. This will reduce their project costs

KWA Construction (Slides 26 through 29)

TYJT has indicated that the KWA construction cost estimate is too low The primary differences in cost estimates for the project appear to be the following components

1. Pump Stations (Slide 27) – The TYJT estimate for the pump stations is more than double that used by the KWA ($54,573,314 vs. $24,618,080) KWA estimates were based on actual construction costs from recent projectd completed by Genesee County within the last eight years.
   a. 32mgd water pump station including two-10 MG ground storage tanks - $13 4 million
   b. 80 mgd wastewater pump station, 50 feet deep wetwell – $8.3 million
   c. 30 mgd wastewater pump station, 50 feet deep wetwell – $9 4 million

   The KWA budgeted amount seems reasonable for two pumping stations as currently planned and to be constructed in rural areas (not southeast Michigan)

2. Redundant Power – There is no need for redundant power; other provisions will provide reliability of supply.

3. Land – Preliminary engineering has continued so earlier budgets established for planning for land acquisition can be greatly reduced. Options have been obtained on all properties which must be

purchased, so purchase prices are known. It will be necessary to obtain easements for only two miles of pipeline construction. All land costs are now estimated at $1.25 million.

4 Engineering, Legal, Administration & Contingencies
   a. The October 2012 KWA estimate provided an allowance of 25% of construction cost to cover engineering, legal, administration, and contingencies (ELAC). This was reduced from the 38% allowance used in the 2009 Study because ongoing planning and design have firmed up many of the details of the project, including:
      i The intake design has been completed and all regulatory permits obtained
      ii. The transmission main route has been determined. Meetings with road agencies have firmed up the requirements for construction and restoration within rights-of-way. Environmental review and permitting are in process

   b TYJT costs for Intake Crib, Pump Stations, and Transmission Mains (Slide 30) include a 30% allowance for ELAC These allowances (from Slides 26 through 28) total $72,139,566. In addition, Slide 30 provides the following <u>additional</u> ELAC costs in the project total.

Design Engineering / Pump Stations	$16,939,581
Construction Management	$14,434,410
Administration	$ 349,440
Legal	<u>$ 831,000</u>
Total	$32,554,431

   c Combining this with the $72,139,566 totals $104,693,997 or 43% of the estimated construction cost We believe that such a high allowance for ELAC is not appropriate for a project of this magnitude where preliminary engineering and some design have already been completed.

Cost Comparison (Slide 30)

1 The TYJT pump station price is too high based on costs of similar projects; costs used by KWA are based on costs of recent local projects. The KWA estimate is believed to be sufficient for the proposed pumping stations

2 Redundant power is not required, this does not need to be included in the TYJT estimate.

3 Land for LHPS – actual price is $360,000

4 Design Engineering / PS and Transmission – KWA included engineering in the 25% ELAC allowance included in the $207,752,895 estimated cost of transmission mains; TYJT included engineering in their 30% ELAC allowance included in the $218,811,559 estimated cost. By adding $16,939,581 for design engineering, $14,434,609 for construction administration, $349,440 for administration, and $831,000; it seems that ELAC is being "double-counted". The TYJT 43% allowance for ELAC seems unwarranted for a project with a great deal of preliminary and design engineering completed. The 25% KWA allowance is believed to be sufficient.

5. Easements and land (other than LHPS) should total $1,140,000, based on current options and specific needs for easements.

Other Considerations – Redundancy / Reliability (Slide 33)

1 Unfunded Mandates/ Future Regulations
   a. The proposed KWA supply will deliver raw water; it is not anticipated to be affected by future changes to regulations. Regulations will impact the City of Flint with respect to treatment and/or distribution of finished water The City will be subject to these requirements with any of the DWSD blending options, just as they will be responsible for them if supplied by KWA Some compliance costs may actually be less with the higher - quality Lake Huron water rather than Flint River water as the source

2 State Goals
   a. The TYJT presentation indicates that creation of a new raw water supply is contrary to the governor's goals as suggested However, the development of a new raw water supply provides new opportunities. Communities in Sanilac, St. Clair, and Lapeer counties will have the option to join a regional water supply and replace their small local supplies where limited supplies and high concentrations of arsenic have been a concern. The new water supply also provides great economic development opportunities. The raw water supplied by KWA will make a new commodity, raw water, available to the region. A large, low-cost supply of raw water can be a valuable resource for industries and agri-businesses The development of a new water supply will also create construction jobs through the short term period of building the new water supply and subsequently over a longer period as new businesses and industries are developed in the area.
   b The City of Flint and area communities will benefit as permanent jobs are created for operating and maintaining the local treatment facilities.

3 Redundancy
   a. We agree that the KWA and DWSD options are similar with respect to redundancy Both provide the primary water supply; customers are responsible for their backup supply

Other Considerations – Cost Slide 34

1 TYJT indicates that the DWSD 8 mgd supply option is the least cost alternative
   a. The TYJT analysis does not include the cost of needed upgrades to the City's WTP or increased operating costs in their analysis During summer months, water from the river will need to be softened before blending. More than half of the water supplied will be provided from the river. When the cost of upgrades to the WTP and the increased operating costs (for softening) are added to the TYJT analysis, the KWA option is less than the DWSD 8 mgd option.

2. For any of the DWSD "blending" options, upgrades will need to be made at the WTP to provide for continuous, reliable operation and compliance with new surface water treatment rules. Increased capital and operating costs for treating water from the river should be added to the TYJT costs for comparison with the other options.

3 Water from the river will require greater effort to treat than water from Lake Huron (more chemicals, power, and residuals). The TYJT analysis shows about the same O&M costs for the Flint WTP, regardless of water source. It seems that the WTP O&M costs for the KWA options should be reduced to reflect the savings from treating Lake Huron water

4 The TYJT presentation noted that the KWA analysis did not include allowances for mechanical and process improvements within the planning period. The KWA will supply raw water. The facilities consist of pipe, pumps, and a tank. There are no treatment facilities which would be susceptible to future regulatory changes. The only improvements that seem likely would be the need to provide additional capacity. Capacity expansion is planned to be financed through capacity charges to new users.

5 The provision for redundant connections between the City's water system and the GCDC system was included in the most recent water supply agreement between the two, in 2011. Although not a KWA cost, the cost of the redundant connections should be considered with all options.

6. The $2.3 million budgeted for land by KWA was intended to cover all land requirements. Since the October update, options have been obtained on all land to be purchased and the locations of easements needed has been finalized. Total land costs are now estimated to be about $1.5 million.

7 The 2004 study included a 47% allowance for engineering, legal, administration, and contingencies (ELAC). The 2009 study reduced the allowance for ELAC to 37% because many of the details since the 2004 conceptual study had been better defined. For the October 2012 update, the allowance for ELAC was reduced to 25% because continued planning and preliminary engineering further addressed details from the earlier concepts.

   a. The detailed design (plans and specifications) and permitting have been completed.
   b. The transmission main route has been finalized. Meetings with road agencies have established requirements for construction and restoration within road rights-of-way. Environmental permitting is in process. The primary remaining unknown is pipe sizing, which is largely dependent on Flint's participation.

It is our experience that the 25% ELAC allowance is appropriate for a project of this magnitude at this stage in the planning / design stage. The 43% ELAC allowance recommended by TYJT is excessive for a project in the design phase.

8 Flint's WTP as a backup to the KWA will be less difficult to provide for than the current arrangement as a backup to DWSD. We believe there is potential for challenges with chemistry and treatment for the proposed DWSD blending options, too.

9 It doesn't seem that oversizing the KWA capacity is a good solution for the city's water loss problems, if that is what is being suggested.

10 Yes, it would be nice if the KWA system could be constructed to firmly determine its cost and time to complete before making a decision about water supply alternatives. However, a decision is needed regarding Flint's participation so that the sizing and design can be completed, before it can be built.

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January 14, 2013

Mr Eric Cline
Unit Operations Specialist
430 West Allegan Street
Lansing, Michigan 48922

Dear Mr Cline,

RE SOW No 271Q3209, Flint Municipal Water Supply Assessment

Subject Response to Rowe Professional Services Company Comments on TYJT's December 20, 2012 Presentation

The purpose of this letter is to respond to the subject comments provided to TYJT on January 9, 2013. The comments are provided below followed by our response. The presentation is provided as an attachment for reference

It should be noted that due to the time constraints identified, our evaluation was completed in a very short duration. Our analysis is therefore based on the limited information that was provided We believe that the assumptions made are valid, however, if further analysis is required, TYJT suggests that more information such as the KWA route including topography and easement information, pump station siting, condition of the Flint WTP, and water chemistry information related to blending is obtained

Furthermore, per the Treasury's direction, Flint has indicated that they do not want to pursue the stand-alone option of only using their plant nor do they want to consider being supplied from the Imlay Station because they are concerned with long-term costs associated with the 72" line Therefore, responses to comments specific to these options are not provided

DWSD Supply (Slides 7 through 9)

<u>Rowe Comment No 1</u> The 8 mgd maximum day supply by DWSD options can result in periods during the summer when most of the water to meet demands will be supplied by the City from the river To aid in maintaining a consistent water quality, softening of the water from the river should be provided with this option, greatly increasing the City's costs.

<u>TYJT's Response:</u> Flint's email dated 12/6/12 indicates that the average production rate when they operate the plant is 11 MGD. It was assumed that plant water quality produced was sufficient to meet the necessary water quality requirements since it is to serve as a backup to the DWSD supply.

If softening is required then its cost required for maximum flow rate analyzed would need to be included. *Another question that should be addressed is if softening is required, why it is not part of* the current treatment for the backup supply

Furthermore, from the meeting on November 20, 2012, KWA indicated that the Flint River would serve as a backup supply to the KWA system This would mean that the Flint WTP would have to maintain two treatment trains, one for lake water and one for river water Depending on how long the plant would have to operate as a backup could trigger the need under the KWA option to improve the river infrastructure as the Flint WTP would need to produce up to 18 MGD

Rowe Comment No 2: Upgrades to Flint's WTP and dams will be needed for options requiring blending, since the WTP will be required to provide continuous, reliable service and compliance with recent surface water treatment regulations.

TYJT's Response: As indicated in our previous response, it was assumed that the plant has capacity to supply up to 11 MGD Furthermore, per the LAN/Rowe report on the Flint River dated July 2011, the summary on Page 12 states that without making any modifications to the river infrastructure, the water plant is limited to 11 6 MGD. Therefore, if the maximum needed from the plant under the various scenarios presented is 10 MGD, no additional work to the dams should be required

Rowe Comment No 3: The rates for the options analyzed are shown on Slide 9 as "TYJT Estimates" Options and rates shown are different than presented by DWSD previously

	DWSD 11/29/2012	TYJT Estimates
18 mgd Maximum Day - P&B	$16.24	$16.37
12 mgd Maximum Day - P&B	$16.30	$16.31
8 mgd Maximum Day -P&B		$12 68
12 mgd Maximum Day - Imlay	$14.38	$14.38
8 mgd Maximum Day - Imlay		$11 11

TYJT's Response. The rates presented were provided by DWSD and are provided as an attachment to this response.

Rowe Comment No 4: Since the rates used in the analyses are shown as estimates, are they actual offers or just presented as "what if" scenarios?

TYJT's Response: Per DWSD, the allocated costs of service and rates computed for Flint follow an "all else being equal" application of the current (FY 2012-13) DWSD unit costs. This is consistent with the figures used in discussions with Flint representatives previously. Whenever the actual service requirements get applied, the lower DWSD System units associated with lower Flint units will raise the unit costs for all customers, creating a moderate impact for all customers. This has been described to Flint representatives.

As such, in DWSD's discussions with Flint they've identified these figures as hypothetical results indicative of rate calculations, as opposed to firm offers. So, while the rates are still estimates until the volume and type of the purchase is determined, it can be assumed that the actual rates will be similar to the estimates shown

Rowe Comment No 5 We assume that the Imlay options are based on transfer of the 72" main through Lapeer County to Flint. The analyses show a capital cost of $4 7 million; we assume that this is the proposed purchase / lease cost to Flint. This should be clarified along with pertinent details

TYJT's Response In the Treasurer's email to TYJT, dated January 9, 2013, this option is no longer being considered by Flint Therefore, a response is not required

Rowe Comment No. 6 If the transmission main is transferred to Flint, what are Flint's responsibilities regarding service to the Lapeer County customers? If they remain DWSD customers, then Flint should receive some revenue for the use the main It does not appear this is included in the TYJT analyses.

TYJT's Response In the Treasurer's email to TYJT, dated January 9, 2013, this option is no longer being considered by Flint Therefore, a response is not required

Rowe Comment No. 6 If the transmission main is transferred to Flint, we assume that the city will be responsible for the maintenance of the 50 year old main The TYJT analysis did not include this

TYJT's Response In the Treasurer's email to TYJT, dated January 9, 2013, this option is no longer being considered by Flint Therefore, a response is not required

Rowe Comment No 6: Do the rates shown include the credit for "reliability" which had been discussed with DWSD?

TYJT's Response TYJT has not been party to the discussions regarding a reliability credit, so we assume that the rates used in our presentation do not include the credit.

Rowe Comment No. 9: If the point of commerce is changed from Baxter and Potter to Imlay, a new meter pit will be required. The cost of this does not appear to be included in the TYJT cost analyses

TYJT's Response: In the Treasurer's email to TYJT, dated January 9, 2013; this option is no longer being considered by Flint. Therefore, a response is not required

Flint River Supply (Slide 10)

Rowe Comment No. 1: If any of the "blending" options are chosen, it will be necessary to upgrade the Flint WTP and dams to provide reliable, continuous service and compliance with recent surface water treatment regulations.

TYJT's Response: Please refer to our response to Comments No. 1 and No. 2 for Slides 7 through 9.

Data Collected (Slide 14)

Rowe Comment No 1. The slide notes that Flint blending is based on DWSD supplying 2/3 and Flint supplying 1/3 of 12 MGD ADD. For the maximum day demand (18 mgd), if DWSD supplies a maximum of 8 mgd, Flint will supply 10 mgd or 56% of the total. However, such a large portion will make it more difficult to blend and achieve consistent water quality Flint will need to soften water for these options.

TYJT's Response. Please refer to our response to Comments No 1 for Slides 7 through 9

Benchmarking Comparisons (Slide 16)

Rowe Comment No. 1. The slide subtitles are "KWA O&M Inflation Factor" and "DWSD and Flint Rate Inflation Factor" It seems appropriate to benchmark O&M costs for the KWA, because future costs of service will be dependent on how operating costs are impacted by inflation For Flint, it does not seem appropriate that "rate inflation" from other utilities be used to determine the impact of inflation on future cost of service. Rates are impacted by inflation, but also by other factors such as debt and customer base O&M expenses and rates are different and care should be exercised not to mix the two during analyses The TYJT analyses apply an inflation factor (based on rates from other utilities) to the Flint WTP operating expenses, which does not seem to be consistent.

TYJT's Response It is widely acceptable to compare O&M costs of similar facilities and communities and Benchmarking the Flint WTP rate was one item used in determining the best way to account for inflation associated with O&M costs for the planning period. Based on our analysis, we believe that the 4.51% is appropriate. It is also worth noting that in the letter to Mr Kurtz from the Flint Finance Director, Mr Ambrose, he used and inflation factor of 5% for the Flint WTP operations with the KWA system.

Rowe Comment No 2: The KWA will supply raw water; SOCWA and YUCA both supply finished water Regulations impact the O&M for finished water suppliers but should not impact the KWA O&M. The use of data from SOCWA and YUCA does not seem like a comparable comparison with the KWA. Finished water suppliers will have increased costs due to regulatory compliance, which really are not due to "inflation" of the costs of wages, power, chemicals, etc.

TYJT's Response: Benchmarking the KWA rate was one item used in determining the best way to account for inflation associated with O&M costs for the planning period. Additionally, per Mr. O'Brien's statement in our meeting on November 20, 2012, he suggested that we use GC-WWS inflation rate. Over the last 10 years, GC-WWS increase was 10.5%

Based on our analysis, we believe that the 5% is appropriate It is also worth noting that in the letter to Mr. Kurtz from the Flint Finance Director, Mr. Ambrose, he used and inflation factor of 5% for the KWA system.

Rowe Comment No 3 DWSD has a history of rates to Flint and other suburban wholesale customers Rates tend to be quite specific to each utility, based on much more than just the costs of operating and maintenance It appears that DWSD historical rates have not been considered in projecting future DWSD rate increases

TYJT's Response This is incorrect Please see the attachment provided by DWSD that shows the historical rates for Flint

Capital Financing (Slide 17)

Rowe Comment No 1. KWA bonds are planned to be general obligation bonds, backed by member counties

TYJT's Response: Reference is made to an email from Mr Kurtz, dated 12/4/12 that indicated revenue bonds would be used to finance the capital needs of KWA and this has been our basis of analysis We would need to recalculate the capital cost if general obligation bonds are used

It is worth noting that general obligation bonds are backed by the full faith and credit of the issuer. Our previous discussions with Flint indicated that they were not even sure if they could get a bond rating Furthermore, Genesee County indicated that they would not back Flint's share of the obligations We are surprised that general obligation bonds are now being considered

O&M Inflation Factor (Slide 20)

Rowe Comment No 1 SOCWA and YUCA are finished water suppliers; ever-changing regulatory requirements will impact their operating costs more than a raw water supplier, such as KWA.

TYJT's Response: Please refer to our response to Slide 16, Comment No 2

Rowe Comment No 2 KWA will be a supplier of raw water O&M costs should primarily be limited to power and labor, with a little chemical use for zebra mussel control. KWA will not provide treatment of the water

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Rowe Comment No 3. The KWA study assumed power, labor, and chemical costs increase at an annual average of 3% TYJT indicated this is too low and suggested 5%.

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c The U.S. Bureau of Labor Statistics indicates that the inflation rate over the last 30 years has been an average of 2.8%.

TYJT's Response. *Please refer to our response to Slide 16, Comment No. 2.*

Finished Water Rate Inflation (Slide 21)

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a 10 year increase in DWSD rates to Flint: 10 5% annually

b Average annual increase through 45 year history 6 7%

TYJT's Response. Please provide documentation of the referenced increases Per our response to Slide 7 through 9, Comment No. 3, DWSD has provided their historic rates over the past 10 years It could also be argued that these rate increases are skewed higher than they will be in the future since a dramatic reduction in water sales due to the recession required DWSD's fixed costs to be distributed over less units

Rowe Comment No. 2. Note that for the KWA analyses, an inflation factor has just been applied to power, labor, and chemicals. Although higher prices for labor, power, and chemicals impacts utility rates; rates are impacted by many other factors, many of which are not related to inflation Rate inflation will likely be different than O&M inflation. Other factors impacting rates

a Debt – the amount of debt varies widely between utilities

b. Number of customers / quantity of water sold – there are many fixed expenses with a utility, that if are distributed amongst more users/more gallons sold will result in lower rates Conversely, if there are fewer users or less water sold, the rates are higher. Assumptions regarding future water consumption will have a great impact on "rate inflation".

TYJT's Response: Rowe's comment is noted.

Rowe Comment No 3: Unlike KWA and Flint operating expenses which will increase over time based on inflation, the cost of continued DWSD service should be based on the inflation of DWSD rates, to include the increasing cost of other DWSD expenses such as debt and the impact of reduced customers / demands in addition to increasing O&M expenses.

TYJT's Response: DWSD's rates do include these variables as their rates are inclusive of their total costs; operations and fixed. It is also worth noting that once the KWA construction begins, Flint fixed costs will be set regardless of their actual water use.

Rowe Comment No 4 Even though there could be a one-time reduction in DWSD rates through adopting the model contract, limiting peak demands, and or changing the point of commerce, it doesn't seem reasonable to assume that subsequent annual increases will only average 4.4% through the 30 year period of analysis This is significantly less than historical performance (yet TYJT suggests that inflation for KWA O&M expenses will increase at almost double the rate of historical indicators)

TYJT's Response Please see our response to Slide 16, Comment No. 3.

Capital Financing with Revenue Bonds (Slide 24)

Rowe Comment No 1 Note that the KWA bonds will be general obligation bonds backed by the member counties

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Rowe Comment No 2 The 2009 KWA Study assumed 6%, 25 year financing The interest rate for planning was reduced in the 2012 Study update to 5%, which is still higher than if bonds were sold today

TYJT's Response We believe that it was prudent to use 5% as a conservative assumption This is consistent with the KWA study.

Rowe Comment No 3. Financial consultants determined the charges for purchasing capacity in the KWA supply based on the estimated project cost plus appropriate financing costs Based on 60 units of capacity, $538,764,000 will be generated for repayment of debt and project costs using the capacity charges in the KWA capacity agreement.

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Rowe Comment No. 6. TYJT assumed that 3% interest would be earned on the bond holder reserve during the 25 year bond period. Current interest rates are less than 1% and it seems inappropriate to assume such a high rate will be earned on retained funds.

TYJT's Response: Although the current interest rate is less than 1% it was assumed that current fiscal policy could not be sustained for 30 years Therefore 3% was assumed. Note that this is interest coming back to KWA and actually reduces the total cost.

Rowe Comment No 7: Bondholder reserve, if provided, should be applied against the last couple of P&I payments. The TYJT did not apply it This will reduce their project costs.

TYJT's Response: The reserve was only applied over the duration of the loan

KWA Construction (Slides 26 through 29)

TYJT has indicated that the KWA construction cost estimate is too low The primary differences in cost estimates for the project appear to be the following components

Rowe Comment No 1 Pump Stations (Slide 27) – The TYJT estimate for the pump stations is more than double that used by the KWA ($54,573,314 vs $24,618,080). KWA estimates were based on actual construction costs from recent projects completed by Genesee County within the last eight years

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c. 30 mgd wastewater pump station, 50 feet deep wetwell – $9.4 million

The KWA budgeted amount seems reasonable for two pumping stations as currently planned and to be constructed in rural areas (not southeast Michigan)

TYJT's Response. Of the three projects identified only the first one is a water system project, the other two are wastewater lift stations. Since these estimates are based on a preliminary design, TYJT believes that our estimate is a more prudent representation of cost.

Rowe Comment No 2 Redundant Power – There is no need for redundant power, other provisions will provide reliability of supply

TYJT's Response TYJT disagrees with this statement. Backup power is a standard practice in the water industry. Furthermore, a loss of power at either pumping facility will prevent the supply of water to both Flint and Genesee County. TYJT is not aware of what "other provisions" are being provided.

Rowe Comment No 3 Land – Preliminary engineering has continued so earlier budgets established for planning for land acquisition can be greatly reduced Options have been obtained on all properties which must be purchased, so purchase prices are known It will be necessary to obtain easements for only two miles of pipeline construction. All land costs are now estimated at $1.25 million.

TYJT's Response: Our analysis has been based on the information provided to us. Revising and changing numbers will require another analysis.

Rowe Comment.No 4: Engineering, Legal, Administration & Contingencies.

a. The October 2012 KWA estimate provided an allowance of 25% of construction cost to cover engineering, legal, administration, and contingencies (ELAC). This was reduced from the 38% allowance used in the 2009 Study because ongoing planning and design have firmed up many of the details of the project, including

   i The intake design has been completed and all regulatory permits obtained

   ii. The transmission main route has been determined. Meetings with road agencies have firmed up the requirements for construction and restoration within rights-of- way. Environmental review and permitting are in process

b. TYJT costs for Intake Crib, Pump Stations, and Transmission Mains (Slide 30) include a 30% allowance for ELAC. These allowances (from Slides 26 through 28) total $72,139,566. In addition, Slide 30 provides the following additional ELAC costs in the project total:

Design Engineering / Pump Stations	$16,939,581
Construction Management	$14,434,410
Administration	$ 349,440
Legal	$ 831,000
Total	$32,554,431

c. *Combining this* with the $72,139,566 totals $104,693,997 or 43% of the estimated construction cost. We believe that such a high allowance for ELAC is not appropriate for a project of this magnitude where preliminary engineering and some design have already been completed

TYJT's Response. In an email from Mr O'Brien on December 5, 2012, the design is less than 15% complete on the pipeline and the final route is only 90% confirmed Since these estimates are based on a preliminary design, TYJT believes that our estimate is a more prudent representation of cost.

The $72,139,566 is for construction contingencies only This figure includes $5,519,213 for ELAC of 25% per KWA's cost estimate for the intake construction which is reasonable for a project at the 90% design completion The balance of the construction contingency of $66,620,335 is based on 30% contingency since the design for the transmission mains and the IPS is at only 15% preliminary design.

The $32,554,431 is a budget for:

a. completing the design of the IPS and transmission mains to 100% bidding stage,

b construction management fee for the firm responsible to oversee the construction startup and commissioning of the project,

c. legal and survey fee to acquire the land and 277 easements (per KWA 2009 report), and

d. for the KWA staff to administer the project.

In summary the $72 million is for construction contingency and the $32 million is for the engineering and administration of the project.

Cost Comparison (Slide 30)

<u>Rowe Comment No 1</u> The TYJT pump station price is too high based on costs of similar projects; costs used by KWA are based on costs of recent local projects The KWA estimate is believed to be sufficient for the proposed pumping stations.

<u>TYJT's Response</u> Please see our response to Slide 26 through 29, Comment No 1.

<u>Rowe Comment No 2</u> Redundant power is not required, this does not need to be included in the TYJT estimate

<u>TYJT's Response</u> Please see our response to Slide 26 through 29. Comment No 2

<u>Rowe Comment No 3</u> Land for LHPS – actual price is $360,000

<u>TYJT's Response.</u> The $2.3 million for land came from the KWA Preliminary Engineering Report, dated September 2009 and Appendix 20 the updated report, dated October 4, 2012 Paragraph 2 3.2 (page 3) of Appendix 2 of the Preliminary Engineering Report dated September 2009 states, "Genesee County purchased 230 acres of land in Worth Township, Sanilac County in 2002. The land was purchased for the potential use as a water supply facility The land was purchased for $2.3 million." This same $2.3 million is shown as the cost for the land (Figure 1-KWA Water Supply Project Cost) in, Appendix 20 October 2012 Preliminary Engineering Report Update- Final Report

<u>Rowe Comment No. 4:</u> Design Engineering / PS and Transmission – KWA included engineering in the 25% ELAC allowance included in the $207,752,895 estimated cost of transmission mains; TYJT included engineering in their 30% ELAC allowance included in the $218,811,559 estimated cost. By adding 16,939,581 for design engineering, $14,434,609 for construction administration, $349,440 for administration, and $831,000; it seems that ELAC is being "double-counted" The TYJT 43% allowance for ELAC seems unwarranted for a project with a great deal of preliminary and design engineering completed. The 25% KWA allowance is believed to be sufficient

<u>TYJT's Response:</u> TYJT did not double count the ELAC. TYJT broke down the ELAC into engineering fee for design, legal cost to acquire easements and land for the project, KWA administrative and management cost, and construction management fee. These cost amount to approximately $32.5 million The 30% contingency listed in TYJT's cost estimate is a construction contingency since the design is at 15% (other than the intake) according to John O'Brien's statement during the meeting with the City of Flint on November 20, 2012.

<u>Rowe Comment No. 5:</u> Easements and land (other than LHPS) *should total* $1,140,000, based on current options and specific needs for easements.

<u>TYJT's Response:</u> Appendix 5 of the KWA 2009 report listed the cost for land acquisition for the Lake Huron Transmission at $615, 740, for the North Transmission Main at $214,300, and the Flint *Transmission at* $336,130 *for a total of* $1,166,170. TYJT estimated the land cost for the IPS and

reservoir only at $75,000 since the LHPS land has already been purchased by Genesee County TYJT estimate for easements and land (not the LHPS) to be $1,241,170 versus Rowe's recent information of $1,140,000 for a difference of $101,000 For all practical matter TYJT and KWA estimates are the same

Other Considerations – Redundancy / Reliability (Slide 33)

Rowe Comment No 1 Unfunded Mandates/ Future Regulations

a The proposed KWA supply will deliver raw water, it is not anticipated to be affected by future changes to regulations Regulations will impact the City of Flint with respect to treatment and/or distribution of finished water The City will be subject to these requirements with any of the DWSD blending options, just as they will be responsible for them if supplied by KWA Some compliance costs may actually be less with the higher quality Lake Huron water rather than Flint River water as the source.

TYJT's Response: This is obviously hard to quantify since identifying regulation requirements over 30 years is hard to determine However, it is widely understood that a large system has greater ability to respond to unfunded mandates because the cost can be distributed over a large customer base

Rowe Comment No 2 State Goals

a. The TYJT presentation indicates that creation of a new raw water supply is contrary to the governor's goals as suggested. However, the development of a new raw water supply provides new opportunities. Communities in Sanilac, St. Clair, and Lapeer counties will have the option to join a regional water supply and replace their small local supplies where limited supplies and high concentrations of arsenic have been a concern. The new water supply also provides great economic development opportunities The raw water supplied by KWA will make a new commodity, raw water, available to the region A large, low-cost supply of raw water can be a valuable resource for industries and agri-businesses. The development of a new water supply will also create construction jobs through the short term period of building the new water supply and subsequently over a longer period as new businesses and industries are developed in the area

b. The City of Flint and area communities will benefit as permanent jobs are created for operating and maintaining the local treatment facilities.

TYJT's Response: Reference is made to the Treasury policy that promotes consolidation of resources and services Therefore, two existing customers of DWSD (Flint and Genesee County) along with the potential of others customers (Lapeer, Mayfield, Imlay City) separating to form another water system is counter to the initiative

Rowe Comment No. 3: Redundancy:

a. We agree that the KWA and DWSD options are similar with respect to redundancy. Both provide the primary water supply; customers are responsible for their backup supply.

TYJT's Response. Agreed, however, from the meeting on November 20, 2012, KWA indicated that the Flint River would serve as a backup supply to the KWA system. This would mean that the Flint WTP would have to maintain two treatment trains; one for lake water and one for river water. Whether there is sufficient space or additional capital required for the WTP was not investigated as part of this study

Other Considerations – Cost Slide 34

Rowe Comment No 1. TYJT indicates that the DWSD 8 mgd supply option is the least cost alternative

a The TYJT analysis does not include the cost of needed upgrades to the City's WTP or increased operating costs in their analysis During summer months, water from the river will need to be softened before blending More than half of the water supplied will be provided from the river When the cost of upgrades to the WTP and the increased operating costs (for softening) are added to the TYJT analysis, the KWA option is less than the DWSD 8 mgd option

TYJT's Response Please see our response to Slide 7 through 9, Comment No 1 Furthermore, our operating costs for the Flint WTP were increased per the analysis provided to KWA for review

Rowe Comment No 2. For any of the DWSD "blending" options, upgrades will need to be made at the WTP to provide for continuous, reliable operation and compliance with new surface water treatment rules Increased capital and operating costs for treating water from the river should be added to the TYJT costs for comparison with the other options.

TYJT's Response Please see our response to Slide 7 through 9, Comment No 1 and No 2

Rowe Comment No 3: Water from the river will require greater effort to treat than water from Lake Huron (more chemicals, power, and residuals). The TYJT analysis shows about the same O&M costs for the Flint WTP, regardless of water source. It seems that the WTP O&M costs for the KWA options should be reduced to reflect the savings from treating Lake Huron water

TYJT's Response. Please see our response to Slide 7 through 9, Comment No. 1. Additionally, we used the chemical costs from February 2009 preliminary design report adjusted for inflation

Rowe Comment No. 4: The TYJT presentation noted that the KWA analysis did not include allowances for mechanical and process improvements within the planning period The KWA will supply raw water. The facilities consist of pipe, pumps, and a tank There are no treatment facilities which would be susceptible to future regulatory changes. The only improvements that seem likely would be the need to provide additional capacity. Capacity expansion is planned to be financed through capacity charges to new users

TYJT's Response The point made here is that replacement costs of equipment were not included e g., pumps, motors, etc.

Rowe Comment No 5: The provision for redundant connections between the City's water system and the GCDC system was included in the most recent water supply agreement between the two, in 2011 Although not a KWA cost, the cost of the redundant connections should be considered with all options

TYJT's Response Noted, but the redundancy is limited since both of the water systems would be supplied by KWA and a loss of power to one of the pumping facilities without backup power would interrupt the supply

Rowe Comment No 6 The $2 3 million budgeted for land by KWA was intended to cover all land requirements Since the October update, options have been obtained on all land to be purchased and the locations of easements needed has been finalized Total land costs are now estimated to be about $1.5 million

TYJT's Response. Please see our response to Slide 7 through 9, Comment No. 1

Rowe Comment No 7. The 2004 study included a 47% allowance for engineering, legal, administration, and contingencies (ELAC) The 2009 study reduced the allowance for ELAC to 37% because many of the details since the 2004 conceptual study had been better defined For the October 2012 update, the allowance for ELAC was reduced to 25% because continued planning and preliminary engineering further addressed details from the earlier concepts.

a The detailed design (plans and specifications) and permitting have been completed

b The transmission main route has been finalized. Meetings with road agencies have established requirements for construction and restoration within road rights-of-way. Environmental permitting is in process. The primary remaining unknown is pipe sizing, which is largely dependent on Flint's participation

It is our experience that the 25% ELAC allowance is appropriate for a project of this magnitude at this stage in the planning / design stage. The 43% ELAC allowance recommended by TYJT is excessive for a project in the design phase

TYJT's Response Please see our response to Slide 30, Comment No 4

Rowe Comment No 8 Flint's WTP as a backup to the KWA will be less difficult to provide for than the current arrangement as a backup to DWSD We believe there is potential for challenges with chemistry and treatment for the proposed DWSD blending options, too

TYJT's Response: Please see our response to Slide 33, Comment No 3.

Rowe Comment No 9: It doesn't seem that oversizing the KWA capacity is a good solution for the city's water loss problems, if that is what is being suggested.

TYJT's Response. It would be recommended to determine what the water loss is in Flint and what the implication would be on sizing the KWA pipe. A determination could then be made once this analysis was performed.

Rowe Comment No 10. Yes, it would be nice if the KWA system could be constructed to firmly determine its cost and time to complete before making a decision about water supply alternatives However, a decision is needed regarding Flint's participation so that the sizing and design can be completed, before it can be built

TYJT's Response Noted.

Please let us know how we should proceed Should you have any questions or need any additional information, please contact me

Sincerely,
TUCKER, YOUNG, JACKSON, TULL, INC

D Guastella

David Guastella, P E.
Project Manager

Attachments

Koryzno, Edward (Treasury)

From: Byrne, Randall (Treasury)
Sent: Friday, May 02, 2014 10:18 AM
To: Workman, Wayne (TREASURY); Koryzno, Edward (Treasury)
Cc: Dempkowski, Angela (Treasury)
Subject: Flint pipeline sale
Attachments: FW: Flint Pipeline Sale

Wayne and Ed:

I just spoke to Jerry Ambrose regarding the pipeline sale. I've asked for a copy of the sale agreement and advised him that it would have to go to the City Council for approval. I am attaching several e-mail discussions on the issue between Ashley and Drew outlining the required steps. Please let me know if you have any questions.

Thanks,
Randy,

Randall D. Byrne, Manager, Office of Fiscal Responsibility
State of Michigan 430 W. Allegan St., Lansing, MI 48922
ByrneR1@michigan.gov (517) 335-2521

Vandegrift, Drew (TREASURY)

From: Vandegrift, Drew (TREASURY)
Sent: Thursday, May 01, 2014 9:50 AM
To: Gelisse, Ashley (DTMB)
Subject: RE: Flint Pipeline Sale

Ashley,

Sounds good. In my mind, the key would be for all EMs to post complete section 17 quarterly reports on their websites (as mandated by MCL 141.1557). If these reports always contained an updated F&O plan as they should (See MCL 141.1557(h)) then our office can simply compare the approval request to the latest F&O plan, and determine what approvals are necessary.

It is my hope that the upcoming EM conference will be an opportunity to get all the EMs submitting proper reports.

It is still the plan for my office to operate as if the Governor has delegated approvals for sales of <u>all assets</u> <100k, under 12(1)(r)?

-Drew

From: Gelisse, Ashley (TREASURY)
Sent: Thursday, May 01, 2014 9:38 AM
To: Vandegrift, Drew (TREASURY)
Subject: RE: Flint Pipeline Sale

Drew,

I agree with everything you've outlined below. You're correct that if there was no competitive bidding process the Treasurer's approval would still be needed. I'm curious as to why it wasn't bid out somehow though ... maybe just too few buyers.

Anyhow, Fred and I spoke about this today and he agrees that the mention in the F&O plan, such as it is, is sufficient. After some discussion, we'd recommend a two-pronged approach going forward:

- Amend the PA 436 guidance document (the one I sent to you yesterday) to clarify that OFR expects to be kept up to date on projects mentioned in the F&O plan as they develop. This can be done via memo, meeting, or in the weekly calls that OFR has with the EMs. Absent such updates, OFR may still require separate approval under PA 436.

- *If an EM is not willing to share information, or if they aren't as politically savvy as one may hope* (to be clear, I don't think this is a problem with the current EMs, just thinking worst-case scenario), OFR may additionally require that the F&O plan be updated on a more regular basis to ensure that the necessary details are included therein.

I hope this is helpful. Thanks.

Ashley

From: Vandegrift, Drew (TREASURY)
Sent: Wednesday, April 30, 2014 4:59 PM
To: Gelisse, Ashley (TREASURY)
Subject: FW: Flint Pipeline Sale

From: Koryzno, Edward (Treasury)
Sent: Wednesday, April 30, 2014 4:14 PM
To: Vandegrift, Drew (TREASURY)
Cc: Byrne, Randall (Treasury)
Subject: Re: Flint Pipeline Sale

Thanks, can you send me the details about the sale and the price?

Sent from my iPhone

On Apr 30, 2014, at 1:56 PM, "Vandegrift, Drew (TREASURY)" <VandegriftD@michigan.gov> wrote:

Ed,

The reference of the sale in the F&O plan does not reduce the City's requirement to comply with section 19; this must go to council regardless of the adequacy of the F&O plan.

Where the F&O plan is at issue is in Subsections 12(1)(r) and 15(1). These subsections respectively require Governor and Treasurer approval for sales of municipal assets. Should decision makers determine that the F&O plan language is sufficient, then approval under these sections is not necessary. Ashley has explained that the Governor has requested that only sales >100k which are not in the F&O plan are to be submitted to him.

This sale is also a contract and so subsection 12(3) is implicated. This law mandates that contracts >50k which were not subject to competitive biding must be approved by the Treasurer. I understand that this sale was not subject to such a competitive process, and so this action must be submitted for Treasurer approval under this section.

Note again that all actions under 12(1)(r) must comply with Section 19. Regardless of the contents of the F&O plan or any competitive bidding process, this action must be taken to council. Then they have 10 days to disapprove and 7 more to propose an alternate proposal. In this situation, an ELB meeting will be held to select the best plan.

-Drew

From: Koryzno, Edward (Treasury)
Sent: Wednesday, April 30, 2014 1:33 PM
To: Vandegrift, Drew (TREASURY)
Cc: Workman, Wayne (TREASURY); Byrne, Randall (Treasury); Dempkowski, Angela (Treasury)
Subject: Fwd: Flint Pipeline Sale

Drew,

What does PA 436 call for so that we may advise Flint?

Ed

Sent from my iPad

Begin forwarded message:

> **From:** Elizabeth Murphy <emurphy@cityofflint.com>
> **Date:** April 30, 2014 at 12:57:02 PM EDT
> **To:** "Workman, Wayne (TREASURY)" <WorkmanW@michigan.gov>, "Koryzno, Edward (Treasury)" <KoryznoE@michigan.gov>
> **Cc:** Darnell Earley <dearley@cityofflint.com>, Gerald Ambrose <gambrose@cityofflint.com>
> **Subject: Flint Pipeline Sale**
>
> Wayne and Ed,
> Per your request in the conference call this morning: Flint's Financial and Operating Plan contains this statement: "The Finance Department is proceeding with the following projects... Negotiation with Genesee County Water and Sewer System for the sale of a portion of the City's water line,..."
>
> This can be found on page 7, second bullet point in the April 8, 2014 document.

Is this enough to avoid having to present to City Council for an alternative plan?

--
Liz Murphy
Assistant to the Emergency Manager
City of Flint
810 237 2025

Koryzno, Edward (Treasury)

From:	Byrne, Randall (Treasury)
Sent:	Friday, May 02, 2014 1:31 PM
To:	Workman, Wayne (TREASURY); Koryzno, Edward (Treasury)
Cc:	Dempkowski, Angela (Treasury); Vandegrift, Drew (TREASURY)
Subject:	FW: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement
Attachments:	Water Main Sale Agreement Submitted to Treasury May 2 2014.doc

Wayne and Ed:

This is a copy of the proposed sale agreement for the Flint Waterline. The attorney, Mr. Chubb is proceeding to send this to the City Council for approval. Please let me know if you have any questions.

Thanks,
Randy,

From: Anthony Chubb [mailto:achubb@cityofflint.com]
Sent: Friday, May 02, 2014 1:24 PM
To: Byrne, Randall (Treasury)
Cc: Kevin K. Kilby
Subject: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

Mr. Byrne,

It was good to speak with you today. Per your request, attached please find the proposed sale agreement. Should you have any questions or concerns, please do not hesitate to contact Kevin or me about it.

--
Anthony Chubb
Deputy City Attorney
City of Flint
1101 S. Saginaw Street, 3rd Floor
Flint, MI 48502

(810) 237-2078

WATER TRANSMISSION MAIN

ACQUISITION AGREEMENT

BY AND BETWEEN

CITY OF FLINT

AND THE

GENESEE COUNTY DRAIN COMMISSIONER AS COUNTY AGENCY

DATED _____________, 2014

ACQUISITION AGREEMENT

THIS ACQUISITION AGREEMENT ("Agreement") is made this ____ day of ______________, 2014 ("Execution Date"), and effective April 1, 2014 ("Effective Date"), by and between the City of Flint, a Michigan municipal corporation (hereinafter "Flint"), and the Genesee County Drain Commissioner, as County Agency, a public agency pursuant to the County Public Improvement Act of 1939, as amended (the "County Agency"). The Effective Date of this Agreement shall be contingent upon a condition antecedent that the Agreement has been reviewed by the City of Flint City Council and no alternative has been proposed and the State of Michigan Department of Treasury has approved this Agreement as required by Act 436 of the Michigan Public Acts of 2012, as amended, which is commonly referred to as the Local Financial Stability and Choice Act. If either the City of Flint City Council or the State of Michigan Department of Treasury fails to approve this Agreement prior to May 1, 2014, then the Agreement shall be effective immediately upon the City of Flint City Council failing to offer an alternative and the Michigan Department of Treasury approving this Agreement.

PREAMBLE

It is the intent of the Parties for Flint to sell to the County Agency the Water Main, *subject only to the restrictions more fully set forth in this Agreement*, for the mutual consideration set forth in this Agreement for the County Agency's unrestricted use.

RECITALS

A. Flint desires to sell the Water Main to the County Agency; and

B. The County Agency desires to purchase the Water Main from Flint; and

C. The Parties have determined that it is in their respective best interests for the County Agency to acquire, upon the terms and subject to the conditions set forth herein, the Water Main from Flint if the Karegnondi Water Authority constructs a new raw water pipeline from Worth Township, Michigan to Genesee County, which shall furnish raw water to the City of Flint; and

D. In furtherance thereof, it is proposed that the County Agency acquire the Water Main for the mutual consideration set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and representations set forth in this Agreement, the Parties agree as follows:

ARTICLE I
INTRODUCTORY PROVISIONS; DEFINITIONS

1.1. Adoption of Preamble and Recitals. All of the matters stated in the preamble and recitals of this Agreement are true and correct and are hereby incorporated into the body of this Agreement as through fully set forth in their entirety herein, provided that in cases of conflict, provisions of this Agreement shall control over matters stated in the preamble and recitals.

1.2. Definitions. The following terms and expressions as used in this Agreement, unless the context clearly shows otherwise, shall have the following meanings:

a. "Closing" means the closing of the transactions contemplated by this Agreement.

b. "Closing Date" means the mutually acceptable date to be scheduled within thirty (30) days after execution of this Agreement or on a date as mutually acceptable to the Parties for the Closing to take place.

c. "County Agency" means the Genesee County Drain Commissioner, as County Agency, Genesee County, Michigan, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended.

d. "Emergency Manager" means an emergency manager or financial emergency manager as defined by law that is appointed by the Governor of the State of Michigan pursuant to law.

e. "Flint" means the City of Flint, Genesee County, Michigan.

f. "Party" or "Parties" means the Genesee County Drain Commissioner, as County Agency, individually, the City of Flint, individually, or the Genesee County Drain Commissioner, as County Agency and the City of Flint, collectively.

g. "Real Property Agreements" means all agreements that affect real property, including, but not limited to, licenses, leases, easements, or similar documents.

h. "Water Main" means the water transmission main as more fully described in **Exhibit A**, including, but not limited to, all appurtenances thereto including any meter pits connected thereto, along with the water contained therein and all drawings, files, laying schedules, records of repairs, maintenance files, repair parts, etc. Including by way of example, and not as a limitation, meter vaults, meters, pumps, air relief valves, sump pumps, electrical connections, communication devices and all other mechanical, electrical, or other equipment used to pump water through the Water Main or bring attention to an emergency situation.

ARTICLE II
THE PURCHASE AND SALE

2.1 Transfer to the County Agency. In accordance with the provisions of this Agreement, in consideration for the payment of the Purchase Price as set forth in Section 2.3 of this Agreement and other good and valuable consideration, and subject to the contingencies set forth in Article 8 and Article 9, Flint shall transfer and convey the Water Main to the County

Agency, effective either when Flint provides the County Agency thirty (30) days written notice of its intent to transfer the Water Main or at 12:01 a.m. local time on July 1, 2014, whichever event occurs first in time, including all rights as Flint may have pursuant and any and all Rights of Way and Easements, copies of which are attached hereto as **Exhibit B**, and other instruments of transfer to be delivered at the Closing, as set forth in Article III of this Agreement, in accordance with the provisions relating to the Closing.

2.2 Acquisition by the County Agency. The County Agency, in reliance upon the covenants and representations of Flint contained herein and the documents provided by Flint, hereby agrees to acquire the Water Main from Flint.

2.3 Purchase Price. As part of the consideration for the transfer and conveyance of the Water Main to the County Agency from Flint, the County Agency shall make a lump sum payment within thirty (30) days from the execution of this Agreement, in a sum equal to Three Million Nine Hundred Eighty-Seven Thousand Seven Hundred Dollars and Zero Cents ($3,987,700.00), inclusive of all interest, fees, charges, or other costs (the "Purchase Price").

ARTICLE III
CLOSING

3.1 Closing. The Closing will take place at the offices of Sargent's Title Company, 625 S. Grand Traverse, Flint, Genesee County, Michigan, on such date as shall be mutually acceptable to the Parties within thirty (30) days after the execution of this Agreement or on a date as mutually acceptable to the Parties.

3.2 Deliveries. At the Closing, the transactions listed below shall occur.

a. The County Agency shall deliver to Flint:

1. A certified letter from the Genesee County Drain Commissioner stating that he has the authority, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended, to execute and deliver this Agreement and the transactions contemplated hereby; and

2. An opinion of legal counsel to the County Agency reasonably satisfactory to Flint, providing that the transactions contemplated by this Agreement do not violate the provisions of Act 342 of the Michigan Public Acts of 1939, as amended, or other applicable laws and such additional matters and in form and substance satisfactory to Flint and its counsel; and

3. A certified letter from the Genesee County Drain Commissioner as to the accuracy of its representations and warranties as of the date of this Agreement and as of the Closing and as to its compliance with and performance of its covenants and obligations to be performed or complied with at or before the Closing; and

b. Flint shall deliver to the County Agency:

1. A certified resolution of the City Council of the City of Flint or an Order of the Emergency Manager, if applicable, or both, authorizing the execution and delivery of this Agreement and the transactions contemplated hereby; and

2. An executed bill of sale for all of the Water Main that is tangible personal and real property executed by a representative of Flint authorized to sign the bill of sale or an Order of the Emergency Manager, if applicable, or both; and

3. An Assignment of Rights of Way and Easements, or such other appropriate document or instrument of transfer, as the case may require, and executed by a representative of Flint authorized to sign the bill of sale or an Order of the Emergency Manager, if applicable, or both; and

4. Such other documents and other instruments of transfer and conveyance as may reasonably be needed to complete the transactions contemplated hereby; and

5. A certified letter from the Mayor or Emergency Manager as to the accuracy of its representations and warranties as of the date of this Agreement and as of the Closing and as to its compliance with and performance of its covenants and obligations to be performed or complied with at or before the Closing; and

6. An opinion of legal counsel of Flint, reasonably satisfactory to the County Agency, providing that the transactions contemplated by this Agreement do not violate the City Charter of Flint, local ordinances or laws, and such additional matters and in form and substance satisfactory to the County Agency and its counsel and

3.3 Transfer of Operation. The County Agency shall take over from Flint all of the operation, maintenance and administration of the Water Main upon the happening of one of the following events, whichever event occurs first in time:

a. As of the date and time set forth in the written notice to be provided by Flint to the County Agency of Flint's intent to transfer the Water Main; or

b. Upon the execution of this Agreement; or.

c. Upon the County Agency executing an agreement or contract with Detroit Water and Sewerage Department ("DWSD") to purchase water directly from DWSD.

