

COMPILED MASTER WATER BOND ORDINANCE

(As adopted on October 7, 2015, and including amendments
adopted on December 9, 2015, January 27, 2016, August 10, 2016 and February 12, 2020)

GREAT LAKES WATER AUTHORITY

MASTER BOND ORDINANCE NO. 2015-01

AN ORDINANCE TO PROVIDE FOR THE ASSUMPTION BY THE GREAT LAKES WATER AUTHORITY OF ALL OF THE OUTSTANDING WATER SUPPLY SYSTEM REVENUE BONDS AND WATER SUPPLY SYSTEM REVENUE REFUNDING BONDS ISSUED BY THE CITY OF DETROIT, COUNTY OF WAYNE, STATE OF MICHIGAN; TO PROVIDE FOR THE ACQUISITION, CONSTRUCTION AND EQUIPPING OF IMPROVEMENTS TO THE WATER SUPPLY SYSTEM OF THE GREAT LAKES WATER AUTHORITY AND THE CITY OF DETROIT; TO PROVIDE FOR THE ISSUANCE AND SALE OF REVENUE BONDS TO PAY THE COSTS THEREOF; TO PROVIDE FOR THE COLLECTION OF REVENUES FROM THE SYSTEM SUFFICIENT FOR THE PURPOSE OF PAYING THE COSTS OF OPERATION AND MAINTENANCE OF THE SYSTEM AND TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS; TO PROVIDE FOR THE SEGREGATION AND DISTRIBUTION OF THE REVENUES; TO PROVIDE FOR THE RIGHTS OF THE HOLDERS OF THE BONDS AND THE ENFORCEMENT THEREOF; AND TO PROVIDE FOR OTHER MATTERS RELATING TO THE BONDS AND THE SYSTEM.

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AN ORDINANCE TO PROVIDE FOR THE ASSUMPTION BY THE GREAT LAKES WATER AUTHORITY OF ALL OF THE OUTSTANDING WATER SUPPLY SYSTEM REVENUE BONDS AND WATER SUPPLY SYSTEM REVENUE REFUNDING BONDS ISSUED BY THE CITY OF DETROIT, COUNTY OF WAYNE, STATE OF MICHIGAN; TO PROVIDE FOR THE ACQUISITION, CONSTRUCTION AND EQUIPPING OF IMPROVEMENTS TO THE WATER SUPPLY SYSTEM OF THE GREAT LAKES WATER AUTHORITY AND THE CITY OF DETROIT; TO PROVIDE FOR THE ISSUANCE AND SALE OF REVENUE BONDS TO PAY THE COSTS THEREOF; TO PROVIDE FOR THE COLLECTION OF REVENUES FROM THE SYSTEM SUFFICIENT FOR THE PURPOSE OF PAYING THE COSTS OF OPERATION AND MAINTENANCE OF THE SYSTEM AND TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS; TO PROVIDE FOR THE SEGREGATION AND DISTRIBUTION OF THE REVENUES; TO PROVIDE FOR THE RIGHTS OF THE HOLDERS OF THE BONDS AND THE ENFORCEMENT THEREOF; AND TO PROVIDE FOR OTHER MATTERS RELATING TO THE BONDS AND THE SYSTEM.

WHEREAS, the City of Detroit, County of Wayne, State of Michigan (the “City”) has heretofore issued or refunded on its own or through its Department of Water and Sewerage (“DWSD”), from time to time revenue bonds pursuant to Act No. 94, Public Acts of Michigan, 1933, as amended (“Act 94”), which bonds, as more particularly defined herein (collectively, the “DWSD Water Bonds”), were issued to finance or refinance the acquisition and installation of improvements to the Water System (as hereinafter defined); and