3.4 Expenses. Flint and the County Agency shall each bear their own expenses incurred by them in connection with the transactions contemplated by this Agreement, including without limitation, consultants' fees, legal fees and accounting fees, whether or not such transaction is consummated.

3.5 Closing Costs. If there are any costs associated with the Closing, including costs to be paid to the title company, filings, recording costs, or other costs, fees, or expenses, the costs shall be paid by the County Agency.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF FLINT

Flint makes the following representatives and warranties to the County Agency:

4.1 Corporate Organization. Flint is a municipal corporation duly organized, validly existing and in good standing under the laws of the State of Michigan.

4.2 Authorization. Flint or the Emergency Manager has the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby and thereby. Assuming due and valid authorization, this Agreement will constitute a legal, valid and binding obligation of Flint, enforceable against Flint in accordance with its terms, except as the enforcement thereof may be limited by applicable principles of bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors and subject to general principles of equity.

4.3 Easements and Rights of Way.

a. **Exhibit C** identifies all of the real property occupied by the Water Main.

b. Upon reasonable title search and review provided by the County Agency to Flint of all of the real property occupied by the Water Main, Flint possesses all necessary, permanent, perpetual and transferable real property rights including easements, licenses or rights of way by prescription, necessity, implication or acquiescence necessary for the use, routine operation, and maintenance of the Water Main, except as disclosed on **Exhibit D**.

c. Flint has good and marketable title to the Water Main.

d. As of the Execution Date, there are no pending or threatened disputes or pending or threatened litigation with respect to any real property rights pertaining to the Water Main.

e. Flint agrees to provide access to the County Agency to any and all documents that are in Flint's possession regarding the Water Main. These documents include, but are not limited to, as built drawings, shop drawings, maintenance records, land records and easements, and any other document that relates to the

Water Main. The County Agency is free to take possession of the documents for the limited purpose of making any copies that are deemed necessary in the opinion of the County Agency. All original documents shall be returned by the County Agency to Flint in a timely manner.

4.4 **WATER MAIN. THE WATER MAIN SHALL BE CONVEYED BY FLINT TO THE COUNTY AGENCY IN "AS IS", "WHERE IS" AND "WITH ALL FAULTS" PHYSICAL CONDITION, WITH NO ADDITIONAL WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PHYSICAL CONDITION OF THE WATER MAIN THAT EXTEND BEYOND THE WARRANTIES EXPRESSLY STATED IN THIS AGREEMENT. EXCEPT FOR ANY EXPRESS WARRANTIES STATED IN THIS AGREEMENT, THE WATER MAIN SHALL BE CONVEYED WITH NO EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR USE.**

4.5 Litigation. As of the Execution Date there is no action, suit or proceeding pending or threatened against or affecting Flint before any governmental entity in which there is a reasonable possibility of an adverse decision which could have a material adverse effect upon the ability of Flint to perform its obligations under this Agreement or which in any manner questions the validity of this Agreement.

4.6 Water Main Parts and Equipment. Flint agrees that it will provide to the County Agency any spare parts or equipment which, in the sole discretion of Flint, may only be used exclusively on the Water Main.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF THE COUNTY AGENCY

The County Agency makes the following representations and warranties to Flint and delivered to Flint on Execution Date, a copy of which is attached hereto:

5.1 Corporate Organization. The County Agency was established pursuant to Act 342 of the Michigan Public Acts of 1939, as amended. As County Agency, it is organized and validly existing under the laws of the State of Michigan and has all requisite power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby.

5.2 Authorization. The County Agency has the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby and thereby. This Agreement will constitute a legal, valid and binding obligation of the County Agency, enforceable against the County Agency in accordance with its terms, except as the enforcement thereof may be limited by applicable principles of bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors and subject to general principles of equity.

5.3 No Conflict. The execution, delivery and performance by the County Agency of this Agreement, the compliance by the County Agency with any of the provisions hereof and thereof, and the consummation by the County Agency of the transactions contemplated hereby and thereby: (i) do not violate any Applicable Law; (ii) do not require the consent, approval, clearance, waiver, order or authorization of any person, organization, or entity; and (iii) do not conflict with, or result in any breach of, or default or loss of any right under (or an event or circumstance that, with notice or the lapse of time, or both, would result in a default), or the creation of any encumbrance pursuant to, or cause or permit the acceleration prior to maturity of any amounts owing under any indenture, mortgage, deed of trust, lease or other agreement to which the County Agency is a party, which failure, violation, conflict or breach would, in the aggregate, materially hinder or impair the consummation of the transactions contemplated by this Agreement.

5.4 Litigation. As of the Execution Date, there is no action, suit or proceeding pending or threatened against or affecting the County Agency before any governmental entity in which there is a reasonable possibility of an adverse decision which could have a material adverse effect upon the ability of the County Agency to perform its obligations under this Agreement or which in any manner questions the validity of this Agreement.

5.5 Due Diligence and Inspection. The County Agency acknowledges that it is being afforded the opportunity to conduct due diligence and investigation with respect to the transaction contemplated by this Agreement. The County Agency represents and warrants that it has conducted any and all such legal, factual, and other examinations, inquiries, investigations, and inspections, including conducting any tests, studies and examinations, that it, in its sole discretion, has determined necessary to complete such due diligence inspection to determine that the subject matter of this Agreement is suitable for the County Agency's intended use.

5.6 Environmental Matters. The County Agency represents and warrants that it has conducted any and all such legal, factual, and other examinations, inquiries, investigations, and inspections, including conducting any tests, studies and examinations, that it, in its sole discretion, has determined necessary to complete such due diligence inspection to have full knowledge of the environmental condition of the subject matter of this Agreement. County Agency shall enter into this Agreement subject to any and all environmental conditions present upon the subject matter of this Agreement.

5.7 Emergency Water Supply. The County Agency warrants that it will provide, to the extent the Detroit Water and Sewerage Department has available capacity treated water through the water main that is the subject matter of this Agreement in an emergency situation to Flint until such time as the Karegnondi Water Authority Water Transmission Pipeline construction is completed (which is estimated to be completed by May 2017) and the Karegnondi Water Authority is providing raw water to its customers.

The emergency supply of treated water to the Flint by the County Agency during the construction of the Karegnondi Water Authority Water Transmission Pipeline shall be at the prevailing rate and any additional charges, fees, special charges, and penalties, as billed by the Detroit Water and Sewerage Department to the County Agency.

If Flint shall need an emergency water supply after the Karegnondi Water Authority Water Transmission Pipeline has been installed and is operational, the County Agency will provide, to the extent the County Agency has available capacity, treated water through the water main that is the subject matter of this Agreement in an emergency situation to Flint. The emergency supply of treated water to Flint by the County Agency after the Water

Transmission Pipeline has been installed and is operational, shall be at the prevailing rate and any additional charges, fees, special charges, and penalties, if applicable, as billed by the Detroit Water and Sewerage Department to the County Agency.

ARTICLE 6
COVENANTS OF FLINT

Flint covenants and agrees with the County Agency as follows:

6.1 Operation and Maintenance of the Water Main until Closing. Between the Execution Date of this Agreement and the Effective Date of this Agreement, Flint shall:

a. Operate the Water Main in the ordinary course of business; and

b. Maintain all books and records relating to the operation of the Water Main in the ordinary course of business; and

c. Fix any known breaks or leaks in the Water Main, except those set forth on **Exhibit F**; and

c. Promptly notify the County Agency of any emergency or other change in the normal course relating to the Water Main (or communications indicating that the same may be contemplated.

6.2 Litigation and Claims. Flint shall promptly inform the County Agency in writing of any Claims of which Flint is or becomes aware that are or might reasonably be expected to become the subject of litigation affecting the Water Main or the transactions contemplated by this Agreement.

6.3 Notice of Changes. Flint shall inform the County Agency in writing if it becomes aware that any representation or warranty made by Flint in this Agreement has ceased to be accurate or if Flint becomes aware of the occurrence of any breach of any covenant or other agreement required by this Agreement to be performed or complied with by Flint.

ARTICLE 7
COVENANTS OF THE COUNTY AGENCY

The County Agency hereby covenants and agrees with Flint as follows:

7.1 Cooperation. Subject to the terms and conditions of this Agreement, the County Agency shall cooperate with Flint to use its best efforts to secure all necessary consents, approvals, authorizations, exemptions and waivers from all persons and entities as shall be requested by Flint or required to be obtained in order to consummate the transactions contemplated hereby.

7.2 Litigation and Claims. The County Agency shall promptly inform Flint in writing of any claims (or communications indicating that the same may be contemplated) of which the County Agency is or becomes aware that are or might reasonably be expected to become the subject of litigation affecting the Water Main or the transactions contemplated by this Agreement.

7.3 Notice of Changes. The County Agency shall inform Flint in writing if it becomes aware that any representation or warranty made by the County Agency in this Agreement has ceased to be accurate or if the County Agency becomes aware of the occurrence of any breach of any covenant or other agreement required by this Agreement to be performed or complied with by the County Agency.

ARTICLE 8
CONDITIONS AND OBLIGATIONS OF FLINT

The obligations of Flint to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by Flint) on or prior to the Closing of all of the following conditions:

8.1 Accuracy of Representations and Warranties. Except as otherwise noted in this Agreement, the representations and warranties of Flint set forth in this Agreement shall be true and correct in all material respects as of the date when made and as of the Closing.

8.2 Performance of Covenants and Agreements. Flint shall have duly performed and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing. None of the events or conditions entitling the County Agency to terminate this Agreement under Article 10 hereof shall have occurred and be continuing.

8.3 Consents. Any consent required for the consummation of this purchase and sale under any agreement, contract, law, license or other instrument described in any exhibit hereto or referred to herein, or for the continued enjoyment by the County Agency of any benefits of such agreement, contract, license or other instrument after the Closing, which consent Flint is specifically obligated to obtain pursuant to this Agreement shall have been obtained and be effective as set forth in this Agreement.

8.4 Governmental Approvals. All requisite regulatory approvals, if any, shall have been obtained or made and shall be in full force and effect. There shall be no injunction, restraining order or decree of any nature that restrains or prohibits the transactions contemplated by this Agreement.

8.5 No Proceedings. Since the Execution Date of this Agreement, there shall not have been commenced or threatened against Flint, including any proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, the transactions contemplated by this Agreement, or (b) that may have the effect of preventing, delaying, making illegal, imposing limitations or conditions on or otherwise interfering with any of the transactions contemplated by this Agreement.

8.6 Documents. Flint shall have received from the County Agency all of the documents identified in Sections 3.2.a.1, 3.2.a.2, and 3.2.a.3 of this Agreement.

ARTICLE 9
CONDITIONS AND OBLIGATIONS OF THE COUNTY AGENCY

The obligations of the County Agency to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by the County Agency) on or prior to the Closing of all of the following conditions:

9.1 Accuracy of Representations and Warranties. Except as set forth in the Exhibits, the representations and warranties of the County Agency set forth in this Agreement shall be true and correct in all material respects as of the date when made and at and as of the Closing.

9.2 Performance of Covenants and Agreements. The County Agency shall have duly performed and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing. None of the events or conditions entitling the County Agency to terminate this Agreement under Article 10 hereof shall have occurred and be continuing.

9.3 Consents. Any consent required for the consummation of the transactions contemplated by this Agreement under any agreement, contract, license or other instrument described in any schedule or exhibit hereto or referred to herein, which consent the County Agency is specifically obligated to obtain pursuant to this Agreement shall have been obtained and shall be effective as set forth in this Agreement.

9.4 Governmental Approvals. All requisite regulatory approvals shall have been obtained or made and shall be in full force and effect. There shall be no injunction, restraining order or decree of any nature that restrains or prohibits the transactions contemplated by this Agreement.

9.5 No Proceedings. Since the Execution Date of this Agreement, there shall not have been commenced or threatened against the County Agency any proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, the transactions contemplated by this Agreement, or (b) that may have the effect of preventing, delaying, making illegal, imposing limitations or conditions on or otherwise interfering with any of the transactions contemplated by this Agreement.

9.6 Documents. The County Agency shall have received the documents identified in all of the Sections of this Agreement to be provided by Flint.

ARTICLE 10
TERMINATION PRIOR TO CLOSING

10.1 Termination.

a. This Agreement may be terminated at any time prior to the Closing:

1. By the mutual written consent of Flint and the County Agency;

2. By Flint in writing if the County Agency fails to perform any condition, obligation of any provision of this Agreement and fails to correct the non-performance within five (5) days (or other period of time as mutually agreed to by the Parties) of being notified by Flint;

3. By the County Agency in writing if Flint fails to perform any condition, obligation of any provision of this Agreement and fails to correct the non-performance within five (5) days (or other period of time as mutually agreed to by the Parties) of being notified by the County Agency;

4. By Flint if the transaction is not approved by all its governing body, the emergency manager, or the Treasurer of the State of Michigan, if such approval is required;

5. By either Party, if the other Party fails to timely satisfy those conditions set forth in Article 8 or Article 9, as appropriate.

b. This Agreement may be terminated by the County Agency in writing on or before May 1, 2014, if it shall not have been satisfied in its sole discretion with the results of the County Agency's continuing due diligence investigations of the Water Main, including, without limitation, with respect to all operational, financial, environmental, legal and accounting matters.

c. This Agreement may be terminated by either party upon written notice if the Karegnondi Water Authority fails to construct the proposed Water Main from Worth Township to Genesee County.

d. This Agreement may be terminated by either party upon written notice if the cost of construction of the Water Main from Worth Township to Genesee County by the Karegnondi Water Authority exceeds the limitations set forth in the Financing Agreement between the Karegnondi Water Authority, Flint, and the County Agency. A unit is defined as one million gallon per day, U.S. Liquid Measure.

e. In the event of any termination pursuant to this Article 10, any amounts paid by the County Agency to Flint or from Flint to the County Agency shall be refunded within thirty (30) days. In the event that either party to this Agreement fails to refund any amounts paid within thirty (30) days, the amount due and owing shall accumulate interest at the rate of 1.5% per month, until such time as the debt is paid.

10.2 Effect on Obligations. Termination of this Agreement pursuant to this Article 10 shall terminate all obligations of the Parties hereto; provided, however, that termination pursuant to Sections 10.a.2 or 10.a.3 hereof shall not relieve any defaulting party from any liability to the other party hereto resulting from such failure to perform. Notwithstanding the foregoing, any and all existing agreements (other than this Agreement) between Flint and the County Agency which are related to the Water Main shall remain in full force and effect following any termination of this Agreement unless and until such existing agreements are otherwise terminated pursuant to the terms thereof.

ARTICLE 11
TERMINATION AFTER CLOSING BY COUNTY AGENCY

This Agreement may be terminated at the sole discretion of the County Agency after Closing, if Flint fails to provide the County Agency with an easement, license, or similar document for the portion of the Water Main that is located on private property as identified in **Exhibit D,** prior to Friday, June 30, 2015, unless Flint has filed an action in a court of competent jurisdiction to condemn the property or a portion of the property necessary to ensure that the County Agency has access to the Water Main under the private property to replace, repair, maintain, or perform any other action commonly associated with the ownership of a water main.

In the event of a termination by the County Agency pursuant to this ARTICLE 11, the County Agency shall be entitled to a complete refund or repayment of any amounts paid to Flint pursuant to ARTICLE 2, Section 2.4 of this Agreement. If this Agreement is terminated by the County Agency for any reason set forth herein, then Flint shall immediate become responsible for the operation, maintenance and administration of the Water Main beginning at 12:01 a.m. (local time) the next business day after the notice of termination is received by Flint.

After the County Agency receives all amounts to be refunded or repaid by Flint as set forth in the preceding paragraph, the County Agency shall execute any and all documents necessary to return title to the Water Main to Flint. Additionally, the County Agency shall assign or transfer any property easements and execute any other documents necessary to fully transfer the Water Main back to Flint as if this Agreement did not exist. Flint shall be responsible for all costs of recording the documents and any closing costs in the event of a termination pursuant to this ARTICLE 11 by the County Agency.

ARTICLE 12
REMEDIES FOR BREACHES OF THIS AGREEMENT

12.1 Survival of Representations and Warranties. All of the representations, warranties and covenants of the County Agency and Flint contained in this Agreement and the Exhibits hereto shall survive the Closing and continue in full force and effect forever thereafter (subject only to any applicable statutes of limitations applicable to their breach).

12.2 Remedies Generally. It is not intended hereby to specify (and this Agreement shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies existing at law or in equity may be availed of by any Party hereto and shall be cumulative. The Parties agrees that failure in the performance of this Agreement cannot be adequately compensated in money damages alone. In the event of any default by a Party, the other Party shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies which may also be available. No waiver or waivers of any breach or default (or any breaches or defaults) by any Party hereto or of performance by any other Party of any duty or obligation hereunder shall be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character or description, under any circumstance.

12.3 Remedies for Breach of Representations, Warranties and Covenants. If a Party sustains any losses because the representations or warranties provided by the other Party are incorrect or untrue or because the other Party has breached its covenants given herein, the other Party shall be liable for all losses incurred by the Party to cure such representations, warranties or covenants, including attorney fees. In addition or in the alternative, the Party may require the other Party to take such actions as required to cure such misrepresentations, warranties or breached covenants, within three (3) months or other amount of time mutually agreed to by the Parties.

12.4 Limitations on Certain Remedies.

a. The injured Party will take reasonable steps to mitigate all losses relating to a claim, including availing itself of any defenses, limitations, and will provide such evidence and documentation of the nature and extent of a claim as may be reasonably requested by the other Party. The injured Party's reasonable steps include the reasonable expenditure of money to mitigate or otherwise reduce or eliminate any loss or expense for which a remedy would otherwise be due under this ARTICLE 12, and the reimbursing Party will reimburse the injured Party for the injured Party's reasonable expenditures, including attorney fees and costs.

b. Notwithstanding anything contained to the contrary in any other provision of this Agreement, except in cases of a Party's gross negligence, willful misconduct or fraud, the obligations of each Party under Sections 12.2 and 12.3, and the recovery by any injured Party of any liabilities suffered or incurred by it as a result of any breach or non-fulfillment by a Party or any of its representations, warranties, covenants, agreements or other obligations under this Agreement, shall be limited to actual damages.

12.5 Survival of Remedies. The rights and obligations to remedies given in this Article 11 shall survive the Closing indefinitely.

ARTICLE 13
TERMINATION OF WATER SUPPLY CONTRACTS, AMENDMENTS, AND WAIVER OF NOTICE TO TERMINATE

Flint and Genesee County by and through its Drain Commissioner, as County Agency, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended, have executed several Agreements in the past that shall be affected upon the execution of this Agreement. By executing this Agreement, Flint and the Genesee County by and through its Drain Commissioner, as County Agency, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended, hereby expressly mutually terminate the following agreements in their entirety and further expressly waive any notice provisions set forth therein:

1. Agreement between the CITY OF FLINT, a Michigan Home Rule City Corporation and the COUNTY OF GENESEE, a Michigan County Corporation, by and through the Genesee County Drain Commissioner, having been designed as such by appropriate legislation in compliance with Act 342 of the Public Acts of 1939, and any subsequently named Agent for the County of Genesee dated June 28, 1972 (hereinafter "Water Agreement"); and

2. Agreement to amend the Water Agreement dated March 5, 1981; and

3. SUPPLEMENTAL AGREEMENT AND AMENDMENT TO CITY/COUNTY WATER AGREEMENT, dated March 31, 1988; and

4. AGREEMENT between the CITY OF FLINT, a Michigan municipal corporation, and the GENESEE COUNTY DRAIN COMMISSIONER, a designated County Agency dated February 20, 2001; and

5. 3rd AMENDMENT TO 1973 CITY/COUNTY WATER SUPPLY AGREEMENT, dated October 21, 2003, between the City of Flint, a Michigan municipal corporation and the County of Genesee, a political subdivision of the State fo Michigan and the Genesee County Dain Commissioner, the County Agency designated by the Genesee County Board of Commissioners pursuant to Act 342 of the Public Acts of 1939, as amended; and

6. 4th AMENDMENT TO 1973 CITY/COUNTY WATER SUPPLY AGREEMENT, dated December 30, 2011, between the City of Flint, a Michigan municipal corporation and the County of Genesee, a political subdivision of the State of Michigan by and through the Genesee County Drain Commissioner, the County Agency designated by the Genesee County Board of Commissioners pursuant to Act 342 of the Public Acts of 1939, as amended.

7. Any other Agreement or part of Agreement that directly conflicts with this Agreement and the intent contained therein as mutually agreed upon in writing by the parties hereto.

ARTICLE 14
MISCELLANEOUS

14.1 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated there under, unless the context requires otherwise. The word "including" shall mean including without limitation.

14.2 Incorporation of Exhibits. The following Exhibits attached hereto are incorporated herein by reference and made a part hereof:

Exhibit A: Description of Water Main

Exhibit B: Rights of way and easements held by Flint

Exhibit C: Real property occupied by the Water Main

Exhibit D: Flint's disclosure of real property occupied by the Water Main that Flint does not have the necessary transferable easement or real property rights for the use, routine, operation, and maintenance of the Water Main

Exhibit E: Flint's disclosure of any breaks or leaks in the Water Main that are known by Flint and that have not been repaired

14.3 Entire Agreement. This Agreement constitutes the sole understanding of the Parties hereto with respect to the matters provided for herein and supersedes any previous agreements and understandings between the Parties with respect to the subject matter hereof. No amendment, modification or alteration of the terms or provisions of this Agreement shall be binding unless the same shall be in writing and duly executed by Flint and the County Agency and in compliance with Section 14.9.

14.4 Successors and Assigns. This Agreement will inure to the benefit of and be binding upon Flint and the County Agency and their respective successors and assigns. This Agreement and any of the rights, interests or obligations hereunder may be assigned by either Party hereto without the prior written consent of the other Party hereto.

14.5 Invalidity. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the practical, economic and legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible. Invalid provisions shall be severed from this Agreement.

14.6 Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument. This Agreement may be executed by facsimile signatures that shall be considered originals.

14.7 Headings. The headings of the articles, sections and paragraphs of this Agreement and of the Exhibits hereto are included for convenience of reference only and in no way define, limit or describe the scope of intent of any provision of this Agreement.

14.8 Construction and References. Words used in this Agreement, regardless of the number or gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context shall require. Unless otherwise specified, all references in this Agreement to articles, sections, paragraphs or clauses are deemed references to the corresponding articles, sections, paragraphs or clauses in this Agreement, and all references in this Agreement to exhibits are references to the corresponding exhibits attached to this Agreement.

14.9 Modification and Waiver. Any of the terms or conditions of this Agreement may be waived in writing at any time by the Party that is entitled to the benefits thereof. No waiver of any of the provisions of this Agreement shall be deemed to or shall constitute a waiver of any other provisions hereof (whether or not similar). Oral modifications of this Agreement are not permitted. Modification or amendment of this Agreement shall require the written approval of the Genesee County Drain Commissioner and the Flint City Council.

14.10 Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner described above shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three (3) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to Flint, to:

City of Flint
Attn: CHIEF LEGAL OFFICER
1101 South Saginaw Street
Flint, Michigan 48502

If to the County Agency, to:

Genesee County Drain Commissioner's Office
Division of Water and Waste Services
Attn: Drain Commissioner
G-4610 Beecher Road
Flint, Michigan 48532

The Parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other party hereto.

14.11 Governing Law; Interpretation. This Agreement shall be construed in accordance with and governed by the laws of the State of Michigan. The Parties hereto (a) consent to the personal jurisdiction of the state courts located in Flint, Michigan or federal courts located in Southeastern Michigan in connection with any controversy related to this Agreement including, but not limited to, counterclaims or third party demands raised as a result of third party counterclaims initiated in any other jurisdiction; (b) waive any argument that venue in any such forum is not convenient; (c) agree that any litigation initiated by the County Agency or Flint in connection with this Agreement may be brought in either the state court located in Flint, Michigan or federal court located in Detroit, Michigan; and (d) agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

14.12 No Third-Party Beneficiaries. This Agreement is not intended to confer upon any person or entity, other than the Parties hereto, any rights or remedies of any kind or nature whatsoever.

14.13 Freedom of Information Act Requests. Flint agrees that if it receives a request for any documents relating to this Agreement, including Freedom of Information Act requests, Flint shall forward a copy of the request to the County Agency.

The County Agency agrees that if it receives a request for any documents relating to this Agreement, including Freedom of Information Act requests, the County Agency shall forward a copy of the request to Flint.

14.14 Interpretation. For purposes of interpretation of this Agreement, neither the County Agency nor Flint shall be deemed to have been the drafter of this Agreement.

14.15 Negotiated Agreement. This Agreement has been prepared and negotiations have occurred in connection with said preparation pursuant to the joint efforts of the Parties. This Agreement therefore shall not be construed against any Party to this Agreement.

ARTICLE 15
INDEMNIFICATION/HOLD HARMLESS

If at any time while Flint is securing legal access to any property identified in Exhibit D a the Water Main malfunctions, leaks, or requires the County Agency to enter onto the property to repair the Water Main or perform another necessary service, and in the opinion of the County Agency the malfunction or leak may wait until access to the property is secured, Flint shall indemnify/hold harmless the County Agency for any water loss, damage, and/or environmental issues that may result from the malfunction or leak.

Any amount of water loss shall be determined by the County Agency with the assistance of Flint. The amount of loss shall be based on past experiences and practice. The County Agency shall invoice Flint for the total loss from the date the malfunction or leak was discovered until the repair has been completed. Flint shall timely pay the invoice pursuant to the terms stated in the invoice.

If the Water Main malfunction or leak requires immediate entry onto the property identified in Exhibit D, Flint shall provide all of the necessary resources necessary, including, but not limited to, an immediate payment for an easement, immediately filing an action for condemnation, or requesting a court of competent jurisdiction to provide a right of entry, to secure legal access to the property to repair any malfunction or leak.

It is expressly understood by the Parties hereto, that until such time as Flint secures access to the property identified in Exhibit D, Flint shall be responsible for any and all loss that is the result of a malfunction or break of the Water Main under the property identified in Exhibit D.

In Witness Whereof, the Parties hereto have executed this Agreement as of the date first above written.

COUNTY AGENCY

By: ______________________________
Jeff Wright, Genesee County Drain Commissioner, County Agency

ATTEST:

By: ______________________________

(OFFICIAL SEAL)

APPROVED AS TO FORM AND LEGALITY:

By: ____
Kevin K. Kilby, Counsel for the County Agency

FLINT

By: ____
Dayne Walling, Mayor of the City of Flint

FLINT

By: ____
Darnell Earley, Emergency Manager

ATTEST:

By: ____
Inez M. Brown, Clerk of the City of Flint

(OFFICIAL SEAL)

APPROVED AS TO FORM:

By: ____
Name and Title:

This Contract was prepared by:
McGraw Morris P.C.
Attorney Kevin Kilby (P68599)
2075 West Big Beaver Road
Suite 750
Troy, Michigan 48084
(248) 502-4000
kkilby@mcgrawmorris.com

N \GCDC\2155-1000 (General)\Contracts and Agreements\Water Main Purchase from Flint\Water Main Sale Agreement COF GCDC - COF Version 1 as presented by Flint v10 April 22 2014 (clean).doc

Exhibit A

Description of Water Main

[LIMITED TO PORTION OF 72" PIPELINE AND APPURTENANCES FROM THE DWSD CONNECTION AT BAXTER ROAD AND POTTER ROAD, WEST TO THE PROPOSED 36 INCH KWA CONNECTION AT CENTER AND PIERSON ROAD]

Exhibit B

Rights of way and easements held by Flint

Exhibit C

Real property occupied by the Water Main

Exhibit D

Flint's disclosure of real property occupied by the Water Main that Flint does not have the necessary transferable easement or real property rights for the use, routine, operation, and maintenance of the Water Main

Exhibit E:

Flint's disclosure of any breaks or leaks in the Water Main that are known by Flint and that have not been repaired.

Byrne, Randall (Treasury)

From: Workman, Wayne (TREASURY)
Sent: Friday, May 02, 2014 2:33 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (Treasury); Dempkowski, Angela (Treasury)
Subject: Fwd: DWSD
Attachments: Earley letter (5-2-14).pdf; ATT00001.htm

For the files

Sent from my iPad

Begin forwarded message:

> **From:** Wendy Mullins <WMullins@OttenwessLaw.com>
> **Date:** May 2, 2014 at 2:29:07 PM EDT
> **To:** "'dearley@cityofflint.com'" <dearley@cityofflint.com>, "'jwright@co.genesee.mi.us'" <jwright@co.genesee.mi.us>, "'orrk@detroitmi.gov'" <orrk@detroitmi.gov>, "'koester@dwsd.org'" <koester@dwsd.org>, "Workman, Wayne (TREASURY)" <WorkmanW@michigan.gov>, "'kkilby@mcgrawmorris.com'" <kkilby@mcgrawmorris.com>, "'achubb@cityofflint.com'" <achubb@cityofflint.com>, "'mccormick@dwsd.org'" <mccormick@dwsd.org>
> **Subject: DWSD**
>
> Good afternoon-
>
> Attached please find correspondence from Mr. Schenk.
>
> Thank you.
>
> **Wendy J. Mullins**
> OTTENWESS, TAWEEL & SCHENK, PLC
> The Buhl Building
> 535 Griswold Street, Suite 850
> Detroit, MI 48226
> (313) 965-2121, ext. 219
> (313) 965-7680- Fax
>
>

OTTENWESS, TAWEEL & SCHENK, PLC
ATTORNEYS AT LAW

The Buhl Building
535 Griswold, Suite 850
Detroit, MI 48226
(313) 965-2121
(313) 965-7680
www.ottenwesslaw.com

David M. Ottenwess
A. Tony Taweel
Matthew A. Schenk
Stephanie P. Ottenwess
John R. Monnich
Joseph A. Campbell

Matthew A. Schenk
Direct Dial (313) 965-2121 ext. 214
E-Mail: mschenk@ottenwesslaw.com

May 2, 2014

Mr. Darnell Earley, ICMA-MC, MPA
Emergency Manager
City of Flint
1101 S. Saginaw Street
Flint, MI 48502

RE: Your letter of April 29, 2014 to Mr. Kevyn Orr

Mr. Earley,

I am in receipt of your letter of April 29, 2014 addressed to Detroit's Emergency Manager, Mr. Kevyn Orr. In that letter, you indicated that Flint stopped using DWSD water as of that date and that "City officials have closed multiple valves within our infrastructure so that our system is now completely isolated from DWSD infrastructure."

I am writing this letter to confirm the information discussed in a conference call with Deputy City Attorney, Mr. Anthony Chubb, and representatives of the Genesee County Drain Commissioner's Office on May 1, 2014. During that call, as we reviewed flow data from the DWSD FL-01 meter, it was acknowledged that Flint continued to use DWSD water through April 30, 2014. As a result, DWSD will bill the City of Flint for water usage through the end of April as opposed to the earlier date indicated within your letter.

Since that time, DWSD has worked with the Genesee County Drain Commissioner's Office to confirm the closure of valves associated with Flint's usage of DWSD water.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Very Truly Yours,

Ottenwess, Taweel & Schenk, PLC

Matt Sch

Matthew Schenk

Cc: Hon. Jeff Wright, Genesee County Drain Commissioner
Mr. Kevyn Orr, Detroit Emergency Manager
Ms. Sue McCormick, Director DWSD
Ms. Laurie Koester, DWSD Associate General Counsel
Mr. Wayne Workman, Deputy Treasurer, State of Michigan
Mr. Kevin Kilby, Esq., GCDC
Mr. Anthony Chubb, Flint Deputy City Attorney

Lamphier, Wendy (Treasury)

From:	Gelisse, Ashley (TREASURY)
Sent:	Friday, May 02, 2014 2:34 PM
To:	Workman, Wayne (TREASURY)
Cc:	Vandegrift, Drew (TREASURY);Byrne, Randall (Treasury);Koryzno, Edward (Treasury);Dempkowski, Angela (Treasury)
Subject:	RE: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement
Follow Up Flag:	Follow up
Flag Status:	Flagged

Just Treasurer.

From: Workman, Wayne (TREASURY)
Sent: Friday, May 02, 2014 2:34 PM
To: Gelisse, Ashley (TREASURY)
Cc: Vandegrift, Drew (TREASURY); Byrne, Randall (Treasury); Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury)
Subject: Re: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

Governor also? Or just Treasurer?

Sent from my iPad

On May 2, 2014, at 2:28 PM, "Gelisse, Ashley (TREASURY)" <GelisseA@michigan.gov> wrote:

> Yes, after city council, please.
>
> **From:** Vandegrift, Drew (TREASURY)
> **Sent:** Friday, May 02, 2014 2:28 PM
> **To:** Gelisse, Ashley (TREASURY); Workman, Wayne (TREASURY); Byrne, Randall (Treasury)
> **Cc:** Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury)
> **Subject:** RE: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement
>
> Sounds good! I note that because this is a 12(1)(r) situation, the plan for sale must go to city council per section 19. If the council disapproves and offers their own counter-proposal, this matter could go to the ELB. Should we wait for the city to sort out its section 19 action before seeking treasurer approval?
>
> Randy spoke today with City attorney Chubb who is going to submit this plan to council soon
>
> --DDV
>
> **From:** Gelisse, Ashley (TREASURY)
> **Sent:** Friday, May 02, 2014 2:10 PM
> **To:** Vandegrift, Drew (TREASURY); Workman, Wayne (TREASURY); Byrne, Randall (Treasury)
> **Cc:** Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury)
> **Subject:** RE: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement
>
> Thanks, Drew.

A memo may still be helpful, as it sounds like the Treasurer will have to grant a waiver of competitive bidding. Typically, he requests a copy of the appraisal, contract, and a cover memo from the city with a brief synopsis of the deal & associated approval being requested.

Hope this helps!

From: Vandegrift, Drew (TREASURY)
Sent: Friday, May 02, 2014 2:08 PM
To: Workman, Wayne (TREASURY); Byrne, Randall (Treasury)
Cc: Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury); Gelisse, Ashley (TREASURY)
Subject: RE: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

I approached Ashley about the sufficiency of the F&O language. She took the matter to Fred, who determined that the mention in the Plan was enough. Ashley's and my correspondence is reproduced below for ease of review.

-DDV

Drew

I agree with everything you've outlined below. You're correct that if there was no competitive bidding process the Treasurer's approval would still be needed. I'm curious as to why it wasn't bid out somehow though ... maybe just too few buyers.

Anyhow, Fred and I spoke about this today and he agrees that the mention in the F&O plan, such as it is, is sufficient. After some discussion, we'd recommend a two-pronged approach going forward:

- Amend the PA 436 guidance document (the one I sent to you yesterday) to clarify that OFR expects to be kept up to date on projects mentioned in the F&O plan as they develop. This can be done via memo, meeting, or in the weekly calls that OFR has with the EMs. Absent such updates, OFR may still require separate approval under PA 436.

- If an EM is not willing to share information, or if they aren't as politically savvy as one may hope (to be clear, I don't think this is a problem with the current EMs, just thinking worst-case scenario), OFR may additionally require that the F&O plan be updated on a more regular basis to ensure that the necessary details are included therein.

I hope this is helpful. Thanks.

Ashley

From: Workman, Wayne (TREASURY)
Sent: Friday, May 02, 2014 2:02 PM
To: Byrne, Randall (Treasury)
Cc: Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury); Vandegrift, Drew (TREASURY); Gelisse, Ashley (TREASURY)
Subject: Re: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

We should prepare a memo outlining what took place with mention of the appraisal. Given the vague reference to the sale in the F and O Plan, Should this be approved by the Governor?

Sent from my iPad

On May 2, 2014, at 1:30 PM, "Byrne, Randall (Treasury)" <ByrneR1@michigan.gov> wrote:

Wayne and Ed:

This is a copy of the proposed sale agreement for the Flint Waterline. The attorney, Mr. Chubb is proceeding to send this to the City Council for approval. Please let me know if you have any questions.

Thanks,
Randy,

From: Anthony Chubb [mailto:achubb@cityofflint.com]
Sent: Friday, May 02, 2014 1:24 PM
To: Byrne, Randall (Treasury)
Cc: Kevin K. Kilby
Subject: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

Mr. Byrne,

It was good to speak with you today. Per your request, attached please find the proposed sale agreement. Should you have any questions or concerns, please do not hesitate to contact Kevin or me about it.

--
Anthony Chubb
Deputy City Attorney
City of Flint
1101 S. Saginaw Street, 3rd Floor
Flint, MI 48502

(810) 237-2078

<Water Main Sale Agreement Submitted to Treasury May 2 2014.doc>

Lamphier, Wendy (Treasury)

From: Gelisse, Ashley (TREASURY)
Sent: Friday, May 02, 2014 2:39 PM
To: Workman, Wayne (TREASURY)
Cc: Vandegrift, Drew (TREASURY);Byrne, Randall (Treasury);Koryzno, Edward (Treasury);Dempkowski, Angela (Treasury)
Subject: RE: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

Follow Up Flag: Follow up
Flag Status: Flagged

Agree, that will do the trick. Thanks!

From: Workman, Wayne (TREASURY)
Sent: Friday, May 02, 2014 2:37 PM
To: Gelisse, Ashley (TREASURY)
Cc: Vandegrift, Drew (TREASURY); Byrne, Randall (Treasury); Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury)
Subject: Re: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

We have the appraisal and there is only one possible buyer so a competitive process could not work. We just need to lay it out in the memo.

Sent from my iPad

On May 2, 2014, at 2:10 PM, "Gelisse. Ashley (TREASURY)" <GelisseA@michigan.gov> wrote:

> Thanks. Drew.
>
> A memo may still be helpful, as it sounds like the Treasurer will have to grant a waiver of competitive bidding. Typically, he requests a copy of the appraisal, contract, and a cover memo from the city with a brief synopsis of the deal & associated approval being requested.
>
> Hope this helps!
>
> **From:** Vandegrift, Drew (TREASURY)
> **Sent:** Friday, May 02, 2014 2:08 PM
> **To:** Workman, Wayne (TREASURY); Byrne, Randall (Treasury)
> **Cc:** Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury); Gelisse, Ashley (TREASURY)
> **Subject:** RE: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement
>
> I approached Ashley about the sufficiency of the F&O language. She took the matter to Fred, who determined that the mention in the Plan was enough. Ashley's and my correspondence is reproduced below for ease of review.
>
> -DDV
>
> ------------
>
> Drew

I agree with everything you've outlined below. You're correct that if there was no competitive bidding process the Treasurer's approval would still be needed. I'm curious as to why it wasn't bid out somehow though ... maybe just too few buyers.

Anyhow, Fred and I spoke about this today and he agrees that the mention in the F&O plan, such as it is, is sufficient. After some discussion, we'd recommend a two-pronged approach going forward:

- Amend the PA 436 guidance document (the one I sent to you yesterday) to clarify that OFR expects to be kept up to date on projects mentioned in the F&O plan as they develop. This can be done via memo, meeting, or in the weekly calls that OFR has with the EMs. Absent such updates, OFR may still require separate approval under PA 436.

- If an EM is not willing to share information, or if they aren't as politically savvy as one may hope (to be clear, I don't think this is a problem with the current EMs, just thinking worst-case scenario), OFR may additionally require that the F&O plan be updated on a more regular basis to ensure that the necessary details are included therein.

I hope this is helpful. Thanks.

Ashley

From: Workman, Wayne (TREASURY)
Sent: Friday, May 02, 2014 2:02 PM
To: Byrne, Randall (Treasury)
Cc: Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury); Vandegrift, Drew (TREASURY); Gelisse, Ashley (TREASURY)
Subject: Re: City of Flint / Genesee County Drain Commissioner Transmission Main Agreement

We should prepare a memo outlining what took place with mention of the appraisal. Given the vague reference to the sale in the F and O Plan, Should this be approved by the Governor?

Sent from my iPad

On May 2, 2014, at 1:30 PM, "Byrne, Randall (Treasury)" <ByrneR1@michigan.gov> wrote:

> Wayne and Ed:
>
> This is a copy of the proposed sale agreement for the Flint Waterline. The attorney, Mr. Chubb is proceeding to send this to the City Council for approval. Please let me know if you have any questions.
>
> Thanks,
> Randy,
>
> **From:** Anthony Chubb [mailto:achubb@cityofflint.com]
> **Sent:** Friday, May 02, 2014 1:24 PM
> **To:** Byrne, Randall (Treasury)
> **Cc:** Kevin K. Kilby
> **Subject:** City of Flint / Genesee County Drain Commissioner Transmission Main Agreement
>
> Mr. Byrne,

It was good to speak with you today. Per your request, attached please find the proposed sale agreement. Should you have any questions or concerns, please do not hesitate to contact Kevin or me about it.

--

Anthony Chubb
Deputy City Attorney
City of Flint
1101 S. Saginaw Street, 3rd Floor
Flint, MI 48502

(810) 237-2078

<Water Main Sale Agreement Submitted to Treasury May 2 2014.doc>

Byrne, Randall (Treasury)

From: Maxine Murray <mmurray@cityofflint.com>
Sent: Tuesday, May 13, 2014 9:20 AM
To: Byrne, Randall (Treasury); Kapp, Gene (MSP); Muchmore, Dennis (GOV); Roberts, John (DTMB); West, Samantha (GOV); Dempkowski, Angela (Treasury); Baird, Richard (GOV); Larkin, Brian (GOV); Darnell Earley; Deasy, Thomas (MSP); Koryzno, Edward (Treasury); Clement, Elizabeth (GOV); Elizabeth Murphy; Etue, Kriste (MSP); Hollins, Harvey (GOV); James Tolbert; Jerry Ambrose; Klotz, Josephine (MSP); Lee, Nichole (MSP); McGowan, Emmitt (MSP); Sands, Thomas (MSP); Sipes, Stephen (MSP); O'Neill, Stephen (MSP); Saxton, Thomas (Treasury); Workman, Wayne (TREASURY)
Subject: Conference Call Agenda May 14, 2014
Attachments: Agenda 051414 Conf Call.pdf

Good morning,

Please find attached the agenda for the Wednesday, May 14th conference call.

Thank you.

--
Maxine Murray
Executive Assistant to
Mayor Dayne Walling
Darnell Earley, Emergency Manager
1101 S. Saginaw Street
Flint, MI 48502
810.237.2035 Telephone
810.766.7218 Fax

City of Flint Wednesday 9:00am Phone Conference Agenda
May 14, 2014

1) **Public Safety Update – FPD, MSP, (FFD, if needed)**
   a) FFD - MIOSHA citation update
      Chief Cox reports that everything is ok with the ventilation system and all the firefighters should be tested within two weeks.

   b) Public Safety Study – contract has been signed, approximately six months until final report received.

   c) Other update from Chief Tolbert and MSP

2) **Governor's Office Update - Rich, Baird, H. Hollins**

3) **Lawsuits – Status, Issues**
   a) Kincaid v City of Flint – see attachment.

   b) Retiree Lawsuit - Contact from plaintiffs' attorney? Status of E&Y "Ability to Pay" analysis?

4) **Financial Update**
   a) Budget was prepared and presented to Council on Wednesday, April 30. Department reviews by Council are now underway.

   b) Rep. Phil Phelps proposed a budget amendment which would send money to Flint for public safety. Phelps is proposing $5 million. On May 8th State Sen. Jim Ananich offered a proposal on the Senate floor to prevent police and fire layoffs in Flint. This was voted down.

   c) FPD is also investigating the potential for any waivers on the COPS grants – matches and/or retention.

   d) COF is implementing the 80/20 premium share and open enrollment is underway for both active employees and pre-65 retirees.

5) **City Council Update**
   a) Council and Mayor attended an Ethics and Parliamentary Procedure Training on May 7th. This training was provided by Michigan Municipal League.

b) Guidelines for handling disorderly conduct during Council or Committee meetings have been clarified for the Council President and for the FPD.

c) Finance and Administration budget committee meetings have been lengthy but are progressing. Committee has been meeting as a committee of the whole.

6) **Blue Ribbon Committee on Governance**

a) BRC is now holding public workshops, one completed last week and two more are scheduled. Expect to complete final report in June.

7) **Water Issues**

a) The City received written notification from the DEQ that no back-up water service contract is required. Notification has been made to DWSD.

b) The Water Treatment Plant has been operating very well.

c) Pipeline Sale to GCDC – status?

8) **Other Items**

1) Attachment – communication from P. Bade

[redacted], access code[redacted]

Created on: 05/09/14

CITY OF FLINT
LEGAL DEPARTMENT
MEMORANDUM

Confidential communications between Attorney and Client are privileged, and may not be disclosed without approval of the Law Department; furthermore all notes, opinions and impressions contained in this memorandum are considered confidential work product.

TO: Darnell Earley, Emergency Manager

FROM: Peter M. Bade, Chief Legal Officer

RE: Kincaid, Poole, et. al. v. City of Flint

DATE: May 12, 2014

There have been three (3) separate lawsuits filed by Plaintiffs, two in state court and the most recent in federal court, each alleging the City failed to follow its own ordinances when raising water and sewer rates. The Michigan Court of Appeals dismissed the initial claim.

In the second state court case, Genesee County Circuit Court Judge Richard Yuille granted summary disposition to the City based upon a motion arguing that, assuming arguendo the City did fail to follow its own ordinances, the EM ratified the rates thereafter pursuant to his statutory power, which rendered their argument moot. Plaintiffs' motion for reconsideration was denied. Plaintiffs have filed an appeal that is currently pending in the Michigan Court of Appeals.

On appeal, the Plaintiffs are asserting 1. That the grant of summary was inappropriate because Act 4 does not allow an EM to retroactively ratify prior actions, and 2. that Judge Yuille improperly relied upon an auditor's affidavit in granting motion in violation of C(8) (which allows only for reliance upon the pleadings). He is seeking remand for further proceedings.

We believe these claims are wholly without merit. Even if there was a period in which the rates charged were illegally set, there is no cause of action to recoup those funds (and even if there was, we'd pay the judgment by raising the water rates), and the reliance upon the affidavit is a mischaracterization of dicta in Judge Yuille's opinion.

Last week the City was served with the third lawsuit that was filed in federal court. The federal case essentially restates the state court claims. Plaintiffs brought suit under 42 USC 1983 alleging a protectable due process property interest in receiving water at a certain rate, the contours of which are defined by state and local law, and that they were deprived of that right. We've found no federal case that has recognized this type of action. We have a strong possibility of getting the case dismissed on qualified immunity grounds, as there was no "clearly established" constitutional right being violated here and Plaintiffs have pursued adequate state law remedies and thus far failed.

Pursuant to FRCP 6(b)(1)(A), we have requested Plaintiffs concur in a 12(b)(6) motion to dismiss and for costs. Among other grounds, the motion will assert qualified immunity; a Monell defense to municipal liability; the failure to allege a recognized constitutionally protected property interest; the failure to allege deprivation of any protected interest; the existence of an adequate state remedy barring 1983 relief; that the Michigan Constitution does not authorize claims for money damages; and that the federal court action has already been litigated in state court unsuccessfully barring 1983 relief and the doctrine of constitutional avoidance.

S:\P. Bade\EM2014\Memos\Earley.Memo.05.12.14.Kincaid.v.COF.status.doc

Koryzno, Edward (Treasury)

From: Jason Lorenz <jlorenz@cityofflint.com>
Sent: Monday, May 19, 2014 9:28 PM
Subject: PRESS RELEASE: Emergency Manager Statement Re: Pipeline Proposal Rejection
Attachments: EM Statement on Pipeline Proposal Rejection.pdf

For Immediate Release

Emergency Manager Darnell Earley Statement on City Council's Rejection of Pipeline Sale Proposal

Flint, Michigan – May 19, 2014 – **Flint Emergency Manager Darnell Earley has released the following statement in regard to the Flint City Council's 7-2 rejection of the sale of the 9 mile segment of pipeline sought by the Genesee County Drain Commissioner:**

"I look forward to seeing the City Council's alternative proposal for the sale of this asset, as required by Public Act 436, which will net the city $3.9 million or more for an asset which is no longer necessary to the City of Flint but which gives the city more options in managing its $12.9 million deficit. "

-Darnell Earley, ICMA-CM, MPA

Emergency Manager,

City of Flint

–END–

-Jason Lorenz
Public Information Officer

City of Flint
(810) 237-2039
jlorenz@cityofflint.com

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Tuesday, May 20, 2014 9:19 AM
To: Workman, Wayne (TREASURY); Darnell Earley
Cc: Dempkowski, Angela (Treasury)
Subject: RE: Sale of the Pipeline

How about 4:00 pm today?

Edward B. Koryzno, Jr. | Director - Bureau of Local Government Services
State of Michigan | 430 W. Allegan Street, 3rd Floor | Lansing, MI 48922
(517) 373-4415 | (517) 373-0633 (fax)
KoryznoE@michigan.gov

From: Workman, Wayne (TREASURY)
Sent: Monday, May 19, 2014 9:45 PM
To: Darnell Earley
Cc: Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury)
Subject: Re: Sale of the Pipeline

I am traveling till Thursday night but maybe we can connect late afternoon Tuesday or Wednesday.

Sent from my iPhone

On May 19, 2014, at 8:56 PM, "Darnell Earley" <dearley@cityofflint.com> wrote:

> The Flint City Council voted 7 to 2 to disapprove the sale of the pipeline to Genesee County. We can talk more tomorrow but I need your support on dealing with councilman Mays, as prescribed on PA 436.
>
> DE

Koryzno, Edward (Treasury)

From:	Darnell Earley <dearley@cityofflint.com>
Sent:	Tuesday, May 20, 2014 9:31 AM
To:	Workman, Wayne (TREASURY)
Cc:	Koryzno, Edward (Treasury)
Subject:	Re: Sale of the Pipeline

4 doesn't work for me.

Darnell Earley, ICMA-CM, MPA
Emergency Manager
Flint, MI

On Tue, May 20, 2014 at 7:02 AM, Workman, Wayne (TREASURY) <WorkmanW@michigan.gov> wrote:
We will to get the Council alternative, if any and take it to the ELB.

Sent from my iPad

On May 19, 2014, at 8:56 PM, "Darnell Earley" <dearley@cityofflint.com<mailto:dearley@cityofflint.com>> wrote:

The Flint City Council voted 7 to 2 to disapprove the sale of the pipeline to Genesee County. We can talk more tomorrow but I need your support on dealing with councilman Mays, as prescribed on PA 436.

DE

Byrne, Randall (Treasury)

From: Workman, Wayne (TREASURY)
Sent: Wednesday, May 21, 2014 2:48 PM
To: Byrne, Randall (Treasury); Carpenter, Brian (TREASURY); Koryzno, Edward (Treasury); Dempkowski, Angela (Treasury)
Subject: Fwd: EY Invoice - City of Flint
Attachments: image001.gif; ATT00001.htm; EY Invoice - City of Flint - 2014-05-21.pdf; ATT00002.htm

FYI

Sent from my iPhone

Begin forwarded message:

> **From:** Deven V Patel <Deven.Patel@ey.com>
> **Date:** May 21, 2014 at 2:34:15 PM EDT
> **To:** Darnell Earley <dearley@cityofflint.com>
> **Cc:** Gerald Ambrose <gambrose@cityofflint.com>, "Workman, Wayne (TREASURY)" <WorkmanW@michigan.gov>, Juan Santambrogio <Juan.Santambrogio@ey.com>, Gaurav Malhotra <Gaurav.Malhotra@ey.com>
> **Subject: EY Invoice - City of Flint**
>
> Mr. Earley,
>
> Please reference attached for our second invoice based on the agreed fees and expenses pursuant the EY's November Statement of Work. This represents 50% of agreed fees and expenses for work related to the Hurley valuation, the five year forecast, and the assessment of the water/sewer systems for the City of Flint.
>
> Best,

Ernst & Young LLP
200 Plaza Drive
Secaucus, NJ 07094

EY

INVOICE NUMBER: US0131055512

May 19, 2014

PLEASE REMIT TO:
Ernst & Young LLP
Pittsbg Ntnl Bnk - Pitt 640382
P.O. Box 640382
Pittsburgh, PA 15264-0382
[redacted]

City of Flint
Attention: Mr. Darnell Earley
Emergency Manager
cc: Mr. Wayne Workman, State of Michigan
1101 S. Saginaw Street
Flint, MI 48502

BU: **US002** CLIENT NUMBER: **61056759**

Professional services pursuant to our Statement of Work dated November 21, 2013.

Fees	$125,000
Expenses	5,000
Total Due	**$130,000**

PLEASE PAY BY INVOICE NUMBER AND ENCLOSE REMITTANCE ADVICE
Due Upon Receipt

CLIENT COPY

EY

REMITTANCE ADVICE

INVOICE NUMBER: US0131055512

May 19, 2014

PLEASE REMIT TO:
Ernst & Young LLP
Pittsbg Ntnl Bnk - Pitt 640382
P.O. Box 640382
Pittsburgh, PA 15264-0382

EIN: [redacted]

City of Flint
Attention: Mr. Darnell Earley
Emergency Manager
cc: Mr. Wayne Workman, State of Michigan
1101 S. Saginaw Street
Flint, MI 48502

BU: **US002** CLIENT NUMBER: **61056759**

Total Due	**$130,000**

ELECTRONIC FUNDS TRANSFER INFORMATION

Wire Transfer:
Wells Fargo Bank, NA
ABA#: [redacted]
Account name: Ernst & Young U.S. LLP
A/C#: [redacted]

ACH Transfer:
Wells Fargo Bank, NA
ABA# [redacted]
Account name: Ernst & Young U.S. LLP
A/C# [redacted]

To ensure proper application of your electronic payment,
please provide client and invoice number details directly to:
gss.accountsreceivable@xe02.ey.com or fax to 1-866-423-5274

Koryzno, Edward (Treasury)

From: Elizabeth Murphy <emurphy@cityofflint.com>
Sent: Tuesday, May 27, 2014 3:27 PM
To: Byrne, Randall (Treasury); Kapp, Gene (MSP); Muchmore, Dennis (GOV); Roberts, John (DTMB); West, Samantha (GOV); Dempkowski, Angela (Treasury); Baird, Richard (GOV); Larkin, Brian (GOV); Darnell Earley; Deasy, Thomas (MSP); Koryzno, Edward (Treasury); Clement, Elizabeth (GOV); Elizabeth Murphy; Etue, Kriste (MSP); Hollins, Harvey (GOV); James Tolbert; Jerry Ambrose; Klotz, Josephine (MSP); Lee, Nichole (MSP); McGowan, Emmitt (MSP); Sands, Thomas (MSP); Sipes, Stephen (MSP); O'Neill, Stephen (MSP); Saxton, Thomas (Treasury); Workman, Wayne (TREASURY); Peter Bade; David Cox Jr.
Subject: Conference Call Agenda May 28, 2014
Attachments: Agenda 052814 Conf Call.pdf

Good Afternoon,
Please find attached the agenda for the Wednesday, May 28th conference call.

--
Liz Murphy
Assistant to the Emergency Manager
City of Flint
810 237 2025

City of Flint Wednesday 9:00am Phone Conference Agenda
May 28, 2014

1) **Public Safety Update – FPD, MSP, (FFD, if needed)**
   a) FFD - MIOSHA citation update
   Chief Cox reports that all pulmonary tests have been completed except 4-5 people on vacation. A wrap-up phone call between Chief Cox and MIOSHA rep will be held today.

   b) Public Safety Study – data collection has begun.

   c) Other update from Chief Tolbert and MSP

2) **Governor's Office Update - Rich, Baird, H. Hollins**

3) **Lawsuits – Status, Issues**
   a) Kincaid v City of Flint –

   b) Retiree Lawsuit – Our attorneys filed a motion Friday, May 23, 2014 asking Judge Tarnow to reverse his decision on the injunction which is resulting in the additional $5 million in expenses in the upcoming budget, offset by significant reductions in police and fire staffing. City Attorney Bade and J. Ambrose are advising not to make any announcement or statement on this action at this time. Should we be asked, a "no comment on pending litigation" would be appropriate. Until the Judge reacts, there is not much to say.

4) **Financial Update**
   a) All Finance Committee budget hearings have been completed. The Council has proposed a number of changes, primarily to keep several police positions.

   b) Five Year Financial Analysis – The City is preparing to adopt a biennial budget, yet the next three years continue to exhibit structural deficits. See attached 5 year projection. In April of 2015 the Mayor and Council can vote to remove the EM. A long term plan needs to be discussed.

5) **City Council Update**
   a) Guidelines for handling disorderly conduct during Council or Committee meetings have been clarified for the Council President and for the FPD. City Attorney Bade issued a memo on May 21, 2014 clarifying

EM Orders 8 and 10. These Orders specify the Council Meeting Protocol and Council Agenda format. Council members and the Council President have attempted to stray from these orders repeatedly.

b) Councilman Mays has been in court this week defending himself against charges from the wrong way driving incident in January 2014.

6) **Blue Ribbon Committee on Governance**

a) BRC Public Workshops have been completed and crafting of the report to the EM is underway. A method to receive public feedback on the draft report is planned. The Committee's report, when completed, will be provided to the Transition Advisory Board for review with the Dept. of Treasury and the Governor before the City of flint is returned to home rule order.

7) **Water Issues**

a) The City Council met twice to discuss the sale of a 9 mile section of unused pipeline to the GCDC. The City had negotiated a sale price of $3.9 million. Council first voted to reject the sale. A second meeting resulted in a vote to sell the pipe section for $3.9 million but receive the funds in two payments over two fiscal years. It is unknown if the City council made a submission of this proposal to the local emergency financial assistance loan board. Does Flint have Treasury's approval to execute the contract of sale?

8) **Other Items**

Attachment: Five Year Financial Projection

[redacted]; access code [redacted]

Created on: 05/23/14

CITY OF FLINT - FIVE YEAR OUTLOOK
All Funds Summary

			Current FY14	Proposed FY15	Proposed FY16	Projected FY17	Projected FY18	Projected FY19
General Fund		101						
	Revenues*		$53,558,121	$55,080,609	$56,232,962	$56,739,059	$56,909,276	$57,421,459
	Expenses		$53,558,121	$55,080,609	$56,232,962	$58,538,513	$60,938,592	$63,558,952
	Cumulative Gap		$0	$0	$0	($1,799,455)	($5,828,771)	($11,966,264)
	Annual Gap		$0	$0	$0	($1,799,455)	($4,029,317)	($6,137,493)
*Includes $1 million for deficit elimination								
Major Streets		202						
	Revenues		$6,335,406	$7,022,888	$8 116 668	$8 343 935	$8 577 565	$8,826 314
	Expenses		$6,331 406	$7,022,888	$8 116,668	$8,416,985	$8 711 579	$9,025 196
	Cumulative Gap		$4 000	$0	$0	($73 050)	($207 064)	($405 946)
	Annual Gap		$0	$0	$0	($73 050)	($134 014)	($198 882)
Local Streets		203						
	Revenues		$2,601 090	$2,694 458	$2 783 112	$2 841 557	$2 904,072	$2,967,961
	Expenses		$2,601 090	$2 694,458	$2 783 112	$2 880 521	$2 972,698	$3 067,824
	Cumulative Gap		$0	$0	$0	($38 964)	($107 590)	($207 452)
	Annual Gap		$0	$0	$0	($38 964)	($68 626)	($99 863)
Police and Fire Millage		205						
	Revenues		$1 845 827	$9,258 560	$7,249 000	$4 464 540	$4 602,941	$4 671 985
	Expenses		$1,845,827	$9,258,560	$7 249 000	$7 538,960	$7,848 057	$8 169 828
	Cumulative Gap		$0	$0	$0	($3 074 420)	($6 319 537)	($9 817 379)
	Annual Gap		$0	$0	$0	($3 074 420)	($3 245 117)	($3 497 843)
Neighborhood Police Millage		207						
	Revenues		$1,550 180	$1,378 104	$1 233,874	$1 258,551	$1 297,567	$1 317,030
	Expenses		$1,550,180	$1 378 104	$1 233 874	$1,283,229	$1,335,841	$1 390,611
	Cumulative Gap		$0	$0	$0	($24 677)	($62 952)	($136 533)
	Annual Gap		$0	$0	$0	($24 677)	($38 275)	($73 581)
Parks Millage		208						
	Revenues		$373,064	$440 140	$341 423	$348,251	$359,047	$364,433
	Expenses		$373,064	$440 140	$341 423	$355,080	$369,638	$384 793
	Cumulative Gap		$0	$0	$0	($6 828)	($17 419)	($37 780)
	Annual Gap		$0	$0	$0	($6 828)	($10 591)	($20 360)
Lighting Special Assessment		219						
	Revenues		$2,982,960	$2,694 870	$2 696,300	$2 561 485	$2 433 411	$2,311,740
	Expenses		$2 982 960	$2,694 870	$2 696,300	$2 696,300	$2,696,303	$2,696,300
	Cumulative Gap		$0	$0	$0	($134 815)	($337 704)	($782 264)
	Annual Gap		$0	$0	$0	($134 815)	($262 889)	($384 560)

			Current FY14	Proposed FY15	Proposed FY16	Projected FY17	Projected FY18	Projected FY19
Waste Collection		226						
	Revenues		$5 132,490	$5,396 293	$5 450 723	$5 178 187	$4 919 278	$4 873 314
	Expenses		$5,132 490	$5 396 293	$5 450 723	$5 559 737	$5,670,932	$5 784 351
	Cumulative Gap		$0	$0	$0	($381 551)	($1 133 205)	($2 244 243)
	Annual Gap		$0	$0	$0	($381 551)	($751 655)	($1 111 037)
Drug Forfeiture		265						
	Revenues		$435 042	$425 063	$433,399	$446 401	$459 793	$473 587
	Expenses		$435 042	$425 063	$433 399	$446,401	$459,793	$473 587
	Cumulative Gap		$0	$0	$0	$0	$0	$0
	Annual Gap		$0	$0	$0	$0	$0	$0
HUD Grant 2014		274						
	Revenues		$11,767 729	$5 035 899	$5 035 899	$5 186 976	$5,342 585	$5 502 863
	Expenses		$11 767 729	$5 035 899	$5 035 899	$5 186 976	$5,342 585	$5 502,863
	Cumulative Gap		$0	$0	$0	$0	$0	$0
	Annual Gap		$0	$0	$0	$0	$0	$0
Other Grants		296						
	Revenues		$7 483,689	$4,864 976	$4,864 976	$5 010,925	$5,161 253	$5 316,091
	Expenses		$7,477,931	$4,864,976	$4,864 976	$5 010 925	$5 161 253	$5 316,091
	Cumulative Gap		$5 758	$0	$0	$0	$0	$0
	Annual Gap		$0	$0	$0	$0	$0	$0
Federal Stimulus Grant		297						
	Revenues		$4,524,108	$0	$0	$0	$0	$0
	Expenses		$4,524,108	$0	$0	$0	$0	$0
	Cumulative Gap		$0	$0	$0	$0	$0	$0
	Annual Gap		$0	$0	$0	$0	$0	$0
Public Improvement Fund		402						
	Revenues		$2 150,000	$2,850 957	$2 867,987	$2 925,347	$3 016,032	$3,061 273
	Expenses*		$2,150 000	$2,850 957	$2,867,987	$2 982 706	$3 104,897	$3 232 302
	Cumulative Gap		$0	$0	$0	($57 360)	($146 325)	($317 354)
	Annual Gap		$0	$0	$0	($57 360)	($88 985)	($171 029)
Building Safety Fund		542						
	Revenues		$2 548 456	$2 395,529	$2,484,700	$2 484 700	$2 484 700	$2 484,700
	Expenses		$2,548 456	$2 395,529	$2,484 700	$2,584 088	$2 687,452	$2 794,950
	Cumulative Gap		$0	$0	$0	($99 388)	($302 140)	($612 389)
	Annual Gap		$0	$0	$0	($99 388)	($202 752)	($310 250)
TOTAL General City								
	Revenues		**$103,288,162**	**$99,538,346**	**$99,791,023**	**$97,789,914**	**$98,467,519**	**$99,392,750**
	Expenses		**$103,278,404**	**$99,538,346**	**$99,791,023**	**$103,480,422**	**$107,299,719**	**$111,397,647**
	Cumulative Gap		**$9,758**	**$0**	**$0**	**($5,690,508)**	**($14,522,707)**	**($26,527,604)**
	Annual Gap		**$0**	**$0**	**$0**	**($5,690,508)**	**($8,832,200)**	**($12,004,897)**

* Includes $800,000 for deficit elimination

			Current FY14	Proposed FY15	Proposed FY16	Projected FY17	Projected FY18	Projected FY19
Sewer Fund		590						
	Revenues		$31 929 269	$30 256,545	$32,346 745	$32 346 745	$32,346 745	$32 346 745
	Expenses		$31 929 269	$30 256,545	$32,346 745	$34,609,099	$36,149 143	$37,216 957
	Cumulative Gap		$0	$0	$0	($2 262 354)	($6 084 752)	($10 934 984)
	Annual Gap		$0	$0	$0	($2 262 354)	($3 802 398)	($4 870 212)
Water Fund		591						
	Revenues		$47,896 872	$37,500,000	$37 500 000	$37,500,000	$37 500 000	$37 500 000
	Expenses		$47,896,872	$34,503,530	$35,012 250	$38,841,189	$40,741 906	$41 943 725
	Cumulative Gap		$0	$2,996,470	$2 487,750	($1 341 189)	($4 583 095)	($9 026 820)
	Annual Gap		$0	$0	$0	($1 341 189)	($3 241 906)	($4 443 725)
Water and Sewer	**590 & 591**							
	Revenues		**$79,826,141**	**$67,756,545**	**$69,846,745**	**$69,846,745**	**$69,846,745**	**$69,846,745**
	Expenses		**$79,826,141**	**$64,760,075**	**$67,358,995**	**$73,450,288**	**$76,891,049**	**$79,160,682**
	Cumulative Gap		**$0**	**$2,996,470**	**$2,487,750**	**($3,603,543)**	**($10,647,847)**	**($19,961,784)**
	Annual Gap		**$0**	**$0**	**$0**	**($3,603,543)**	**($7,044,304)**	**($9,313,937)**
TOTAL CITY								
	Revenues		**$183,114,303**	**$167,294,891**	**$169,637,768**	**$167,636,659**	**$168,314,264**	**$169,239,495**
	Expenses		**$183,104,545**	**$164,298,421**	**$167,150,018**	**$176,930,710**	**$184,190,768**	**$190,558,329**
	Cumulative Gap		**$9,758**	**$2,996,470**	**$2,487,750**	**($9,294,051)**	**($25,170,554)**	**($46,489,388)**
	Annual Gap		**$0**	**$0**	**$0**	**($9,294,051)**	**($15,876,504)**	**($21,318,834)**

CITY OF FLINT - FIVE YEAR OUTLOOK
Pension and Retiree Healthcare Costs

Fund	No.	Item	Current FY14	Proposed FY15	Proposed FY16	Projected FY17	Projected FY18	Projected FY19
General Fund	101							
		Retiree Healthcare Expense	$8,034,324	$10,167,701	$10,777,763	$11,424,429	$12,109,885	$12,836,488
		Pension Expense	$8,401,335	$7,887,617	$7,360,876	$7,802,529	$8,270,680	$8,766,921
		Other Expenses	$37,122,462	$37,025,291	$38,143,326	$39,362,588	$40,611,121	$42,010,930
		Total Expenses	$53,558,121	$55,080,609	$56,281,965	$58,589,526	$60,991,686	$63,614,339
		Retiree Healthcare as % of Total Expenses	15%	18%	19%	19%	20%	20%
		Pension as % of Total Expenses	16%	14%	13%	13%	14%	14%
		Healthcare & Pension Costs as % of Total	31%	33%	32%	33%	33%	34%
Major Streets	202							
		Retiree Healthcare	$593,155	$1,058,180	$1,119,651	$1,186,724	$1,257,928	$1,333,403
		Pension	$665,632	$551,415	$596,583	$632,357	$670,293	$710,513
		Other expenses	$5,167,419	$5,415,293	$6,400,554	$6,597,904	$6,783,363	$6,981,277
		Total	$6,331,406	$7,022,888	$8,116,688	$8,416,985	$8,711,578	$9,025,196
		Healthcare & Pension %	18%	23%	21%	22%	22%	23%
Local Streets	203							
		Retiree Healthcare	$388,761	$200,824	$212,873	$225,645	$239,184	$253,535
		Pension	$331,106	$330,318	$354,959	$376,267	$398,832	$422,762
		Other expenses	$1,881,223	$2,163,318	$2,215,280	$2,278,619	$2,334,682	$2,391,527
		Total	$2,601,090	$2,694,458	$2,783,112	$2,880,521	$2,972,698	$3,067,824
		Healthcare & Pension %	28%	20%	20%	21%	21%	22%
Police and Fire Millage	205							
		Retiree Healthcare	$0	$1,337,828	$1,418,098	$1,503,164	$1,593,378	$1,688,977
		Pension	$448,524	$2,593,093	$2,748,679	$2,913,800	$3,088,416	$3,273,721
		Other expenses	$1,397,303	$5,327,639	$3,082,223	$3,122,176	$3,166,267	$3,207,130
		Total	$1,845,827	$9,258,560	$7,249,000	$7,538,960	$7,848,057	$8,169,828
		Healthcare & Pension %	24%	42%	57%	59%	60%	61%
Neighborhood Police Millage	207							
		Retiree Healthcare	$0	$0	$0	$0	$0	$0
		Pension	$379,934	$300,795	$318,844	$337,975	$358,253	$379,748
		Other expenses	$1,170,246	$1,077,309	$915,030	$945,254	$977,588	$1,010,863
		Total	$1,550,180	$1,378,104	$1,233,874	$1,283,229	$1,335,841	$1,390,611
		Healthcare & Pension %	25%	22%	26%	26%	27%	27%
Parks Millage	208							
		Retiree Healthcare	$0	$0	$0	$0	$0	$0
		Pension	$5,591	$20,663	$20,663	$21,903	$23,217	$24,610
		Other expenses	$367,473	$419,477	$320,760	$333,177	$346,421	$360,183
		Total	$373,064	$440,140	$341,423	$355,080	$369,638	$384,793
		Healthcare & Pension %	1%	5%	6%	6%	6%	6%
Lighting Special Assessment	219							
		Retiree Healthcare	$0	$0	$0	$0	$0	$0
		Pension	$0	$6,029	$6,390	$6,773	$7,180	$7,611
		Other expenses	$2,982,960	$2,688,841	$2,689,910	$2,689,527	$2,689,120	$2,688,689
		Total	$2,982,960	$2,694,870	$2,696,300	$2,696,300	$2,696,300	$2,696,300
		Healthcare & Pension %	0%	0%	0%	0%	0%	0%

			Current FY14	Proposed FY15	Proposed FY16	Projected FY17	Projected FY18	Projected FY19
Waste Collection		228						
	Retiree Healthcare		$621,190	$411,202	$435,874	$462,026	$489,748	$519,133
	Pension		$25,335	$12,988	$13,767	$14,593	$15,469	$16,397
	Other expenses		$4,485,965	$4,972,103	$5,001,082	$5,083,118	$5,165,715	$5,249,821
	Total		$5,132,490	$5,396,293	$5,450,723	$5,559,737	$5,670,932	$5,784,351
	Healthcare & Pension %		13%	8%	8%	9%	9%	9%
Drug Forfeiture		265						
	Retiree Healthcare		$0	$0	$0	$0	$0	$0
	Pension		$122,739	$82,406	$87,351	$92,592	$98,148	$104,036
	Other expenses		$312,303	$342,657	$346,048	$353,809	$361,645	$369,650
	Total		$435,042	$425,063	$433,399	$446,401	$459,793	$473,587
	Healthcare & Pension %		28%	19%	20%	21%	21%	22%
HUD Grant 2014		274						
	Retiree Healthcare		$0	$0	$0	$0	$0	$0
	Pension		$230,159	$292,418	$292,418	$309,963	$328,561	$348,275
	Other expenses		$11,537,570	$4,743,481	$4,743,481	$4,877,013	$5,014,024	$5,154,588
	Total		$11,767,729	$5,035,899	$5,035,899	$5,186,976	$5,342,585	$5,502,863
	Healthcare & Pension %		2%	6%	6%	6%	6%	6%
Other Grants		298						
	Retiree Healthcare		$0	$0	$0	$0	$0	$0
	Pension		$40,027	$230,605	$230,605	$244,441	$259,108	$274,654
	Other expenses		$7,437,904	$4,634,371	$4,634,371	$4,766,484	$4,902,145	$5,041,438
	Total		$7,477,931	$4,864,976	$4,864,976	$5,010,925	$5,161,253	$5,316,091
	Healthcare & Pension %		1%	5%	5%	5%	5%	5%
Federal Stimulus Grant		297						
	Retiree Healthcare		$0	$0	$0	$0	$0	$0
	Pension		$1,355,981	$0	$0	$0	$0	$0
	Other expenses		$3,168,127	$0	$0	$0	$0	$0
	Total		$4,524,108	$0	$0	$0	$0	$0
	Healthcare & Pension %		30%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Public Improvement Fund		402						
	Retiree Healthcare		$0	$0	$0	$0	$0	$0
	Pension		$0	$0	$0	$0	$0	$0
	Other expenses		$2,150,000	$2,850,987	$2,687,987	$2,982,706	$3,104,997	$3,232,302
	Total		$2,150,000	$2,850,987	$2,687,987	$2,982,706	$3,104,997	$3,232,302
	Healthcare & Pension %		0%	0%	0%	0%	0%	0%
Building Safety Fund		542						
	Retiree Healthcare		$562,954	$393,633	$417,251	$442,286	$468,823	$496,953
	Pension		$151,734	$237,629	$251,886	$266,999	$283,019	$300,000
	Other expenses		$1,833,768	$1,764,268	$1,815,563	$1,874,803	$1,935,609	$1,997,997
	Total		$2,548,456	$2,395,529	$2,484,700	$2,584,088	$2,687,452	$2,794,950
	Healthcare & Pension %		28%	26%	27%	27%	28%	28%
TOTAL General City								
	Retiree Healthcare Expense		$10,205,384	$13,567,368	$14,381,410	$15,244,295	$16,158,952	$17,128,489
	Pension Expense		$12,058,297	$12,545,975	$12,283,001	$13,019,981	$13,801,180	$14,629,261
	Other Expenses		$81,014,723	$73,425,003	$73,175,615	$75,267,159	$77,392,690	$79,695,284
	Total Expenses		$103,278,404	$99,538,346	$99,840,026	$103,531,434	$107,352,822	$111,453,034
	Retiree Healthcare as % of Total Expenses		10%	14%	14%	15%	15%	15%
	Pension as % of Total Expenses		12%	13%	12%	13%	13%	13%
	Healthcare & Pension Costs as % of Total		22%	26%	27%	27%	28%	28%

			Current FY14	Proposed FY15	Proposed FY16	Projected FY17	Projected FY18	Projected FY19
Sewer Fund		590						
	Retiree Healthcare		$2,329,993	$2,447,665	$2,594,420	$2,750,085	$2,915,090	$3,089,996
	Pension		$2,179,100	$2,040,715	$2,163,169	$2,292,949	$2,430,625	$2,576,357
	Other expenses		$27,420,186	$25,768,264	$27,589,156	$29,566,055	$30,803,527	$31,550,604
	Total		$31,929,289	$30,256,645	$32,346,745	$34,609,099	$36,149,143	$37,216,957
	Healthcare & Pension %		14%	15%	15%	15%	15%	15%
Water Fund		591						
	Retiree Healthcare		$1,680,062	$2,963,588	$3,141,403	$3,329,887	$3,529,680	$3,741,461
	Pension		$1,815,687	$1,803,998	$1,911,284	$2,026,961	$2,147,819	$2,276,370
	Other expenses		$44,401,123	$29,739,844	$29,959,563	$33,485,341	$35,064,707	$35,925,894
	Total		$47,896,872	$34,503,530	$35,012,250	$38,841,189	$40,741,906	$41,943,725
	Healthcare & Pension %		7%	14%	14%	14%	14%	14%
Water and Sewer		590 & 591						
	Retiree Healthcare		$4,010,046	$5,411,154	$5,735,823	$6,079,972	$6,444,771	$6,831,457
	Pension		$3,994,787	$3,843,813	$4,074,443	$4,318,910	$4,578,044	$4,852,727
	Other expenses		$71,821,309	$55,505,108	$57,548,729	$63,051,406	$65,868,234	$67,476,498
	Total		$79,826,141	$64,760,075	$67,358,995	$73,450,288	$76,891,049	$79,160,682
	Retiree Healthcare as % of Total Expenses		5%	8%	9%	8%	8%	9%
	Pension as % of Total Expenses		5%	6%	6%	6%	6%	6%
	Healthcare & Pension %		10%	14%	15%	14%	14%	15%
TOTAL CITY								
	Retiree Healthcare		$14,215,429	$18,979,522	$20,117,233	$21,324,267	$22,603,723	$23,959,946
	Pension		$16,053,084	$16,389,788	$16,357,444	$17,338,891	$18,379,224	$19,481,978
	Other expenses		$152,836,032	$128,930,111	$130,724,344	$138,318,565	$143,260,924	$147,171,792
	Total		$183,104,545	$164,299,421	$167,199,021	$176,981,722	$184,243,871	$190,613,716
	Retiree Healthcare %		8%	12%	12%	12%	12%	13%
	Pension %		9%	10%	10%	10%	10%	10%
	Healthcare & Pension %		17%	22%	22%	22%	22%	23%

Byrne, Randall (Treasury)

From: Workman, Wayne (TREASURY)
Sent: Tuesday, May 27, 2014 3:51 PM
To: Darnell Earley
Cc: Koryzno, Edward (Treasury); Byrne, Randall (Treasury); Headen, Frederick (Treasury); Peter Bade
Subject: RE: Order Relevant to PA 436, 141.1550, Sec. 10 (1)

We will see you then

Wayne Workman | Deputy State Treasurer
State of Michigan | 430 W Allegan Street | Lansing, MI 48922

From: Darnell Earley [mailto:dearley@cityofflint.com]
Sent: Tuesday, May 27, 2014 3:50 PM
To: Workman, Wayne (TREASURY)
Cc: Koryzno, Edward (Treasury); Byrne, Randall (Treasury); Headen, Frederick (Treasury); Peter Bade
Subject: Re: Order Relevant to PA 436, 141.1550, Sec. 10 (1)

Okay, let's try to squeeze it in, in the hopes that we can finish our 9:00 ASAP. Pete will be joining Jerry and I at Treasury tomorrow.

Darnell Earley, ICMA-CM, MPA
Emergency Manager
Flint, MI

On Tue, May 27, 2014 at 3:47 PM, Workman, Wayne (TREASURY) <WorkmanW@michigan.gov> wrote:

I have a 10;00, but we can squeeze it in or talk after my 10:00 as it will only last 15 minutes

Wayne Workman | Deputy State Treasurer

State of Michigan | 430 W. Allegan Street | Lansing, MI 48922

From: Darnell Earley [mailto:dearley@cityofflint.com]
Sent: Tuesday, May 27, 2014 3:22 PM
To: Workman, Wayne (TREASURY); Koryzno, Edward (Treasury); Byrne, Randall (Treasury); Headen, Frederick (Treasury); Peter Bade
Subject: Fwd: Order Relevant to PA 436, 141.1550, Sec. 10 (1)

Can we discuss this matter following our 9:00 tomorrow? We usually wind up around 10.

Darnell Earley, ICMA-CM, MPA

Emergency Manager

Flint, MI

---------- Forwarded message ----------
From: **Peter Bade** <pbade@cityofflint.com>
Date: Tue, May 27, 2014 at 2:02 PM
Subject: Re: Order Relevant to PA 436, 141.1550, Sec. 10 (1)
To: Darnell Earley <dearley@cityofflint.com>
Cc: "Workman, Wayne (TREASURY)" <WorkmanW@michigan.gov>, "Byrne, Randall (Treasury)" <ByrneR1@michigan.gov>, "Koryzno, Edward (Treasury)" <KoryznoE@michigan.gov>, "Headen, Frederick (Treasury)" <HeadenF@michigan.gov>

In follow-up to our discussion on Friday, attached is a revised order.

Thanks

On Thu, May 22, 2014 at 1:56 PM, Darnell Earley <dearley@cityofflint.com> wrote:

Since I will be in Lansing, I plan to come in to Treasury.

Darnell Earley, ICMA-CM, MPA

Emergency Manager

Flint, MI

On Thu, May 22, 2014 at 1:32 PM, Workman, Wayne (TREASURY) <WorkmanW@michigan.gov> wrote:

Wayne Workman to host

Call in – 1[redacted]

Access Code [redacted]

Maxine: Please forward this meeting notice to Peter Bade. Thank you.

--

Peter M. Bade

Chief Legal Officer

City of Flint

p. 810.766.7146

f. 810.232.2114

EMERGENCY MANAGER
CITY OF FLINT
GENESEE COUNTY MICHIGAN

ORDER No. 13

PROHIBITING COUNCILMAN ERIC MAYS FROM ACCESS TO LOCAL GOVERNMENT FACILITIES

BY THE POWER AND AUTHORITY VESTED IN THE EMERGENCY MANAGER ("EMERGENCY MANAGER") FOR THE CITY OF FLINT, MICHIGAN ("CITY") PURSUANT TO MICHIGAN'S PUBLIC ACT 436 OF 2012, LOCAL FINANCIAL STABILITY AND CHOICE ACT, ("PA 436"); DARNELL EARLEY, THE EMERGENCY MANAGER, ISSUES THE FOLLOWING ORDER:

Pursuant to Public Act 436, the Emergency Manager has broad powers in receivership to rectify the financial emergency and to assure the fiscal accountability of the City of Flint and its capacity to provide or cause to be provided necessary services essential to the public health, safety and welfare; and

Pursuant to Public Act 436, the Emergency Manager acts in place of local officials, specifically the Mayor and City Council, unless the Emergency Manager delegates specific authority; and

Pursuant to Public Act 436, the Emergency Manager has broad power to manage the local government, and may issue orders to elected and appointed officials necessary to accomplish the purpose of the act. An order issued under PA 436 is binding on the person to whom it is issued; and

Pursuant to Public Act 436, the Emergency Manager may prohibit a local elected official from access to the local government's office, facilities, electronic mail, and internal information systems for failure to abide by an order which disrupts the Emergency Manager's ability to manage the local government; and

Emergency Manager Order 3, Directives to Councilman Eric Mays, dated December 13, 2013, a copy of which is attached, attempted to address a pattern of extremely disruptive and disorderly behavior by Councilman Eric Mays that has interfered with my ability to manage the City of Flint; and

Councilman Mays has consistently disregarded and not carried out the provisions of Order 3, including but not limited to:

1. Engaging in loud, disruptive and obnoxious behavior during meetings of the Flint City Council.
2. Repeatedly disregarding directives of the Council President during meetings.
3. Continuing to speak after having been called to order by the Council President.
4. Repeatedly engaging in disorderly conduct that causes the Council President to seek police assistance in removing him from Council Chambers.
5. Openly refusing to comply with the Council President's efforts to restore order at meetings.
6. Openly advocating that the Emergency Manager orders be disregarded at meetings.
7. Interrupting other members of Council and speaking over them.
8. Speaking out of turn and speaking without being recognized by the Council President.
9. Engaging in disjointed, rambling and excessively long diatribes that unnecessarily delay Council action.
10. Inappropriately engaging members of the public during meetings.
11. Being verbally abusive toward staff, other Council members, Council leadership, and the Emergency Manager.

Emergency Manager Order 8, Council Meeting Protocol, dated March 5, 2014, a copy of which is attached, provides, in part, that "Council members shall not make comments during Council meetings, other than to respond to roll call or to respond directly to a request of the Council President, or at his recognition. When recognizing a member, the Council President shall limit comments, discussion or debate to a reasonable amount of time;" and

Councilman Mays has consistently disregarded and not carried out this provision of Order 8. He has repeatedly spoken at meetings without being recognized; refused to follow the directives of the Council President; ignored the Council President's efforts to call him to order; continued speaking after having been requested by the Council President to stop; and interfered with the Council President's efforts to conduct meetings in an orderly manner; and

Emergency Manager Order 8 and Emergency Manager Order 10, Council Meeting Agenda, dated April 1, 2014, copies of which are attached, seek to ensure that "the business of the City of Flint conducted at City Council meetings occurs in an orderly, dignified, and efficient manner, reflecting the level of professionalism deserved by Council members, City officials, staff and the public;" and

Councilman Eric Mays has consistently disregarded and not carried out this provision of Orders 8 and 10. Councilman Mays' behavior significantly undermines the orderly conduct of Council meetings, and causes an undignified, inefficient and highly unprofessional atmosphere for conducting the important business of the City of Flint; and

Governance of the City of Flint is subject to extraordinary circumstances due to a financial emergency necessitating a response to Mr. Mays' disruptive behavior; and

Emergency Manager Orders 3, 8 and 10 are necessary to accomplish the purposes of Public Act 436; and

Councilman Mays' consistent refusal to abide by Order Nos. 3, 8, and 10 has substantially disrupted and interfered with my ability to manage the local government; and

Implementation of my financial and operating plan requires that Council function in a competent, professional and efficient manner, and that it properly address assignments; and

I have assigned important matters to Council, including review of the Fiscal Year 2015 budget; proposed ordinances and ordinance amendments; formation of multiple advisory committees; and have increasingly solicited their input regarding municipal affairs; and

It is my intention to increase the assignments to Council, with the expectation that Council will assume greater responsibility for duties mandated in the Flint City Charter, and allowing the City to move to a transition advisory board, as contemplated by MCL 141.1563; and

Councilman Mays' continuous disruptive behavior has significantly impaired Council's ability to address the assignments I have directed to that body, thereby disrupting my ability to manage the local government; and

Order No. 3 was issued as a progressive step in an attempt to persuade Councilman Mays to correct his behavior and participate as a member of Council in a professional, constructive and thoughtful manner, consistent with the purposes of Public Act 436; and

If allowed to continue, Councilman Mays' disruptive behavior will significantly undermine my efforts to address the financial emergency and to accomplish the purposes of Public Act 436; and

Based upon the above, Councilman Eric Mays is prohibited from access to Flint City Hall and all other City governmental office facilities, electronic mail, and internal information systems.

This Order is effective May 21, 2014.

This Order may be amended, modified, repealed or terminated by any subsequent order issued by the Emergency Manager.

Dated: ________________ By: ______________________________

Darnell Earley
Emergency Manager

City of Flint

xc: State of Michigan Department of Treasury
Mayor Dayne Walling
Flint City Council
Inez Brown, City Clerk

S \P Bade\EM2014\Orders\Order No 13 Mays 05 20 14.doc

Byrne, Randall (Treasury)

From:	Darnell Earley <dearley@cityofflint.com>
Sent:	Wednesday, May 28, 2014 4:09 PM
To:	Byrne, Randall (Treasury)
Cc:	Koryzno, Edward (Treasury); Workman, Wayne (TREASURY); Gerald Ambrose; Peter Bade; Howard Croft; Daugherty Johnson
Subject:	Asset Sale Proceeds
Attachments:	Pipeline Proceeds.pdf

Good Afternoon Randy:

As discussed. Please contact me with any questions.

Darnell Earley, ICMA-CM, MPA
Emergency Manager
Flint, MI

CITY OF FLINT

OFFICE OF THE EMERGENCY MANAGER

Darnell Earley, ICMA-CM, MPA
Emergency Manager

MEMORANDUM

TO: Randall Byrne, State Administrative Manager
FROM: Darnell Earley, Emergency Manager
RE: Proceeds From the Sale of the City of Flint Water Main
Date: May 28, 2014
CC: Gerald Ambrose, Daugherty Johnson, Howard Croft, Peter Bade

During our regular meeting this morning you mentioned that there was an inquiry regarding the possible use of a portion of the $3.9 million proceeds that the City of Flint will receive from Genesee County, to supplement the cost for maintaining sworn positions in the Flint Police Department. As you know, in order to produce a balanced biennial budget as required by PA 436, my proposed budget eliminates 36 sworn officer positions for fiscal years 2014/15 and 2015/16.

I have discussed this matter with staff, and as a practical matter will <u>not</u> be recommending the use of these proceeds for any purpose other than reinvestment into the City's water system for the following reasons:

1. The pipeline is clearly part of the infrastructure of the water and sewer system, paid for with water and sewer fees. Thus, the proceeds should in normal circumstances be returned to the water and sewer system.

2. In addition, the current state of the water and sewer infrastructure clearly demonstrates that significant reinvestment in that infrastructure is needed, in the amount of approximately $15 million annually. The recent analysis by the Raftelis Group substantiates this need, as does the number of repairs necessary to the infrastructure this past winter, and the demonstrated increase in the amount of unbilled water. By focusing the proceeds on the systems water loss issues such as metering and infrastructure, the City stands to receive a quick return on the reinvestment through the capture of lost revenue.

3. The City of Flint Water Reliability Study commissioned in 2013 projects that increased accuracy in metering and reducing the number of main breaks through infrastructure repairs could result in recovering as much as $3 million

annually to the Water and Sewer Fund. This is an initiative that we are pursuing in hopes of further stabilizing water and sewer rates.

4. Also, the decision to move to KWA, as well as the opportunity to discontinue the purchase of water from DWSD, required an immediate and unplanned $6 million - $8 million upgrade to the Water Treatment Plant in this fiscal year. Doing so, while financially beneficial to the system over the next few years, required postponing other needed capital improvements. The sale of the pipeline offsets the unexpected cost by half.

5. Finally, the use of one-time proceeds for ongoing operational purposes, whether for the water and sewer system, or for non- utility purposes (such as police), only works for one year. Use of one-time proceeds is not a sustainable revenue source, and does not address the long term funding needs for police.

While these factors in and of themselves present a compelling argument to place the proceeds in the Water Fund to reduce the cost of expanding the Water Treatment Plant and to meet the our new supply and distribution obligations going forward, just as important is the outcome of the data-driven, comprehensive public safety study currently underway. The study will be used to design a public safety model for police and fire services into the future. This will put the City in a better position to identify long-term solutions rather than short-term, as the suggestion for the use of these funds for public safety services would indicate, based upon the factors stated above.

Should you have any questions or would like to discuss this matter in greater detail, please don't hesitate to contact me.

Darnell Earley

Tolbert drug items below faster than ever before, comfortable w/ progress — BAIRD
- Gene Kapp — DEASY
- property demo — MSP — KARP, Gene
- rept writing — MSP — SANDS, Tom
- cultural change — MSP — Sipes, Steve

City of Flint Weekly 9:00 am Phone Conference Agenda

✓ 1) Michigan State Police – checklist, comments, concerns

✓ 2) Chief Tolbert's Update – Stats, initiatives, other (83% below homicides

✓ 3) Fire Department Issues (if any) — year end rept. due end of the week — Larkin, Bren

✓ 4) Rich Baird – Gov. Office comments — New WORD System on site. — Darnell

5) B. Clement – comments, questions — Gerry A.
(STATE OF STATE TOMORROW FLINT MENTIONED) — 75% of items on MSP/Flint list review — Tony Lashbrook

~~6) Retiree Law Suit Status – off-line follow-up~~ — Hollins

✓ 7) Budget Update: FY13 – Audit, FY14 – current status, FY15 - plan — Required scrap ord w/ Revenue MSP — O'Neal, Steve

Model Labor Contracts – status MTG TODAY W/ FROM. County Chief

✓ 8) KWA, Water Plant Preparation, Water/Sewer Rate Study (nothing new)
Discussion on system backing w/ DWSD

WANT TO DRAW H_2O FROM THE RIVER 4/17/14

9) City Ordinance Review
Darnell ask Council Pres. to appt. legislative committee, will see EM order est. committees

10) Deficit Elimination Plan – Treasury

✓ 11) Master Plan Implementation Activity - Zoning Ordinance Revision (reorg. of dept. continues)

✓ 12) Status Report on the Flint City Council — last mtg 1/13/14, Darnell disappointed audit, governance!

✓ 13) Governance Revision — committee est. mtg tomorrow, will send agenda

✓ 14) 9-1-1 Reconsolidation $\boxed{\text{Plan}}$ — city atty. got back to you on subject, will let committee decide to go or no — on track

✓ 15) BS&A Upgrade — on track

✓ 16) Strong Cities, Strong Community Update — selected to receive cont'l additional in kind-technical assistance!

✓ 17) 45 Day Financial and Operating Plan – submitted 11/21/13 — shared w/ council, qtrly repts up to state as of 1/15/14

✓ 18) MEDC – Transportation Economic Development Fund - Application/Waiver

— 19) Other

Created on 01/14/14

- Council President to appt. a public safety committee (neighborhood reps) Tape Poster 433

Hoot @ council mtg tape 1/13/14

088 53 7 8511
338 9106
8303

BETH C.
KLOTZ J.
WAYNE
RANDY
AMBROSE J.
ONeil Steve
KAPP GENE
DEASY, TOM
SANDS, TOM
PEKRUL, DAN
SIPES, Steve
MURPHY, LIZ
TOLBERT, CHIEF
EARLY, DARNELL
BAIRD, RICH
HOLLINS, HARVEY
LARKIN, BRIAN

weather events consum time (27%)

retirements: Transfers advertise 5 permanent positions,

City of Flint Weekly 9:00 am Phone Conference Agenda

1) Michigan State Police – checklist, comments, concerns (KAPP)
2) Chief Tolbert's Update – Stats, initiatives, other
3) Fire Department Issues (if any) SAFER GRANT? WON'T KNOW UNTIL JUNE '14
4) Rich Baird – Gov. Office comments (NOTHING) compliment on advisory's STATE HELP FOR PLANNING,
5) B. Clement – comments, questions
6) Retiree Law Suit Status { City figuring out response plan to meet court order set up reimbursement system
7) Budget Update: FY13 – Audit, FY14 – current status, FY15 - plan

   Model Labor Contracts – status Meeting to resp[ond] will be scheduled
8) KWA, Water Plant Preparation, Water/Sewer Rate Study — nothing new
9) City Ordinance Review ongoing
10) Deficit Elimination Plan – Treasury
11) Master Plan Implementation Activity - Zoning Ordinance Revision
12) Status Report on the Flint City Council
13) Governance Revision mtg. 1/16/14, id. 23 people to sit on committee
14) 9-1-1 Reconsolidation Plan Tower ~~plan~~ consultation proceeding @ planned
15) BS&A Upgrade ok
16) Strong Cities, Strong Community Update NOT SURE IF city was chosen.
17) 45 Day Financial and Operating Plan – submitted 11/21/13
18) MEDC – Transportation Economic Development Fund - Application/Waiver
19) Other

Created on 01/7/14

Angela set plan call w/ Daniels et al. retiree healthcare pre 65.

— STATE WIDE RECORDS MGMT SYSTEM

11/20/13

City of Flint Weekly 10am Phone Conference Agenda

1) Budget Update — 1st/2nd wk of Dec. complete
   - FY 13 – Audit — Improved w/ Dep. Finance Dir is going into position
   - FY 14 – current status — Rev/over Exp by $4M
   - FY 15 – plan — ok, so far, begin process in a few weeks
2) Model Labor Contracts – status
   FPOA neg. 11/22 regain to proposal, employee moves off the FFD
3) KWA, Water Plant Preparation
   Prep. taking place
4) City Ordinance Review — Mayor/Council serving on Cont... No H2O/Sewer rate
   New massage licenses don't exist ... done in /open 10 years
5) Deficit Elimination Plan – Treasury
   ... close to finalize ... less than $ M for FY13,
6) Master Plan Implementation Activity
   Zoning Ordinance Revision
   Appt. of Gary Planner as Dir. of Dept, review of zoning ordinances to take place
7) Retiree Law Suit Status — M.P approved by city Council unanimously
   NO NEWS – NO ANTICIPATED DEADLINE FOR A COURT RULING
8) Public Safety Activity
   GOOD NEWS,
9) Status Report on the Flint City Council
   Shown ..., will send order (EM) for ... compensation
10) Governance Revision
   IMPORTANT ISSUE, BLUE RIBBON COMMITTEE
11) 9-1-1 Reconsolidation Plan
   OK
12) BS&A Upgrade – Progressing as planned
13) Other. Strong Cities, Strong Community Grant – guests from Homeland Security, Justice Dept will be in Flint 11/20/13. Finalists for the grants. Will have before 11/22/13, 5:00pm @ ...

Created on 11/12/2013

— Donald, Liz, Harry,

14) 45 Day Turnaround & Ops. Plan –

15) ~~Other~~.
~~Baster~~ Pizza Company locating in North Flint, local residents need input. Need $2M
MDOT grant, category A, 20% match,
city asking for ...
Kaltemi Stephens

Under $50K
RAFFLES
complete 12/31/13
MDOT mtg
final step

Contact Dan Gilmartin for

Dec. 6 or 11.
Send to Harry.

STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT
February 2013

For Submittal to:

State of Michigan, Department of Treasury

Submitted by:

TUCKER, YOUNG,
JACKSON, TULL INC.
CONSULTING ENGINEERS-PLANNERS
615 Griswold Suite 600
Detroit, Michigan 48226
(313)963-0612 FAX (313)963-2166

Table of Contents

Figures

Tables

Appendices

1. INTRODUCTION

Tucker, Young, Jackson, Tull, Inc. (TYJT), at the request of the State Treasurer performed an analysis of the water supply options being considered by the City of Flint. The City of Flint is presently supplied potable water from the Detroit Water and Sewerage Department (DWSD). This supply is from a single 72-inch water main that terminates at a master meter located at Potter and Baxter. Additionally, downstream of the DWSD master meter, Flint supplies its customer Genesee County. The City of Flint also operates a water treatment plant that uses the Flint River as its source of supply to provide back up and redundancy to the DWSD supply as required by MDEQ

The Karegnondi Water Authority (KWA) is planning on constructing a raw water supply system that could provide Lake Huron water to the Flint Water Treatment Plant. Flint's existing plant would be upgraded to treat the new raw water source.