WHEREAS, on November 26, 2014, the Great Lakes Water Authority (the “Authority”) was formed by the City, the Charter County of Wayne, State of Michigan, the County of Oakland, State of Michigan and the Charter County of Macomb, State of Michigan (collectively, the “Incorporating Municipalities”), pursuant to Act No. 233, Public Acts of Michigan, 1955, as amended, in order to lease the Leased Water Facilities and the Leased Sewer Facilities and to operate the Regional Water System and the Regional Sewer System and maintain the Leased Water Facilities and Leased Sewer Facilities (all as hereinafter defined) pursuant to separate leases of the respective facilities, between the City and the Authority (the “Lease” and the “Sewer Lease”, respectively); and

WHEREAS, pursuant to the Lease, the Authority has assumed all of the City’s obligations related to the Regional Water System, including, but not limited to, the City’s obligations to pay debt service on all DWSD Water Bonds; and

WHEREAS, the City shall continue to own, operate and be responsible for those water supply system facilities, other than the Leased Water Facilities, that are used to provide water services to Retail Water Customers (as hereinafter defined) on the Effective Date, including all fire hydrants, all as more fully described in the Water and Sewer Services Agreement (the “Detroit Local Water Facilities”); and

WHEREAS, the creation of the Authority, the Lease, and the assumption by the Authority of the City’s wholesale and retail water supply contracts and debt service obligations on the DWSD

Water Bonds have been approved by the United States Bankruptcy Court, Eastern District of Michigan, Southern Division (the “Bankruptcy Court”) under the City’s Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (the “Plan of Adjustment”) in the City’s Chapter 9 proceedings under the Bankruptcy Code in Case No. 13-53846 (the “Bankruptcy Case”), by order of the Bankruptcy Court entered on November 12, 2014 and effective on December 10, 2014; and

WHEREAS, in compliance with Detroit City Council Ordinance No. 01-05, as amended, pursuant to which the DWSD Water Bonds were issued (“Ordinance No. 01-05”), and in order to provide additional security for the payment of the DWSD Water Bonds, the City entered into a Trust Indenture, as amended (the “Indenture”) with U.S. Bank National Association, as Trustee, dated as of February 1, 2013, to hold in trust the amounts required or permitted to be transferred by the City to certain funds and accounts under the Ordinance No. 01-05 for payment of the DWSD Water Bonds and other obligations of the Water System; and

WHEREAS, in connection with the execution and delivery of the Lease, the Authority desires to amend, restate and incorporate certain material provisions of Ordinance No. 01-05 and the Indenture into this Ordinance for the efficient administration of the Regional Water System, the assumption of the DWSD Water Bonds and the issuance of Additional Bonds, as hereinafter defined, to finance additional costs of extensions, additions and improvements to the Regional Water System and the Local Water System, which may be secured by parity or subordinate lien interests in the Net Revenues (as hereinafter defined) with the DWSD Water Bonds and with the bonds to be issued by the Authority hereunder; and

WHEREAS, pursuant to (i) the provisions of Act 94; (ii) Ordinance No. 01-05; (iii) the Orders of the United States District Court, Eastern District of Michigan, Southern Division (the “District Court”) in *United States v. City of Detroit, et al.*, 77-71100, E.D. Michigan, (iv) the Order of the Bankruptcy Court in the Bankruptcy Case dated August 25, 2014 (Docket No. 7028) (the “Bankruptcy Tender Order”) related to the tender transactions for the 2014 DWSD Obligations, as hereinafter defined; (v) the Resolution and Ordinance Authorizing the Issuance and Sale of Water Supply System Revenue Refunding Senior Lien Bonds of the City of Detroit and of Water Supply System Revenue Refunding Second Lien Bonds of the City of Detroit, adopted by the City’s Board of Water Commissioners on August 13, 2014 and approved by the emergency manager of the City (the “Emergency Manager”) on August 16, 2014 (the “2014 DWSD Bond Resolution”); (vi) the Indenture, as amended by the First Supplemental Indenture thereto dated as of September 1, 2014 (together, the “DWSD Indenture”) and (vii) a Sale Order of the Director of the DWSD dated August 27, 2014 and approved by the Emergency Manager on August 27, 2014 (the “2014 Sale Order” and, collectively with Ordinance No. 01-05, the DWSD Bond Resolution and the DWSD Indenture, the “2014 DWSD Authorizing Documents”), on September 4, 2014, the City through the DWSD issued its \$854,850,000 2014 DWSD Water Obligations, as hereinafter defined, to the Michigan Finance Authority (the “MFA”), as purchaser; and