The State Treasurer has appointed an emergency financial manager for the City of Flint. As such the Treasurer has requested TYJT to provide an analysis of the water supply options to assist the Treasurer in determining any potential risk and the best course going forward for supplying potable water to the City of Flint.

Report Organization

The following sections of this report are described below:

Section 2 – The basis of the analysis is described in this section. The options include the KWA option and several options offered by DWSD.

Section 3 – A significant amount of information and data was collected including memorandums, reports, drawings, financial reports, and other documents. This section summarizes the information used in the analysis.

Section 4 – This section describes the evaluation of the cost of supply for the Flint options. The costs are comprised of the initial cost of operations plus the annual rate of escalation/inflation.

Section 5 – The evaluation process used to analyze the construction costs associated with the KWA supply system is described in this section. Additionally, the cost of financing the capital requirements is described.

Section 6 – This section presents the financial review of the options considered to supply potable water to Flint. A summary of these options is also provided.

Section 7 – In addition to the financial analysis other considerations were identified that should be considered in understanding the risks and determining the best option to supply Flint. They include items related to cost, redundancy and reliability, and Flint's ability to control their future cost of water supply.

2. *FLINT WATER SUPPLY OPTIONS*

Two water purveyor options were evaluated; the KWA water supply system and continued supply from DWSD. Both suppliers would provide water from Lake Huron as the source. The KWA system is a raw water supply, which means that the water would have to be treated by Flint before distributing the potable water to its customers. The DWSD supply is potable or "finished" water and would not need additional treatment.

Additionally, an option for the Flint WTP to supply the City of Flint without being supplied from either DWSD or KWA was initially considered. The preliminary investigation evaluated the cost associated with the required improvements to the plant and to the Flint River dam system. Although it appeared that this was a viable option, Flint in a meeting on December 20, 2012 with the Treasury, stated that the City did not want to pursue the option and it is no longer being considered.

Karegnondi Water Authority (KWA) Lake Huron Water Supply

The KWA water supply system schematic is shown in Figure 2-1. The system is comprised of an intake in Lake Huron that supplies water to the Lake Huron Pump Station (LHPS). The LHPS lifts the water and pumps it through an approximately 22 mile long 60-inch pipeline. The pipeline terminates at a 5 MG reservoir and is then pumped from the Intermediate Pump Station (IPS) through approximately 26 miles of 60-inch and 18 miles of 30-inch pipeline to the existing Flint WTP. Downstream of the IPS, approximately half way to the Flint WTP, the 60-inch line would also supply a new Genesee County WTP.

The raw water transmission system has a 60 MGD capacity and is sized to deliver a maximum of 18 MGD to the Flint WTP with an average day supply of 12 MGD. Improvements at the Flint WTP would also be required to treat the lake water as the plant is currently designed to treat the Flint River water.

The term of the KWA contract for Flint is 40 years.

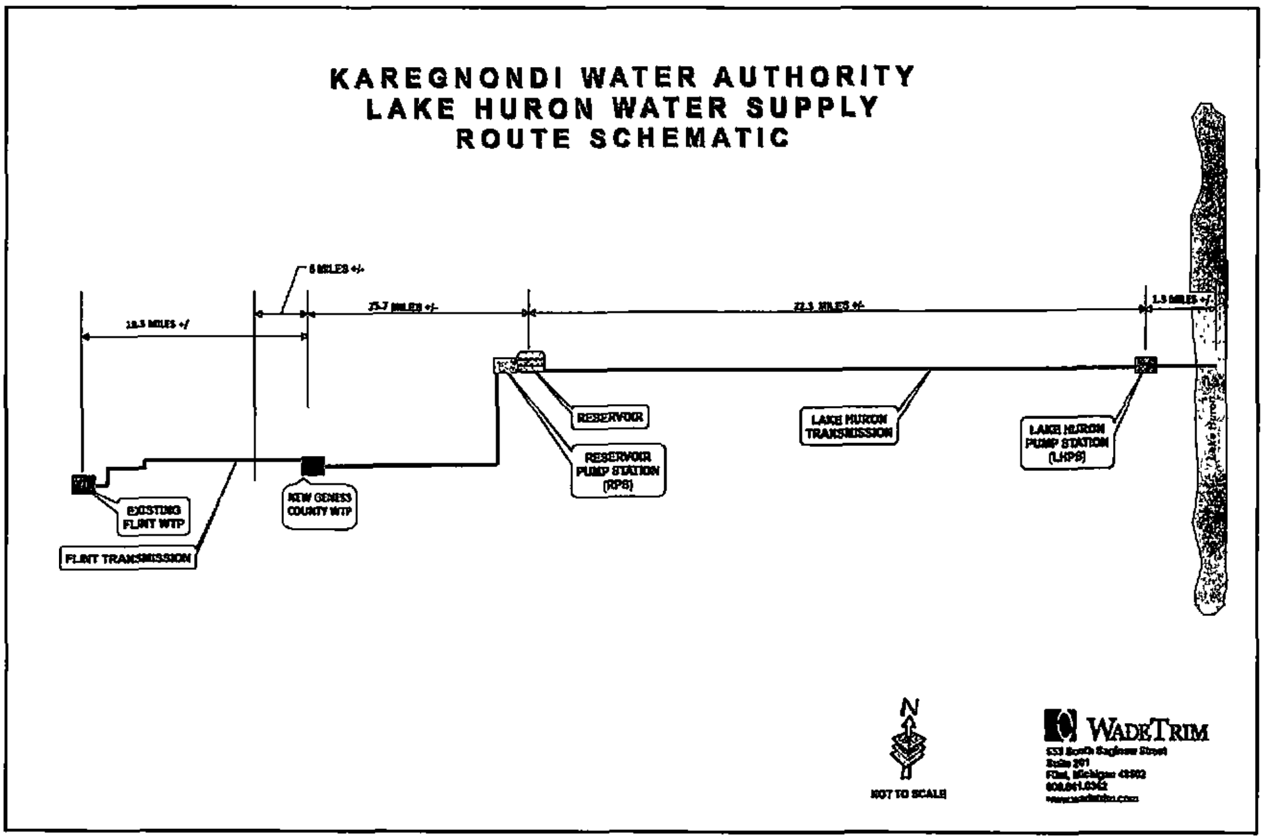

Figure 2-1: KWA Raw Water System

DWSD Water System

The DWSD system schematic is shown in Figure 2-2. Flint is currently supplied by DWSD at Master Meter FL-1, located at Potter and Baxter. Flint typically gets its water from the Lake Huron WTP, located in Fort Gratiot, Michigan; near the Lake Huron shoreline. Water is treated and pumped at the Lake Huron WTP and supplied through a 120-inch pipeline to an intermediate pump station called the Imlay Pump Station. The Imlay Pump Station has 20 MG of reservoir capacity. Depending on the time of year and the DWSD system demand, water is either bypassed directly to Flint or it is re-pumped at Imlay. It should be noted that the DWSD supply to Flint is part of a very large water system and during emergencies or outages water can be supplied from the south up to Flint in lieu of the Lake Huron facility.

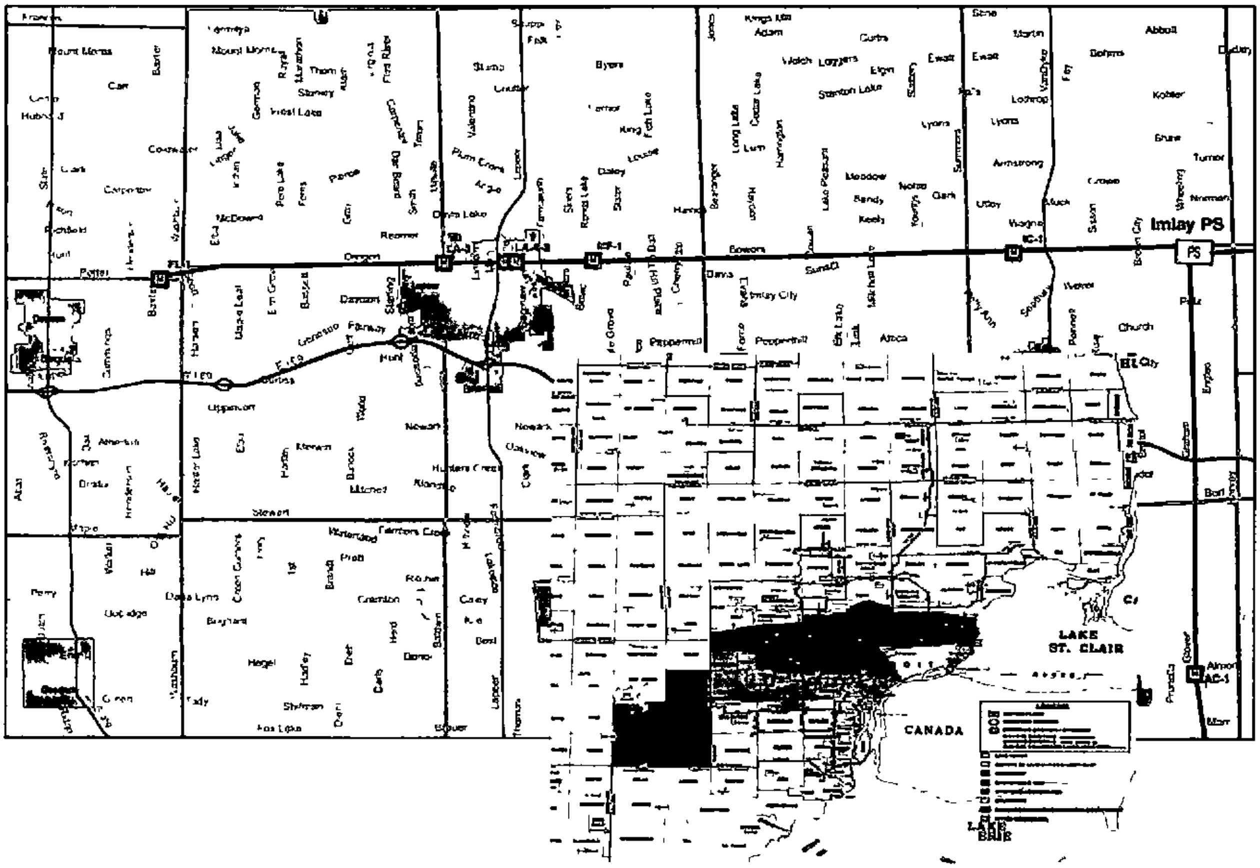

Figure 2-2: DWSD Water System

The pipeline from Imlay to FL-1 is a 72-inch pipeline. It has been estimated that the 72-inch line serving Flint has a capacity in excess of 90 MGD.

DWSD has presented several contractual options to Flint and all of them are based on Flint signing a new 30 year contract. The options shown in Table 2-1 are based on two different supply points; one at the current master meter location FL-1 at Potter and Baxter (P&B) and the other at the location of the Imlay Pump Station. The reason for the varying options is to provide a lower water rate at the Imlay Station, since the DWSD rate formula is based on distance and elevation factors related to the supply location.

The rates are also dependent on the maximum amount of water DWSD supplies. As example, if DWSD supplies a maximum day demand of 18 MGD that would equal the entire amount of water required by Flint.

For the options less than the maximum of 18 MGD means that the Flint WTP would supplement the difference by supplying water treated from the Flint River. These options are known as "blending" and would allow for Flint to blend two sources of water to supply its customers; the Flint River using the Flint WTP and Lake Huron from DWSD system.

Description	Average Day Demand
18 MGD Maximum Day Customer – FL-1	12 MGD
12 MGD Maximum Day Customer – FL-1	8 MGD
8 MGD Maximum Day Customer – FL-1	8 MGD
12 MGD Maximum Day Customer - Imlay	12 MGD
8 MGD Maximum Day Customer - Imlay	12 MGD

Table 2-1: DWSD Supply Options

3. DATA COLLECTION

During the course of the investigation several documents were used to perform the analysis. The names of the documents are listed below for reference.

KWA and Flint

- Preliminary Engineering Report, Lake Huron Water Supply Karegnondi Water Authority, September 2009;
- Analysis of the Flint River as a Permanent Water Supply for the City of Flint, July 2011;
- Cost Comparison, KWA vs. DWSD, Letter to Mr. Kurtz, October 31, 2012;
- Lake Huron Supply Study, KWA, Appendix 20, October 2012 Preliminary Report Update, Final Report (DRAFT), October 4, 2012;
- Articles of Incorporation of Karegnondi Water Authority, endorsed in 2010;
- Karegnondi Water Authority Bylaws, October 26, 2010;
- KWA Raw Water Supply Contract;
- Flint WTP Statement of Revenues and Expenditures 09' – 12';
- GCDC Division of Water and Waste Services Financial Statements 03' – 11'; and
- Assorted emails with further clarification of questions and documentation.

DWSD

- Historical Rates and Charges to Flint 04' – 13';
- Historical Rates and Charges to Flint with Hypothetical Model Contract 10' – 13';
- 2013 Rates and Charges for the following options:
  - 18 MGD Maximum Day Customer at FL-1;
  - 12 MGD Maximum Day Customer at FL-1 (Flint blending*);
  - 8 MGD Maximum Day Customer at FL-1 (Flint blending*);
  - 12 MGD Maximum Day Customer at Imlay (Flint blending*);
  - 8 MGD Maximum Day Customer at Imlay (Flint blending*); and
- Assorted emails with further clarification of questions and documentation.

* Flint blending based on DWSD supplying two-thirds and Flint one-third of 12 MGD average day demand.

Two meetings were also held; one with DWSD and one with Flint and Genesee County representing KWA. The meetings were held on November 19, 2012 and November 20, 2012, respectively. Minutes from these meetings are included in Appendix A.

4. COST OF SERVICE

Information provided by DWSD, Flint, and representatives of the KWA were used in the cost of service evaluation. To evaluate the annual escalation/inflation rate over the planning period, the rate adjustment for DWSD was estimated based on the recent rate adjustment history. For the KWA system both the estimated cost of operations when the system begins supplying water and the annual rate adjustment or inflation was evaluated. The existing cost of operations and escalation for the Flint WTP was based on actual costs provided and then adjusted depending on the scenario considered. This section describes the evaluation process and the rates used in the analysis.

DWSD Water Supply

The City of Flint has been a customer of DWSD since 1967. The Flint WTP has been maintained as a backup to the DWSD system. As indicated previously, several options were provided by DWSD depending on the type of service Flint was to select. The unit cost of water for each of these options is shown in Table 4-1. These rates are based on DWSD's FY13, which are current until July 2013.

Description	Average Day Demand (MGD)	Unit Rate ($/MCF)
18 MGD Maximum Day Customer – FL-1	12	16.37
12 MGD Maximum Day Customer – FL-1	8	16.31
8 MGD Maximum Day Customer – FL-1	8	12.68
12 MGD Maximum Day Customer - Imlay	12	14.38
8 MGD Maximum Day Customer - Imlay	12	11.11

Table 4-1: Cost of DWSD Supply Options

To determine annual escalation rate, DWSD's last 10 years of history was used along with other large urban water systems in Michigan. The water systems used for benchmarking comparison were: Lansing, Grand Rapids, and Saginaw.

Table 4-2 identifies the annual and average rate of increase to Flint based on supplying water either to the current FL-1 at Potter and Baxter or Imlay. Note the last three years of the rates (FY 2011 through FY 2013) assumes that Flint's cost would be based on the new 30 year contract; FY 2011 being the first year that the new contract was available.

Fiscal Year	Average Unit Cost ($/MCF)	Annual Change (%)
2004	11.06	
2005	10.24	-7.4
2006	10.56	3.1
2007	11.09	5.0
2008	11.35	2.3
2009	13.07	15.2
2010	11.73	-10.3
2011	13.89	18.4
2012	15.08	8.6
2013	16.24	7.7
Average		4.4%

From FL-1

Fiscal Year	Average Unit Cost ($/MCF)	Annual Change (%)
2004	11.06	
2005	10.24	-7.4
2006	10.56	3.1
2007	11.09	5.0
2008	11.35	2.3
2009	13.07	15.2
2010	11.16	-14.6
2011	12.23	9.6
2012	13.28	8.6
2013	14.32	7.8
Average		2.9%

From Imlay

Table 4-2: Recent DWSD Water Rates

Audited financial reports were used to determine the rate of inflation associated with other three large municipal systems. The results are shown in Table 4-3.

Water Systems	Years Evaluated	Average Rate (%)
Lansing	05'-12'	4.6
Grand Rapids	04'-11'	1.6
Saginaw	04'-11'	7.0

Table 4-3: O&M Inflation Rates of Other Large Water Systems

Based on the information analyzed from DWSD and the other communities, it was determined that a fair annual rate of inflation for operations and maintenance cost for the analysis should be 4.4%. The 4.4% has historical significance from Flint's current water supplier and falls within the range of the other communities.

KWA Water Supply

The initial projected O&M cost for the KWA supply would be comprised of KWA's O&M costs as well as Flint's O&M costs. Because there was limited information provided, the initial estimated rate of $1.50/MCF was used. This rate is based on information from the cost comparison analysis attached to the letter to Mr. Kurtz, dated October 31, 2012.

The KWA cost evaluation used an annual O&M inflation rate of 5%. To validate this rate a similar analysis to DWSD's operations and maintenance annual rate of inflation was used. First, in discussions with Flint and the Genesee County Drain Commission (GCDC), they believed that the annual rate of inflation for the new KWA system would be similar to the GCDC Water & Waste Services (WWS). Additionally, two large transmission systems were used to benchmark the inflation rates: the Southeastern Oakland County Water Authority (SOCWA) and the Ypsilanti Utility Community Authority (YUCA). Although both of these systems transmit finished water opposed to raw water, they were considered similar enough for comparison as they are comprised of only large water mains, pumping facilities and storage.

Once again audited financial statements were used to calculate the inflation rates. A summary of the findings are shown in Table 4-4. Based on the fact that the information analyzed showed a large difference between the two systems, it was determined that the KWA assumption of 5% was a good rate of inflation to use in the financial analysis. This rate is almost equally between the GCDC rate and the other two transmission systems.

Systems	Years Evaluated	Average Rate (%)
GCDC WWS	03' – 11'	10.5
SOCWA	04'-12'	--
YUCA	04'-12'	0.7

Table 4-4: O&M Inflation Rates of Other Comparable Systems to KWA

Flint WTP

The Flint WTP currently serves as a backup supply to the DWSD service to Flint. To maintain backup operations, the City of Flint operates the plant approximately 20 days each year. Flint indicated that the average production rate when they operate is 11 MGD.

For the blending options and the KWA supply considered, Flint would be required to operate its plant all year around. Therefore, their operating and maintenance costs were evaluated and adjusted to determine an annual cost associated with year-round operations.

The Flint WTP provided three years of operating costs for the assessment. Additionally, reports listed in Section 3 were also used as reference to determine both operating costs for the plant processing Flint River water (blending options) and Lake Huron raw water (KWA option).

Major cost centers were analyzed to estimate annual operation and maintenance. They included: labor, utilities, chemicals and residual management. In general, as recommended by the Flint plant staff, labor and overhead were increased from the current costs by two-thirds. Additionally, variable costs for power, chemicals and residual cost were increased to estimate full time treatment at the Flint WTP. Data from the KWA Preliminary Report and annual operating data for the Flint WTP (provided separately) were analyzed to make these forecasts.

The annual operating and maintenance costs developed for Flint WTP used are shown in Table 4-5.

Source of Supply	Average Daily Production (MGD)	Estimated Annual O&M Cost
Flint River (Blending with DWSD)	4	$5,895,097
Lake Huron (Supplied by KWA)	12	$7,913,118

Table 4-5: FY 13 O&M Costs for Year-round Operations

It was determined that a fair annual rate of inflation for operations and maintenance cost for the Flint WTP plant should be 4.51%. The 4.51% is an average of Lansing, Grand Rapids and Saginaw facilities.

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5. CAPITAL REQUIREMENTS

Large capital investments would be required by Flint and GCDC to construct the KWA supply system. Furthermore, some of the options presented by DWSD (supply point from Imlay) would require the purchase by Flint of DWSD's 72-inch water main. Performing the financial analysis; therefore, required an analysis of the KWA construction cost estimate for the transmission system and Flint WTP improvements.

Revenue bonds were also identified as the source of financing the new supply system and associated improvements. This section describes the assumptions made and the interest used for financing the improvements.

KWA Supply System

The most current cost estimate of the KWA system was presented in the document titled; Lake Huron Supply Study, KWA, Appendix 20, October 2012 Preliminary Report Update, Final Report (DRAFT), October 4, 2012. The cost of construction is estimated at $272,421,558. Flint's portion would be 30% or $81,726,467.

Due to the significance of this expenditure, a detailed review of the cost was performed and is presented in this section. The analysis was performed based on the main elements of the supply system: the lake intake, the two pumping stations, and the transmission pipeline. Additionally, an analysis was performed related to construction contingencies and other costs such as engineering, legal, and administration.

Lake Intake

KWA representatives indicated in a meeting in November that the design documents for the intake were at 90% and that it was planned for advertisement in January 2013. A summary of the estimate is shown in Table 5-1.

Description	Estimate
Intake and Crib	$22,076,850
ELAC at 25%	5,519,213
Property	2,300,000
Total	**$29,896,063**

Table 5-1: KWA Intake Cost Estimate

Based on the evaluation, it appeared that the cost estimate was reasonable. Given that the design was nearly complete, the engineering, legal, administration, and construction contingencies (ELAC) at 25% were also found to be appropriate.

Pumping Stations

KWA representatives indicated that the pump stations were estimated at a level of design less than 15%. Therefore, in addition to an evaluation of their cost estimate, other water pumping station costs were used for comparison. Additionally, contractors were also contacted for costs. Table 5-2 summarizes the KWA cost estimate compared to our cost estimate performed for the Treasury.

Description	KWA	Estimate	TYJT	Estimate
Pumping Stations		$24,618,080		$54,573,314
Land for Intermediate Pump Station and Reservoir		–		75,000
Subtotal		$24,618,080		$54,648,314
ELAC for Construction	25%	6,154,520	30%	16,394,494
Total		**$30,772,600**		**$71,042,808**

Table 5-2: Pumping Stations Cost Estimate

Two things to note regarding the difference in the cost estimates; firstly, there is a large difference in the cost estimates of the pumping stations. The estimate developed for the Treasury used several other pumping stations construction costs from Southeastern Michigan and discussions with contractors. These costs were then computed on a $/MG's for comparison.

Secondly, our estimate for the Treasury is based on an ELAC of 30% instead of KWA's 25%. Although 25% was acceptable for the intake, it is believed to be too low for the pumping station estimate given that the engineering effort is less than 15%.

Transmission Main

Although the specific route for the transmission main was not provided, an estimate was calculated based on the general information provided. Once again, the KWA estimate was based on a level of design less than 15%. The estimate performed for the Treasury used the line items provided by KWA for the pipeline and also consulted with contractors to evaluate the cost of construction. The comparison is shown in Table 5-3.

Although the cost of construction of the pipeline is similar, a value of 30% was used for ELAC due to the level of design. Additionally, KWA did not believe there would be any additional costs for easements; however, this did not seem practical. Therefore an estimate for acquiring the easements was added to the Treasury estimate and is based on the 277 easements identified by KWA. The cost shown includes surveying, legal, engineering, administration, etc.

Description	KWA	Estimate	TYJT	Estimate
Transmission Mains		$166,202,316		$167,419,530
ELAC for Construction	25%	41,550,579	30%	50,225,859
Subtotal		$207,752,895		$217,645,389
Easements		--		1,166,170
Total		**$207,752,895**		**$218,811,559**

Table 5-3: Transmission Pipeline Cost Estimate

Other KWA Costs

In prior estimates of the construction cost, KWA used an ELAC of 37%. In this case it could be considered that the engineering effort associated with the design would have been included. However, it is believed that KWA's reduced ELAC of 25%, does not include the design effort. Additionally, it would be prudent to assume that the owner would want a construction manager during construction of this large project. A summary of these costs are shown in Table 5-4.

Description	Estimate
Design Engineering for Pumping Stations and the Transmission Pipeline	$16,939,581
Construction Management at 5%of Project Cost Estimate of $217,645,389	14,434,609
Administration	349,440
Legal, Easements, Contract Documents	831,000
Total	**$32,554,630**

Table 5-4: Other Costs

Summary Comparison

A summary of the two cost estimates are shown in Table 5-5. Based on the comparison, the estimate performed by TYJT shows a higher cost to Flint by approximately $25,000,000.

Note that there are two other costs shown in the summary that were not previously addressed; power and backup power. Regarding the cost of providing power to the pumping facilities, the cost of $4,000,000 appears reasonable.

The KWA has repeatedly indicated that backup power is not needed. Backup power is a standard practice in the water industry. Furthermore, a loss of power at either pumping facility will prevent the supply of water to both Flint and Genesee County. For these reasons, the cost of providing backup power was included in our estimate for the Treasury.

Description	KWA Estimate	TYJT Estimate
Intake/Crib	$ 27,596,063	$ 27,596,063
Pump Stations	30,772,600	71,042,808
Transmission Mains	207,752,895	217,645,389
Power	4,000,000	4,000,000
Redundant Power for PS		1,273,200
Land for Lake Huron Pumping Station	2,300,000	2,300,000
Design Engineering/PS and Transmission		16,939,581
Construction Management		14,434,410
Administration		349,440
Legal/Easement/Contract Documents		831,000
Easements		1,166,170
Total	**$ 272,421,558**	**$ 357,578,060**
Flint Share at 30%	**$81,726,467**	**$107,273,418**

Table 5-5: Total Cost Comparison

Flint WTP Improvements

The KWA analysis identified capital costs required to convert the existing WTP from river water treatment to treating lake water. The cost estimate was identified as $7,100,000 in the 2009 report. This number was used in the our analysis, since additional information was not provided. For the purpose of the financial analysis; however, the $7,100,000 was increased by 3% each year for three years to account for inflation.

DWSD Imlay Station Supply Options

The options identified by DWSD to supply service to Flint at the Imlay Pump Station would require Flint to purchase the 72-inch water main from Imlay to Master Meter, FL-1. The pipeline is approximately 25 miles long. The estimated cost provided by DWSD for estimating purposes is $4,700,000.

Financing

The cost of financing the revenue bonds for the capital work was investigated. Based on conversations with local financial advisors knowledgeable in bond financing, an interest rate of 5% for the 25 year period was considered acceptable. This is based on a Standard and Poor's bond rating of A without insurance.

Additional costs associated with the bond include the reserve and bond issuance fee. The bond holders will require a reserve of approximately 10% of the loan to be held for the 25 year payment period. The cost associated with the bond issuance has been estimated at 2.25% of the principal borrowed for the KWA project and 3% for the smaller loan associated with the Flint WTP improvements or the purchase of the 72-inch main.

Furthermore, since no revenue will be generated to pay on the bonds for the first three years that the system is being constructed, the cost associated with capitalizing the interest was also included.

Finally, interest on the reserve will be provided back to KWA and Flint. Although the interest is currently less than 1%, it was determined that a 3% rate would be more prudent long-term.

6. FINDINGS

Using the information described in the previous sections, a cost evaluation was conducted for the KWA supply and the DWSD options. Individual worksheets for each option are provided in Appendix B. For the purpose of comparison a 30 year period was used. This period includes the 3 year construction period, the 25 loan period and an additional two years to get a sense of the cost of operation after the loans have been paid.

There were three separate cost sheets prepared for the KWA option. The first cost sheet (KWA) is based on the cost estimate provided by KWA. The costs provided assumed no overruns or delay in construction. With KWA's own assumptions of an overrun in construction of 15% and a one year delay in operations, the KWA estimated cost becomes $686,375,920 through Year 2042.

Since this cost estimate did not appear to include the financing of revenue bonds, another cost sheet (KWA-1) was developed that included KWA's cost estimate without overruns with the additional finance costs associated with the revenue bonds. A final cost sheet (KWA-2) includes the cost associated with the revenue bonds based on the estimate provided by TYJT for the Treasury.

A summary of the cost sheets provided in Appendix B are shown in Table 6-1. Figure 6-1 shows the cumulative annual costs associated with each option.

Option	Costs through 2042 ($)	Ranking by Cost
DWSD 8 MGD Maximum Day at Imlay Station	634,795,488	1
KWA *(10/31/12 No Overruns, As Provided)**	649,775,166	2
DWSD 8 MGD Maximum Day at FL-1	672,671,705	3
KWA-1 *(10/31/12 No Overruns with Cost of Financing)*	707,279,715	4
DWSD 12 MGD Maximum Day at Imlay Station	725,576,803	5
DWSD 12 MGD Maximum Day at FL-1	762,110,308	6
KWA-2 *(Treasury Estimate)*	766,784,313	7
DWSD 18 MGD Maximum Day at FL-1	821,226,268	8

* $686,375,920 with 15% overrun in construction and a one year delay in operations

Table 6-1: Total Cost of Options through 2042

Based on the analysis, it is prudent to assume the KWA water supply option costs would be somewhere between the KWA-1 and KWA-2 options. Therefore, the analysis indicates that the two DWSD options of supplying 8 MGD on a maximum day and up to 8 MGD on average are the least cost options for Flint. These options allow Flint to maximize the use of existing assets; the City of Flint's (the Flint WTP) and DWSD's (the existing 72-inch main).

Additionally, in recent conversations with the Treasury another option was discussed that could potentially be the most cost-effective solution. Currently the Flint WTP serves as a backup if service is lost through either the DWSD or KWA pipeline. If the a twin pipe paralleling the DWSD 72-inch water main were constructed with interconnects with the 72-inch line, then the new water main could serve as the backup to Flint and the Flint WTP could be abandoned or potentially sold to Genesee County for their use.

The construction of the parallel pipeline would be considered in the DWSD capital expenditure as a Common to All (CTA) cost. This means that the capital cost of the pipeline would be shared by all DWSD customers and not just by Flint. Preliminary analysis of this option appears to be the most cost-effective of all the options discussed. However, a more thorough cost analysis is warranted and this approach would require an agreement between Flint and DWSD.

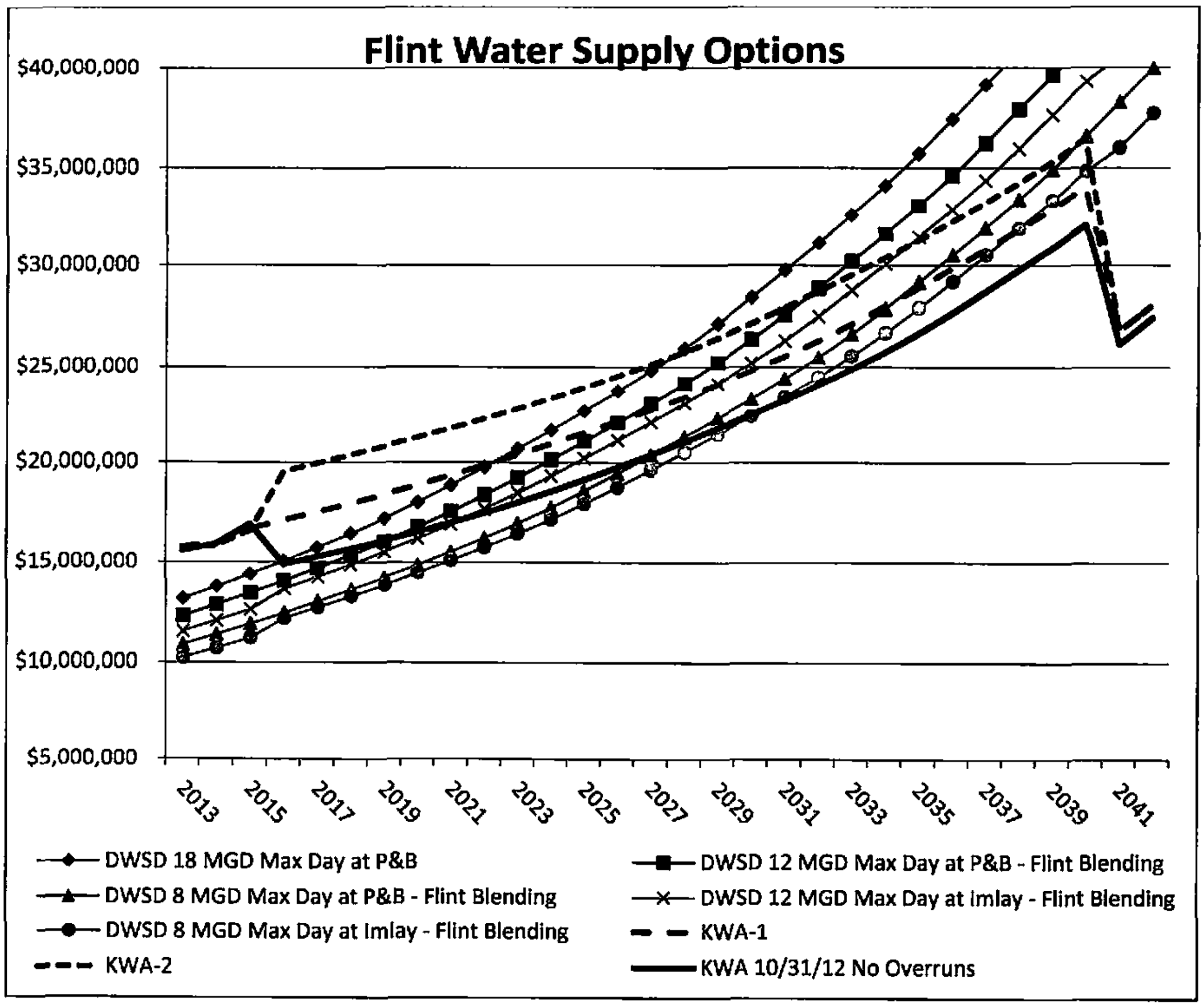

Figure 6-1: Flint Water Supply Options through 2042

7. *OTHER CONSIDERATIONS*

As part of the investigation other issues were identified that may result in risks to Flint that should be considered by the Treasury in determining how Flint's potable water should be supplied. These issues are related to redundancy and reliability, other items affecting cost, and Flint's desire to control its own destiny related to its water supply. These are described further below.

Redundancy/Reliability

In one of the first meetings related to this task assessment, which was held on November 1, 2012, the Genesee County Drain Commissioner, Mr. Jeff Wright, stated that one of the main reasons for pursuing the KWA supply option related to the lack of reliability of the DWSD system. He pointed to the Northeast blackout of 2003; a widespread power outage that occurred throughout parts of the Northeastern and Midwestern United States and Ontario, Canada, on Thursday, August 14, 2003. He stated that Flint and Genesee County were out of water for several days.

It is worth noting that this was a power outage of historic proportions that affected millions of Americans. However, DWSD did begin supplying water again relatively quickly in comparison to other major cities impacted by the same power outage.

Furthermore, the KWA supply system offers less redundancy to Flint than the current DWSD system. Under both options, Flint is supplied by a single pipeline; however, DWSD has backup power at all of its major facilities supplying Flint. The KWA system will not have a redundant power at its pumping facilities. This would be a major risk.

Currently, backup to the DWSD system for Flint is Flint's WTP using the Flint River as the source of supply. KWA has stated that the Flint River source would also be used as backup to Flint if the KWA supply through its pipeline was lost. However, since the Flint WTP would be upgraded to treat Lake Huron water under the KWA option, using the Flint River as a backup source would require the Flint WTP to maintain two process treatment streams.

In addition to Flint and Genesee County, the DWSD's 72-inch main supplies Imlay City, Mayfield and the Greater Lapeer County Utilities Authority (GLCUA). The volume of water contained within the 72-inch main is approximately 30 MG. Only supplying these three remaining communities would cause the water age to increase dramatically; somewhere in excess of three weeks old, before reaching the customers' master meters. Since the half-life of chlorine in the DWSD system is approximately 5 days, the chlorine would most probably be near zero requiring re-chlorination of the finished water upstream of the master meters.

Re-chlorinating is a costly and risky process due to the instability of chlorine gas. It is unknown whether DWSD would pursue this improvement or possibly abandoned the 72-inch pipeline.

If Flint is supplied by the KWA system, then DWSD supplying their other customers along the 72-inch water main may be reconsidered. Since the KWA system is a raw water supply, the communities would either have to build a treatment facility to treat the water from KWA or find another water source for their communities.

Additional Cost and Risk Considerations

The design of the KWA supply and the construction of the system have not been completed; therefore, final costs and time to complete are unknown. Cost overruns and delays in completion will both negatively impact Flint's final cost. As example, if the project is not completed within the three year period, payment on the bonds will be due, but the revenue source needed from the sale of water could not be provided.

Furthermore, there is always a risk with large water system construction; especially those including an intake in the Great Lakes, pumping stations and rehabilitation of older water treatment plants. These risks include the potential of explosive gases in tunneling below Lake Huron, changing site conditions associated with the large number of miles of pipe installation and rehabilitating an older WTP, and the startup and debugging of the entire pumping system.

Flint has indicated that they have a high water loss. Not addressing this issue prior to sizing the Flint supply pipeline from KWA could cause the water main to be oversized along with its incremental cost in construction.

Also, the KWA supply option appears to run counter to the Treasury's Competitive Grant Assistance Program (Formerly EVIP Grant). This program has been put in place to allow for communities to consolidate their services and save money. Two existing customers of DWSD (Flint and Genesee County) along with the potential of others customers (GLCUA, Mayfield, Imlay City) separating to from another water system is in contradiction to the program.

Finally, there is a concern over the ability of smaller systems (KWA) over larger systems (DWSD) to pay for future unfunded mandates and regulations. Obviously, identifying regulation requirements over 30 years is hard to determine. However, it is widely accepted that a large system has greater ability to respond to unfunded mandates because the cost can be distributed over a large customer base.

Flint's Autonomy

Flint has indicated that a major point of consideration is that they have no control over the rate increases issued to Flint by DWSD. All other counties supplied by DWSD have representatives on the Board of Water Commissioners (BOWC). The BOWC is one of the governing bodies that approve the water rates. Since Flint and Genesee County do not have a representative on the BOWC, Flint believes they are held "hostage" to DWSD's rates and cost of service.

This issue was stated in Flint's handout at the November 1, 2012 meeting. The handout is titled, "Flint Water Supply Future." However, it is worth noting in the same handout, Flint also identifies similar concerns with the governing board of the KWA system. Notably, that although Flint and Genesee County will be the only customers and Flint will be responsible for 30 percent of the construction cost, they will have a minority vote on the KWA board. Furthermore, there are other communities (Lapeer County, the City of Lapeer, and Sanilac County) that sit on the board and vote. However, they are not purchasing water nor contributing to the construction costs.

STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT

State of Michigan, Department of Treasury

Appendix A: Meeting Minutes

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MEETING MINUTES

IN ATTENDANCE: Sue McCormick, DWSD Director
Darryl Latimer, DWSD Deputy Director
George Karmo, TYJT
Awni Qaqish, TYJT
Dave Guastella, TYJT

DATE: November 24, 2012

PURPOSE OF MEETING: Meeting with DWSD for the Indefinite-scope, Indefinite-delivery Contract Number 00383, 2012 Professional General Architectural/Engineering Services – City of Flint Water Supply Assessment

PREPARED BY: Dave Guastella

A meeting was held at the DWSD Main Office Building on November 19, 2012 to discuss the water supply options being presented by DWSD to the City of Flint. The main items discussed generally followed the attached DWSD Discussion/Questions that were provided to the Department prior to the meeting. A summary of the key points discussed are provided below.

DISCUSSION ITEMS

1. Question/Discussion Item: Verify that the four options presented at the November 1, 2012 meeting are still available for consideration:

   a. Supplied from Potter & Baxter using the new model contract (assume a Maximum Day Customer),

   b. Supplied from Imlay Station,

   c. Finished un-pumped supply from Lake Huron WTP, and

   d. Raw un-pumped supply from Lake Huron WTP.

   DWSD prefers to focus on the first two supply point listed; from the current location at Potter & Baxter and at the Imlay Pump Station as these apply specifically to Flint.

   DWSD provided the attached summary regarding the current costs to Flint based on the various options that DWSD is offering. The savings associated with each option is provided as well. As example, if Flint were to purchase water from the supply point located at Imlay Station, the current cost to Flint would be $5,661,000 and it would be a savings of nearly 50%

compared to Flint's current rate.

2. Question/Discussion Item: What additional capital improvements will be required for each option?

   If Imlay Pump Station is selected as the supply point then Flint would need to purchase the 72-inch water main and an agreement to supply Lapeer would need to be worked out. DWSD believes that this could be worked out through a "wheeling" charge over the 72-inch main or possibly moving the supply point downstream of the Lapeer connection.. DWSD estimates the value of the water main at $4.7M. Flint could bond for this amount or DWSD could include the cost into Flint's rate.

3. Question/Discussion Item: Are there other options being presented that should be considered (e.g., blending)?

   Only the two options indicated above are currently being considered and both would include blending; DWSD providing 2/3 of the supply and the Flint WTP providing the other 1/3.

4. Question/Discussion Item: To evaluate each option over the 25 year planning period, provide:

   a. Annual water rate for Flint for 2002 through 2012, and the

   b. Projected annual rate adjustment for each option. What are the proposed measures to keep the rate adjustments down in the future?

   DWSD provided the attached historical rates from 2002 through 2012 for the existing water contract with Flint. The attachment also includes what the rates would have been if Flint had signed the new model contract or had taken service from Imlay. These rates were provided back to 2010.

   DWSD believes that 5% would be a good estimation to assume for their annual escalation in rates over the 25 year planning period.

5. Question/Discussion Item: Flint stated a 10% increase in the capacity charge. What number did DWSD provide Flint?

   It was unclear to DWSD where the 10% increase in capacity charge stated by Flint came from. DWSD's information provided shows an average of 6.3%. DWSD offered a meeting with TYJT to discuss how the fixed and commodity charges are allocated.

6. Question/Discussion Item: Flint financial comparison is based on the initial Cost of $14,413,858, which includes $2,725,538 for Flint WTP operating cost; i.e, DWSD charge is $11,688,320. How good is this number?

   DWSD indicated that the charge of $11,638,320 is good through 6/30/13.based on their existing contract with DWSD.

7. Question/Discussion Item: KWA's initial charge to Flint is based on 12 MGD. Is DWSD charge

based on 12 MGD?

Yes, 12 MGD from DWSD would be a maximum with Flint supplying 6 MGD for a total of 18 MGD (2/3 vs. 1/3).

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Indefinite-scope, Indefinite-delivery Contract Number 00383
2012 Professional General Architectural/Engineering Services

CITY OF FLINT WATER SUPPLY ASSESSMENT

DWSD Discussion/Questions for the November 19, 2012 Meeting

1. Verify that the four options presented at the November 1, 2012 meeting are still available for consideration:
   c. Supplied from Potter & Baxter using the new model contract (assume a Maximum Day Customer),
   d. Supplied from Imlay Station,
   e. Finished un-pumped supply from Lake Huron WTP, and
   f. Raw un-pumped supply from Lake Huron WTP.
2. What additional capital improvements will be required for each option?
3. Are there other options being presented that should be considered (e.g., blending)?
4. To evaluate each option over the 25 year planning period, provide:
   g. Annual water rate for Flint for 2002 through 2012, and the
   h. Projected annual rate adjustment for each option. What are the proposed measures to keep the rate adjustments down in the future?
5. Flint stated a 10% increase in the capacity charge. What number did DWSD provide Flint?
6. Flint financial comparison is based on the initial Cost of $14,413,858, which includes $2,725,538 for Flint WTP operating cost, i.e DWSD charge is $11,688,320. How good is this number?
7. KWA's initial charge to Flint is based on 12 MGD. Is DWSD charge based on 12 MGD?

Comments: Meeting minutes were recorded based on the understanding of the author. Please contact the author within three days if you have any different understanding of the meeting. These minutes will be considered approved unless comments are provided within three days.

Summary of DWSD Cost Allocations to Flint Under Various Scenarios
Flint Only

	Revenue Requirement	Rates and Charges Fixed	Commodity	Avg Unit Cost
1 **Status Quo**	11,461,700	357,271	12.46	19.91
2 **Model Contract**	9,732,100	275,517	11.16	16.90
3 Change	(1,729,600)	(81,754)	(1.30)	(3.00)
4 % Change	*-15.1%*	*-22 9%*	*-10 4%*	*-15.1%*
5 **Max Day Only**	9,424,700	271,010	10.72	16.37
6 Change	(307,400)	(4,507)	(0.44)	(0.53)
7 % Change	*-3.3%*	*-1 7%*	*-4.1%*	*-3.3%*
8 **Allow Blending**	6,302,800	182,369	10.72	16.42
9 Change	(3,121,900)	(88,641)	0.00	0.05
10 % Change	*-49 5%*	*-48.6%*	*0.0%*	*0 3%*
11 **Imlay City Connections**	5,800,700	170,912	9.77	15.11
12 Change	(502,100)	(11,457)	(0.95)	(1.31)
13 % Change	*-8.7%*	*-6.7%*	*-9 7%*	*-8.7%*
14 Cumulative Change	(5,661,000)	(186,359)	(2.69)	(4.80)
15 Cumulative %Change	*-49.4%*	*-52.2%*	*-21.6%*	*-24 1%*

	Assumptions Avg Day *mgd*	Max Day *mgd*	Peak Hour *mgd*	Distance *miles*	Elevation *feet*	Sales *mgd*
1 **Status Quo**	11.8	21.6	22.6	52.0	866	**11.8**
2 **Model Contract**	11.8	**17.9**	**18.8**	52.0	866	11.8
3 **Max Day Only**	11.8	17.9	**17.9**	52.0	866	11.8
4 **Allow Blending**	7.9	**11.9**	**11.9**	52.0	866	7.9
5 **Imlay City Connections**	7.9	11.9	11.9	**45.2**	**866**	7.9

Recent DWSD Water Rates to Flint

FY	Rates and Charges			Annual Change			Average
	Fixed	Commodity	Avg Unit Cost	Fixed	Commodity	Avg Unit Cost	Annual Change
	$/mo	*$/Mcf*	*$/Mcf*	*$/mo*	*$/Mcf*	*$/Mcf*	
As Charged							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		14.32	14.32			9.6%	
2011	182,301	14.29	16.01		-0.2%	11.8%	
2012	443,096	13.36	17.53	143.1%	-6.5%	9.5%	
2013	707,000	12.46	19.12	59.6%	-6.7%	9.1%	**6.3%**
Hypothetical Model Contract							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		***13.96***	***13.96***			6.8%	
2011	***145,918***	***13.74***	***15.28***		-1.6%	9.5%	
2012	***378,968***	***12.58***	***16.57***	159.7%	-8.4%	8.4%	
2013	***597,323***	***11.63***	***17.93***	57.6%	-7.6%	8.2%	**5.5%**

Recent DWSD Water Rates to Flint

	Rates and Charges			Annual Change			Average
FY	Fixed	Commodity	Avg Unit Cost	Fixed	Commodity	Avg Unit Cost	Annual Change
	$/mo	$/Mcf	$/Mcf	$/mo	$/Mcf	$/Mcf	
As Charged							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		14.32	14.32			9.6%	
2011	182,301	14.29	16.01		-0.2%	11.8%	
2012	443,096	13.36	17.53	143.1%	-6.5%	9.5%	
2013	707,000	12.46	19.12	59.6%	-6.7%	9.1%	6.3%
*Hypothetical Model Contract - **Flint Only***							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		*11.73*	*11.73*			-10.3%	
2011	*70,060*	*12.45*	*13.89*		6.1%	18.4%	
2012	*175,882*	*11.47*	*15.08*	151.0%	-7.9%	8.6%	
2013	*272,923*	*10.65*	*16.24*	55.2%	-7.1%	7.7%	4.4%

Recent DWSD Water Rates to Flint

FY	Fixed	Commodity	Avg Unit Cost	Fixed	Commodity	Avg Unit Cost	Average Annual Change
	Rates and Charges			Annual Change			
	$/mo	*$/Mcf*	*$/Mcf*	*$/mo*	*$/Mcf*	*$/Mcf*	
As Charged							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		14.32	14.32			9.6%	
2011	182,301	14.29	16.01		-0.2%	11.8%	
2012	443,096	13.36	17.53	143.1%	-6.5%	9.5%	
2013	707,000	12.46	19.12	59.6%	-6.7%	9.1%	**6.3%**
*Hypothetical Model Contract - **Flint Only @ Imlay***							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		***11.16***	***11.16***			-14.6%	
2011	***65,919***	***10.88***	***12.23***		-2.5%	9.6%	
2012	***165,275***	***9.89***	***13.28***	150.7%	-9.1%	8.6%	
2013	***255,580***	***9.09***	***14.32***	54.6%	-8.1%	7.8%	**2.9%**

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JACKSON, TULL INC.
CONSULTING ENGINEERS-PLANNERS
565 E. Larned Suite 300
Detroit, Michigan 48226
(313)963-0612 FAX (313)963-2156

MEETING MINUTES

IN ATTENDANCE: Ed Kurtz; Flint Emergency Financial Manager, City of Flint
Dayne Walling; Mayor, City of Flint
Mike Brown, City of Flint
John O'Brien, Genesee County
Howard Croft, City of Flint
Dwayne "Duffy" Johnson, City of Flint
Brent Wright, City of Flint
Awni Qaqish, TYJT
Dave Guastella, TYJT

DATE: November 24, 2012

PURPOSE OF MEETING: Meeting with the City of Flint for the Indefinite-scope, Indefinite-delivery Contract Number 00383, 2012 Professional General Architectural/Engineering Services – City of Flint Water Supply Assessment

PREPARED BY: Dave Guastella

A meeting was held at the City of Flint Municipal Center on November 20, 2012 to discuss the water supply option being presented by the Karegnondi Water Authority (KWA) to the City of Flint. The main items discussed generally followed the attached KWA Discussion/Questions that were provided to City prior to the meeting. A summary of the key points discussed are provided below.

The questions submitted are repeated in the Discussion Items for easy reference. A summary of the action items generated from the meeting follow the Discussion Items.

DISCUSSION ITEMS

1. Question/Discussion Item: Is the maximum day demand of 18 MGD for Flint the maximum day demand (MDD) throughout the 25 year planning period? If not, what is the 25 year projected MDD?

   KWA would supply up to 18 MGD. 18 MGD has been assumed as the maximum day demand and 12 MGD is assumed as the average day demand throughout the 25 year planning period.

2. Question/Discussion Item: Copy of the intake contract documents and engineer's estimate.

   The intake contract documents are approximately 90% complete and are not available for distribution. However, the updated Appendix 20, dated October 4, 2012 includes the most recent cost estimate of the intake based on the current design in process.

Comments: Meeting minutes were recorded based on the understanding of the author. Please contact the author within three days if you have any different understanding of the meeting. These minutes will be considered approved unless comments are provided within three days.

3. <u>Question/Discussion Item:</u> Documentation of the Flint WTP improvements required and cost estimate.

   The costs are approximately $7M as presented in the September 2009 Preliminary Engineering Report. However, this estimate has been updated. Some processes have been eliminated. John O'Brien will provide the updated costs and the description of the planned improvements to the plant.

4. <u>Question/Discussion Item:</u> Confirm Flint's allocated percentage of the KWA capital improvements (30%?).

   Yes, the allocation is based on 18 MGD/60 MGD total capacity.

5. <u>Question/Discussion Item:</u> Copy of the proposed KWA operating agreement for Flint.

   John O'Brien will provide the operating agreement as well as the Capacity Contract and Articles of Incorporation.

6. <u>Question/Discussion Item:</u> What is the annual operating agreement adjustment projected for the 25 year planning period?

   This information is provided in Appendix 14, Table 14.2 of the September 2009 Preliminary Engineering Report. Operating cost based on Table 1. Used 12 MGD as average day demand (ADD). Assumed 5% as the annual increase in operating costs. John O'Brien indicated that these operating costs were based on Genesee County's operating costs. John O'Brien will provide the last 10 years of audited financial statements for the water fund.

   To assess operating and maintenance costs for the Flint WTP, Duffy will provide multiple years of financial statements for the water fund. Duffy did not believe they had 10 years, but they will provide what they have.

   Regarding operation and maintenance costs, Flint believes that these costs will increase by 2/3 of what they are now.

7. <u>Question/Discussion Item:</u> Need the route of the pipelines and the locations of the facilities proposed. Purpose is to identify constraints that impact costs (i.e., utilities, environmental (e.g. wetlands), easements, etc.).

   KWA will not release the route due to concerns regarding speculation of land and easements. John O'Brien did indicate that the Lake Huron pump station would be at Fisher and M-25. The intermediate pump station site is near a location of the Lapeer/Sanilac/St. Clair border; where all three meet.

8. <u>Question/Discussion Item:</u> KWA's initial charge to Flint is based on a 12 MGD average day demand. What is the basis of this number? Are there population projections and water use figures available that were used to determine the Flint demand for the 25 year planning period?

This was answered in Question No. 1 above.

9. Question/Discussion Item: Is there a transition plan and cost during construction of the KWA system identified?

   Flint is looking for an agreement with DWSD for back-up supply from the 72-inch main at the Genesee border.

10. Question/Discussion Item: The October 4, 2012 Preliminary Engineering Report Update states: "no backup power is planned for the pumps" (LHPS) and "No backup power is planned for pumping" (IPS). In case of power loss, how would Flint supply its customers?

    Flint indicated that they have adequate storage to supply the system for 6 to 7 days. Flint has 55 MG of storage and Genesee County has 65 MG for 2.5 days.

11. Question/Discussion Item: The latest plan shows only a 5 million gallon ground reservoir is planned for balancing between LHPS and IPS. How is redundancy maintained?

    In cases of emergency, Flint indicated that the back-up for the KWA system will be the same as it is now with DWSD; they will use the Flint River as the source water. Flint currently operates their plant four times a year.

    When questioned as to whether the WTP will be able to treat both lake water from the KWA system and river water Flint indicated that once the improvements identified in the September 2009 Preliminary Engineering Report are completed they will be able to accomplish both treatment processes. Flint will provide a schematic of the treatment trains at the WTP and a copy of the Flint transmission system.

    Genesee County indicated that additional redundancy would also be provided from the new Genesee County WTP.

    Regarding hydraulic transients; Genesee County indicated that a model analysis has not been included, but capital costs for mitigating transients have been included.

12. Question/Discussion Item: Related to the construction cost:

    a. Does it include an additional traffic lane since the construction will occupy half the right of way? *Not required, all roads are county roads; however, there are a few State road crossings.*

    b. Does it include costs/fees for permit requirements such as inspection cost by the jurisdictional authorities? As a point of reference, the permit fee costs for the Flint Transmission System came out to be $5.8 million. *Not required; all of the counties have waived any fees.*

    c. Does the cost of the steel pipe segments include corrosion protection measures such as anode stations and related O&M? *Yes; however, the KWA has not settled on using steel pipe. PCCP pipe may be used. Steel shown in estimate because it is highest in cost and therefore the pricing is conservative.*

d. SCADA monitoring stations require power. Is the cost of bring power to the SCADA stations included? Again, as a point of reference for the Flint Transmission System we estimated $800,000 for power to SCADA and valve operators. *Yes, Genesee County did emphasize that the SCADA system will be simple and straightforward because a lot of controls are not required.*

e. Other items discussed at the meeting included:

- The 2009 plant improvement cost is still good; however, there will be some reduction, such as a sulfuric chloride feed system that was eliminated. Plant capacity now is 36MGD, but will be 18 MGD.
- The KWA Lake Huron Pumping Station (LHPS) is now only high lift pump station.
- Genesee County will provide the distance of the intake pipe from the crib to the LHPS.
- The intake project is almost ready to bid; waiting for the COE permit.
- Genesee County is estimating the construction for the pipe lines and pump stations will begin July 2013.
- The route has been flown for survey.
- Genesee County is estimating construction will be complete and the project will be placed in service by Jan 2016.
- Genesee County to provide a list of assumptions that the $272 million cost estimate is based on since the route is now known.

13. The Flint River is identified as a backup: At what capacity? MDD or emergency supply?

    The Flint River would serve as a back up supply.

14. Where did the 40 years come from (Flint hostage to Detroit)? DWSD's new contracts are 30 years with openers to revise terms of supply (volume and pressure) after the first two years, then three years, and then in five year increments thereafter.

    The 40 years was stated in error. The reference was to DWSD's requirement to sign a 30 year contract.

    After 40 years Flint will own 30% of the project and can sell their share of ownership if they want. Conversely, with DWSD, they continue to pay for the capital projects but have no ownership. Flint believes they will know what they will be charged for the next 25 years versus DWSD that can't commit to a fixed escalation.

Action Items for Follow-up		
Items:	***Assigned To:***	***Date to Complete***
1. Updated Costs for the Flint WTP Improvements and a description of the improvements.	John O'Brien	11/21/12
2. KWA Operating Agreement, Capacity Contract and Articles of Incorporation.	John O'Brien	11/20/12
3. Provide the last 10 years of audited financial statements for the Genesee water fund.	John O'Brien	11/20/12
4. Provide multiple years of financial statements for the City of Flint water fund.	Duffy Johnson	11/26/12
5. Provide schematic of the Flint WTP and a map of the Flint transmission system.	Brent Wright	11/26/12
6. Provide the length of the intake pipe from the crib to the pump station.	John O'Brien	11/20/12
7. Provide a list of assumptions that the $272 million cost estimate is based on since the route is now known.	John O'Brien	11/26/12

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Indefinite-scope, Indefinite-delivery Contract Number 00383
2012 Professional General Architectural/Engineering Services

CITY OF FLINT WATER SUPPLY ASSESSMENT

KWA Discussion/Questions for the November 20, 2012 Meeting

1. Is the maximum day demand of 18 MGD for Flint the maximum day demand (MDD) throughout the 25 year planning period? If not, what is the 25 year projected MDD?
2. Copy of the intake contract documents and engineer's estimate.
3. Documentation of the Flint WTP improvements required and cost estimate.
4. Confirm Flint's allocated percentage of the KWA capital improvements (30%?).
5. Copy of the proposed KWA operating agreement for Flint.
6. What is the annual operating agreement adjustment projected for the 25 year planning period?
7. Need the route of the pipelines and the locations of the facilities proposed. Purpose is to identify constraints that impact costs (i.e., utilities, environmental (e.g. wetlands), easements, etc.).
8. KWA's initial charge to Flint is based on a 12 MGD maximum day demand. What is the basis of this number? Are there population projections and water use figures available that were used to determine the Flint demand for the 25 year planning period?
9. Is there a transition plan and cost during construction of the KWA system identified?
10. The October 4, 2012 Preliminary Engineering Report Update states: "no backup power is planned for the pumps" (LHPS) and "No backup power is planned for pumping" (IPS). In case of power loss, how would Flint supply its customers?
11. The latest plan shows only a 5 million gallon ground reservoir is planned for balancing between LHPS and IPS. How is redundancy maintained?
12. Related to the construction cost:
    a. Does it include an additional traffic lane since the construction will occupy half the right of way?
    b. Does it include costs/fees for permit requirements such as inspection cost by the jurisdictional authorities? As a point of reference, the permit fee costs for the Flint Transmission System came out to be $5.8 million.

Comments. Meeting minutes were recorded based on the understanding of the author. Please contact the author within three days if you have any different understanding of the meeting. These minutes will be considered approved unless comments are provided within three days.

c. Does the cost of the steel pipe segments include corrosion protection measures such as anode stations and related O&M?
d. SCADA monitoring stations require power. Is the cost of bring power to the SCADA stations included? Again, as a point of reference the for the Flint Transmission System we estimated $800,000 for power to SCADA and valve operators.

13. The Flint River is identified as a backup: At what capacity? MDD or emergency supply?
14. Where did the 40 years come from (Flint hostage to Detroit)? DWSD's new contracts are 30 years with openers to revise terms of supply (volume and pressure) after the first two years, then three years, and then in five year increments thereafter.

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STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT

State of Michigan, Department of Treasury

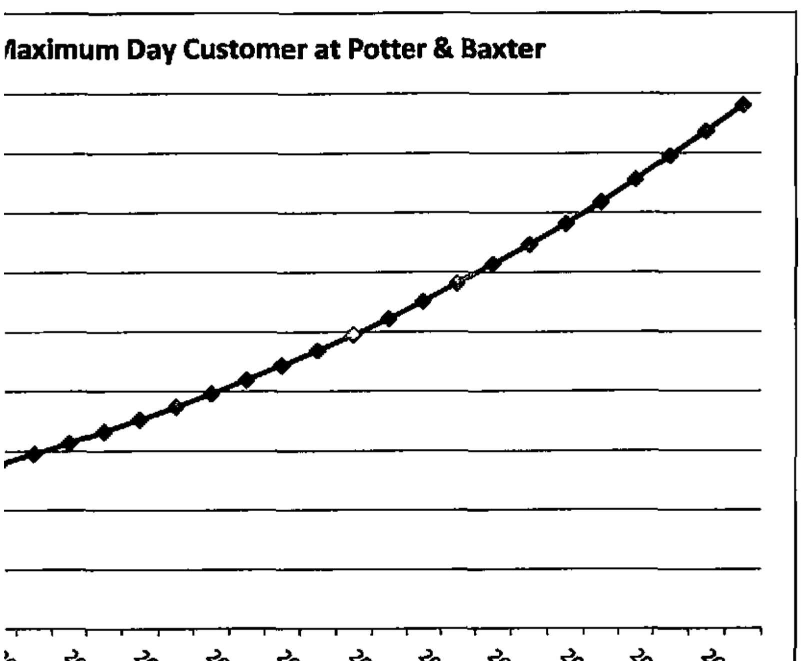
Appendix B: Cost Worksheets

0.60	MGD	81	MCF/Day
12	MGD	1,604	MCF/Day
29,412	MCF		
585,561	MCF		
120.30	/MCF	$ 3,538,214	/Yr
16.37	/MCF	$ 9,585,642	/Yr
4.51%	/Yr		
4.7%	/Yr		
-			
-	0%	Reserve Rate:	0.00%
-			
5%			
25			
$0			

	Year	Flint WTP O&M	Water Purchase	Revenue Bond Payment	Interest on Reserve	TOTAL
1	2013	$ 3,538,214	9,585,642		-	**$ 13,123,856**
2	2014	$ 3,697,788	10,036,167		-	**$ 13,733,955**
3	2015	$ 3,864,558	10,507,867		-	**$ 14,372,425**
4	2016	$ 4,038,850	11,001,736	-	-	**$ 15,040,586**
5	2017	$ 4,221,002	11,518,818	-	-	**$ 15,739,820**
6	2018	$ 4,411,369	12,060,203	-	-	**$ 16,471,571**
7	2019	$ 4,610,322	12,627,032	-	-	**$ 17,237,354**
8	2020	$ 4,818,247	13,220,503	-	-	**$ 18,038,750**
9	2021	$ 5,035,550	13,841,866	-	-	**$ 18,877,416**
10	2022	$ 5,262,653	14,492,434	-	-	**$ 19,755,087**
11	2023	$ 5,499,999	15,173,578	-	-	**$ 20,673,577**
12	2024	$ 5,748,049	15,886,736	-	-	**$ 21,634,785**
13	2025	$ 6,007,286	16,633,413	-	-	**$ 22,640,699**
14	2026	$ 6,278,215	17,415,183	-	-	**$ 23,693,398**
15	2027	$ 6,561,362	18,233,697	-	-	**$ 24,795,059**
16	2028	$ 6,857,279	19,090,681	-	-	**$ 25,947,960**
17	2029	$ 7,166,543	19,987,943	-	-	**$ 27,154,486**
18	2030	$ 7,489,754	20,927,376	-	-	**$ 28,417,130**
19	2031	$ 7,827,542	21,910,963	-	-	**$ 29,738,505**
20	2032	$ 8,180,564	22,940,778	-	-	**$ 31,121,342**
21	2033	$ 8,549,507	24,018,995	-	-	**$ 32,568,502**
22	2034	$ 8,935,090	25,147,887	-	-	**$ 34,082,977**
23	2035	$ 9,338,063	26,329,838	-	-	**$ 35,667,901**
24	2036	$ 9,759,209	27,567,341	-	-	**$ 37,326,550**
25	2037	$ 10,199,350	28,863,006	-	-	**$ 39,062,355**
	2038	$ 10,659,340	30,219,567	-	-	**$ 40,878,907**
	2039	$ 11,140,076	31,639,886	-	-	**$ 42,779,963**
	2040	$ 11,642,494	33,126,961	-	-	**$ 44,769,455**
	2041	$ 12,167,570	34,683,928	-	-	**$ 46,851,499**
	2042	$ 12,716,328	36,314,073	-	-	**$ 49,030,401**
		$ 216,222,171				

25 Yrs Cummulative	
$	**596,916,044**

30 Yrs Cummulative	
$	**821,226,268**

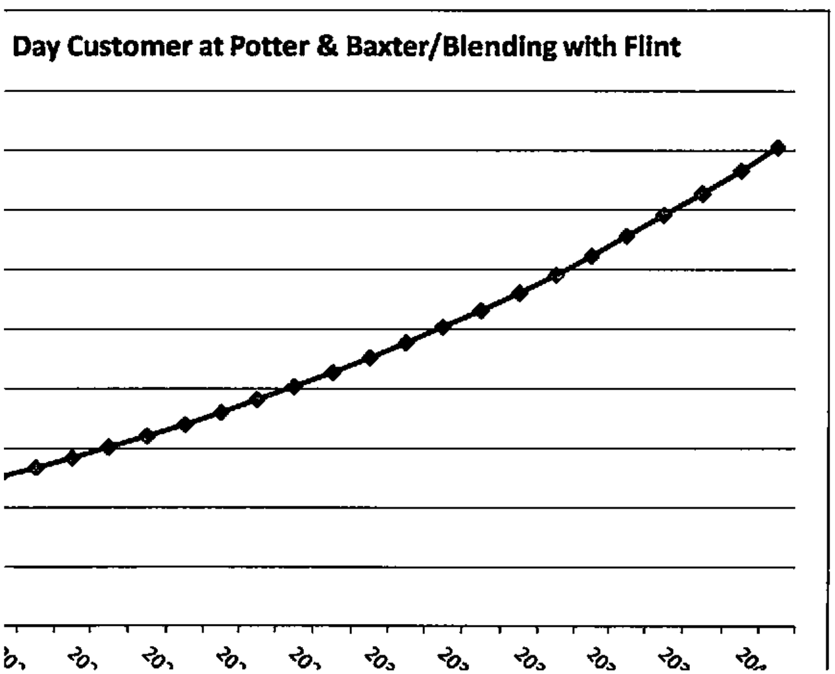


4 MGD		535 MCF/Day			
8 MGD		1,070 MCF/Day			
195,187 MCF			195187.1658		
390,374 MCF					
			5895097.471		
30.20 /MCF		$ 5,895,097 /Yr			
16.31 /MCF		$ 6,367,005 /Yr			
4.51% /Yr					
4.7% /Yr					
-					
-	0%	Reserve Rate:	0.00%		
-					
5%					
25					
$0					

	Year	Flint WTP O&M	Water Purchase	Revenue Bond Payment	Interest on Reserve	TOTAL
1	2013	$ 5,895,097	6,367,005		-	$ 12,262,103
2	2014	$ 6,160,966	6,666,255		-	$ 12,827,221
3	2015	$ 6,438,826	6,979,569		-	$ 13,418,395
4	2016	$ 6,729,217	7,307,608	-	-	$ 14,036,825
5	2017	$ 7,032,705	7,651,066	-	-	$ 14,683,771
6	2018	$ 7,349,880	8,010,666	-	-	$ 15,360,546
7	2019	$ 7,681,359	8,387,167	-	-	$ 16,068,527
8	2020	$ 8,027,789	8,781,364	-	-	$ 16,809,153
9	2021	$ 8,389,842	9,194,088	-	-	$ 17,583,930
10	2022	$ 8,768,224	9,626,210	-	-	$ 18,394,434
11	2023	$ 9,163,671	10,078,642	-	-	$ 19,242,313
12	2024	$ 9,576,952	10,552,338	-	-	$ 20,129,291
13	2025	$ 10,008,873	11,048,298	-	-	$ 21,057,171
14	2026	$ 10,460,273	11,567,568	-	-	$ 22,027,841
15	2027	$ 10,932,031	12,111,244	-	-	$ 23,043,275
16	2028	$ 11,425,066	12,680,473	-	-	$ 24,105,538
17	2029	$ 11,940,336	13,276,455	-	-	$ 25,216,791
18	2030	$ 12,478,845	13,900,448	-	-	$ 26,379,294
19	2031	$ 13,041,641	14,553,769	-	-	$ 27,595,410
20	2032	$ 13,629,819	15,237,796	-	-	$ 28,867,616
21	2033	$ 14,244,524	15,953,973	-	-	$ 30,198,497
22	2034	$ 14,886,952	16,703,810	-	-	$ 31,590,762
23	2035	$ 15,558,354	17,488,889	-	-	$ 33,047,242
24	2036	$ 16,260,035	18,310,866	-	-	$ 34,570,902
25	2037	$ 16,993,363	19,171,477	-	-	$ 36,164,840
	2038	$ 17,759,764	20,072,537	-	-	$ 37,832,300
	2039	$ 18,560,729	21,015,946	-	-	$ 39,576,675
	2040	$ 19,397,818	22,003,695	-	-	$ 41,401,513
	2041	$ 20,272,660	23,037,869			$ 43,310,528
	2042	$ 21,186,956	24,120,649			$ 45,307,605

25 Yrs Cummulative
$ 554,681,686

30 Yrs Cummulative
$ 762,110,308



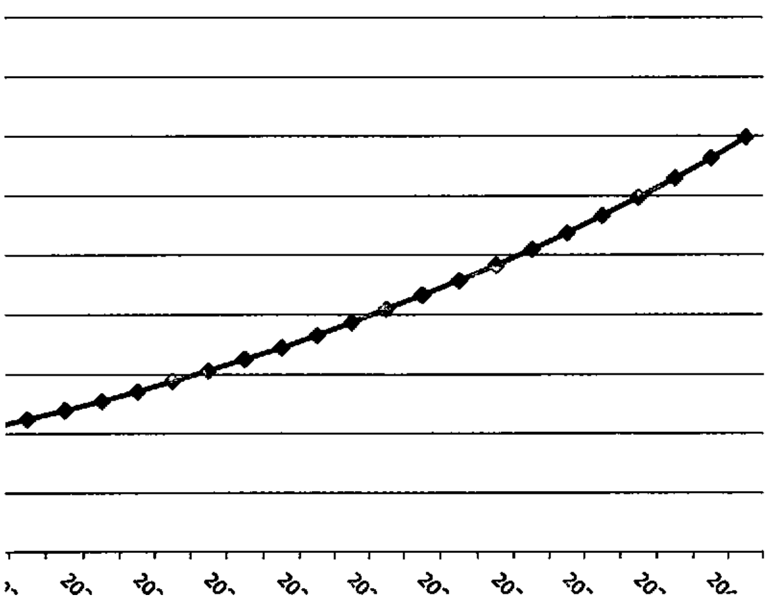
4 MGD		535	MCF/Day	
8 MGD		1,070	MCF/Day	
195,187 MCF				
390,374 MCF				
30.20 /MCF		$ 5,895,097	/Yr	
12.68 /MCF		$ 4,949,947	/Yr	
4.51% /Yr				
4.7% /Yr				
-				
-	0%	Reserve Rate:	0.00%	
-				
5%				
25				
$0				

	Year	Flint WTP O&M	Water Purchase	Revenue Bond Payment	Interest on Reserve	TOTAL
1	2013	$ 5,895,097	4,949,947		-	$ 10,845,044
2	2014	$ 6,160,966	5,182,594		-	$ 11,343,560
3	2015	$ 6,438,826	5,426,176		-	$ 11,865,002
4	2016	$ 6,729,217	5,681,206	-	-	$ 12,410,423
5	2017	$ 7,032,705	5,948,223	-	-	$ 12,980,928
6	2018	$ 7,349,880	6,227,789	-	-	$ 13,577,669
7	2019	$ 7,681,359	6,520,495	-	-	$ 14,201,855
8	2020	$ 8,027,789	6,826,959	-	-	$ 14,854,747
9	2021	$ 8,389,842	7,147,826	-	-	$ 15,537,668
10	2022	$ 8,768,224	7,483,774	-	-	$ 16,251,997
11	2023	$ 9,163,671	7,835,511	-	-	$ 16,999,182
12	2024	$ 9,576,952	8,203,780	-	-	$ 17,780,732
13	2025	$ 10,008,873	8,589,358	-	-	$ 18,598,230
14	2026	$ 10,460,273	8,993,057	-	-	$ 19,453,330
15	2027	$ 10,932,031	9,415,731	-	-	$ 20,347,762
16	2028	$ 11,425,066	9,858,271	-	-	$ 21,283,336
17	2029	$ 11,940,336	10,321,609	-	-	$ 22,261,945
18	2030	$ 12,478,845	10,806,725	-	-	$ 23,285,570
19	2031	$ 13,041,641	11,314,641	-	-	$ 24,356,282
20	2032	$ 13,629,819	11,846,429	-	-	$ 25,476,248
21	2033	$ 14,244,524	12,403,211	-	-	$ 26,647,735
22	2034	$ 14,886,952	12,986,162	-	-	$ 27,873,114
23	2035	$ 15,558,354	13,596,512	-	-	$ 29,154,866
24	2036	$ 16,260,035	14,235,548	-	-	$ 30,495,583
25	2037	$ 16,993,363	14,904,619	-	-	$ 31,897,982
	2038	$ 17,759,764	15,605,136	-	-	$ 33,364,899
	2039	$ 18,560,729	16,338,577	-	-	$ 34,899,306
	2040	$ 19,397,818	17,106,490	-	-	$ 36,504,308
	2041	$ 20,272,660	17,910,495			$ 38,183,155
	2042	$ 21,186,956	18,752,288			$ 39,939,245

25 Yrs Cummulative
$ 489,780,792

30 Yrs Cummulative
$ 672,671,705

ay Customer at Potter & Baxter/Blending with Flint

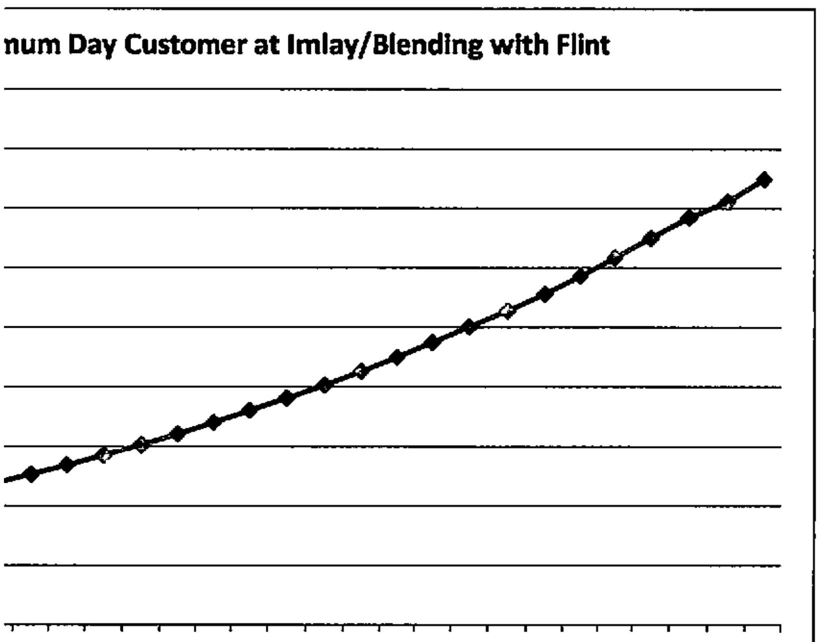


4	MGD			535	MCF/Day
8	MGD			1,070	MCF/Day
195,187	MCF				
390,374	MCF				
30.20	/MCF		$	5,895,097	/Yr
14.38	/MCF		$	5,613,583	/Yr
4.51%	/Yr				
4.7%	/Yr				
ι,700,000					
195,000	Check:	3.0%			
975,000	Check:	5.0%	/Yr (Bond Interest on Total)		
650,000	Check:	10.0%			
;,520,000					
5%					
25					
$462,610					
3%					

	Year	Flint WTP O&M	Water Purchase	Bond Payment	on Reserve	TOTAL
1	2013	$ 5,895,097	5,613,583		19,500	$ 11,489,180
2	2014	$ 6,160,966	5,877,421		19,500	$ 12,018,888
3	2015	$ 6,438,826	6,153,660		19,500	$ 12,572,986
4	2016	$ 6,729,217	6,442,882	462,610	19,500	$ 13,615,209
5	2017	$ 7,032,705	6,745,698	462,610	19,500	$ 14,221,512
6	2018	$ 7,349,880	7,062,745	462,610	19,500	$ 14,855,735
7	2019	$ 7,681,359	7,394,694	462,610	19,500	$ 15,519,164
8	2020	$ 8,027,789	7,742,245	462,610	19,500	$ 16,213,144
9	2021	$ 8,389,842	8,106,131	462,610	19,500	$ 16,939,082
10	2022	$ 8,768,224	8,487,119	462,610	19,500	$ 17,698,452
11	2023	$ 9,163,671	8,886,013	462,610	19,500	$ 18,492,794
12	2024	$ 9,576,952	9,303,656	462,610	19,500	$ 19,323,718
13	2025	$ 10,008,873	9,740,928	462,610	19,500	$ 20,192,910
14	2026	$ 10,460,273	10,198,751	462,610	19,500	$ 21,102,134
15	2027	$ 10,932,031	10,678,093	462,610	19,500	$ 22,053,234
16	2028	$ 11,425,066	11,179,963	462,610	19,500	$ 23,048,139
17	2029	$ 11,940,336	11,705,421	462,610	19,500	$ 24,088,867
18	2030	$ 12,478,845	12,255,576	462,610	19,500	$ 25,177,531
19	2031	$ 13,041,641	12,831,588	462,610	19,500	$ 26,316,339
20	2032	$ 13,629,819	13,434,673	462,610	19,500	$ 27,507,602
21	2033	$ 14,244,524	14,066,102	462,610	19,500	$ 28,753,736
22	2034	$ 14,886,952	14,727,209	462,610	19,500	$ 30,057,271
23	2035	$ 15,558,354	15,419,388	462,610	19,500	$ 31,420,852
24	2036	$ 16,260,035	16,144,099	462,610	19,500	$ 32,847,245
25	2037	$ 16,993,363	16,902,872	462,610	19,500	$ 34,339,345
	2038	$ 17,759,764	17,697,307	462,610	19,500	$ 35,900,181
	2039	$ 18,560,729	18,529,080	462,610	19,500	$ 37,532,919
	2040	$ 19,397,818	19,399,947	462,610	19,500	$ 39,240,875
	2041	$ 20,272,660	20,311,745			$ 40,584,404
	2042	$ 21,186,956	21,266,397			$ 42,453,353

25 Yrs Cummulative	
$	529,865,071

30 Yrs Cummulative	
$	725,576,803



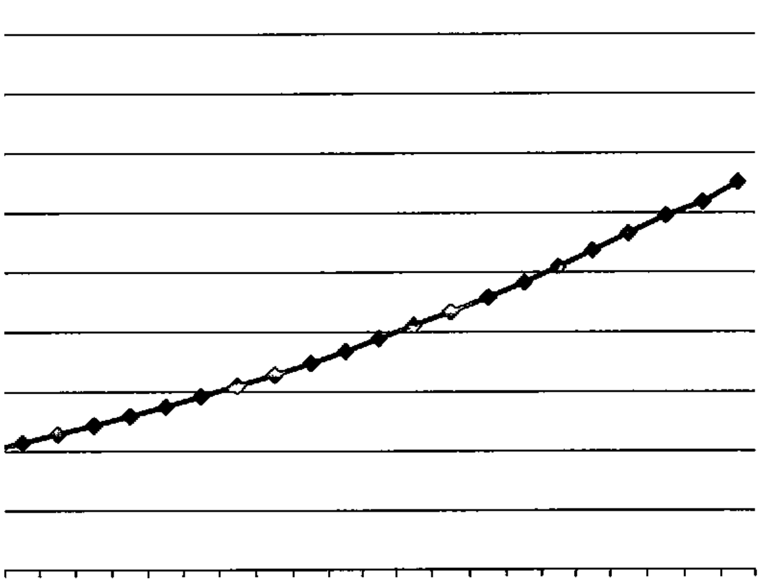
4	MGD	535	MCF/Day	
8	MGD	1,070	MCF/Day	
ı95,187	MCF			
ı90,374	MCF			
30.20	/MCF	$ 5,895,097	/Yr	
11.11	/MCF	$ 4,337,059	/Yr	
4.51%	/Yr			
4.7%	/Yr			
ı00,000				
ı95,000	Check:	3.0%		
ı75,000	Check:	5.0%	/Yr (Bond Interest on Total)	
ı50,000	Check:	10.0%		
ı20,000				
5%				
25				
462,610				
3%				

	Year	Flint WTP O&M	Water Purchase	Bond Payment	Interest on Reserve	TOTAL
1	2013	$ 5,895,097	4,337,059		19,500	**$ 10,212,656**
2	2014	$ 6,160,966	4,540,901		19,500	**$ 10,682,367**
3	2015	$ 6,438,826	4,754,323		19,500	**$ 11,173,649**
4	2016	$ 6,729,217	4,977,776	462,610	19,500	**$ 12,150,103**
5	2017	$ 7,032,705	5,211,732	462,610	19,500	**$ 12,687,546**
6	2018	$ 7,349,880	5,456,683	462,610	19,500	**$ 13,249,673**
7	2019	$ 7,681,359	5,713,147	462,610	19,500	**$ 13,837,616**
8	2020	$ 8,027,789	5,981,665	462,610	19,500	**$ 14,452,564**
9	2021	$ 8,389,842	6,262,803	462,610	19,500	**$ 15,095,755**
10	2022	$ 8,768,224	6,557,155	462,610	19,500	**$ 15,768,489**
11	2023	$ 9,163,671	6,865,341	462,610	19,500	**$ 16,472,122**
12	2024	$ 9,576,952	7,188,012	462,610	19,500	**$ 17,208,074**
13	2025	$ 10,008,873	7,525,849	462,610	19,500	**$ 17,977,832**
14	2026	$ 10,460,273	7,879,564	462,610	19,500	**$ 18,782,947**
15	2027	$ 10,932,031	8,249,903	462,610	19,500	**$ 19,625,044**
16	2028	$ 11,425,066	8,637,649	462,610	19,500	**$ 20,505,824**
17	2029	$ 11,940,336	9,043,618	462,610	19,500	**$ 21,427,064**
18	2030	$ 12,478,845	9,468,668	462,610	19,500	**$ 22,390,624**
19	2031	$ 13,041,641	9,913,696	462,610	19,500	**$ 23,398,447**
20	2032	$ 13,629,819	10,379,639	462,610	19,500	**$ 24,452,569**
21	2033	$ 14,244,524	10,867,482	462,610	19,500	**$ 25,555,117**
22	2034	$ 14,886,952	11,378,254	462,610	19,500	**$ 26,708,316**
23	2035	$ 15,558,354	11,913,032	462,610	19,500	**$ 27,914,496**
24	2036	$ 16,260,035	12,472,945	462,610	19,500	**$ 29,176,090**
25	2037	$ 16,993,363	13,059,173	462,610	19,500	**$ 30,495,646**
	2038	$ 17,759,764	13,672,954	462,610	19,500	**$ 31,875,828**
	2039	$ 18,560,729	14,315,583	462,610	19,500	**$ 33,319,422**
	2040	$ 19,397,818	14,988,415	462,610	19,500	**$ 34,829,343**
	2041	$ 20,272,660	15,692,871			**$ 35,965,530**
	2042	$ 21,186,956	16,430,436			**$ 37,617,392**

25 Yrs Cummulative
$ 493,063,801

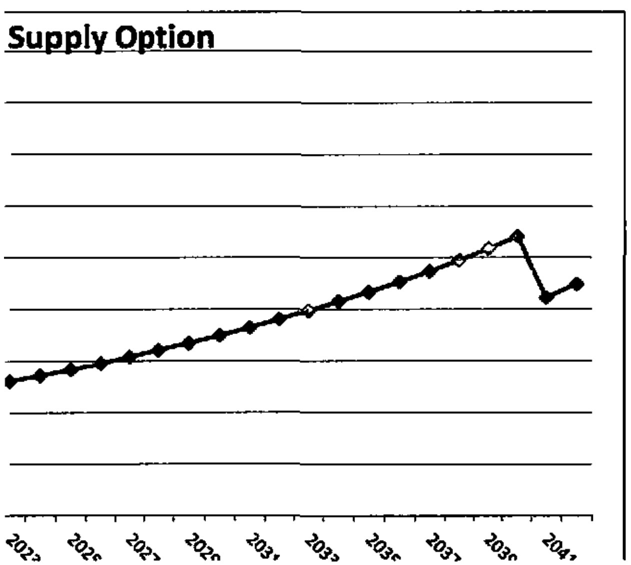
30 Yrs Cummulative
$ 634,795,488

ı Day Customer at Imlay/Blending with Flint



service	Debt Service	s	with KWA	TOTAL
				$ **15,576,658**
				$ **15,936,535**
				$ **16,946,934**
6,593,155	572,781	878,869	6,843,344	$ **14,888,149**
6,593,155	572,781	922,812	7,185,511	$ **15,274,260**
6,593,155	572,781	968,953	7,544,787	$ **15,679,676**
6,593,155	572,781	1,017,401	7,922,026	$ **16,105,363**
6,593,155	572,781	1,068,271	8,318,127	$ **16,552,334**
6,593,155	572,781	1,121,684	8,734,034	$ **17,021,654**
6,593,155	572,781	1,177,769	9,170,735	$ **17,514,440**
6,593,155	572,781	1,236,657	9,629,272	$ **18,031,865**
6,593,155	572,781	1,298,490	10,110,736	$ **18,575,162**
6,593,155	572,781	1,363,414	10,616,273	$ **19,145,623**
6,593,155	572,781	1,431,585	11,147,086	$ **19,744,607**
6,593,155	572,781	1,503,164	11,704,441	$ **20,373,541**
6,593,155	572,781	1,578,322	12,289,663	$ **21,033,921**
6,593,155	572,781	1,657,239	12,904,146	$ **21,727,320**
6,593,155	572,781	1,740,101	13,549,353	$ **22,455,390**
6,593,155	572,781	1,827,106	14,226,821	$ **23,219,862**
6,593,155	572,781	1,918,461	14,938,162	$ **24,022,559**
6,593,155	572,781	2,014,384	15,685,070	$ **24,865,390**
6,593,155	572,781	2,115,103	16,469,323	$ **25,750,362**
6,593,155	572,781	2,220,858	17,292,789	$ **26,679,584**
6,593,155	572,781	2,331,901	18,157,429	$ **27,655,266**
6,593,155	572,781	2,448,496	19,065,300	$ **28,679,733**
6,593,155	572,781	2,570,921	20,018,565	$ **29,755,422**
6,593,155	572,781	2,699,467	21,019,494	$ **30,884,897**
6,593,155	572,781	2,834,440	22,070,468	$ **32,070,845**
		2,976,162	23,173,992	$ **26,150,154**
		3,124,970	24,332,691	$ **27,457,662**

30 Yrs Cummulative	
$	**649,775,166**



2 MGD 1,604 MCF/Day
2 MGD 1,604 MCF/Day

MCF
MCF

1 /MCF $ 7,913,118 /Yr
/MCF $ 878,869 /Yr

6 /Yr
6 /Yr

David Guastella:
Assumes Bond Issuance and Reserves are not included

Check: 2 25%
Check: 5.0% /Yr (Bond Interest on Total)
Check: 10.0%

6
5
2
6

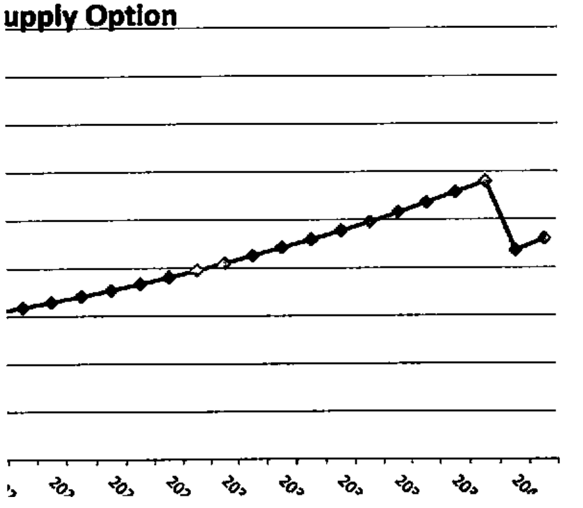
David Guastella:
Increased by 3%/Yr to 2012 $'s

Check 2.25%
Check: 5 0% /Yr (Bond Interest on Total)
Check: 10.0%

6
5
5
6

	Year	Flint WTP O&M	Water Purchase	Pre-bond Entry Fee & Bond Payment	Flint Revenue Bond Payment	Interest on Reserve	TOTAL
1	2013	$ *3,538,214*	*11,461,700*	1,162,800		369,600	$ **15,793,114**
2	2014	$ *3,697,788*	*12,034,785*	581,400		369,600	$ **15,944,373**
3	2015	$ *3,864,558*	*12,636,524*	581,400		369,600	$ **16,712,882**
4	2016	$ 7,913,118	878,869	7,968,562	756,946	369,600	$ **17,147,896**
5	2017	$ 8,270,000	922,812	7,968,562	756,946	369,600	$ **17,548,721**
6	2018	$ 8,642,977	968,953	7,968,562	756,946	369,600	$ **17,967,838**
7	2019	$ 9,032,775	1,017,401	7,968,562	756,946	369,600	$ **18,406,084**
8	2020	$ 9,440,153	1,068,271	7,968,562	756,946	369,600	$ **18,864,332**
9	2021	$ 9,865,904	1,121,684	7,968,562	756,946	369,600	$ **19,343,497**
10	2022	$ 10,310,857	1,177,769	7,968,562	756,946	369,600	$ **19,844,533**
11	2023	$ 10,775,876	1,236,657	7,968,562	756,946	369,600	$ **20,368,441**
12	2024	$ 11,261,868	1,298,490	7,968,562	756,946	369,600	$ **20,916,266**
13	2025	$ 11,769,779	1,363,414	7,968,562	756,946	369,600	$ **21,489,101**
14	2026	$ 12,300,596	1,431,585	7,968,562	756,946	369,600	$ **22,088,089**
15	2027	$ 12,855,352	1,503,164	7,968,562	756,946	369,600	$ **22,714,425**
16	2028	$ 13,435,129	1,578,322	7,968,562	756,946	369,600	$ **23,369,359**
17	2029	$ 14,041,053	1,657,239	7,968,562	756,946	369,600	$ **24,054,200**
18	2030	$ 14,674,305	1,740,101	7,968,562	756,946	369,600	$ **24,770,313**
19	2031	$ 15,336,116	1,827,106	7,968,562	756,946	369,600	$ **25,519,130**
20	2032	$ 16,027,775	1,918,461	7,968,562	756,946	369,600	$ **26,302,144**
21	2033	$ 16,750,627	2,014,384	7,968,562	756,946	369,600	$ **27,120,919**
22	2034	$ 17,506,080	2,115,103	7,968,562	756,946	369,600	$ **27,977,092**
23	2035	$ 18,295,605	2,220,858	7,968,562	756,946	369,600	$ **28,872,371**
24	2036	$ 19,120,737	2,331,901	7,968,562	756,946	369,600	$ **29,808,546**
25	2037	$ 19,983,082	2,448,496	7,968,562	756,946	369,600	$ **30,787,486**
	2038	$ 20,884,319	2,570,921	7,968,562	756,946	369,600	$ **31,811,148**
	2039	$ 21,826,201	2,699,467	7,968,562	756,946	369,600	$ **32,881,577**
	2040	$ 22,810,563	2,834,440	7,968,562	756,946	369,600	$ **34,000,912**
	2041	$ 23,839,320	2,976,162				$ **26,815,482**
	2042	$ 24,914,473	3,124,970				$ **28,039,443**

upply Option



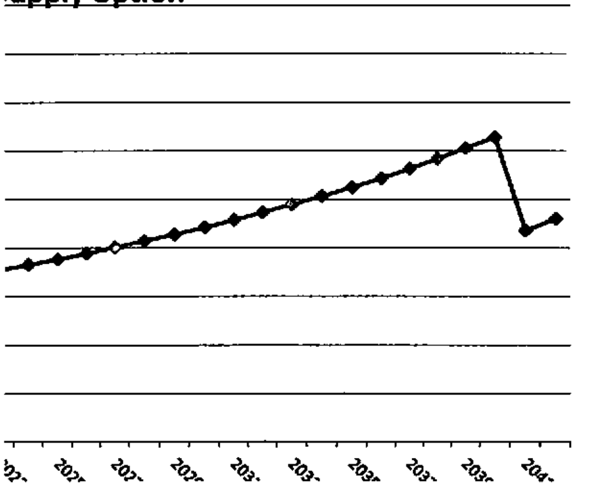
25 Yrs Cummulative
$ 553,731,153

30 Yrs Cummulative
$ 707,279,715

l2 MGD	1,604	MCF/Day		
l2 MGD	1,604	MCF/Day		
1 MCF				
1 MCF				
1 /MCF	$ 7,913,118	/Yr		
0 /MCF	$ 878,869	/Yr		
% /Yr				
% /Yr				
0				
0	Check:	2.25%		
0	Check:	5.0%	/Yr (Bond Interest on Total)	
0	Check:	10.0%		
0				
8				
%				
'5				
6				
%				
2				
0	Check:	2.25%		
0	Check:	5.0%	/Yr (Bond Interest on Total)	
0	Check:	10.0%		
2				
%				
5				
6				
%				

	Year	Flint WTP O&M	Water Purchase	Fee & Bond Payment	Flint Revenue Bond Payment	Interest on Reserve	TOTAL
1	2013	$ *3,538,214*	*11,461,700*	1,162,800		473,100	$ 15,689,614
2	2014	$ *3,697,788*	*12,034,785*	581,400		473,100	$ 15,840,873
3	2015	$ *3,864,558*	*12,636,524*	581,400		473,100	$ 16,609,382
4	2016	$ 7,913,118	878,869	10,464,666	756,946	473,100	$ 19,540,500
5	2017	$ 8,270,000	922,812	10,464,666	756,946	473,100	$ 19,941,325
6	2018	$ 8,642,977	968,953	10,464,666	756,946	473,100	$ 20,360,442
7	2019	$ 9,032,775	1,017,401	10,464,666	756,946	473,100	$ 20,798,688
8	2020	$ 9,440,153	1,068,271	10,464,666	756,946	473,100	$ 21,256,936
9	2021	$ 9,865,904	1,121,684	10,464,666	756,946	473,100	$ 21,736,101
10	2022	$ 10,310,857	1,177,769	10,464,666	756,946	473,100	$ 22,237,137
11	2023	$ 10,775,876	1,236,657	10,464,666	756,946	473,100	$ 22,761,045
12	2024	$ 11,261,868	1,298,490	10,464,666	756,946	473,100	$ 23,308,870
13	2025	$ 11,769,779	1,363,414	10,464,666	756,946	473,100	$ 23,881,705
14	2026	$ 12,300,596	1,431,585	10,464,666	756,946	473,100	$ 24,480,693
15	2027	$ 12,855,352	1,503,164	10,464,666	756,946	473,100	$ 25,107,029
16	2028	$ 13,435,129	1,578,322	10,464,666	756,946	473,100	$ 25,761,963
17	2029	$ 14,041,053	1,657,239	10,464,666	756,946	473,100	$ 26,446,804
18	2030	$ 14,674,305	1,740,101	10,464,666	756,946	473,100	$ 27,162,917
19	2031	$ 15,336,116	1,827,106	10,464,666	756,946	473,100	$ 27,911,733
20	2032	$ 16,027,775	1,918,461	10,464,666	756,946	473,100	$ 28,694,748
21	2033	$ 16,750,627	2,014,384	10,464,666	756,946	473,100	$ 29,513,523
22	2034	$ 17,506,080	2,115,103	10,464,666	756,946	473,100	$ 30,369,696
23	2035	$ 18,295,605	2,220,858	10,464,666	756,946	473,100	$ 31,264,975
24	2036	$ 19,120,737	2,331,901	10,464,666	756,946	473,100	$ 32,201,150
25	2037	$ 19,983,082	2,448,496	10,464,666	756,946	473,100	$ 33,180,090
	2038	$ 20,884,319	2,570,921	10,464,666	756,946	473,100	$ 34,203,752
	2039	$ 21,826,201	2,699,467	10,464,666	756,946	473,100	$ 35,274,181
	2040	$ 22,810,563	2,834,440	10,464,666	756,946	473,100	$ 36,393,516
	2041	$ 23,839,320	2,976,162				$ 26,815,482
	2042	$ 24,914,473	3,124,970				$ 28,039,443

Supply Option



25 Yrs Cummulative	
$	606,057,940

30 Yrs Cummulative	
$	766,784,313

- HARVEY
- DARNELL, LIZ, JERRY
- BRIAN

12/4/13

888-557 8511

3389106

- City of Flint Weekly 10am Phone Conference Agenda

ANGELA SCHEDULE MTG W/ MAXINE, JERRY, DARNELL, SUZANNE RE: PROPERTY LOAN

1) Budget Update
   - FY 13 – Audit FINAL #'s by ~~[illegible]~~ 12/6/13 CAFR READY IN 1 WK.
   - FY 14 – current status
   - FY 15 – plan BUDGET & AUDIT PROCESSES WORKING WELL, DEP. FIN. DIR IS GROWING, good success
   - SPOKE TO HARLAN ABOUT DRAFT DEP
2) Model Labor Contracts – status Cost estimate of savings to Jerry
   FPOA INITIAL MTG, MTG AGAIN ON 12/16, MTG W/ AFSCME MTG 12/4, FIRE MORE COMPLEX
   Chitto to discuss operational issues 12/6
3) KWA, Water Plant Preparation
   PROCEEDING AS PLANNED,
4) City Ordinance Review
   NOTHING NEW
5) Deficit Elimination Plan – Treasury → BUDGET AMENDMENT OF H2O/SEWER FORTH WILL BE MTG W/ County RE: H2O COMM

REQUEST @ TREAS. NOW

6) Master Plan Implementation Activity
   Zoning Ordinance Revision
   SAME
7) Retiree Law Suit Status NOTHING NEW
8) Public Safety Activity PLEASED W/ PROGRESS, LEVEL OF LEADERSHIP, ENGAGED IN THE COMMITTEE,
9) Status Report on the Flint City Council
10) Governance Revision RETREAT, MML PRESENTATION, ROLE POST EM ED KURTZ ORDER, PART OF DARNELL'S FINAL EM ORDER, BLUE RIBBON GOVERNANCE COMMITTEE
11) 9-1-1 Reconsolidation Plan
   NOTHING NEW
12) BS&A Upgrade
   PROCEEDING AS PLANNED
13) Strong Cities, Strong Community Update
14) 45 Day Financial and Operating Plan UNDER REVIEW
15) Other

~~[illegible]~~ CONSIDER MML FORMAT FOR FUTURE COUNCIL TRAINING SESSIONS

Created on 11/12/2013

City of Flint

Discussion Document

May 15, 2013

Preliminary Draft: For discussion purposes only

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

Disclaimer

Information contained herein has not been independently verified and is subject to material change based on continuing review. Accordingly, the information contained herein is not intended to be and should not be relied upon as legal, auditing or accounting advice.

The assumptions and underlying data are the product of the City of Flint (the "City" or the "Client") and its management ("Management") and consist of information obtained solely from the Client or publicly available resources. With respect to prospective financial information received from the Client on April 29, 2013, Ernst & Young LLP ("EY") did not examine, compile or apply agreed upon procedures to such information in accordance with attestation standards established by the AICPA and EY expresses no assurance of any kind on the information presented. It is the Client's responsibility to make its own decision based on the information available to it.

Management has the knowledge, experience and ability to form its own conclusions. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. EY takes no responsibility for the achievement of projected results. Accordingly, reliance on this report is prohibited by any third party as the projected financial information contained herein is subject to material change and may not reflect actual results.

Table of Contents

I. Executive Summary

Strategic Overview - Over the last 18 months, the Flint executive team has made significant progress towards addressing the City's budget imbalance by increasing revenues and achieving cost savings

- In a short period of time the City has been able to stop its chronic pattern of deficit spending, which resulted in an accumulated $19.1 million deficit as of June 31, 2012. Current projections for the FY13 budget indicate that revenues will exceed expenses at years end, and the recently announced FY14 budget appears to be also credibly balanced, including a financial commitment to reduce the accumulated deficit. Additionally, cash flow has improved with the passage of a police and fire millage, institution of new fees, and one-time gains from the sale of assets

- Key changes implemented during this period include:
  - Approval of Public Safety millage to replace funds provided through grants expiring in FY14
  - Increase in Water and Sewer rates
  - Creation of Street Lighting assessment and garbage fee (including related outsourcing of waste collection service)
  - Headcount reductions
  - Labor related savings equivalent to 20% of salaries and fringes
  - Reform of healthcare benefits, including consolidation of plans and meaningful changes to medical plan designs
  - Reform of pension benefits, including:
    - Eligibility criteria
    - Reduction of multipliers
    - Increase in employee contributions
    - Changes to final average compensation
    - Radical change to governance structure by transitioning plan to MERS

- These and other changes allowed the City to rebuild its depleted cash reserves to acceptable current levels

- Although, these changes have placed a heavy burden on citizens and city employees, they were absolutely necessary to address, in a very short period of time, an unsustainable structural deficit

- Despite these positive changes, key challenges remain, as the City continues to spend a significant percentage of its revenues in paying for legacy expenditures, and does not have any ability to reinvest in City infrastructure and blight removal to make Flint an attractive place for businesses and residents

Strategic Overview - The City should consider undertaking a comprehensive restructuring process to address its current financial condition allowing for reinvestment and blight removal in the City

- The City's operating deficit is likely to increase over the forthcoming years especially during FY15 – FY18 due to legacy costs and salary inflation. Management has undertaken several tough initiatives, however, the City has acknowledged that addressing the structural deficit will be extremely challenging and will further impact the provision of services to citizens

- The chronic scarcity of capital has resulted in the City having antiquated information systems and a dilapidated infrastructure. City officials have estimated capital needs in the range of $300M – none of this capital requirement is addressed in the 5 year plan

- In a review of the expense structure of the City, it is evident that legacy costs are the most significant burden on the budget. Further rationalization of legacy costs will be imperative to address the long term strategic needs of the City
  - Pension and OPEB costs account for nearly 33% of total General City expenditures; which is higher than Detroit, Warren, Lansing and Kalamazoo

- The City's budget constraints will continue to impact its citizens:
  - Public Safety is at risk with the expiration of certain federal grants in FY15. These expirations will result in a drop in Police and Firefighter headcount and will likely impact emergency response times
  - The City has higher rates for services such as Water and Sewer in comparison to other municipalities in Michigan
  - The City's property tax millage is among the highest in the State

- An initial review of the City's technology infrastructure & purchasing/billing functions was conducted which focused on IT, Police, Purchasing and Water and Sewer. The resulting observations are as follows: (i) the IT function is antiquated and inefficient and in need of additional funding, (ii) the Police systems are currently run on dozens of access databases, which leads to inefficiencies and limitations on data access, and (iii) the Water and Sewer departments are experiencing significant issues surrounding the process for billing / collection which has led to a substantial increases in bad debt

- With consideration of the above, it is clear that the City should undertake a comprehensive restructuring as an option to rationalize the cost structure and allow for capital investment in the City. It may be the only alternative to address the blight of the City and create an environment to attract citizens and businesses to the City

Strategic Overview - A benchmarking summary comparing Flint to other Michigan cities shows that Flint is lagging in basic public safety, City services and demographics metrics

- Flint has suffered a significant loss in population and increase in unemployment in the last 10 years
- Flint's public safety metrics (citizens/police and fire, and police/fire per square mile) indicate the City's existing staffing is less than adequate
- Flint's active to retiree ratio is the worst of the comparable cities, resulting in the highest ratio of Pension and OPEB cost as a percentage of total expenditures

	Mean	Median	Flint	Warren	Lansing	Kalamazoo	Detroit
Demographics							
Change in population (2003-2011)	-10.1%	-4.1%	-15.3%	-2.4%	-4.1%	-3.7%	-25.0%
Unemployment rate (2003)	10.4%	8.8%	14.7%	8.8%	7.0%	7.6%	13.9%
Unemployment rate (most recent)	14.0%	11.3%	18.9%	10.2%	11.3%	11.3%	18.3%
Governmental metrics							
Change in employees (2003-2011)	-22.1%	-21.3%	-26.1%	-21.3%	-18.5%	-11.3%	-33.5%
Employees / retiree	0.44	0.44	0.44	n/a	n/a	0.44	0.45
Citizens / employee	129	129	148	185	129	114	68
Citizens / firefighter [1,3]	924	1,080	1,080	1,115	639	n/a	568
Citizens / police officer [1,3]	517	560	686	560	440	n/a	237
Firefighters / sq mile [1,3]	4.48	3.48	2.76	3.48	4.88	n/a	9.06
Firestations / sq mile [1,3]	0.20	0.17	0.15	0.17	0.16	0.28	0.33
Police officers / sq mile [1,3]	8.81	6.94	4.35	6.94	7.09	n/a	21.73
Governmental activities - Revenue per capita [4]	$ 1,208	$ 1,086	$ 928	$ 675	$ 1,215	$ 1,086	$ 2,135
Governmental activities - Debt per capita [2,4]	$ 1,052	$ 690	$ 311	$ 690	$ 301	$ 763	$ 3,195
Change in revenue (2003-most recent) [4]	-85.9%	-86.2%	-79.2%	-86.2%	-85.3%	-89.9%	-89.0%
State shared revenue as % of total revenue [4]	11.5%	11.3%	13.9%	13.2%	9.2%	10.0%	11.3%
Pension & OPEB costs as % of expenditures [4,5]	21.9%	24.5%	34.1%	24.5%	25.8%	7.4%	18.0%

Notes:

Sources: Data obtained from the respective city's most recent Comprehensive Annual Financial Report (CAFR)

1. Firefighter and police staffing represented uniform and non-uniform employees
2. Excludes debt from revenue bonds
3. Flint represents currently available data based on FY13 actuals for Flint. All other data based on FY12 CAFR/Budget
4. Based on FY12 CAFR/Budget
5. Flint Pension & OPEB reflects General City only

Summary of 5 Year Plan - The City's initial draft five year projection shows an increase in accumulated deficit of $22.4M and does not allow for capital to reinvest in infrastructure to enhance services to citizens

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

- The City is in the process of developing a 5-year business plan. The plan remains a work in progress and the City intends to make further changes to attempt to address the deficit that is currently projected. Key issues for consideration include:
  - On-going litigation surrounding retiree health benefits. This risk is likely to be highlighted in the next month when the retirees are informed of their required contributions to the health premiums
  - The City continues to experience significant increases in delinquencies on revenues, including property taxes and Water and Sewer bills. There is risk that the City has underestimated the impact on receipts
  - The current projection reflects significant reduction to fire staffing, including a consolidation of stations from 5 to 3. It is not clear that this reduction is feasible without having a material impact on response times
  - The City's projection includes minimal capital maintenance and improvements resulting in degradation of roads, sidewalks, sanitation and water, facilities, and parks. Flint estimates it has unmet capital needs of approximately $286M

$ in millions				Amended Budget	Budget	Projection				5-year
	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
General City Revenues	$ 74.7	$ 103.5	$ 83.0	$ 85 7	$ 68.2	$ 58 7	$ 58.1	$ 58.1	$ 58.7	$ 301.8
General City Operating expenditures	(63.7)	(78.8)	(75 1)	(59 1)	(43 7)	(39.2)	(40.6)	(42.1)	(43.8)	(209.4)
Net Operating Surplus	11 0	24.7	7.9	26.6	24.5	19.5	17.5	16.0	14.9	92.5
Legacy Expenditures										
OPEB / Retiree Healthcare	(13.1)	(8 5)	(11.1)	(13.2)	(10.5)	(10.9)	(11.5)	(12.4)	(13.3)	(58.6)
Pension - UAAL	(7.7)	(6 1)	(8.4)	(6.8)	(9.8)	(10.1)	(10.4)	(10.8)	(11.2)	(52.2)
Charter Pension	(0 1)	(0.1)	(0.1)	-	-	-	-	-	-	-
Debt Service	(2 3)	(2.0)	(1.1)	(1.8)	(1.7)	(0.6)	(0.6)	(0.6)	(0.6)	(4.1)
Total Legacy	(23 2)	(16.6)	(20.7)	(21.9)	(21.9)	(21.5)	(22.5)	(23.8)	(25.1)	(114.9)
Surplus / (Deficit)	$ (12.2)	$ 8.1	$ (12.8)	$ 4.7	$ 2.6	$ (2.0)	$ (5.0)	$ (7.8)	$ (10.2)	$ (22.4)
Legacy as a percentage of total cost	27%	17%	22%	27%	33%	35%	36%	36%	36%	35%
Deficit Roll Forward - General City										
Beginning Balance	(2.2)	(14.4)	(6.4)	(19.2)	(14.5)	(12.0)	(14.0)	(19.0)	(26.8)	(14.5)
Surplus / (deficit)	(12.2)	8.1	(12.8)	4.7	2.6	(2.0)	(5.0)	(7.8)	(10.2)	(22.4)
Ending Fund Balances	$ (14.4)	$ (6.4)	$ (19.2)	$ (14.5)	$ (12.0)	$ (14.0)	$ (19.0)	$ (26.8)	$ (37.0)	$ (37.0)
Memo:										
Forecast deficit elimination (forecast by City)	-	-	-	-	(1.0)	(1.0)	(1.5)	(1.8)	(1.9)	(7.1)

Summary of 5 Year Plan - The City has generated positive cash flow during FY2013 suggesting a year end surplus; the City should review this surplus to understand opportunities in the projection period

- There also remain opportunities to improve on the projections as currently drafted
  - The cash generation that has occurred during FY13 suggests the City is likely to end the year with a surplus. This factor has not been considered in the FY14 budget and future projections.
  - There are many expense areas currently under budget – to the extent these are permanent differences, this may suggest future periods have further opportunity for expense reductions

- The City's pooled cash balance as of April 30, 2013 was \$34.6M and is projected to end the fiscal year with \$35.6M (see appendix on page 43 for detailed cash flows)
  - The pooled cash balance is projected to increase during FY13 by \$24.7M, mainly as a result of:
    - Mid-year approval of tax millage for police and fire
    - Changes to health benefits plans
    - Sale of garbage trucks as part of the outsourcing transaction
    - Unspent budget across the City in professional fees and unallocated expenses
  - Potential cash flow issues going forward include:
    - Incremental delinquency rates and bad debt

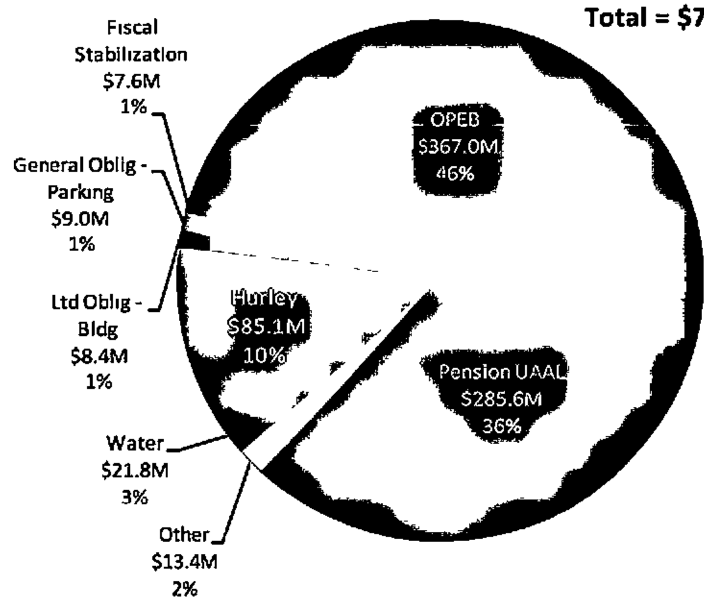
Long-Term Liabilities - The City is burdened with substantial long term liabilities, mostly composed of legacy liabilities

- The City's projected long-term liabilities as of June 30, 2013 is $798.8M (excluding Hurley pension and OPEB liabilities)
- 82%, or $652.6M of the City's liabilities are made up of OPEB and Pension UAAL
- The City is projecting to pay $21.9M for General City legacy expenditures in FY14, representing 33% of General City revenues

Long-term liabilities

$ in millions

Total = $797.9M



	FY13 LT - Liability Expense	LT - Liabilities	%
OPEB[1]	$10.5M	$367.0M	46%
Pension UAAL[2]	9.8M	285.6M	36%
Hurley	5.1M	85.1M	11%
Water	2.3M	21.8M	3%
Other[3,4]	0.9M	13.4M	2%
General Obligation - Parking	0.3M	9.0M	1%
Limited Obligation- Human Svcs Bldg	0.1M	8.4M	1%
Fiscal Stabilization	0.2M	7.6M	1%
Total	$29.1M	$797.9M	100%

A review of valuation assumptions and revaluation could result in a 2x-3x increase to OPEB and pension liabilities

Notes:

This schedule excludes unamortized bond discount and capital leases

1. OPEB liability as of 06/30/12 CAFR
2. Pension UAAL, excluding Hurley based on the June 30, 2011 Actuarial Report
3. Primarily Section 108 Loans (CDBG backed loans). See appendix for comprehensive debt schedule
4. Includes SIB 3rd Avenue reconstruction loan of $1.9M

Long-Term Liabilities - Despite significant recent changes to healthcare and pension benefits, these costs will continue to be a significant burden on the City's budget

Healthcare Benefits

The City has implemented plan design changes and consolidated plans reducing OPEB liability by 57% and annual expenses by approximately $6M

Current State

- The City consolidated to 3 plans for actives and retirees, simplifying and creating substantial costs savings
- For calendar 2013, the City chose the State imposed limits
    - Most actives do not contribute to premiums because they fall below the imposed caps
    - Many retirees will exceed the limits and the City has budgeted contributions from the retirees
        - Collection from retirees who never contributed to premiums may be problematic
        - The City is planning to bill retirees, giving them the option to have the premiums deducted from pension checks. This issue is likely to result in risks to collection and risk of litigation
- The City is currently litigating these changes with retirees, which could result in some of the changes being reversed

Observations / opportunities

- Consider switching to 80/20 premium sharing for actives and retirees, which could generate savings of $1.5M or otherwise require actives to make contributions to premiums
- OPEB obligations will increase significantly if the changes are reversed
    - Even after the changes highlighted above, the City is projecting a substantial portion of its net operating cash flow on OPEB obligations

Pension Benefits

While the City has changed pension benefits for future service and has transferred administrative and fiduciary responsibility to MERS, the pension plan still remains significantly underfunded

Current State

- The pension plan is substantially underfunded, with funding levels near 50%. The ratio of actives to retirees of 1 to 3 creates a significant burden on actives to be able to fund the plan
- Normal cost is low (10-15% of salaries and wages) but UAAL contribution is 55% for general and 47% for P&F
- Annual pension contribution per active employee is approximately $30k
- The City has recently implemented significant changes to the pension that materially reduced the unfunded liability and required contributions. These changes include:
    - Transfer to MERS to addresses governance issues
    - Changes to multipliers for future service and Average Final Compensation (eliminated OT, shift premium, call-in and stand-by pay)
    - Eliminated the 13th check payout until the funding levels exceed 90%
    - Placed new hires on hybrid plans

Observations / opportunities

- Opportunity to implement further identified changes to final average compensation calculations and to multipliers
- Perform an independent review of the plan assumptions and funding levels
- Based on other situations, it is possible that the underfunded status is even higher due to the aggressive return assumptions used in actuarial calculations

Restructuring Considerations - In order to make necessary investment in the City for the long-term, the City needs to consider a comprehensive restructuring plan that will reduce its legacy burden

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

Reinvestment in the City and department restructuring

- A significant reduction in annual legacy expenditures would result in the City being able to set aside funds to deal with:
  - Capital expenditures including streets, Water and Sewer infrastructure, facilities, parks
  - Demolition
  - IT updates – both systems and processes
  - Department restructuring to achieve increased efficiency

$ in millions	Budget 2014	Projection 2015	2016	2017	2018	5-year total
Total City Revenues	$ 182.7	$ 166.4	$ 169.2	$ 172.6	$ 178 3	$ 869.2
Total City Operating expenditures	(153.7)	(132.8)	(137.3)	(142.8)	(147.0)	(713.6)
Net Operating Surplus	28.9	33.6	31.9	29.9	31.3	155.6
Restructuring Initiatives (hypothetical)						
Pension contribution (normal cost only)	(3.1)	(3.2)	(3.3)	(3.4)	(3.5)	(16.5)
Wage give backs (5%, 3.75% already in baseline)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(1.9)
Department rest. (5% of op exp years 1 and 2; 2.5% year 3)	(7.7)	(6.6)	(3.4)	-	-	(17.8)
Capital investment (facilities, parks, roads, W&S - $236m - 25% City funded)	(11.8)	(11.8)	(11.8)	(11.8)	(11.8)	(59.0)
Demolition ($50m; 25% City funded)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(12.5)
Asset monetization	*tbd*	*tbd*	*tbd*	*tbd*	*tbd*	-
Prop. and income tax upside	-	-	-	2.0	3.0	5.0
Total Restructuring	**(25.4)**	**(24.5)**	**(21.4)**	**(16.1)**	**(15.2)**	**(102.6)**
Cash Flow Available for Long Term Liabilities	3.5	9.1	10.5	13.8	16.1	52.9
Debt Service (all debt assumed to be secured)	(3.2)	(2.1)	(2.1)	(2.1)	(2.1)	(11.5)
Net Cash Available for Legacy Liabilities	$ 0.4	$ 7.0	$ 8.4	$ 11.7	$ 14.0	$ 41.4
Legacy Liabilites						
OPEB / Retiree Healthcare	(15.0)	(15.6)	(16.5)	(17.9)	(19.3)	(84.3)
Pension - UAAL	(13.9)	(14.5)	(15.0)	(15.6)	(16.2)	(75.1)
Total Legacy Liabilities	**$ (28.9)**	**$ (30.1)**	**$ (31.5)**	**$ (33.4)**	**$ (35.4)**	**$ (159.4)**
Cash available as a % of Legacy Liabilities	*1.3%*	*23.3%*	*26.6%*	*34.9%*	*39.4%*	*26.0%*

Next Steps - The City should move quickly to evaluate a comprehensive restructuring solution

Actuarial analyses
- The City should obtain actuarial analyses to have a better assessment of existing pension and OPEB obligations and alternative solutions/scenarios to address them

Retain restructuring legal counsel
- Retention of restructuring counsel would be the first step towards obtaining a better understanding of the potential benefits of a comprehensive restructuring solution for the City

Additional analysis on 5-year plan
- The City should develop a detailed bottoms up financial model by department and by fund to enhance its understanding of its projected financials
- The City should develop financial projections under two alternative scenarios: (a) status quo scenario with additional changes including increasing income tax rate, increasing State revenue sharing and further changes to medical and pension benefits and (b) a comprehensive restructuring scenario, which provides a solution to the City's pension and OPEB liabilities
- A full reconciliation of cash vs. FY13 budget is necessary. The FY13 budget is used as the basis to project the expenses in future periods. It appears there are areas where the City is experiencing significant positive variances in spending, including:
  - Professional services
  - Water purchases from the City of Detroit

There are many benefits for moving with speed in the evaluation of a comprehensive restructuring strategy
- **Strong liquidity position:** The implementation of a comprehensive restructuring will be more effective if implemented while the City has strong liquidity. Decisions should be made quickly before cash dissipates
- **Unresolved retiree medical:** There is a substantial drain on cash flow that results from the unresolved retiree medical changes (particularly on prescription related expenditures). An accelerated implementation will limit this drain
- **On-going litigation:** The City is likely to face further litigation with the implementation of the retiree contributions to healthcare premiums. A comprehensive restructuring would address current and future litigation, and avoid a drain due to litigation expense
- **Needed capital improvements:** Addressing capital needs of the City and removing blight will take many years to see results. Further delay in this process will impair the ultimate achievability
- **Major grant expiration:** Completing a comprehensive restructuring before the expiration of existing grants would help address the projected deficits for FY15 and beyond

II. Review of Five Year Plan

The City's five year plan projects deficits in FY15 and beyond as a result of the loss of grant revenues and the escalation of labor related costs

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

Five Year Plan (see appendix for detailed total city projections)

- The City prepared a draft five year plan that includes a detailed budget (by object code) for FY14 and incremental high-level projections for FY15 through FY18
  - FY14 projects a deficit reduction of $2.6M given that the City is not projecting to spend the entire amount collected from the public safety millage
  - FY15 projects a $2M deficit. The City has plans to address the loss of grant revenues totaling $7M, mostly related to public safety, by using the public safety millage
  - FY16 through FY18 project increased deficits as a result of escalating labor related costs

$ in millions	Budget	Projection				5-year
	2014	2015	2016	2017	2018	Total
General City Revenues	$ 68.2	$ 58.7	$ 58.1	$ 58.1	$ 58.7	$ 301.8
General City Operating expenditures	(43.7)	(39.2)	(40.6)	(42.1)	(43.8)	(209.4)
Net Operating Surplus	24.5	19.5	17.5	16.0	14.9	92.5
Legacy Expenditures						
OPEB / Retiree Healthcare	(10.5)	(10.9)	(11.5)	(12.4)	(13.3)	(58.6)
Pension - UAAL	(9.8)	(10.1)	(10.4)	(10.8)	(11.2)	(52.2)
Charter Pension	-	-	-	-	-	-
Debt Service	(1.7)	(0.6)	(0.6)	(0.6)	(0.6)	(4.1)
Total Legacy	(21.9)	(21.5)	(22.5)	(23.8)	(25.1)	(114.9)
Surplus / (Deficit)	**$ 2.6**	**$ (2.0)**	**$ (5.0)**	**$ (7.8)**	**$ (10.2)**	**$ (22.4)**
Legacy as a percentage of total cost	33%	35%	36%	36%	36%	35%
Deficit Roll Forward - General City						
Beginning Balance	**(14.5)**	**(12.0)**	**(14.0)**	**(19.0)**	**(26.8)**	**(14.5)**
Surplus / (deficit)	2.6	(2.0)	(5.0)	(7.8)	(10.2)	(22.4)
Ending Fund Balances	**$ (12.0)**	**$ (14.0)**	**$ (19.0)**	**$ (26.8)**	**$ (37.0)**	**$ (37.0)**
Memo:						
Projected deficit elimination (projected by City)	(1.0)	(1.0)	(1.5)	(1.8)	(1.9)	(7.1)

Note: the 5-year plan presented above is for the General City only.

The five year plan is based on reasonable assumptions, but does not account for significant risks or reinvestment requirements that could have a negative impact on the financial projections

Key trends

- Modest decline in prop taxes and income taxes due to declining home values and wages, respectively
- Significant loss of grant revenues starting in FY15
- Increasing cost of salaries, healthcare and pension contributions (at a rate of 3.75% annually)

Major risks

- Significant annual deficits projected for FY15 and beyond, with limited or no ability to increase revenues or issue debt
- Delinquency rates for property taxes and Water and Sewer could be higher than projected given recent increases in rates and millage - currently projected at 30%, up from historical of 20%
- Inability to collect healthcare premium sharing from retirees - for plans exceeding the cap. Implementation could face potential further litigation
- Risk of healthcare plan design litigation - if negative ruling expands to all retirees (currently only 6 retirees impacted)
- No major capital expenditures projected (see appendix for details) - this will result in declining levels of service. No reinvestment in the City to attract people and businesses. This fact puts pressure on other macro-economic trends including population and property values
- MERS change to 25 year UAAL amortization - currently City uses 30 years. MERS has indicated it is willing to work with the City for a gradual transition
- Pension contributions projected to grow at 3.75% based on Gabriel Roeder's input - however, MERS may require higher growth in contributions if 8% return on assets not achieved
- A detailed execution plan for the improvements and capacity for Flint internal resources to deliver on improvements is continuing to be reviewed
- Some of the above risks may be offset by the City's ability to achieve additional cash savings. Results to date for FY13 suggest expenses are running materially below budget. If this trend continues, this may address some of the deficit issues

The City should evaluate options that may be available under a comprehensive restructuring. This is likely to be the only forum to adequately address the legacy costs

The proposed budget demonstrates significant strategic deficiencies. As currently structured, there is no clear plan on how to address the budget deficit once grant money is exhausted. Even before considering further cost cuts and revenue enhancements to address this issue, the City is faced with an outlook that strains the citizens and does not address significant capital improvements that will be necessary to address the blight in the City

The following are key issues the City must address:

- Any revised plan should consider solutions that avoid further burdens on the citizens
- A revised plan should consider some progress on making investment in the City. Without further investment, it will be difficult to reverse the adverse trends in the City
- It will be very difficult for the City to find substantial costs savings from its active work force without further impairing necessary services to the City
- The most significant areas that may be addressed without further impairing City services are the legacy costs. As demonstrated previously, these costs represent a significant portion of the overall City expense

Property taxes have continued to decline since 2008 related to drops in property values, and increases in foreclosures and delinquencies and are projected to decline

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**
Revenues									
General City									
Property tax	$ 11.3	$ 10.7	$ 8.8	$ 7.3	$ 5 7	$ 5.3	$ 5.1	$ 5.1	$ 5.2
Special assessments	3.6	3 4	2.8	7.9	5.4	4.7	4 5	4.5	4.6
Income tax	13.6	14.4	14.8	15.3	14 2	14.2	14 1	13.9	14 1
State revenue sharing	16.4	16.4	13.1	13.1	13.9	13.9	13.9	13.9	14 0
Charges For service rendered - Intercity	5.3	5.5	4.7	7.4	5.4	5.2	5.0	5.0	5 0
Water & Sewer Pilot	2.4	2.4	2.4	2.0	2 0	2 0	2 0	2.0	2 0
Grants	7.3	13.4	10.0	18.1	7.3	0.3	0.3	0.3	0.3
Other revenues	14.8	29.3	26.3	14.7	13.4	12.2	11.8	11.7	11.7
Procds from loans	-	8 0	-	-	-	-	-	-	-
Sub-total revenues - General City	**74.7**	**103.5**	**83.0**	**85.7**	**67.2**	**57.7**	**56.6**	**56.4**	**56.8**
Other					67.4				
CDBG and other restricted grants	7.6	4.2	4.4	11 7	13.8	4 2	4 0	3.8	3.6
State restricted revenue (major/local streets)	10.2	10.8	10 6	10.6	9.2	8.3	8 5	8.4	8.5
Assessments & Fees (Street Light/Garbage)	3 8	5 4	4 7	7.9	8.1	8.4	8.8	9.1	10.0
Water	32 2	36.8	44 9	50.5	52.4	54 5	56 7	58.9	61.0
Sewer	16 7	17.7	23 4	32.0	31.9	33 2	34.5	35.9	38.5
Sub-total other revenues	**70.5**	**75.0**	**87.9**	**112.7**	**115.5**	**108.7**	**112.5**	**116.2**	**121.5**
Total revenue - City Services	**$ 145.2**	**$ 178.4**	**$ 171.0**	**$ 198.4**	**$ 182.7**	**$ 166.4**	**$ 169.2**	**$ 172.6**	**$ 178.3**

Historical

- Property taxes have continued to decline since 2008 related to drops in property values, and increases in foreclosures and delinquencies
- Delinquent property taxes are transferred to Genesee County and the City receives payment in advance. Charge-backs are netted against those payments
- The City's total tax levy has decreased more than 40% over the last 10-years compounded by an increase in delinquency rates from 5% to ~15%

Projection

- Property tax revenues are projected to decrease due to a combination of assumed decline in property taxable valuations, declining population and high charge-backs. The rate of decline is expected to be 18% in 2014, 8% in 2015 and then flattening in the years that follow
- With assessment reductions set at 18% in FY 14, the City has only allowed for an additional 3% decline related to challenged assessments, loss in population, bad debt loss, etc. This may create a risk on achievement
- Property taxes are projected net of distributions

Special Assessments were increased in FY13 to provide funding for public safety

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues									
General City									
Property tax	$ 11.3	$ 10.7	$ 8.8	$ 7.3	$ 5.7	$ 5.3	$ 5.1	$ 5.1	$ 5.2
Special assessments	3.6	3.4	2.8	7.9	5.4	4.7	4.5	4.5	4.6
Income tax	13.6	14.4	14.8	15.3	14.2	14.2	14.1	13.9	14.1
State revenue sharing	16.4	16.4	13.1	13.1	13.9	13.9	13.9	13.9	14.0
Charges For service rendered - Intercity	5.3	5.5	4.7	7.4	5.4	5.2	5.0	5.0	5.0
Water & Sewer Pilot	2.4	2.4	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Grants	7.3	13.4	10.0	18.1	7.3	0.3	0.3	0.3	0.3
Other revenues	14.8	29.3	26.3	14.7	13.4	12.2	11.8	11.7	11.7
Procds from loans	-	8.0	-	-	-	-	-	-	-
Sub-total revenues - General City	**74.7**	**103.5**	**83.0**	**85.7**	**67.2**	**57.7**	**56.6**	**56.4**	**56.8**
Other					67.4				
CDBG and other restricted grants	7.6	4.2	4.4	11.7	13.8	4.2	4.0	3.8	3.6
State restricted revenue (major/local streets)	10.2	10.8	10.6	10.6	9.2	8.3	8.5	8.4	8.5
Assessments & Fees (Street Light/Garbage)	3.8	5.4	4.7	7.9	8.1	8.4	8.8	9.1	10.0
Water	32.2	36.8	44.9	50.5	52.4	54.5	56.7	58.9	61.0
Sewer	16.7	17.7	23.4	32.0	31.9	33.2	34.5	35.9	38.5
Sub-total other revenues	**70.5**	**75.0**	**87.9**	**112.7**	**115.5**	**108.7**	**112.5**	**116.2**	**121.5**
Total revenue - City Services	**$ 145.2**	**$ 178.4**	**$ 171.0**	**$ 198.4**	**$ 182.7**	**$ 166.4**	**$ 169.2**	**$ 172.6**	**$ 178.3**

Historical

- Includes 2 mill police services tax to maintain police officers who would have otherwise been laid - off
- Includes 0.5 mill for parks and recreation to maintain and operate the City's parks
- Public improve mill also included and primarily used for capital improvements and debt service on the 2011 fiscal stabilization bonds

Projection

- The City has introduced a new fire and police tax mill to maintain police and fire staffing at approximately 75 fire fighters and 150 police officers in response to the loss of SAFER, Mott and COPS grants projected in FY15
- Voters approved a 6 mill incremental tax in FY13 which was added to the winter tax bill. Proceeds are intended to be deferred until FY14 and beyond to replace the loss of grant revenue
- Special assessments carry a certain risk factor as delinquencies grow in the face of a rising tax rates and continued lower taxable valuations. However, this risk is tempered by the fact that the overall tax burden on the citizen is reduced by on-going property value declines

Income Taxes have stabilized in recent years and are projected to remain flat

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues									
General City									
Property tax	$ 11.3	$ 10.7	$ 8.8	$ 7 3	$ 5 7	$ 5.3	$ 5 1	$ 5.1	$ 5 2
Special assessments	3.6	3.4	2 8	7 9	5 4	4.7	4 5	4.5	4 6
Income tax	13.6	14.4	14.8	15 3	14.2	14.2	14.1	13.9	14.1
State revenue sharing	16.4	16.4	13.1	13 1	13 9	13.9	13.9	13 9	14.0
Charges For service rendered - Intercity	5.3	5.5	4.7	7.4	5.4	5.2	5 0	5.0	5 0
Water & Sewer Pilot	2 4	2.4	2.4	2.0	2.0	2 0	2 0	2.0	2 0
Grants	7.3	13.4	10.0	18.1	7 3	0.3	0 3	0.3	0 3
Other revenues	14.8	29.3	26.3	14.7	13.4	12 2	11.8	11.7	11 7
Procds from loans	-	8.0	-	-	-	-	-	-	-
Sub-total revenues - General City	**74.7**	**103.5**	**83.0**	**85.7**	**67.2**	**57.7**	**56.6**	**56.4**	**56.8**
Other					67 4				
CDBG and other restricted grants	7 6	4.2	4.4	11.7	13 8	4.2	4.0	3.8	3.6
State restricted revenue (major/local streets)	10.2	10 8	10.6	10 6	9.2	8.3	8.5	8 4	8.5
Assessments & Fees (Street Light/Garbage)	3.8	5 4	4.7	7.9	8.1	8.4	8.8	9.1	10 0
Water	32.2	36 8	44 9	50.5	52.4	54.5	56.7	58 9	61.0
Sewer	16 7	17 7	23.4	32.0	31.9	33.2	34.5	35 9	38.5
Sub-total other revenues	**70.5**	**75.0**	**87.9**	**112.7**	**115.5**	**108.7**	**112.5**	**116.2**	**121.5**
Total revenue - City Services	**$ 145.2**	**$ 178.4**	**$ 171.0**	**$ 198.4**	**$ 182.7**	**$ 166.4**	**$ 169.2**	**$ 172.6**	**$ 178.3**

Historical

- Income taxes have stabilized in recent years despite continued decline in population

Projection

- Projections of revenues is driven heavily by recent trends in collections through Treasury. As such, FY 14 appears consistent with most recent collection delay and is a reasonable basis for projection

State Revenue Sharing is projected to increase slightly from FY13 levels then remain flat

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues									
General City									
Property tax	$ 11.3	$ 10.7	$ 8.8	$ 7.3	$ 5.7	$ 5 3	$ 5 1	$ 5.1	$ 5.2
Special assessments	3.6	3.4	2 8	7.9	5.4	4 7	4 5	4.5	4 6
Income tax	13.6	14.4	14 8	15.3	14 2	14 2	14 1	13.9	14.1
State revenue sharing	16.4	16.4	13.1	13.1	13.9	13.9	13.9	13.9	14 0
Charges For service rendered - Intercity	5.3	5.5	4 7	7.4	5.4	5.2	5.0	5.0	5 0
Water & Sewer Pilot	2.4	2.4	2.4	2.0	2.0	2 0	2 0	2.0	2.0
Grants	7.3	13.4	10 0	18.1	7.3	0.3	0.3	0.3	0 3
Other revenues	14.8	29.3	26.3	14.7	13.4	12.2	11 8	11.7	11 7
Procds from loans	-	8.0	-	-	-	-	-	-	-
Sub-total revenues - General City	**74.7**	**103.5**	**83.0**	**85.7**	**67.2**	**57.7**	**56.6**	**56.4**	**56.8**
Other					67.4				
CDBG and other restricted grants	7.6	4.2	4 4	11.7	13.8	4.2	4.0	3.8	3 6
State restricted revenue (major/local streets)	10.2	10.8	10 6	10.6	9.2	8.3	8.5	8.4	8 5
Assessments & Fees (Street Light/Garbage)	3.8	5.4	4 7	7.9	8 1	8 4	8.8	9.1	10 0
Water	32.2	36.8	44 9	50.5	52.4	54.5	56.7	58.9	61 0
Sewer	16 7	17.7	23.4	32.0	31.9	33 2	34.5	35.9	38 5
Sub-total other revenues	**70.5**	**75.0**	**87.9**	**112.7**	**115.5**	**108.7**	**112.5**	**116.2**	**121.5**
Total revenue - City Services	**$ 145.2**	**$ 178.4**	**$ 171.0**	**$ 198.4**	**$ 182.7**	**$ 166.4**	**$ 169.2**	**$ 172.6**	**$ 178.3**

Historical

- Historical changes in rates are driven by changes to the sharing methodology. The FY 12-13 collections are under a consistent methodology with what is expected going forward

Projection

- The budget for FY 14 is consistent with the state's existing statements for Flint. While the City continues to have reporting required this year to receive full funding, it appears they are on track to comply
- Statutory revenue sharing payments were eliminated and replaced by the Economic Vitality Incentive Program. The total amount available to be paid to municipalities decreased and the payment method is now based on performance metrics to reward "best practices"

Most grants are projected to expire in FY15

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues									
General City									
Property tax	$ 11.3	$ 10 7	$ 8.8	$ 7.3	$ 5.7	$ 5.3	$ 5 1	$ 5 1	$ 5.2
Special assessments	3.6	3 4	2 8	7.9	5.4	4 7	4 5	4 5	4 6
Income tax	13 6	14.4	14.8	15.3	14.2	14 2	14 1	13.9	14.1
State revenue sharing	16.4	16.4	13.1	13 1	13.9	13 9	13 9	13.9	14 0
Charges For service rendered - Intercity	5.3	5.5	4 7	7 4	5.4	5.2	5.0	5.0	5.0
Water & Sewer Pilot	2 4	2.4	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Grants	7.3	13.4	10.0	18.1	7.3	0.3	0.3	0.3	0.3
Other revenues	14 8	29.3	26.3	14 7	13.4	12.2	11.8	11.7	11.7
Procds from loans	-	8 0	-	-	-	-	-	-	-
Sub-total revenues - General City	**74.7**	**103.5**	**83.0**	**85.7**	**67.2**	**57.7**	**56.6**	**56.4**	**56.8**
Other					67.4				
CDBG and other restricted grants	7.6	4.2	4.4	11.7	13.8	4 2	4 0	3 8	3.6
State restricted revenue (major/local streets)	10.2	10.8	10.6	10.6	9.2	8.3	8.5	8 4	8 5
Assessments & Fees (Street Light/Garbage)	3.8	5.4	4.7	7 9	8 1	8.4	8.8	9.1	10 0
Water	32.2	36.8	44.9	50.5	52 4	54.5	56 7	58 9	61 0
Sewer	16.7	17.7	23.4	32.0	31 9	33.2	34.5	35 9	38 5
Sub-total other revenues	**70.5**	**75.0**	**87.9**	**112.7**	**115.5**	**108.7**	**112.5**	**116.2**	**121.5**
Total revenue - City Services	**$ 145.2**	**$ 178.4**	**$ 171.0**	**$ 198.4**	**$ 182.7**	**$ 166.4**	**$ 169.2**	**$ 172.6**	**$ 178.3**

Historical

- The City has had a healthy grant program in recent years providing funds for several important initiatives:
  - Hiring and sustaining police officer and fire fight staffing levels
  - City of Flint Mater Plan
  - HUD – CDBG grants supporting community development

Projection

- Revenues are projected based on existing contracted grants. The substantial decline in FY 14-15 is related to the roll off of significant grants including, SAFER, Lockup, MOTT and others
- Currently there are no identified replacement grant programs – rather, increased tax millage are designed to replace some of the lost grant revenue

Salaries, Wages & Overtime expenses are driven by headcount. The City reduced headcount substantially from FY08 to FY13 and very little additional room to cut salaries expenses further

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Expenditures									
General City									
Operating expenditures									
Wages & Salaries	(26 7)	(24.6)	(22.2)	(20.6)	(21.0)	(19.7)	(20.4)	(21 3)	(22 2)
Overtime	(2.4)	(2.7)	(2.2)	(2.2)	(1.8)	(1.7)	(1.8)	(1.9)	(1.9)
Active Healthcare (Med)	(6.6)	(6.8)	(7 7)	(8.4)	(3 9)	(4 0)	(4.3)	(4.6)	(4.9)
Other benefits (Fringe, OPEB, Pension)	(25 1)	(25.2)	(27 0)	(26 9)	(25.7)	(23.8)	(24 8)	(26 2)	(27 6)
Professional Service	(4.3)	(6.2)	(4.9)	(7.2)	(3 5)	(3.0)	(3.1)	(3.3)	(3 4)
Utilities	(3.4)	(3.6)	(3 5)	(0 8)	(0 6)	(0.6)	(0.6)	(0.7)	(0.7)
Other operating expenditures	(18.3)	(26.4)	(28 4)	(14 8)	(9.2)	(7.8)	(8.0)	(8 0)	(8 1)
Total operating expenditures	(86.9)	(95.4)	(95 8)	(81 0)	(65.6)	(60.7)	(63.1)	(65 9)	(68 9)
Other									
CDBG and other restricted grants	(7.6)	(4 6)	(4 1)	(11 7)	(13.8)	(4.2)	(4.0)	(3 8)	(3.6)
State restricted revenue (major/local streets)	(13.2)	(11.1)	(9.5)	(10.6)	(8.3)	(5 9)	(6.0)	(6.7)	(6 2)
Assessments & Fees (Street Light/Garbage)	(4.7)	(4 4)	(4.8)	(7.8)	(8 1)	(8.8)	(9.2)	(9 6)	(10.0)
Water	(40.5)	(43 4)	(43.8)	(54.7)	(56.2)	(54.2)	(56.4)	(58 6)	(61.0)
Sewer	(33.0)	(31.8)	(27.3)	(37.0)	(36 9)	(34 2)	(35.6)	(37.0)	(38.5)
Sub-total other expenditures	**(99.1)**	**(95.3)**	**(89.6)**	**(121.8)**	**(123.3)**	**(107.4)**	**(111.1)**	**(115.7)**	**(119.3)**
Total expenditures - City Services	**$ (186.0)**	**$ (190.8)**	**$ (185.4)**	**$ (202.8)**	**$ (188.9)**	**$ (168.1)**	**$ (174.2)**	**$ (181.7)**	**$ (188.1)**

Historical

- The City has reduced general city headcount from FY10 to FY13 by approximately 480 FTE's, equivalent to 58% (see appendix for detailed headcount information)
- General City salaries and wages decreased by 23% although overtime has remained relatively flat

Projection

- The projection includes a further reduction in total city headcount of 70 FTE's
- Public safety millage is intended to limit reduction in public safety with plans to reduce fire fighter headcount to a steady level of 75 FTEs and police officers to ~150 FTEs
- Salaries and wages are projected to increase 3.5% annually

Other expenses are primarily comprised of professional services, utilities, and other operating expenditures

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Expenditures									
General City									
Operating expenditures									
Wages & Salaries	(26.7)	(24 6)	(22 2)	(20.6)	(21.0)	(19.7)	(20.4)	(21 3)	(22.2)
Overtime	(2.4)	(2.7)	(2.2)	(2.2)	(1.8)	(1.7)	(1 8)	(1.9)	(1.9)
Active Healthcare (Med)	(6.6)	(6 8)	(7 7)	(8.4)	(3.9)	(4.0)	(4 3)	(4.6)	(4.9)
Other benefits (Fringe, OPEB, Pension)	(25.1)	(25.2)	(27 0)	(26.9)	(25.7)	(23.8)	(24 8)	(26 2)	(27.6)
Professional Service	(4.3)	(6.2)	(4.9)	(7.2)	(3.5)	(3.0)	(3.1)	(3.3)	(3.4)
Utilities	(3.4)	(3.6)	(3 5)	(0.8)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)
Other operating expenditures	(18.3)	(26.4)	(28.4)	(14.8)	(9.2)	(7.8)	(8 0)	(8 0)	(8.1)
Total operating expenditures	(86.9)	(95.4)	(95.8)	(81.0)	(65.6)	(60.7)	(63.1)	(65.9)	(68.9)
Other									
CDBG and other restricted grants	(7.6)	(4.6)	(4 1)	(11.7)	(13.8)	(4.2)	(4 0)	(3 8)	(3 6)
State restricted revenue (major/local streets)	(13 2)	(11.1)	(9.5)	(10.6)	(8.3)	(5 9)	(6.0)	(6 7)	(6 2)
Assessments & Fees (Street Light/Garbage)	(4 7)	(4.4)	(4.8)	(7.8)	(8.1)	(8 8)	(9 2)	(9 6)	(10 0)
Water	(40.5)	(43.4)	(43.8)	(54.7)	(56 2)	(54.2)	(56 4)	(58 6)	(61 0)
Sewer	(33 0)	(31.8)	(27.3)	(37.0)	(36.9)	(34.2)	(35.6)	(37.0)	(38.5)
Sub-total other expenditures	**(99.1)**	**(95.3)**	**(89.6)**	**(121.8)**	**(123.3)**	**(107.4)**	**(111.1)**	**(115.7)**	**(119.3)**
Total expenditures - City Services	**$ (186.0)**	**$ (190.8)**	**$ (185.4)**	**$ (202.8)**	**$ (188.9)**	**$ (168.1)**	**$ (174.2)**	**$ (181.7)**	**$ (188.1)**

Historical

- Utilities expense relates primarily to power for the City's street lights and was captured in the general fund
- Other expenses in FY09 include a one-time $7M lawsuit settlement
- Other expenses in FY10 include a one-time $7M capital project funded by HUD grant proceeds

Projection

- The projection period reflects significant reductions in other expenses primarily driven by cost reductions across the City
- Utilities expenses related to street lights have been transferred to the Street Light special assessment fund (~$3M annually)
- The reduction in other expenses is primarily driven by a reduction in charges for central services and inter-City billings. The assumption is driven by centralizing services, reduction of the overall City footprint and outsourcing
- **The Water and Sewer projection does not include changes/savings due to conversion to the KWA (Karegnondi Water Authority)**

The Water and Sewer department has had to significantly increase rates to eliminate past deficits and generate revenue levels necessary for operations

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Expenditures									
General City									
Operating expenditures									
Wages & Salaries	(26 7)	(24 6)	(22.2)	(20 6)	(21 0)	(19 7)	(20 4)	(21 3)	(22 2)
Overtime	(2.4)	(2.7)	(2.2)	(2.2)	(1.8)	(1 7)	(1 8)	(1 9)	(1.9)
Active Healthcare (Med)	(6.6)	(6 8)	(7.7)	(8 4)	(3 9)	(4 0)	(4 3)	(4.6)	(4 9)
Other benefits (Fringe, OPEB, Pension)	(25 1)	(25 2)	(27.0)	(26 9)	(25 7)	(23 8)	(24.8)	(26.2)	(27 6)
Professional Service	(4.3)	(6.2)	(4.9)	(7.2)	(3.5)	(3.0)	(3 1)	(3.3)	(3.4)
Utilities	(3 4)	(3 6)	(3.5)	(0 8)	(0 6)	(0.6)	(0.6)	(0.7)	(0 7)
Other operating expenditures	(18.3)	(26.4)	(28.4)	(14.8)	(9 2)	(7.8)	(8 0)	(8.0)	(8.1)
Total operating expenditures	(86 9)	(95.4)	(95.8)	(81 0)	(65.6)	(60.7)	(63.1)	(65.9)	(68 9)
Other									
CDBG and other restricted grants	(7 6)	(4.6)	(4.1)	(11.7)	(13 8)	(4.2)	(4.0)	(3.8)	(3 6)
State restricted revenue (major/local streets)	(13.2)	(11 1)	(9.5)	(10.6)	(8.3)	(5 9)	(6 0)	(6.7)	(6.2)
Assessments & Fees (Street Light/Garbage)	(4.7)	(4.4)	(4.8)	(7.8)	(8.1)	(8.8)	(9.2)	(9.6)	(10.0)
Water	(40 5)	(43.4)	(43.8)	(54.7)	(56.2)	(54.2)	(56.4)	(58.6)	(61.0)
Sewer	(33.0)	(31.8)	(27.3)	(37.0)	(36.9)	(34.2)	(35.6)	(37.0)	(38.5)
Sub-total other expenditures	**(99.1)**	**(95.3)**	**(89.6)**	**(121.8)**	**(123.3)**	**(107.4)**	**(111.1)**	**(115.7)**	**(119.3)**
Total expenditures - City Services	**$ (186.0)**	**$ (190.8)**	**$ (185.4)**	**$ (202.8)**	**$ (188.9)**	**$ (168.1)**	**$ (174.2)**	**$ (181.7)**	**$ (188.1)**

Historical

- In recent years, the Water and Sewer departments had been operating at deficits despite little to no capital investment

Projection

- The City significantly raised Water and Sewer rates to both eliminate deficits and to ensure that department operation can be funded at minimal levels
- The Water and Sewer projection does not include changes/savings due to conversion to the KWA (Karegnondi Water Authority)

III. Healthcare Benefits

The City's recent implementation of changes to active and retiree healthcare plans resulted in significant savings, approximating 25% of its annual spend

Recent plan design changes

- The City used to have in excess of 60 plans, given that the City offered each retiree the healthcare plan that they participated in which was in place when they retired
- Flint made the decision to consolidate its healthcare plans into 3 main plans for FY13
  - Blue Cross Community Blue Plan – self insured
  - Health Plus Plan – fully insured
  - McLaren Plan – fully insured
- Main changes to plan designs included:
  - Increases in deductibles from a range of $50 to $150 in the old plans for singles to $1,000 deductible for BCBS and Health Plus plans and $500 for the McLaren plan
  - Increase in co-insurance percentages, out-of-pocket maximums and increases in office visits
  - Increases in prescription co-pays

2013 Plans	**BC Community Blue Self Insured**	**Health Plus Fully Insured**	**McLaren Fully Insured**
General plan coverage			
Employee premium contribution	Subject to State Caps	Subject to State Caps	Subject to State Caps
Plan deductible (single/family)	$1,000/$2000	$1,000/$2000	$500/$1,000
Co-insurance %	20%	20%	20%
Co-insurance maximum (OOP max)	$3,500	$3,500	$2,000
Office visit	$30	$30	$30
Rx drug plan coverage			
Co-pay	$10/$40/$80	$20/$40/$60	$10/$40/$80

- Cornerstone (healthcare advisor) estimates for healthcare savings (City contribution) were as follows:

$ in millions			**Estimated Savings**	
	FY 2012	**FY 2013**	**$**	**%**
Actives - Medical and Rx	$ 7.4	$ 5.8	$ (1.6)	-22%
Pre-65 Medical	9.9	6.6	(3.3)	-33%
RX - Post 2000 Retirees	7.5	7.2	(0.3)	-4%
Post-65 Medical	2.9	1.0	(1.8)	-64%
Total Savings Estimate	**$ 27.7**	**$ 20.6**	**$ (7.0)**	**-25%**

Despite recent changes and resulting cost savings, the City's healthcare costs continue to be high for actives and retirees

Average cost of healthcare plans

- The City's total projected FY14 medical costs are estimated to be approximately $20M
- This amount is net of expected premium contributions of about $3M from retirees whose plans cost exceeds the State imposed caps
- Assuming the City is able to collect $3M from its retirees, the average medical cost to the City would be:
  - $7,707 per retiree
  - $9,873 per active

Flint should evaluate switching to 80/20 cost sharing, which could generate savings of approximately $1.5M, mostly from actives contributions

$ in million	Projected for FY-14		
	Participants	**Average Spend**	**City Cost**
Retiree medical	1,947	$ 9,282.4	$ 18.1
Actives medical	538	9,872.5	5.3
Total medical	2,485	$ 9,410.2	$ 23.4
Hard cap retirees			15.0
Hard cap actives			6.6
Hard Cap Total			$ 21.6
Over/(Under) Cap Retiree			$ 3.1
Over/(Under) Cap Active			(1.3)
Calculation using caps			
City Cost - Retirees	1,947	$ 7,706.9	$ 15.0
City Cost - Actives	538	9,872.5	5.3
Retiree Contribution	1,947	$ 1,575.5	$ 3.1
Active Contribution	538	-	-
Total City with Caps	**2,485**	**$ 8,175.8**	**$ 20.3**

Existing and future lawsuits may impair the City's ability to realize healthcare savings as planned

Issue	Considerations

Current Retiree Lawsuits	▪ Retirees have filed 2 lawsuits against the City for imposed plan changes:
	  ▪ Pre-2000 retirees litigation: a settlement reached in 2002 prevents any changes to these retirees' prescription drug cards. After the City imposed changes to Rx co-pays in 2011, a judge ruled in favor of the retirees and reinstated the old drug cards. The City has filed an appeal the case is pending resolution
	  ▪ 6 retirees filed a lawsuit opposing the plan design changes. The judge granted a preliminary injunction in favor of the retirees. The City has appealed the ruling. The city of Pontiac is going through a similar lawsuit in which the judge's ruling favored the City's position. Now both cases are in front of the 6th Circuit
	▪ The City reversed the plan design changes for the 6 retirees being represented. If the City needs to reverse the plan design changes for all retirees, the **potential impact would be \$3.5M to \$4M of additional healthcare costs for the City**

Potential further litigation resulting from imposing State caps	▪ The City has chosen to apply the State caps for actives and retirees, even though the legislation does not explicably address retirees ▪ As shown in the previous page, average plan costs for actives do not reach the State caps. Therefore, actives are not required to contribute to healthcare plan premiums ▪ Most of the retiree plans exceed the State imposed caps. Therefore, the City is planning to charge retirees (for the first time) for the excess above the State caps. This amounts on average to \$1,500 per retiree for FY14 ▪ The City will be sending notices to retirees regarding their obligation to pay their portion of the plan premiums and give retirees the option make a payment directly to the City or have a deduction taken from their pension checks ▪ If retirees do not respond to notices, the City is planning to move them to a cheaper plan that falls below the State caps ▪ **There is a potential for the City not to be able to collect these premiums and there is also potential for further litigation from retirees that will be charged a premium for the first time. This litigation risk increases if the City changes the structure of the plan (which could be considered inconsistent with rights of retirees)**
Alternative strategies	▪ **The City's retiree healthcare cost is unsustainable. Significant further changes should be considered in a long term strategy**

IV. Pension Benefits

Despite significant recent changes to pension benefits, the City's pension plan continues to be severely underfunded and requires contributions that are significantly higher than other cities

During the last 18 months, the City has implemented significant changes to it pension benefits, including:

- Plan transfer from FERS (Flint Employees Retirement System) to MERS. The FERS board has been dissolved and all assets and liabilities are now under the administration of MERS
- Increased employee required contributions to DB plan
- Changes to FAC (Final Average Compensation) calculations to eliminate certain components such as overtime
- Reduction in multipliers for service accrued in the future
- Limitations on eligibility for payment of 13th check – plan has to be funded at 90% or higher for 13th check to be paid
- Introduction of hybrid plan for new hires
- Changes to job elimination provisions

Despite the changes introduced to pension benefits, the plan continues to be severely underfunded and continues to be a significant burden on the City's financial condition.

- The ratio of actives to retirees is one third (excluding Hurley)
- The plan funding level for general City employees is 40% and for police and fire is 61%. Total UAAL was $287M as of the 6/30/2011 valuation
- This valuation results in the City's required pension contributions to be very significant as a percentage of actives wages
  - General City employees contribution is 55% of payroll and Police and Fire contributions are 47%, mostly driven by the UAAL portion of contributions
  - On average, for each active employee, the City has to contribute $30k to the pension plan

	Flint (6/30/2011)			
	General	P&F	Hurley[2]	Total
Participants				
Active employees	320	246	710	1,276
Retirees	999	748	1,147	2,894
Total	1,319	994	1,857	4,170
Ratio Active/Retiree	0.32	0.33	0.62	0.44
Active payroll ($m)	$ 16.0	$ 15.0	$ 32.0	$ 63.1
Average pay/EE ($k)	$ 50.1	$ 61.1	$ 45.1	$ 49.4
Retiree benefits paid ($m)	$ 24.0	$ 23.6	$ 17.0	$ 64.6
Average pay/retiree ($k)	$ 24.0	$ 31.5	$ 14.9	$ 22.3
Balance sheet				
Actuarial asset value ($m)	$ 111.1	$ 182.8	$ 212.5	$ 506.5
Actuarial accrued liab ($m)	(279.6)	(300.1)	(249.7)	(829.4)
UAAL ($m)	$ (168.5)	$ (117.2)	$ (37.1)	$ (322.9)
Percent Funded	40%	61%	85%	61%
FY 2014 Contribution[1]				
Normal	10.0%	15.2%	9.8%	11.2%
UAAL	56.0%	41.6%	7.4%	27.9%
Interest				
EE Contrib	-10.6%	-9.5%	-3.1%	-6.5%
Total %	55.5%	47.3%	14.1%	32.5%
City contribution[1] ($m)	$ 9.6	$ 7.7	$ 4.1	$ 21.3
City contribution/active ($k)	$ 29.9	$ 31.1	$ 5.7	$ 16.7

Notes:

1. Information based on Gabriel Roeder Smith actuarial valuation for Flint (67th version)
2. The Hurley pension data only relates to the portion invested in the FERS plan

Implemented and potential further changes to pension benefits (without impacting vested benefits) will not result in a comprehensive solution to the City's pension issues

Issue	Considerations
Potential for further changes	▪ Further changes could include: ▪ Additional reductions to Police and Fire multipliers ▪ Additional changes to FAC calculation ▪ Elimination of 13th check ▪ Further increases in employee contributions ▪ Move every employee to hybrid plan
Actuarial assumptions appear to be aggressive	▪ Actuarial assumptions that could be challenged include: ▪ Rate of return assumption: ▪ Previously, the assumed rate of return net of investment expenses was 8% ▪ As part of the 2013 valuation, the assumed rate was changed to 8% net of investment **and administrative** expenses, which results in a 1.45% reduction in contribution rates ▪ 8% is at the top of the range for assumed rates of return. A more reasonable assumption would be between 6.5% and 7% ▪ UAAL amortization period: ▪ The City has historically used a 30-year amortization period ▪ MERS uses a 25-year amortization period ▪ The City will need to move to a 25-year amortization in the near term, and this will result in increased contributions
Changes to eligibility, future service accrual and FAC calculations will not be sufficient to address underfunding	▪ Although changes implemented and potential future changes are positive to limit the City's exposure to its pension issues, they will not address the significant underfunding and burden on the City's financial condition ▪ **Only more drastic actions, including a major restructuring could provide a comprehensive solution to the City's pension issues**

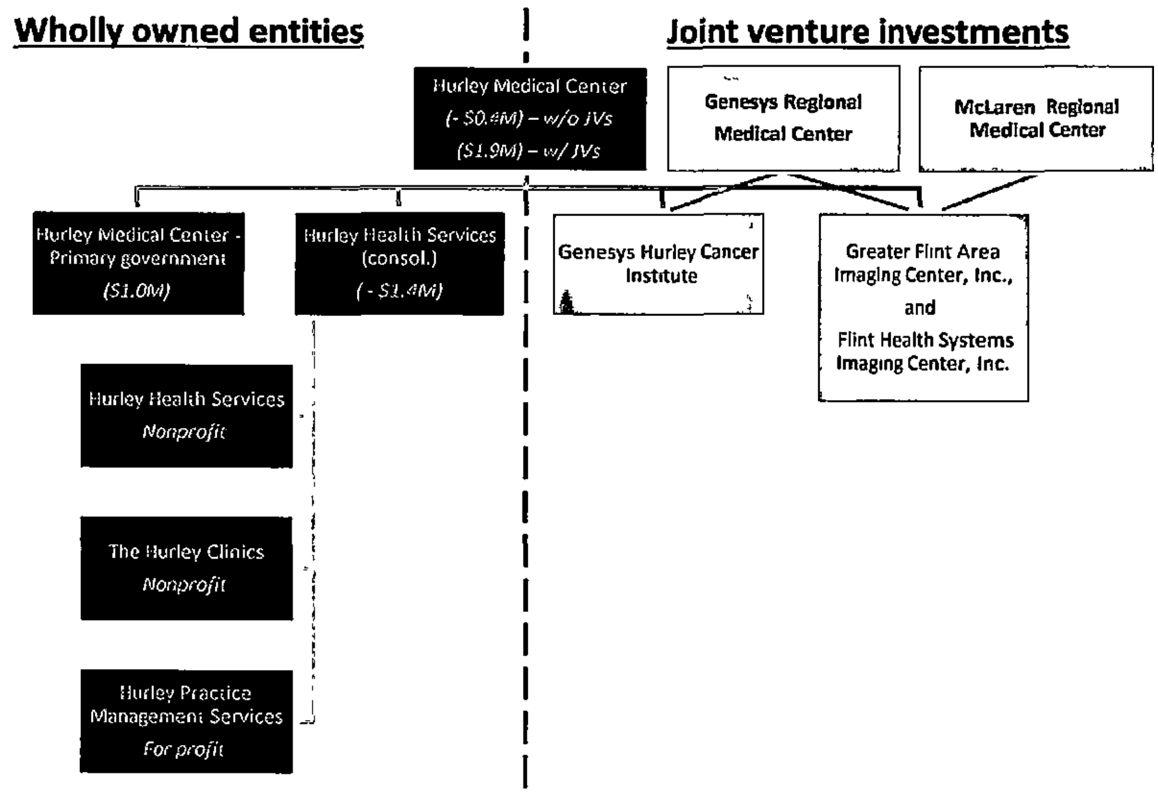
VI. Review of Hurley Medical Center

Hurley Medical Center is a Component Unit of the City of Flint and therefore, reported separately in the City's financial statements

Description

Hurley Medical Center provides inpatient, outpatient, and emergency care services and generates ~$380M with approximately 420 total available beds. It is a discrete component unit of the city of Flint, Michigan, and as such is exempt from federal income taxes

Hurley Medical Center is comprised of the primary government portion as well as a wholly owned subsidiary: Hurley Health Services, which itself includes two nonprofits entities and one for profit corporation. Additionally, the Medical center participates in two joint ventures with other local hospitals. The organizational chart below depicts the expanse of Hurley Medical Center's component entities:



Hurley operates 400+ available beds and its budget is roughly breakeven

Operational summary

The primary Hurley Medical Center facility is located at One Hurley Plaza, Flint, MI 48503. This facility consists of 247 routine service beds and 114 special care beds and 57 others for a total of 418 available beds. Beyond general medicine (1,033 inpatients) and as with many other hospitals, the top departments seeing Medicare inpatients are Cardiology (746 inpatients with an average stay of 5.76 days) and Pulmonology (520 inpatients with an average stay of 7.03 days)

Hurley Medical Center serves a low income population as is reflected in their Disproportionate Share Hospital share percentage of 40%. Additional operational details are presented in the following section on Competitive Landscape

Financial summary

Hurley Medical Center, inclusive of its wholly owned components, generates $380M revenues annually. Approximately 95% of these revenues are used to pay operational expenses, such as salaries & benefits, supplies, and other purchased services. Depreciation & amortization accounts for an additional 3.5% of revenue or $13M (net property, plant and equipment is $114M). As a result, the Medical Center, through its wholly owned component, has been operating at roughly break-even. Joint venture income has also been low: $1.5M and $2.3M in 2011 and 2012, respectively

As of March 31, 2013, the Medical Center had $10M in unrestricted cash & cash equivalents. Net debt ($79.5M) is made up of $4.5M current and $101M long-term, less $26M held in trust. This amount represents approximately 39% of total capital

Hurley Medical Center also holds a substantial off balance sheet pension liability. This unfunded actuarial accrued liability was last valued (as of 6/30/2010) at approximately $111M, which equates to 57% of balance sheet liabilities. Employer contributions are made each year with the purpose of providing a sufficiently funded pension plan; these contributions have been roughly $10M over the past few years

See appendix for Hurly financial statements

Hurley competes with 2 other major hospitals in the area that are similar in size

Comparable hospitals

Three large medical centers serve Flint, Michigan and the immediate surrounding area:

Hospital	**Hurley Medical Center**	**Mclaren - Flint**	**Genesys Regional MC**
Provider number	*230132*	*230141*	*230197*

These entities are comparable, including available beds, inpatient counts, and total revenues (gross patient revenue + non-patient revenue). Additionally, these medical centers have partnered in a joint venture to provide imaging services through both Greater Flint Area Imaging Center, Inc. and Flint Health Systems Imaging Center, Inc. Hurley and Genesys also established a joint venture focused on cancer treatment: Genesys Hurley Cancer Institute

The information below summarizes some of size indicators of these medical centers:

Beds and Patient Days by Unit (including swing beds)

	Available Beds			**Inpatient Days**		
	Hurley	McLaren	Genesys	Hurley	McLaren	Genesys
Routine Services	247	256	292	53,660	70,706	79,207
Special Care	114	36	56	30,166	11,832	14,937
Nursery	0	0	0	3,659	1,187	5,566
Total Hospital	418	336	380	100,336	97,155	104,951

Financial Statistics

$ in millions	Hurley	McLaren	Genesys
Total Gross Revenue	$1,001	$1,108	$1,277
Gross Patient Revenue	97.1%	98.6%	98.0%
Non-Patient Revenue	2.9%	1.4%	2.0%
Net margin (or Loss)	0.5%	2.0%	1.6%

Medicare & Medicaid summary

Select medicare & medicaid measurement items	Hurley	McLaren	Genesys
Total beds (routine & special care)	361	292	348
Total bed days available	132,126	106,580	127,368
Total medicare days	24,158	47,314	46,396
Total medicaid days	10,783	2,705	5,101
Total hospital days	87,485	83,725	99,710
Interns & residents	107	72	150
Total employees (on payroll)	2,340	2,232	2,669
Medicare discharges	3,700	10,343	8,036
Medicaid discharges	1,871	1,074	893
Total discharges	15,667	19,970	20,817
$ in millions			
Indirect Medical Education payments	$ 5.1	$ 14.1	$ 20.6
Disproportionate Share Hospital (DSH) allotment	$ 12.7	$ 3.2	$ 3.5
DSH share percentage	40.0%	3.0%	4.0%
Graduate Medical Education (GME) PART A	$ 4.0	$ 4.7	$ 6.4
Graduate Medical Education (GME) PART B	$ 0.9	$ 1.1	$ 1.6

Source:
Centers for Medicare & Medicaid Services

Strategic Choices – Can Hurley be a source of liquidity for the City?

Issue	Considerations
Cash distribution to the City	▪ Limited by debt covenant requirements which create a default if cash drops below approximately $50M. Current levels of cash do not provide significant excess above the minimum cash requirements ▪ Break-even operations run-rate – the hospital is not building cash and is unlikely to create significant funds in the future
Annual fee on hospital	▪ The City is currently considering additional fees that may be charged to the hospital. The City already charges Hurley for safety – there may be additional fees that can be assessed
Additional debt raise / cash distribution	▪ Limitations on debt capacity - The debt burden on the hospital is generally at industry standards. Additional debt will become more difficult to obtain ▪ Limits on use of funds – unlikely to find lending source that will allow new funds to be used for a cash distribution out to the City
Sale of joint ventures	▪ The hospital currently has an interest in 2 JV's with other hospitals in the market. There may be market value in the JV's and the likely buyers would be the JV partners ▪ Strategic considerations – must consider strategic benefits of joint ventures and impact of selling interest to JV partners that compete in the local market
Sale of hospital	▪ Valuation issues w/ Pension – unlikely to effect a sale that includes assumption of pension liability. The $150M+ of unfunded pension liability is likely to fully offset the enterprise value ▪ Value may be further eroded by the conversion to a for-profit. This conversion will impact the DSH payments (currently at $15M) and would likely decline if the hospital is converted to a for profit ▪ Marketability: Limited growth opportunities in the market impacts interested buyers. Unlikely to attract financial buyers ▪ Reimbursement issues must be evaluated to consider impact of a sale, particularly if converting to a for-profit ▪ Comprehensive restructuring should be evaluated in conjunction with City strategy to determine how that may impact ability to generate liquidity

VII. Review of City Operations

City Operations – An initial review of several departments across the City indicates a significant need for a comprehensive IT infrastructure upgrade and City-wide integration of its centralized processes

Function	Observations
IT	▪ The technology infrastructure, support capabilities and governance appear to be in very poor condition ▪ The IT function is currently in a stage of transition in terms of people and investment. There is heavy reliance on third party advisors and little ownership by the departments utilizing the function ▪ The existing systems are antiquated and inefficient in structure. As an example, the Police system is run off of dozens of Access databases – which are relied upon to track critical data such as crime and intelligence data. Moreover, the ability to assess the patrol/arrest process time allocation is limited ▪ Police have received grants that make possible a system upgrade. However, the grant funding does not adequately cover the cost of process redesign, which will be a critical step in getting value from the IT upgrade ▪ It is apparent that the basic infrastructure and resources would need to be stabilized prior to optimizing specific systems. This includes a long term IT governance, disaster recovery and management / resource plan ▪ Telecommunication contracts appear to provide an opportunity for improvement. The current cost is in excess of $1M projected for FY14. It is possible that the restructuring of these contracts to match the needs of the City may result in savings as much as 40%
Purchasing/ Accounting	▪ The current process and tools limit the ability to empower the department heads to track and manage budget / actual accountability and impacting also the ability to encumber current funds and limit multi-year rollovers. There is some expectation that the new accounting systems will provide the tools to improve these processes ▪ Vendor management, IFB and RFP process needs to be enhanced to ensure that Bid to Delivery process is tracked
Water and Sewer	▪ The City is experiencing significant issues surrounding the large increases in water costs. Water rates have more than doubled in the past 2 years and that has resulted in declining collections. The City has more than 8,000 or ~25% customers past due and does not yet have a strategy / process / resources to address this issue ▪ The City only has the capacity to perform 150 shut-offs a week. Given the level of delinquencies, it is clear there are not resources to properly enforce collections ▪ The City has also identified a growing issue surrounding unbilled water. This is a result of both fire department usage (driven by high number of fires) and theft.

Appendices

a) 5-year projection supplementary schedules

b) Impact on Citizens

c) Overview of Hurley financials

a) 5-year projection supplementary schedules
Total City 5-Year plan

The analysis in this document is based on the 5-year projection dated April 29, 2013 and does not reflect the May 18, 2013 update which reflects increased deficits

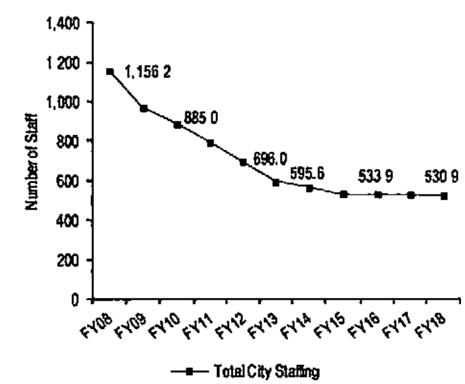
$ in millions	Fiscal year ended			Amended Budget	Budget	Projection			
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues									
General City									
Property tax	$ 11.3	$ 10.7	$ 8.8	$ 7.3	$ 5.7	$ 5.3	$ 5.1	$ 5.1	$ 5.2
Special assessments	3.6	3.4	2.8	7.9	5.4	4.7	4.5	4.5	4.6
Income tax	13.6	14.4	14.8	15.3	14.2	14.2	14.1	13.9	14.1
State revenue sharing	16.4	16.4	13.1	13.1	13.9	13.9	13.9	13.9	14.0
Charges For service rendered - Intercity	5.3	5.5	4.7	7.4	5.4	5.2	5.0	5.0	5.0
Water & Sewer Pilot	2.4	2.4	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Grants	7.3	13.4	10.0	18.1	7.3	0.3	0.3	0.3	0.3
Other revenues	14.8	29.3	26.3	14.7	13.4	12.2	11.8	11.7	11.7
Procds from loans	-	8.0	-	-	-	-	-	-	-
Sub-total revenues - General City	**74.7**	**103.5**	**83.0**	**85.7**	**67.2**	**57.7**	**56.6**	**56.4**	**56.8**
Other									
CDBG and other restricted grants	7.6	4.2	4.4	11.7	13.8	4.2	4.0	3.8	3.6
State restricted revenue (major/local streets)	10.2	10.8	10.6	10.6	9.2	8.3	8.5	8.4	8.5
Assessments & Fees (Street Light/Garbage)	3.8	5.4	4.7	7.9	8.1	8.4	8.8	9.1	10.0
Water	32.2	36.8	44.9	50.5	52.4	54.5	56.7	58.9	61.0
Sewer	16.7	17.7	23.4	32.0	31.9	33.2	34.5	35.9	38.5
Sub-total other revenues	**70.5**	**75.0**	**87.9**	**112.7**	**115.5**	**108.7**	**112.5**	**116.2**	**121.5**
Total revenue - City Services	**$ 145.2**	**$ 178.4**	**$ 171.0**	**$ 198.4**	**$ 182.7**	**$ 166.4**	**$ 169.2**	**$ 172.6**	**$ 178.3**
Expenditures									
General City									
Operating expenditures									
Wages & Salaries	(26.7)	(24.6)	(22.2)	(20.6)	(21.0)	(19.7)	(20.4)	(21.3)	(22.2)
Overtime	(2.4)	(2.7)	(2.2)	(2.2)	(1.8)	(1.7)	(1.8)	(1.9)	(1.9)
Active Healthcare (Med)	(4.9)	(10.1)	(8.6)	(8.5)	(3.9)	(4.0)	(4.3)	(4.6)	(4.9)
Other benefits (Fringe, OPEB, Pension)	(26.9)	(22.0)	(26.0)	(26.8)	(25.7)	(23.8)	(24.8)	(26.2)	(27.6)
Professional Service	(4.3)	(6.2)	(4.9)	(7.2)	(3.5)	(3.0)	(3.1)	(3.3)	(3.4)
Utilities	(3.4)	(3.6)	(3.5)	(0.8)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)
Other operating expenditures	(5.3)	(26.4)	(28.4)	(14.8)	(9.2)	(7.8)	(8.0)	(8.0)	(8.1)
Total operating expenditures	(73.9)	(95.4)	(95.8)	(81.0)	(65.6)	(60.7)	(63.1)	(65.9)	(68.9)
Legacy expenditures / Long term debt									
OPEB / Retiree Healthcare	(13.1)	(8.5)	(11.1)	(13.2)	(10.5)	(10.9)	(11.5)	(12.4)	(13.3)
Pension - Normal	(1.7)	(1.3)	(1.8)	(1.5)	(2.1)	(2.2)	(2.3)	(2.4)	(2.4)
Pension - UAAL	(7.7)	(6.1)	(8.4)	(6.8)	(9.8)	(10.1)	(10.4)	(10.8)	(11.2)
Charter Pension	(0.1)	(0.1)	(0.1)	-	-	-	-	-	-
Debt Service	(2.3)	(2.0)	(1.1)	(1.8)	(1.7)	(0.6)	(0.6)	(0.6)	(0.6)
Sub-total expenditures - General City	(98.8)	(113.4)	(118.4)	(104.4)	(89.7)	(84.5)	(87.9)	(92.1)	(96.4)
Other									
CDBG and other restricted grants	(7.6)	(4.6)	(4.1)	(11.7)	(13.8)	(4.2)	(4.0)	(3.8)	(3.6)
State restricted revenue (major/local streets)	(13.2)	(11.1)	(9.5)	(10.6)	(8.3)	(5.9)	(6.0)	(6.7)	(6.2)
Assessments & Fees (Street Light/Garbage)	(4.7)	(4.4)	(4.8)	(7.8)	(8.1)	(8.8)	(9.2)	(9.6)	(10.0)
Water	(40.5)	(43.4)	(43.8)	(54.7)	(56.2)	(54.2)	(56.4)	(58.6)	(61.0)
Sewer	(33.0)	(31.8)	(27.3)	(37.0)	(36.9)	(34.2)	(35.6)	(37.0)	(38.5)
Sub-total other expenditures	**(99.1)**	**(95.3)**	**(89.6)**	**(121.8)**	**(123.3)**	**(107.4)**	**(111.1)**	**(115.7)**	**(119.3)**
Total expenditures - City Services	**$ (172.9)**	**$ (190.8)**	**$ (185.4)**	**$ (202.8)**	**$ (188.9)**	**$ (168.1)**	**$ (174.2)**	**$ (181.7)**	**$ (188.1)**
Surplus / (deficit)									
General City	$ 0.9	$ 8.1	$ (12.8)	$ 4.7	$ 1.6	$ (3.0)	$ (6.5)	$ (9.6)	$ (12.1)
Total City services	$ (27.7)	$ (12.3)	$ (14.4)	$ (4.4)	$ (6.2)	$ (1.8)	$ (5.1)	$ (9.1)	$ (9.8)

DRAFT SUBJECT TO CHANGE

a) 5-year projection supplementary schedules
Headcount Summary

	FY2008	FY2009	FY2010	FY2011	FY2012	FY13 Current	Percent of total	Proj FY2014	Proj FY2015	Proj FY216	Proj FY2017	Proj FY2018	Change FY13 - FY18
Police	329.0	247.0	188.5	150.0	148 0	151 0	25%	151.0	150.0	148 0	147.0	140 5	(10 5)
Fire	134 0	123.0	97.0	75.0	94 0	94 0	16%	94 0	75.0	75 0	75.0	75.0	(19.0)
District Court	52.0	63.0	55.0	49.0	35.0	31 0	5%	31.0	31.0	31 0	31.0	31.0	-
911	28.0	26.0	25.5	25.5	23.0	23 0	4%	23.0	23.0	23 0	23.0	23.0	-
Treasury	51.0	42.0	36.0	33.0	26.0	21 0	4%	23 0	23.0	23 0	23.0	23.0	2.0
Building Inspection Fund	27.0	15.0	21.0	26.0	27.0	12.0	2%	5.5	5.5	5.5	5.5	5.5	(6.5)
Fleet	13.0	9.0	13.0	14.0	12.0	10.0	2%	8.0	8.0	8.0	8.0	8.0	(2.0)
All other general city	228.2	168.0	173.0	157.0	114.0	72.3	12%	60.8	57.1	57.1	57.1	57.1	(15.2)
General City Staffing	**862.2**	**693.0**	**609.0**	**529.5**	**479.0**	**342.0**	**57%**	**396.3**	**372.6**	**370.6**	**369.6**	**363.1**	**21.1**
Sewer	144 0	140.0	148.0	142.0	124.0	90.8	15%	90 8	90.8	90.8	90.8	90.8	0.0
Major and Local Streets[1]	73 0	67.0	65 0	56.0	41.0	43.3	7%	30 6	30.6	30.6	30.6	30.6	(12.7)
Water	34.0	31.0	34.0	32.0	25.0	38.8	7%	38.8	38.8	38.8	38.8	38.8	0.0
Other[2]	43.0	37.0	29.0	33.0	27.0	8.6	1%	9.5	1.1	1.1	1.1	1.1	(7.5)
Total Staffing including general city	**1,156.2**	**968.0**	**885.0**	**792.5**	**696.0**	**595.6**	**100%**	**566.0**	**533.9**	**531.9**	**530.9**	**524.4**	**(71.2)**

- As noted, the planned reductions in fire department work force will impact service response times in the community. This change will likely leave the city with service levels well below the average of comparable MI cities. It is worth noting that the stretched fire department currently faces one of the highest rates of fire emergencies in the state
- The decline in street personnel is consistent with the limited investment. This staffing is not likely to be adequate if the city chooses to invest in infrastructure.
- The limited staffing in building inspection is not likely to be adequate to ensure compliance with city codes and/or ordinances



Notes:
Source: Flint FY12 CAFR and 5-year budget
General: Historical headcount excludes crossing guards
1. Major and local streets include engineering, street maintenance, traffic control, traffic administration, and utilities administration
2. Other includes rubbish collection and Community Development Block Grant Program ("CDBG")

a) 5-year projection supplementary schedules

Actual cash at the end of April was $34.6M which is ~$24.7M higher than projected

$ in millions	*Actual* Jul	*Actual* Aug	*Actual* Sep	*Actual* Oct	*Actual* Nov	*Actual* Dec	*Actual* Jan	*Actual* Feb	*Actual* Mar	*Actual* Apr	*Projected* May	*Projected* Jun	Total	Aug Proj Total	Variance
Receipts															
Water & Sewer Lockbox	$ 1.6	$ 1.8	$ 2.1	$ 2.3	$ 1.4	$ 2.5	$ 1.8	$ 1.2	$ 1.2	$ 1.8	$ 1.5	$ 1 5	$ 20.7	$ 18 4	$ 2.3
Property tax - Lockbox	7.6	3.2	-	1.6	0.8	0.6	1.7	2.8	0.3	-	-	-	18.6	18.8	(0.2)
Income tax - Lockbox	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.8	0.4	0.9	0.5	0.5	5.8	5.8	0.0
Cash receipts (incl. tax hold)	10.7	25.4	7.8	6.7	10.1	3.2	10.3	7.8	10.7	7.3	6.5	6.0	112.5	102.1	10.4
DCD Reimb. (Grant)	0.8	0.2	0.9	0.8	0.1	0.4	-	0.7	0.4	0.6	-	-	4.9	1.0	3.9
Other Misc (Incl. Rev Sharing)	0.7	-	2.2	2.4	0.7	2.9	0.6	0.6	0.6	2.9	0 6	2.8	17.0	20.0	(3.0)
Other - Grants/Delinq Reimb	(0.1)	1.7	(0.4)	0.6	1.1	3.1	0.3	5.7	3.8	2.1	2 3	3.8	24.2	26 1	(2.0)
Total Receipts	**21.6**	**32.6**	**13.0**	**14.8**	**14.6**	**13.1**	**15.1**	**19.6**	**17.4**	**15.6**	**11.4**	**14.6**	**203.7**	**192.1**	**11.6**
Disbursements															
Payroll	(2.2)	(3.5)	(1.2)	(3.4)	(2.3)	(2.2)	(2.3)	(2.3)	(2.2)	(3.5)	(2.3)	(2.3)	(29.7)	(31.0)	1.3
Pension	(0.0)	(0.0)	(3.3)	(0.0)	(0.0)	(0.0)	(0.0)	(5.1)	(0.0)	(0.0)	(2.0)	(1.0)	(11.4)	(14.3)	2.8
Disbursements (A/P)	(5.6)	(23.3)	(6.9)	(6.6)	(9.4)	(9.1)	(4.9)	(8.5)	(12.0)	(5.7)	(7.0)	(6.0)	(104 9)	(112 7)	7.7
Bond and/or Loan repayment	(1.3)	(0.1)	(1.8)	(0.9)	-	-	(0.7)	(0.2)	(1.6)	(1.7)	(0.4)	(0.0)	(8.6)	(6 8)	(1.8)
Health Care (Benefits)	(2.0)	(2.6)	(2.1)	(0.1)	(1.3)	(1.1)	(1.6)	(1.4)	(2.6)	(1.3)	(1.9)	(1.6)	(19 6)	(24.3)	4.7
Income Tax Refunds	(0.2)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	(0.0)	(0.2)	(0.3)	(0 3)	(0.2)	(2.2)	(1 9)	(0.2)
Misc - Law suits	-	(0.0)	(0.5)	(0.0)	(0.0)	-	(2.0)	-	(0.0)	-	-	-	(2.5)	(2.5)	(0.0)
Total disbursements	**(11.3)**	**(29.7)**	**(15.9)**	**(11.2)**	**(13.1)**	**(12.6)**	**(11.7)**	**(17.4)**	**(18.6)**	**(12.4)**	**(13.9)**	**(11.1)**	**(179.0)**	**(193.5)**	**14.5**
Beginning Balance	10.9	21.2	24.2	21.3	24.9	26.4	26.9	30.4	32.6	31.4	34 6	32 1	10.9	10.9	-
Net Cash Flow	10.3	3.0	(2.8)	3.6	1.5	0.5	3.5	2.2	(1.2)	3.2	(2.5)	3 5	24.7	(1.4)	26.1
Ending Balance	**$ 21.2**	**$ 24.2**	**$ 21.3**	**$ 24.9**	**$ 26.4**	**$ 26.9**	**$ 30.4**	**$ 32.6**	**$ 31.4**	**$ 34.6**	**$ 32.1**	**$ 35.6**	**$ 35.6**	**$ 9.5**	**$ 26.1**
Cumulative Cash Flow	10.3	13.3	10.5	14.0	15.5	16.1	19.5	21.7	20.5	23.7	21.2	24 7			

Bridge to Forecast		**Comments**
Forecast ending balance on 06/30/13	$ 35 6	The City will end the year with a positive net cash flow of ~$26 million
Expected net CF through 06/30/13	(1 0)	
Actual cash 04/30/13	$ 34 6	
P&F Millage	(4 0)	The City passed a 6 mill increase to maintain fire & police payroll during the FY15 - FY18 period
Rubbish Fund (sale of trucks)	(1 5)	As a part of the City's outsourcing of waste collection to a third party, the City sold its garbage trucks
Professional fees / capital projects	(7.0)	The City has budgeted professional fees across departments (primarily water/sewer) that it has not spent
Changes to healthcare benefits	(4.7)	Changes to healthcare plans made in the Fall of 2012 including plan design and plan consolidation
Unallocated Budget	(5.0)	Unallocated budget expense that the City has not spent against to date in FY13
Other	(2.9)	
Forecast Cash on 04/30/13 (per August 31, 2012 reforecast)	9.5	

a) 5-year projection supplementary schedules
Debt Detail

USD millions	2013	2014	2015	2016	2017	2018
Fiscal Stabilization Bonds - 2011 - Fund 402 Direct Payment						
Beginning balance	$ 7.8	$ 7.6	$ 7.4	$ 7.2	$ 7.0	$ 6 8
Principal	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Interest	(0.4)	(0.4)	(0.4)	(0 4)	(0.4)	(0.4)
Ending balance	**7.6**	**7.4**	**7.2**	**7.0**	**6.8**	**6.5**
Limited Obligation - Series 2001 - DDA						
Beginning balance	8.4	8.4	8.3	8.2	8.1	8.0
Principal	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Interest	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Fees	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0 0)
Ending Balance	**8.4**	**8.3**	**8.2**	**8.1**	**8.0**	**7.8**
GO Cap Improvement - Fund 402						
MMBA Series: Capital Improvement Parking bonds						
Beginning balance	9.2	9.0	8.7	8.4	8.0	7.7
Principal	(0.3)	(0 3)	(0.3)	(0.3)	(0.3)	(0.4)
Interest	(0.5)	(0 4)	(0.4)	(0.4)	(0.4)	(0.4)
Ending balance	**9.0**	**8.7**	**8.4**	**8.0**	**7.7**	**7.3**
Government Activities - Section 108 Loans - HUD						
Beginning balance	11.6	11.2	10.6	9.9	9.3	8.6
Principal	(0.3)	(0.6)	(0.6)	(0.6)	(0.7)	(0.6)
Interest	(0.4)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)
Fees	(0 0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Ending Balance	**11.2**	**10.6**	**9.9**	**9.3**	**8.6**	**8.1**
MDOT - SIB 3rd Ave Reconstruction Loan - Fund 202						
Beginning balance	1 9	1.8	1.7	1.6	1.5	1.4
Principal	(0.1)	(0.1)	(0.1)	(0 1)	(0.1)	(0.1)
Interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Ending balance	**1.8**	**1.7**	**1.6**	**1.5**	**1.4**	**1.3**
Water Revolving Funds - Water						
Beginning balance	24.0	21.8	19.5	17.2	14.8	12.4
Principal	(2.2)	(2.3)	(2.3)	(2.4)	(2.4)	(2.5)
Interest	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.3)
Fees	-	-	-	-	-	-
Ending Balance	**21.8**	**19.5**	**17.2**	**14.8**	**12.4**	**9.9**
Hurley - Component Unit Debt						
Beginning balance	90.0	85.1	80.1	74.8	69.2	63.3
Principal	(4.8)	(5.1)	(5.3)	(5.6)	(5.9)	
Interest	(5 3)	(5.0)	(4.7)	(4.4)	(4.1)	
Ending balance	**85.1**	**80.1**	**74.8**	**69.2**	**63.3**	**63.3**

b) Citizen Impact -The City's plan assumes burdening citizens with high Water and Sewer rates and special assessments to provide minimum City services while leaving no room for capital reinvestment

Public Safety is at risk with the expiration of certain federal grants in FY15. These expirations will result in a drop in Police and Firefighter headcount and will likely impact emergency response times

- **Police & Fire**
  - In FY13 the police department employed approximately 152 FTE's or 736 citizens per police officer
    - The COPS and MOTT grants are projected to expire in FY15, resulting in a loss of $2.8M in annual funding
  - In FY13 the fire department employed approximately 94 FTE's across 5 stations or 1,080 citizens per firefighter
    - The SAFER grant currently funds 38 fire fighters and is projected to expire in FY15 which could lead to the closing of 2 of the City's 5 fire stations
  - Flint already ranks poorly in key public safety indicators versus comparable Michigan cities, further budget reductions and loss of grant revenue will only compound these issues

The burden of legacy costs and the necessity to maintain minimal level of public safety have resulted in little to no Capital reinvestment

- The City's budget includes minimal capital maintenance and improvements resulting in degradation of roads, sidewalks, sanitation and water, facilities, and parks
- Flint estimates it has unmet capital needs are approximately $286M
- Additional unidentified capital needs or cost overruns could result in an increase in capital costs

USD millions		Estimated Capital Needs
Roads	$	83.0
Vacant Home Demolition		50.0
Sidewalks		45.0
Sanitary and Stormwater		40.0
Water Distribution system		27 0
Water Pollution Control		16.0
Facilities		15.0
Parks		10.0
Minimum estimated total	**$**	**286.0**
Investment in public safety		*tbd*
Water system cost overruns		*tbd*
IT system upgrades		*tbd*

c) Overview of Hurley Financials

Income statement

The following presents three years of historical income statement data as well as revenues and expenses for the nine months ending March 31, 2013:

$ in millions	FY2010[1]	FY2011	FY2012	9-months ended 3/31/2013
Net patient service revenue	$ 330.6	$ 322.3	$ 328.8	$ 247.2
Other operating revenue	28.3	49.2	51.0	28.0
Total operating revenues	358.9	371.5	379.7	275
Salaries & wages	(147.1)	(164.6)	(170.3)	(117.4)
Employee benefits & payroll taxes	(60.7)	(58.0)	(61.9)	(43.4)
Operating supplies and expenses	(44.1)	(42.7)	(42.3)	(31.8)
Professional services	(38.8)	(39.7)	(41.4)	(32.6)
Purchased services & other	(49.9)	(51.8)	(50.8)	(36.3)
Net operating income (excl. D&A)	18.5	14.7	13.1	14
Depreciation & amortization	(11.1)	(10.8)	(13.4)	(12.5)
Net operating income	7.3	3.8	(0.4)	1
Non-operating revenues/(expenses)				
Investment income	n/a	2.0	4.3	(0.1)
Joint venture income	n/a	1.5	2.3	1.0
Other income (expense)	n/a	(0.0)	(0.0)	0.0
Interest expense	(2.2)	(3.8)	(4.4)	(4.3)
Excess of revenues over expenses	$ 5.1	$ 3.5	$ 1.7	$ (2.1)

Notes:

1. FY 2010 does not include the Hurley Health Services component of the financials. Additionally, non-operating expenses have not been allocated into Individual categories

c) Overview of Hurley Financials

Balance sheet

The following presents three years of historical balance sheet data as well as the balances as of March 31, 2013:

$ in millions	FY2010	FY2011	FY2012	9-months ended 3/31/2013
Assets				
Current assets	$ 77.9	$ 63.8	$ 72.9	$ 98.0
Assets limited as to use	127.1	121.9	101.0	92.0
Capital assets	73.2	95.3	114.3	114.2
Other assets	9.0	6.3	7.9	8.0
Total assets	287.3	287.4	296.1	312.2
Liabilities				
Current liabilities	75.9	75.9	76.8	79.4
Long-term debt	86.9	83.2	83.3	101.4
Accrued expenses	32.4	31.1	35.2	31.7
Total liabilities	195.2	190.2	195.4	212.5
Net assets				
Invested in capital assets, net	27.2	36.8	44.1	n/a
Donor restricted for specific ops	5.0	5.6	4.9	5.9
Unrestricted	59.8	54.9	51.8	93.7
Total net assets	92.0	97.2	100.7	99.6
Total liabilities & net assets	**$ 287.3**	**$ 287.4**	**$ 296.1**	**$ 312.2**

c) Overview of Hurley Financials

Supplemental financial items

The following presents Hurley Medical Center's historical cash and debt position for the same three year period:

$ in millions	FY2010	FY2011	FY2012	9-months ended 3/31/2013
Cash & cash equivalents (unrestricted)	n/a	$ 7.1	$ 2.6	$ 10.3
Current portion of debt	n/a	4.0	4.8	4.5
Amounts held by trustee - Bond	n/a	(29.5)	(18.0)	(26.4)
Total debt	n/a	87.1	88.1	105.9
Net debt (net of amounts held by trustee)	n/a	57.6	70.1	79.5
Net debt / Capital (net assets + total debt)	n/a	31.2%	37.1%	38.7%
EBITDA (annualized)	18.5	14.7	13.1	18.3
Adjusted EBITDA (including JV income)	n/a	16.1	15.4	19.5
Interest expense (annualized)	(2.2)	(3.8)	(4.4)	(5.7)
Adj. EBITDA / interest expense	n/a	4.2x	3.5x	3.4x
Net debt / Adj. EBITDA	n/a	3.6x	4.6x	4.1x

Goodrich, Harlan G. (Treasury)

From: Goodrich, Harlan G. (Treasury)
Sent: Thursday, May 29, 2014 2:26 PM
To: Headen, Frederick (Treasury)
Cc: Schafer, Suzanne K. (Treasury)
Subject: RE: Memo re Alternative Proposal for Sale of Water Transmission Main

No, I did not.

From: Headen, Frederick (Treasury)
Sent: Thursday, May 29, 2014 2:24 PM
To: Goodrich, Harlan G. (Treasury)
Subject: FW: Memo re Alternative Proposal for Sale of Water Transmission Main

I gather you did not receive anything from the Flinty City Council regarding this?

From: Peter Bade [mailto:pbade@cityofflint.com]
Sent: Wednesday, May 28, 2014 4:15 PM
To: Workman, Wayne (TREASURY); Byrne, Randall (Treasury); Headen, Frederick (Treasury); Darnell Earley
Subject: Memo re Alternative Proposal for Sale of Water Transmission Main

In follow-up to our meeting this morning, attached is my memorandum regarding this matter.

If you have any further questions, please let me know.

--
Peter M Bade
Chief Legal Officer
City of Flint
p 810 766 7146
f 810 232 2114

DEPARTMENT OF LAW

MEMORANDUM

TO: Wayne Workman
Randall Byrne
Fred Headen

CC: Darnell Earley

FROM: Peter M. Bade PMB

RE: Alternative Proposal for Sale of Water Transmission Main

DATE: May 28, 2014

On May 12, 2014, Emergency Manager Darnell Earley presented to the Flint City Council a proposal for sale of a portion of the 72 inch water transmission main to the Genesee County Drain Commissioner.

A special meeting of the Flint City Council was held on Monday, May 19, 2014 to discuss the proposal. Pursuant to MCL 141.1559(2), Council adopted a resolution rejecting the proposal.

A second special meeting was scheduled on Wednesday, May 21, 2014 for the purpose of discussing an alternative proposal.

At the May 21st meeting, Council members acknowledged they did not have an alternative proposal. However, pursuant to a motion by Councilman Sheldon Neeley, a resolution was adopted recommending the water main sale price be increased to $4 million dollars, with equal payments over two years.

Pursuant to MCL 141.1559(2), Council had seven (7) days from the date of their rejection of the proposed action to submit to the local emergency financial assistant loan board an alternative proposal that would yield substantially the same financial result as the action proposed by the

Emergency Manager. Accordingly, the deadline for submission of Council's alternative proposal was Tuesday, May 27, 2014.

Council did not submit an alternative proposal to the local emergency financial assistant loan board.

S:\P. Bade\EM2014\Memos\Revised MM to DEarley re Water Transmission Main 5-28-14.docx

Byrne, Randall (Treasury)

From:	Headen, Frederick (Treasury)
Sent:	Thursday, May 29, 2014 3:50 PM
To:	Peter Bade; Workman, Wayne (TREASURY); Byrne, Randall (Treasury); Headen, Frederick (Treasury); Darnell Earley
Subject:	RE: Memo re Alternative Proposal for Sale of Water Transmission Main

Pete:

Thanks for the summary. Section 19(2) of the Act is unambiguous in its requirement that a local governing body that disapproves an emergency manager proposal shall submit an alternative within 7 days. However, rather than pursue a mandamus action to compel compliance where a local governing body fails, or refuses, to submit an alternative, the Department of Treasury has taken the position that it will deem as an approval by a local governing body under Section 19(1) any instance in which the local governing body disapproves an emergency manager's proposal but fails, or refuses, to submit an alternative as required by the Act.

Fred

From: Peter Bade [mailto:pbade@cityofflint.com]
Sent: Wednesday, May 28, 2014 4:15 PM
To: Workman, Wayne (TREASURY); Byrne, Randall (Treasury); Headen, Frederick (Treasury); Darnell Earley
Subject: Memo re Alternative Proposal for Sale of Water Transmission Main

In follow-up to our meeting this morning, attached is my memorandum regarding this matter.

If you have any further questions, please let me know.

--
Peter M Bade
Chief Legal Officer
City of Flint
p 810 766 7146
f 810 232 2114

72 (Rev. 11-13)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

May 30, 2014

Darnell Earley, Emergency Manager
City of Flint
1101 South Saginaw Street
Flint, MI 48502

Mr. Earley:

This letter serves as a notice of my approval to sell the 72" (inch) pipeline and appurtenances from the DWSD connection at Potter and Baxter Roads; west of the proposed 36" (inch) KWA connection at Center and Pierson Roads for $3,987,700 to Genesee County Water & Waste.

Because the sale is referenced in the F&O Plan, no approval is necessary under Sections 12(1)(r) and 15(1) as the plan is considered adequate. However, 12(3) requires Treasurer approval for contracts over $50,000 because the sale was not competitively bid. In addition, Section 19 requires that this sale must be submitted to the City Council to approve or deny. The Flint City Council failed to take action on the matter by the required date; therefore, the proposed action is considered to be approved.

State Treasurer Approval:

I, R. Kevin Clinton, State Treasurer for the State of Michigan, pursuant to the authority assigned by Public Act 436 of 2012, do hereby:

___✓___ Approve Submitted Recommendation

_______ Deny Submitted Recommendation

Sincerely,

R. K. Clinton

R. Kevin Clinton, State Treasurer
Michigan Department of Treasury

6/2/14
Date

72 (Rev. 11-13)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

DATE: May 30, 2014

TO: R. Kevin Clinton, State Treasurer R. K. Clinton

FROM: Wayne Workman, Deputy State Treasurer Wayne Workman

SUBJECT: Approval for Sale of Pipeline in the City of Flint

Emergency Manager Early wishes to sell a 72" (inch) pipeline and appurtenances from the DWSD connection at Potter and Baxter Roads, west of the proposed 36" (inch) KWA connection at Center and Pierson Roads for $3,987,700 to Genesee County Water and Waste. The City of Flint hired the firm of Lockwood, Andrews, and Newman, Inc. to appraise the value of the pipeline. The appraisal report dated January 28, 2014 indicated that the value of the pipeline is $3,987,700. A copy of the report summary is attached.

Because the sale is referenced in the F&O Plan, no approval is necessary under Sections 12(1)(r) and 15(1), as the plan is considered adequate. However, 12(3) requires Treasurer approval for contracts over $50,000 because the sale was not competitively bid. In addition, Section 19 requires that this sale must be submitted to the City Council to approve or deny. The Flint City Council failed to take action on the matter by the required date; therefore, the proposed action is considered to be approved.

Staff has concluded that this sale is beneficial to the City, because the pipeline no longer serves a purpose. The proceeds of the sale can be returned to the City's Water Fund to be used to fund other water related projects.

If additional information is required, please let me know.

Attachments

Present Value Analysis of 72-inch Water Transmission Main for City of Flint

Final Report – January 28, 2014

Lockwood, Andrews & Newnam, Inc.

Project # 130-10701-001

CITY OF FLINT, MICHIGAN
1855

Lockwood, Andrews & Newnam, Inc.
A LEO A DALY COMPANY
PLANNING ENGINEERING PROGRAM MANAGEMENT

Introduction

Lockwood, Andrews, & Newnam, Inc. (LAN) was retained by the City of Flint (City) to perform a pipeline value assessment of the existing 72-inch water transmission main from the Detroit pipeline connection at the intersection of Baxter and Potter Roads to the Flint Water Treatment Plant (FWTP). The 72-inch transmission main was constructed from 1966 to 1968 to supply the FWTP with water from the Detroit Water and Sewerage Department (DWSD). With the original 30 year contract with DWSD expired, the City of Flint plans to establish a new contract with the Karegnondi Water Authority (KWA) beginning in 2015, which would require the KWA to provide raw water to the FWTP.

In order to provide raw water to the FWTP, the KWA will connect a 36-inch transmission main to the existing City-owned 72-inch water main near the northeast corner of Center and Pierson Roads. The Genesee County Drain Commissioner's Office-Division of Water & Waste is interested in purchasing the east portion of the 72-inch transmission main from this connection to the DWSD connection at Baxter and Potter Roads which is being defined in this analysis as Segment 1, while KWA has requested the use of the 72-inch pipeline west of this connection point to the FWTP which is being classified as Segment 2. Our analysis of these two segments is intended to help the City establish an equitable monetary value of both sections. A schematic of the limits of the pipeline and segments 1& 2 is shown in Attachment A.

Analyses

In order to value the segments of the 72-inch transmission main requested, quantities were derived from original construction drawings. Using the as-built cost established from the quantity take off, two (2) analyses were performed on the water main based on different valuation methods. Original Cost Less Depreciation (OCLD) and Reproduction Cost New Less Depreciation (RCNLD) methods were used in conjunction with the sinking fund depreciation technique to develop a credible current value assessment of the pipeline.

Quantity Take-Off

Using the Consoer, Townsend & Associates construction drawings dated 1966 (Attachment B) and the payment document dated January 1969 (Attachment C), a quantity take-off analysis was performed to determine the original construction cost of the section of 72-inch water main as described above. Line items originally listed as "linear feet" or "each" were summed to determine the value within the evaluation limits. Lump sum line items with information available, such as "gate valves complete in place" and "rubber seated butterfly valves," were counted and the ratio of the items within the limits to the whole project was applied to the lump sum price. For any unit with no quantifiable documentation, such as "sand and gravel refill" and "sand and gravel backfill," the ratio of the 72-inch pipeline within the evaluation limits to the whole project was applied to the total cost for the unknown line item. Line items determined to be outside the limits of the valuation were listed with a zero percent ratio.

OCLD Analysis

The Original Cost Less Depreciation valuation method uses the original cost of the project when constructed minus the depreciated value to determine the current value. The initial asset value was determined using the information established from the quantity take-off analysis and the original cost information found in the payment document dated January 1969.

RCNLD Analysis

Reproduction Cost New Less Depreciation is a valuation method that translates initial project costs to present day cost of construction. A new present day construction cost is calculated based on the original construction, followed by a depreciation method used to calculate the current book value of the asset. The Engineering News-Record (ENR) Construction Index and the Handy-Whitman Cost Index for Concrete Cylinder Mains were possible references to determine the ratio used in calculating the present day cost. For this evaluation, the ENR index was selected to calculate the RCNLD initial asset value. A ratio of the current ENR index from September 2013 (9551.58) to the bid date ENR index from May 1966 (1014) was multiplied by the OCLD asset value to get the RCNLD initial asset value.

Sinking Fund Depreciation

The sinking fund depreciation method is commonly used within the utility industry. This method of depreciation accurately reflects the service life of a utility line, having a low initial depreciation upon installation due to low maintenance during the early years of a utility. As the service life of a utility progresses and maintenance becomes more frequent and comprehensive, the depreciation of the asset increases over time.

Due to the fact that a transmission pipeline must be functional and meet all necessary standards of service until the day it is taken out of service, an intrinsic value will always remain; therefore, a salvage value must be determined prior to the depreciation calculation. Similarly, the useful life of the asset must be pre-determined. The industry standard for the useful life of a pipeline ranges from 50 to 100 years. Typically, lower useful life values are used for distribution mains, whereas higher values are used for transmission systems. For transmission mains similar to the 72-inch being analyzed, a useful life of 75 to 90 years is common. We have selected a useful life of 80 years for this analysis.

In addition to the salvage value and useful life, sinking fund depreciation requires a sinking fund rate, which was selected as 4.50% and 0.75% for OCLD and RCNLD respectively, reflecting the federal discount rate during the construction time analyzed. Due to the sinking fund rate, the annual depreciation varies depending on the year and can be calculated using Eq. 1 and Eq. 2 below.

Eq. 1 $$D_t = \frac{(A-S)*(1+j)^{(t-1)}}{S_{n|j}}$$

Eq. 2 $$S_{n|j} = \frac{(1+j)^{n}-1}{j}$$

where:

t	=	Evaluation time (years)
D_t	=	Depreciation at year t
A	=	Initial asset value
S	=	Salvage value of asset
j	=	Sinking fund rate

The sum of the annual depreciation values until the evaluation year is subtracted from the initial value to calculate the current book value of the asset value.

Results

Segment 1

RCNLD and OCLD analyses were performed using a sinking fund depreciation of the 72-inch pipeline and appurtenances from the DWSD connection at Baxter and Potter Roads, west to the proposed 36-inch KWA connection at Center and Pierson Roads. Due to the size of the project and the portion involved in this segment (similar size piping and valves only) the RCNLD value of $27,400,000 was determined to be unrepresentative of the actual asset value. Utilizing the OCLD values listed below, a **book value of $3,988,000** was calculated for this portion of the pipeline.

Table 1 – Segment 1 OCLD Analysis

ORIGINAL COST LESS DEPRECIATION SINKING FUND DEPRECIATION ANALYSIS	
INPUTS	
Initial Cost	$ 4,735,900
Useful Life (years)	80
Salvage Value at End of Life*	$ 1,184,000
Sinking Fund Rate	4.50%
Evaluation Year	47
OUTPUTS	
S_{nlj}	729.56
Total Depreciation at Year 47	$ 748,200
Book Value	**$ 3,987,700**

*25% Salvage value

Segment 2

RCNLD and OCLD analyses were performed using a sinking fund depreciation of the 72-inch pipeline and appurtenances beginning at the KWA tie-in at Center and Pierson Roads, west to the property line of the FWTP. Utilizing the RCNLD values listed below, a book value of $5,269,600 was calculated for this portion of the pipeline using the following evaluation criteria:

Table 2 – Segment 2 RCNLD Analysis

REAL COST NEW LESS DEPRECIATION SINKING FUND DEPRECIATION ANALYSIS	
INPUTS	
Initial Cost	$ 8,953,900
Useful Life (years)	80
Salvage Value at End of Life*	$ 1,790,800
Sinking Fund Rate	4.50%
Evaluation Year	47
OUTPUTS	
S_{nlj}	109.07
Total Depreciation at Year 47	$ 3,684,300
Book Value	**$ 5,269,600**

*20% Salvage value

Utilizing the OCLD values listed below, a book value of $790,400 was calculated for this portion of the pipeline using the following evaluation criteria:

Table 3 – Segment 2 OCLD Analysis

ORIGINAL COST LESS DEPRECIATION SINKING FUND DEPRECIATION ANALYSIS	
INPUTS	
Initial Cost	$ 950,600
Useful Life (years)	80
Salvage Value at End of Life*	$ 190,100
Sinking Fund Rate	4.50%
Evaluation Year	47
OUTPUTS	
S_{nij}	729.56
Total Depreciation at Year 47	$ 160,200
Book Value	**$ 790,400**

*20% Salvage value

The asset value of segment 2 was determined using the average of the OCLD and RCNLD analyses. **A current book value of $3,030,000 was calculated.**

Summary

OCLD and RCNLD analyses are an effective method of calculating the depreciation of an installed utility, as well as the opportunity cost to the buyer of purchasing an installed utility. After performing these analyses using the sinking fund method of depreciation, current book values of the segments were determined. The portion of the 72-inch transmission main from the DWSD connection at Baxter and Potter Roads, west to the proposed 36-inch KWA connection at Center and Pierson Road, **Segment 1, has a current book value of $3,987,700.** The portion of the 72-inch transmission main beginning at the KWA tie-in at Center and Pierson Roads, west to the property line of the FWTP, **Segment 2, has a current book value of $3,030,000.**

DEPARTMENT OF LAW

MEMORANDUM

TO: Wayne Workman
Randall Byrne
Fred Headen

CC: Darnell Earley

FROM: Peter M. Bade PMB

RE: Alternative Proposal for Sale of Water Transmission Main

DATE: May 28, 2014

On May 12, 2014, Emergency Manager Darnell Earley presented to the Flint City Council a proposal for sale of a portion of the 72 inch water transmission main to the Genesee County Drain Commissioner.

A special meeting of the Flint City Council was held on Monday, May 19, 2014 to discuss the proposal. Pursuant to MCL 141.1559(2), Council adopted a resolution rejecting the proposal.

A second special meeting was scheduled on Wednesday, May 21, 2014 for the purpose of discussing an alternative proposal.

At the May 21st meeting, Council members acknowledged they did not have an alternative proposal. However, pursuant to a motion by Councilman Sheldon Neeley, a resolution was adopted recommending the water main sale price be increased to $4 million dollars, with equal payments over two years.

Pursuant to MCL 141.1559(2), Council had seven (7) days from the date of their rejection of the proposed action to submit to the local emergency financial assistant loan board an alternative proposal that would yield substantially the same financial result as the action proposed by the

Emergency Manager. Accordingly, the deadline for submission of Council's alternative proposal was Tuesday, May 27, 2014.

Council did not submit an alternative proposal to the local emergency financial assistant loan board.

S:\P. Bade\EM2014\Memos\Revised MM to DEarley re Water Transmission Main 5-28-14.docx

WATER TRANSMISSION MAIN

ACQUISITION AGREEMENT

BY AND BETWEEN

CITY OF FLINT

AND THE

GENESEE COUNTY DRAIN COMMISSIONER AS COUNTY AGENCY

DATED MAY 12, 2014

ACQUISITION AGREEMENT

THIS ACQUISITION AGREEMENT ("Agreement") is made this 12 day of May, 2014 ("Execution Date"), and effective May 12, 2014 ("Effective Date"), by and between the City of Flint, a Michigan municipal corporation (hereinafter "Flint"), and the Genesee County Drain Commissioner, as County Agency, a public agency pursuant to the County Public Improvement Act of 1939, as amended (the "County Agency"). The Effective Date of this Agreement shall be contingent upon a condition antecedent that the Agreement has been reviewed by the City of Flint City Council and no alternative has been proposed and the State of Michigan Department of Treasury has approved this Agreement as required by Act 436 of the Michigan Public Acts of 2012, as amended, which is commonly referred to as the Local Financial Stability and Choice Act. If either the City of Flint City Council or the State of Michigan Department of Treasury fails to approve this Agreement prior to May 1, 2014, then the Agreement shall be effective immediately upon the City of Flint City Council failing to offer an alternative and the Michigan Department of Treasury approving this Agreement.

PREAMBLE

It is the intent of the Parties for Flint to sell to the County Agency the Water Main, subject only to the restrictions more fully set forth in this Agreement, for the mutual consideration set forth in this Agreement for the County Agency's unrestricted use.

RECITALS

A. Flint desires to sell the Water Main to the County Agency; and

B. The County Agency desires to purchase the Water Main from Flint; and

C. The Parties have determined that it is in their respective best interests for the County Agency to acquire, upon the terms and subject to the conditions set forth herein, the Water Main from Flint if the Karegnondi Water Authority constructs a new raw water pipeline from Worth Township, Michigan to Genesee County, which shall furnish raw water to the City of Flint; and

D. In furtherance thereof, it is proposed that the County Agency acquire the Water Main for the mutual consideration set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and representations set forth in this Agreement, the Parties agree as follows:

ARTICLE I
INTRODUCTORY PROVISIONS; DEFINITIONS

1.1. Adoption of Preamble and Recitals. All of the matters stated in the preamble and recitals of this Agreement are true and correct and are hereby incorporated into the body of this Agreement as through fully set forth in their entirety herein, provided that in cases of conflict, provisions of this Agreement shall control over matters stated in the preamble and recitals.

1.2. Definitions. The following terms and expressions as used in this Agreement, unless the context clearly shows otherwise, shall have the following meanings:

a. "Closing" means the closing of the transactions contemplated by this Agreement.

b. "Closing Date" means the mutually acceptable date to be scheduled within thirty (30) days after execution of this Agreement or on a date as mutually acceptable to the Parties for the Closing to take place.

c. "County Agency" means the Genesee County Drain Commissioner, as County Agency, Genesee County, Michigan, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended.

d. "Emergency Manager" means an emergency manager or financial emergency manager as defined by law that is appointed by the Governor of the State of Michigan pursuant to law.

e. "Flint" means the City of Flint, Genesee County, Michigan.

f. "Party" or "Parties" means the Genesee County Drain Commissioner, as County Agency, individually, the City of Flint, individually, or the Genesee County Drain Commissioner, as County Agency and the City of Flint, collectively.

g. "Real Property Agreements" means all agreements that affect real property, including, but not limited to, licenses, leases, easements, or similar documents.

h. "Water Main" means the water transmission main as more fully described in **Exhibit A**, including, but not limited to, all appurtenances thereto including any meter pits connected thereto, along with the water contained therein and all drawings, files, laying schedules, records of repairs, maintenance files, repair parts, etc. Including by way of example, and not as a limitation, meter vaults, meters, pumps, air relief valves, sump pumps, electrical connections, communication devices and all other mechanical, electrical, or other equipment used to pump water through the Water Main or bring attention to an emergency situation.

ARTICLE II
THE PURCHASE AND SALE

2.1 Transfer to the County Agency. In accordance with the provisions of this Agreement, in consideration for the payment of the Purchase Price as set forth in Section 2.3 of this Agreement and other good and valuable consideration, and subject to the contingencies set forth in Article 8 and Article 9, Flint shall transfer and convey the Water Main to the County

Agency, effective either when Flint provides the County Agency thirty (30) days written notice of its intent to transfer the Water Main or at 12:01 a.m. local time on July 1, 2014, whichever event occurs first in time, including all rights as Flint may have pursuant and any and all Rights of Way and Easements, copies of which are attached hereto as **Exhibit B**, and other instruments of transfer to be delivered at the Closing, as set forth in Article III of this Agreement, in accordance with the provisions relating to the Closing.

2.2 Acquisition by the County Agency. The County Agency, in reliance upon the covenants and representations of Flint contained herein and the documents provided by Flint, hereby agrees to acquire the Water Main from Flint.

2.3 Purchase Price. As part of the consideration for the transfer and conveyance of the Water Main to the County Agency from Flint, the County Agency shall make a lump sum payment within thirty (30) days from the execution of this Agreement, in a sum equal to Three Million Nine Hundred Eighty-Seven Thousand Seven Hundred Dollars and Zero Cents ($3,987,700.00), inclusive of all interest, fees, charges, or other costs (the "Purchase Price").

ARTICLE III
CLOSING

3.1 Closing. The Closing will take place at the offices of Sargent's Title Company, 625 S. Grand Traverse, Flint, Genesee County, Michigan, on such date as shall be mutually acceptable to the Parties within thirty (30) days after the execution of this Agreement or on a date as mutually acceptable to the Parties.

3.2 Deliveries. At the Closing, the transactions listed below shall occur.

a. The County Agency shall deliver to Flint:

1. A certified letter from the Genesee County Drain Commissioner stating that he has the authority, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended, to execute and deliver this Agreement and the transactions contemplated hereby; and

2. An opinion of legal counsel to the County Agency reasonably satisfactory to Flint, providing that the transactions contemplated by this Agreement do not violate the provisions of Act 342 of the Michigan Public Acts of 1939, as amended, or other applicable laws and such additional matters and in form and substance satisfactory to Flint and its counsel; and

3. A certified letter from the Genesee County Drain Commissioner as to the accuracy of its representations and warranties as of the date of this Agreement and as of the Closing and as to its compliance with and performance of its covenants and obligations to be performed or complied with at or before the Closing; and

b. Flint shall deliver to the County Agency:

1. A certified resolution of the City Council of the City of Flint or an Order of the Emergency Manager, if applicable, or both, authorizing the execution and delivery of this Agreement and the transactions contemplated hereby; and

2. An executed bill of sale for all of the Water Main that is tangible personal and real property executed by a representative of Flint authorized to sign the bill of sale or an Order of the Emergency Manager, if applicable, or both; and

3. An Assignment of Rights of Way and Easements, or such other appropriate document or instrument of transfer, as the case may require, and executed by a representative of Flint authorized to sign the bill of sale or an Order of the Emergency Manager, if applicable, or both; and

4. Such other documents and other instruments of transfer and conveyance as may reasonably be needed to complete the transactions contemplated hereby; and

5. A certified letter from the Mayor or Emergency Manager as to the accuracy of its representations and warranties as of the date of this Agreement and as of the Closing and as to its compliance with and performance of its covenants and obligations to be performed or complied with at or before the Closing; and

6. An opinion of legal counsel of Flint, reasonably satisfactory to the County Agency, providing that the transactions contemplated by this Agreement do not violate the City Charter of Flint, local ordinances or laws, and such additional matters and in form and substance satisfactory to the County Agency and its counsel and

3.3 Transfer of Operation. The County Agency took over maintenance and operation of the Water Main pursuant to the MOU between the parties dated April 29, 2014, and it is understood by the parties that the County Agency shall continue to operate and maintain the water main from this date forward.

3.4 Expenses. Flint and the County Agency shall each bear their own expenses incurred by them in connection with the transactions contemplated by this Agreement, including without limitation, consultants' fees, legal fees and accounting fees, whether or not such transaction is consummated.

3.5 Closing Costs. If there are any costs associated with the Closing, including costs to be paid to the title company, filings, recording costs, or other costs, fees, or expenses, the costs shall be paid by the County Agency.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF FLINT

Flint makes the following representatives and warranties to the County Agency:

4.1 Corporate Organization. Flint is a municipal corporation duly organized, validly existing and in good standing under the laws of the State of Michigan.

4.2 Authorization. Flint or the Emergency Manager has the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby and thereby. Assuming due and valid authorization, this Agreement will constitute a legal, valid and binding obligation of Flint, enforceable against Flint in accordance with its terms, except as the enforcement thereof may be limited by applicable principles of bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors and subject to general principles of equity.

4.3 Easements and Rights of Way.

a. **Exhibit C** identifies all of the real property occupied by the Water Main.

b. Upon reasonable title search and review provided by the County Agency to Flint of all of the real property occupied by the Water Main, Flint possesses all necessary, permanent, perpetual and transferable real property rights including easements, licenses or rights of way by prescription, necessity, implication or acquiescence necessary for the use, routine operation, and maintenance of the Water Main, except as disclosed on **Exhibit D.**

c. Flint has good and marketable title to the Water Main.

d. As of the Execution Date, there are no pending or threatened disputes or pending or threatened litigation with respect to any real property rights pertaining to the Water Main.

e. Flint agrees to provide access to the County Agency to any and all documents that are in Flint's possession regarding the Water Main. These documents include, but are not limited to, as built drawings, shop drawings, maintenance records, land records and easements, and any other document that relates to the

Water Main. The County Agency is free to take possession of the documents for the limited purpose of making any copies that are deemed necessary in the opinion of the County Agency. All original documents shall be returned by the County Agency to Flint in a timely manner.

4.4 **WATER MAIN. THE WATER MAIN SHALL BE CONVEYED BY FLINT TO THE COUNTY AGENCY IN "AS IS", "WHERE IS" AND "WITH ALL FAULTS" PHYSICAL CONDITION, WITH NO ADDITIONAL WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PHYSICAL CONDITION OF THE WATER MAIN THAT EXTEND BEYOND THE WARRANTIES EXPRESSLY STATED IN THIS AGREEMENT. EXCEPT FOR ANY EXPRESS WARRANTIES STATED IN THIS AGREEMENT, THE WATER MAIN SHALL BE CONVEYED WITH NO EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR USE.**

4.5 Litigation. As of the Execution Date there is no action, suit or proceeding pending or threatened against or affecting Flint before any governmental entity in which there is a reasonable possibility of an adverse decision which could have a material adverse effect upon the ability of Flint to perform its obligations under this Agreement or which in any manner questions the validity of this Agreement.

4.6 Water Main Parts and Equipment. Flint agrees that it will provide to the County Agency any spare parts or equipment which, in the sole discretion of Flint, may only be used exclusively on the Water Main.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF THE COUNTY AGENCY

The County Agency makes the following representations and warranties to Flint and delivered to Flint on Execution Date, a copy of which is attached hereto:

5.1 Corporate Organization. The County Agency was established pursuant to Act 342 of the Michigan Public Acts of 1939, as amended. As County Agency, it is organized and validly existing under the laws of the State of Michigan and has all requisite power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby.

5.2 Authorization. The County Agency has the requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby and thereby. This Agreement will constitute a legal, valid and binding obligation of the County Agency, enforceable against the County Agency in accordance with its terms, except as the enforcement thereof may be limited by applicable principles of bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors and subject to general principles of equity.

5.3 No Conflict. The execution, delivery and performance by the County Agency of this Agreement, the compliance by the County Agency with any of the provisions hereof and thereof, and the consummation by the County Agency of the transactions contemplated hereby and thereby: (i) do not violate any Applicable Law; (ii) do not require the consent, approval, clearance, waiver, order or authorization of any person, organization, or entity; and (iii) do not conflict with, or result in any breach of, or default or loss of any right under (or an event or circumstance that, with notice or the lapse of time, or both, would result in a default), or the creation of any encumbrance pursuant to, or cause or permit the acceleration prior to maturity of any amounts owing under any indenture, mortgage, deed of trust, lease or other agreement to which the County Agency is a party, which failure, violation, conflict or breach would, in the aggregate, materially hinder or impair the consummation of the transactions contemplated by this Agreement.

5.4 Litigation. As of the Execution Date, there is no action, suit or proceeding pending or threatened against or affecting the County Agency before any governmental entity in which there is a reasonable possibility of an adverse decision which could have a material adverse effect upon the ability of the County Agency to perform its obligations under this Agreement or which in any manner questions the validity of this Agreement.

5.5 Due Diligence and Inspection. The County Agency acknowledges that it is being afforded the opportunity to conduct due diligence and investigation with respect to the transaction contemplated by this Agreement. The County Agency represents and warrants that it has conducted any and all such legal, factual, and other examinations, inquiries, investigations, and inspections, including conducting any tests, studies and examinations, that it, in its sole discretion, has determined necessary to complete such due diligence inspection to determine that the subject matter of this Agreement is suitable for the County Agency's intended use.

5.6 Environmental Matters. The County Agency represents and warrants that it has conducted any and all such legal, factual, and other examinations, inquiries, investigations, and inspections, including conducting any tests, studies and examinations, that it, in its sole discretion, has determined necessary to complete such due diligence inspection to have full knowledge of the environmental condition of the subject matter of this Agreement. County Agency shall enter into this Agreement subject to any and all environmental conditions present upon the subject matter of this Agreement.

5.7 Emergency Water Supply. The County Agency warrants that it will provide, to the extent the Detroit Water and Sewerage Department has available capacity treated water through the water main that is the subject matter of this Agreement in an emergency situation to Flint until such time as the Karegnondi Water Authority Water Transmission Pipeline construction is completed (which is estimated to be completed by May 2017) and the Karegnondi Water Authority is providing raw water to its customers.

The emergency supply of treated water to the Flint by the County Agency during the construction of the Karegnondi Water Authority Water Transmission Pipeline shall be at the prevailing rate and any additional charges, fees, special charges, and penalties, as billed by the Detroit Water and Sewerage Department to the County Agency.

If Flint shall need an emergency water supply after the Karegnondi Water Authority Water Transmission Pipeline has been installed and is operational, the County Agency will provide, to the extent the County Agency has available capacity, treated water through the water main that is the subject matter of this Agreement in an emergency situation to Flint. The emergency supply of treated water to Flint by the County Agency after the Water

Transmission Pipeline has been installed and is operational, shall be at the prevailing rate and any additional charges, fees, special charges, and penalties, if applicable, as billed by the Detroit Water and Sewerage Department to the County Agency.

ARTICLE 6
COVENANTS OF FLINT

Flint covenants and agrees with the County Agency as follows:

6.1 Operation and Maintenance of the Water Main until Closing. Between the Execution Date of this Agreement and the Effective Date of this Agreement, Flint shall:

a. Operate the Water Main in the ordinary course of business; and

b. Maintain all books and records relating to the operation of the Water Main in the ordinary course of business; and

c. Fix any known breaks or leaks in the Water Main, except those set forth on **Exhibit F**; and

c. Promptly notify the County Agency of any emergency or other change in the normal course relating to the Water Main (or communications indicating that the same may be contemplated.

6.2 Litigation and Claims. Flint shall promptly inform the County Agency in writing of any Claims of which Flint is or becomes aware that are or might reasonably be expected to become the subject of litigation affecting the Water Main or the transactions contemplated by this Agreement.

6.3 Notice of Changes. Flint shall inform the County Agency in writing if it becomes aware that any representation or warranty made by Flint in this Agreement has ceased to be accurate or if Flint becomes aware of the occurrence of any breach of any covenant or other agreement required by this Agreement to be performed or complied with by Flint.

ARTICLE 7
COVENANTS OF THE COUNTY AGENCY

The County Agency hereby covenants and agrees with Flint as follows:

7.1 Cooperation. Subject to the terms and conditions of this Agreement, the County Agency shall cooperate with Flint to use its best efforts to secure all necessary consents, approvals, authorizations, exemptions and waivers from all persons and entities as shall be requested by Flint or required to be obtained in order to consummate the transactions contemplated hereby.

7.2 Litigation and Claims. The County Agency shall promptly inform Flint in writing of any claims (or communications indicating that the same may be contemplated) of which the County Agency is or becomes aware that are or might reasonably be expected to become the subject of litigation affecting the Water Main or the transactions contemplated by this Agreement.

7.3 Notice of Changes. The County Agency shall inform Flint in writing if it becomes aware that any representation or warranty made by the County Agency in this Agreement has ceased to be accurate or if the County Agency becomes aware of the occurrence of any breach of any covenant or other agreement required by this Agreement to be performed or complied with by the County Agency.

ARTICLE 8
CONDITIONS AND OBLIGATIONS OF FLINT

The obligations of Flint to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by Flint) on or prior to the Closing of all of the following conditions:

8.1 Accuracy of Representations and Warranties. Except as otherwise noted in this Agreement, the representations and warranties of Flint set forth in this Agreement shall be true and correct in all material respects as of the date when made and as of the Closing.

8.2 Performance of Covenants and Agreements. Flint shall have duly performed and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing. None of the events or conditions entitling the County Agency to terminate this Agreement under Article 10 hereof shall have occurred and be continuing.

8.3 Consents. Any consent required for the consummation of this purchase and sale under any agreement, contract, law, license or other instrument described in any exhibit hereto or referred to herein, or for the continued enjoyment by the County Agency of any benefits of such agreement, contract, license or other instrument after the Closing, which consent Flint is specifically obligated to obtain pursuant to this Agreement shall have been obtained and be effective as set forth in this Agreement.

8.4 Governmental Approvals. All requisite regulatory approvals, if any, shall have been obtained or made and shall be in full force and effect. There shall be no injunction, restraining order or decree of any nature that restrains or prohibits the transactions contemplated by this Agreement.

8.5 No Proceedings. Since the Execution Date of this Agreement, there shall not have been commenced or threatened against Flint, including any proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, the transactions contemplated by this Agreement, or (b) that may have the effect of preventing, delaying, making illegal, imposing limitations or conditions on or otherwise interfering with any of the transactions contemplated by this Agreement.

8.6 Documents. Flint shall have received from the County Agency all of the documents identified in Sections 3.2.a.1, 3.2.a.2, and 3.2.a.3 of this Agreement.

ARTICLE 9
CONDITIONS AND OBLIGATIONS OF THE COUNTY AGENCY

The obligations of the County Agency to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by the County Agency) on or prior to the Closing of all of the following conditions:

9.1 Accuracy of Representations and Warranties. Except as set forth in the Exhibits, the representations and warranties of the County Agency set forth in this Agreement shall be true and correct in all material respects as of the date when made and at and as of the Closing.

9.2 Performance of Covenants and Agreements. The County Agency shall have duly performed and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing. None of the events or conditions entitling the County Agency to terminate this Agreement under Article 10 hereof shall have occurred and be continuing.

9.3 Consents. Any consent required for the consummation of the transactions contemplated by this Agreement under any agreement, contract, license or other instrument described in any schedule or exhibit hereto or referred to herein, which consent the County Agency is specifically obligated to obtain pursuant to this Agreement shall have been obtained and shall be effective as set forth in this Agreement.

9.4 Governmental Approvals. All requisite regulatory approvals shall have been obtained or made and shall be in full force and effect. There shall be no injunction, restraining order or decree of any nature that restrains or prohibits the transactions contemplated by this Agreement.

9.5 No Proceedings. Since the Execution Date of this Agreement, there shall not have been commenced or threatened against the County Agency any proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, the transactions contemplated by this Agreement, or (b) that may have the effect of preventing, delaying, making illegal, imposing limitations or conditions on or otherwise interfering with any of the transactions contemplated by this Agreement.

9.6 Documents. The County Agency shall have received the documents identified in all of the Sections of this Agreement to be provided by Flint.

ARTICLE 10
TERMINATION PRIOR TO CLOSING

10.1 Termination.

a. This Agreement may be terminated at any time prior to the Closing:

1. By the mutual written consent of Flint and the County Agency;

2. By Flint in writing if the County Agency fails to perform any condition, obligation of any provision of this Agreement and fails to correct the non-performance within five (5) days (or other period of time as mutually agreed to by the Parties) of being notified by Flint;

3. By the County Agency in writing if Flint fails to perform any condition, obligation of any provision of this Agreement and fails to correct the non-performance within five (5) days (or other period of time as mutually agreed to by the Parties) of being notified by the County Agency;

4. By Flint if the transaction is not approved by all its governing body, the emergency manager, or the Treasurer of the State of Michigan, if such approval is required;

5. By either Party, if the other Party fails to timely satisfy those conditions set forth in Article 8 or Article 9, as appropriate.

b. This Agreement may be terminated by the County Agency in writing on or before May 1, 2014, if it shall not have been satisfied in its sole discretion with the results of the County Agency's continuing due diligence investigations of the Water Main, including, without limitation, with respect to all operational, financial, environmental, legal and accounting matters.

c. This Agreement may be terminated by either party upon written notice if the Karegnondi Water Authority fails to construct the proposed Water Main from Worth Township to Genesee County.

d. This Agreement may be terminated by either party upon written notice if the cost of construction of the Water Main from Worth Township to Genesee County by the Karegnondi Water Authority exceeds the limitations set forth in the Financing Agreement between the Karegnondi Water Authority, Flint, and the County Agency. A unit is defined as one million gallon per day, U.S. Liquid Measure.

e. In the event of any termination pursuant to this Article 10, any amounts paid by the County Agency to Flint or from Flint to the County Agency shall be refunded within thirty (30) days. In the event that either party to this Agreement fails to refund any amounts paid within thirty (30) days, the amount due and owing shall accumulate interest at the rate of 1.5% per month, until such time as the debt is paid.

10.2 Effect on Obligations. Termination of this Agreement pursuant to this Article 10 shall terminate all obligations of the Parties hereto; provided, however, that termination pursuant to Sections 10.a.2 or 10.a.3 hereof shall not relieve any defaulting party from any liability to the other party hereto resulting from such failure to perform. Notwithstanding the foregoing, any and all existing agreements (other than this Agreement) between Flint and the County Agency which are related to the Water Main shall remain in full force and effect following any termination of this Agreement unless and until such existing agreements are otherwise terminated pursuant to the terms thereof.

ARTICLE 11
TERMINATION AFTER CLOSING BY COUNTY AGENCY

This Agreement may be terminated at the sole discretion of the County Agency after Closing, if Flint fails to provide the County Agency with an easement, license, or similar document for the portion of the Water Main that is located on private property as identified in **Exhibit D,** prior to Friday, June 30, 2015, unless Flint has filed an action in a court of competent jurisdiction to condemn the property or a portion of the property necessary to ensure that the County Agency has access to the Water Main under the private property to replace, repair, maintain, or perform any other action commonly associated with the ownership of a water main.

In the event of a termination by the County Agency pursuant to this ARTICLE 11, the County Agency shall be entitled to a complete refund or repayment of any amounts paid to Flint pursuant to ARTICLE 2, Section 2.4 of this Agreement. If this Agreement is terminated by the County Agency for any reason set forth herein, then Flint shall immediate become responsible for the operation, maintenance and administration of the Water Main beginning at 12:01 a.m. (local time) the next business day after the notice of termination is received by Flint.

After the County Agency receives all amounts to be refunded or repaid by Flint as set forth in the preceding paragraph, the County Agency shall execute any and all documents necessary to return title to the Water Main to Flint. Additionally, the County Agency shall assign or transfer any property easements and execute any other documents necessary to fully transfer the Water Main back to Flint as if this Agreement did not exist. Flint shall be responsible for all costs of recording the documents and any closing costs in the event of a termination pursuant to this ARTICLE 11 by the County Agency.

ARTICLE 12
REMEDIES FOR BREACHES OF THIS AGREEMENT

12.1 Survival of Representations and Warranties. All of the representations, warranties and covenants of the County Agency and Flint contained in this Agreement and the Exhibits hereto shall survive the Closing and continue in full force and effect forever thereafter (subject only to any applicable statutes of limitations applicable to their breach).

12.2 Remedies Generally. It is not intended hereby to specify (and this Agreement shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies existing at law or in equity may be availed of by any Party hereto and shall be cumulative. The Parties agrees that failure in the performance of this Agreement cannot be adequately compensated in money damages alone. In the event of any default by a Party, the other Party shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies which may also be available. No waiver or waivers of any breach or default (or any breaches or defaults) by any Party hereto or of performance by any other Party of any duty or obligation hereunder shall be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character or description, under any circumstance.

12.3 Remedies for Breach of Representations, Warranties and Covenants. If a Party sustains any losses because the representations or warranties provided by the other Party are incorrect or untrue or because the other Party has breached its covenants given herein, the other Party shall be liable for all losses incurred by the Party to cure such representations, warranties or covenants, including attorney fees. In addition or in the alternative, the Party may require the other Party to take such actions as required to cure such misrepresentations, warranties or breached covenants, within three (3) months or other amount of time mutually agreed to by the Parties.

12.4 Limitations on Certain Remedies.

a. The injured Party will take reasonable steps to mitigate all losses relating to a claim, including availing itself of any defenses, limitations, and will provide such evidence and documentation of the nature and extent of a claim as may be reasonably requested by the other Party. The injured Party's reasonable steps include the reasonable expenditure of money to mitigate or otherwise reduce or eliminate any loss or expense for which a remedy would otherwise be due under this ARTICLE 12, and the reimbursing Party will reimburse the injured Party for the injured Party's reasonable expenditures, including attorney fees and costs.

b. Notwithstanding anything contained to the contrary in any other provision of this Agreement, except in cases of a Party's gross negligence, willful misconduct or fraud, the obligations of each Party under Sections 12.2 and 12.3, and the recovery by any injured Party of any liabilities suffered or incurred by it as a result of any breach or non-fulfillment by a Party or any of its representations, warranties, covenants, agreements or other obligations under this Agreement, shall be limited to actual damages.

12.5 Survival of Remedies. The rights and obligations to remedies given in this Article 11 shall survive the Closing indefinitely.

ARTICLE 13
TERMINATION OF WATER SUPPLY CONTRACTS, AMENDMENTS, AND WAIVER OF NOTICE TO TERMINATE

Flint and Genesee County by and through its Drain Commissioner, as County Agency, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended, have executed several Agreements in the past that shall be affected upon the execution of this Agreement. By executing this Agreement, Flint and the Genesee County by and through its Drain Commissioner, as County Agency, pursuant to Act 342 of the Michigan Public Acts of 1939, as amended, hereby expressly mutually terminate the following agreements in their entirety and further expressly waive any notice provisions set forth therein:

1. Agreement between the CITY OF FLINT, a Michigan Home Rule City Corporation and the COUNTY OF GENESEE, a Michigan County Corporation, by and through the Genesee County Drain Commissioner, having been designed as such by appropriate legislation in compliance with Act 342 of the Public Acts of 1939, and any subsequently named Agent for the County of Genesee dated June 28, 1972 (hereinafter "Water Agreement"); and

2. Agreement to amend the Water Agreement dated March 5, 1981; and

3. SUPPLEMENTAL AGREEMENT AND AMENDMENT TO CITY/COUNTY WATER AGREEMENT, dated March 31, 1988; and

4. AGREEMENT between the CITY OF FLINT, a Michigan municipal corporation, and the GENESEE COUNTY DRAIN COMMISSIONER, a designated County Agency dated February 20, 2001; and

5. 3rd AMENDMENT TO 1973 CITY/COUNTY WATER SUPPLY AGREEMENT, dated October 21, 2003, between the City of Flint, a Michigan municipal corporation and the County of Genesee, a political subdivision of the State fo Michigan and the Genesee County Dain Commissioner, the County Agency designated by the Genesee County Board of Commissioners pursuant to Act 342 of the Public Acts of 1939, as amended; and

6. 4th AMENDMENT TO 1973 CITY/COUNTY WATER SUPPLY AGREEMENT, dated December 30, 2011, between the City of Flint, a Michigan municipal corporation and the County of Genesee, a political subdivision of the State of Michigan by and through the Genesee County Drain Commissioner, the County Agency designated by the Genesee County Board of Commissioners pursuant to Act 342 of the Public Acts of 1939, as amended.

7. Any other Agreement or part of Agreement that directly conflicts with this Agreement and the intent contained therein as mutually agreed upon in writing by the parties hereto.

ARTICLE 14
MISCELLANEOUS

14.1 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated there under, unless the context requires otherwise. The word "including" shall mean including without limitation.

14.2 Incorporation of Exhibits. The following Exhibits attached hereto are incorporated herein by reference and made a part hereof:

Exhibit A: Description of Water Main

Exhibit B: Rights of way and easements held by Flint

Exhibit C: Real property occupied by the Water Main

Exhibit D: Flint's disclosure of real property occupied by the Water Main that Flint does not have the necessary transferable easement or real property rights for the use, routine, operation, and maintenance of the Water Main

Exhibit E: Flint's disclosure of any breaks or leaks in the Water Main that are known by Flint and that have not been repaired

14.3 Entire Agreement. This Agreement constitutes the sole understanding of the Parties hereto with respect to the matters provided for herein and supersedes any previous agreements and understandings between the Parties with respect to the subject matter hereof. No amendment, modification or alteration of the terms or provisions of this Agreement shall be binding unless the same shall be in writing and duly executed by Flint and the County Agency and in compliance with Section 14.9.

14.4 Successors and Assigns. This Agreement will inure to the benefit of and be binding upon Flint and the County Agency and their respective successors and assigns. This Agreement and any of the rights, interests or obligations hereunder may be assigned by either Party hereto without the prior written consent of the other Party hereto.

14.5 Invalidity. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the practical, economic and legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible. Invalid provisions shall be severed from this Agreement.

14.6 Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument. This Agreement may be executed by facsimile signatures that shall be considered originals.

14.7 Headings. The headings of the articles, sections and paragraphs of this Agreement and of the Exhibits hereto are included for convenience of reference only and in no way define, limit or describe the scope of intent of any provision of this Agreement.

14.8 Construction and References. Words used in this Agreement, regardless of the number or gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context shall require. Unless otherwise specified, all references in this Agreement to articles, sections, paragraphs or clauses are deemed references to the corresponding articles, sections, paragraphs or clauses in this Agreement, and all references in this Agreement to exhibits are references to the corresponding exhibits attached to this Agreement.

14.9 Modification and Waiver. Any of the terms or conditions of this Agreement may be waived in writing at any time by the Party that is entitled to the benefits thereof. No waiver of any of the provisions of this Agreement shall be deemed to or shall constitute a waiver of any other provisions hereof (whether or not similar). Oral modifications of this Agreement are not permitted. Modification or amendment of this Agreement shall require the written approval of the Genesee County Drain Commissioner and the Flint City Council.

14.10 Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner described above shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three (3) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to Flint, to:

City of Flint
Attn: CHIEF LEGAL OFFICER
1101 South Saginaw Street
Flint, Michigan 48502

If to the County Agency, to:

Genesee County Drain Commissioner's Office
Division of Water and Waste Services
Attn: Drain Commissioner
G-4610 Beecher Road
Flint, Michigan 48532

The Parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other party hereto.

14.11 Governing Law; Interpretation. This Agreement shall be construed in accordance with and governed by the laws of the State of Michigan. The Parties hereto (a) consent to the personal jurisdiction of the state courts located in Flint, Michigan or federal courts located in Southeastern Michigan in connection with any controversy related to this Agreement including, but not limited to, counterclaims or third party demands raised as a result of third party counterclaims initiated in any other jurisdiction; (b) waive any argument that venue in any such forum is not convenient; (c) agree that any litigation initiated by the County Agency or Flint in connection with this Agreement may be brought in either the state court located in Flint, Michigan or federal court located in Detroit, Michigan; and (d) agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

14.12 No Third-Party Beneficiaries. This Agreement is not intended to confer upon any person or entity, other than the Parties hereto, any rights or remedies of any kind or nature whatsoever.

14.13 Freedom of Information Act Requests. Flint agrees that if it receives a request for any documents relating to this Agreement, including Freedom of Information Act requests, Flint shall forward a copy of the request to the County Agency.

The County Agency agrees that if it receives a request for any documents relating to this Agreement, including Freedom of Information Act requests, the County Agency shall forward a copy of the request to Flint.

14.14 Interpretation. For purposes of interpretation of this Agreement, neither the County Agency nor Flint shall be deemed to have been the drafter of this Agreement.

14.15 Negotiated Agreement. This Agreement has been prepared and negotiations have occurred in connection with said preparation pursuant to the joint efforts of the Parties. This Agreement therefore shall not be construed against any Party to this Agreement.

ARTICLE 15
INDEMNIFICATION/HOLD HARMLESS

If at any time while Flint is securing legal access to any property identified in Exhibit D a the Water Main malfunctions, leaks, or requires the County Agency to enter onto the property to repair the Water Main or perform another necessary service, and in the opinion of the County Agency the malfunction or leak may wait until access to the property is secured, Flint shall indemnify/hold harmless the County Agency for any water loss, damage, and/or environmental issues that may result from the malfunction or leak.

Any amount of water loss shall be determined by the County Agency with the assistance of Flint. The amount of loss shall be based on past experiences and practice. The County Agency shall invoice Flint for the total loss from the date the malfunction or leak was discovered until the repair has been completed. Flint shall timely pay the invoice pursuant to the terms stated in the invoice.

If the Water Main malfunction or leak requires immediate entry onto the property identified in Exhibit D, Flint shall provide all of the necessary resources necessary, including, but not limited to, an immediate payment for an easement, immediately filing an action for condemnation, or requesting a court of competent jurisdiction to provide a right of entry, to secure legal access to the property to repair any malfunction or leak.

It is expressly understood by the Parties hereto, that until such time as Flint secures access to the property identified in Exhibit D, Flint shall be responsible for any and all loss that is the result of a malfunction or break of the Water Main under the property identified in Exhibit D.

In Witness Whereof, the Parties hereto have executed this Agreement as of the date first above written.

COUNTY AGENCY

By: ____

Jeff Wright, Genesee County Drain Commissioner, County Agency

ATTEST:

By: ____

(OFFICIAL SEAL)

APPROVED AS TO FORM AND LEGALITY:

By: ____

Kevin K. Kilby, Counsel for the County Agency

FLINT

By: ____

Darnell Earley, Emergency Manager

ATTEST:

By: ____

Inez M. Brown, Clerk of the City of Flint

(OFFICIAL SEAL)

APPROVED AS TO FORM:

By: ____

Name and Title:

This Contract was prepared by:
McGraw Morris P.C.
Attorney Kevin Kilby (P68599)
2075 West Big Beaver Road
Suite 750
Troy, Michigan 48084
(248) 502-4000
kkilby@mcgrawmorris.com

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Exhibit A

Description of Water Main

[LIMITED TO PORTION OF 72" PIPELINE AND APPURTENANCES FROM THE DWSD CONNECTION AT BAXTER ROAD AND POTTER ROAD, WEST TO THE PROPOSED 36 INCH KWA CONNECTION AT CENTER AND PIERSON ROAD]

Exhibit B

Rights of way and easements held by Flint

Exhibit C

Real property occupied by the Water Main

Exhibit D

Flint's disclosure of real property occupied by the Water Main that Flint does not have the necessary transferable easement or real property rights for the use, routine, operation, and maintenance of the Water Main

Exhibit E:

Flint's disclosure of any breaks or leaks in the Water Main that are known by Flint and that have not been repaired.