WHEREAS, the MFA issued its \$854,850,000 Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014D (Detroit Water and Sewerage Department Water Supply System Revenue Refunding Local Project Bonds) in multiple series (the “Series 2014D Bonds”) to finance the purchase of the 2014 DWSD Water Obligations; and

WHEREAS, concurrently with the issuance of the 2014 DWSD Water Obligations, the City, through DWSD issued, in multiple series, its \$935,860,000 2014 DWSD Sewer Obligations, as hereinafter defined (the 2014 DWSD Sewer Obligations, collectively with the 2014 DWSD Water Obligations, the “2014 DWSD Obligations”) to the MFA for purposes of paying the purchase price or redemption price of certain outstanding Sewage Disposal System Revenue and Revenue Refunding Senior and Second Lien Bonds of the City and financing the costs of certain improvements to the Sewer System; and

WHEREAS, the MFA issued its \$935,860,000 Local Government Loan Program Revenue Bonds, Series 2014C (Detroit Water and Sewerage Department Sewage Disposal System Revenue and Revenue Refunding Local Project Bonds) in multiple Series (the “Series 2014C Bonds”) to finance the purchase of the 2014 DWSD Sewer Obligations; and

WHEREAS, pursuant to a certain Michigan Finance Authority Consent and Agreement (the “Consent and Agreement”), dated as of September 4, 2014, between the MFA and DWSD, the parties agreed with respect to the 2014 DWSD Obligations that if the Authority was successfully created, the MFA would consent to the Authority becoming responsible for the obligations of the DWSD, including payment of all of the DWSD Water Bonds and other indebtedness of the City secured by the Net Revenues of the Water System (as hereinafter defined) immediately prior to the Effective Date (as hereinafter defined) (the “Assumption”); and

WHEREAS, the MFA and the DWSD further agreed that the Assumption would be accomplished by the substitution or replacement of the City by the Authority as the sole obligor (“Change in Obligor”) on the 2014 DWSD Obligations and the assignment to and assumption by the Authority of the 2014 DWSD Obligations, or the issuance of substitute bonds by the Authority, in place of the 2014 DWSD Obligations (the “2014 Assumed Obligations”); and

WHEREAS, the MFA and the DWSD further agreed that the Change in Obligor and the assumption or substitution of the 2014 DWSD Obligations of the Water System and the Sewer System by the Authority would be conditioned upon: (a) the Authority adopting covenants to: (i) issue revenue bonds payable from Net Revenues of the Water System under ordinances or indentures which maintain compliance with a three-part combined coverage requirement of 1.20, 1.10 and 1.00 for senior lien, second lien, and State Revolving Fund (“SRF”) junior lien indebtedness, respectively, for both additional bonds test and rate covenant purposes; (ii) maintain, pursuant to such ordinances or indentures, a flow of funds consistent with Act 94, in the following order of priority required by Act 94: (x) operation and maintenance expenses of the Water System, and (y) debt service on all bonds payable from Net Revenues of the Water System, before making deposits to other accounts in the flow of funds; and (iii) comply with the provisions of the Bankruptcy Tender Order of the Bankruptcy Court, including but not limited to paragraph 24 thereof; (b) the ability of the system, under the additional bonds test described in (a)(i) above, to issue at least One Dollar of additional indebtedness at each level of priority; (c) receipt of an opinion of tax counsel of the Authority to the effect that the Change in Obligor and assumption or substitution of the 2014 Assumed Obligations, in and of themselves, do not materially alter the tax-exempt status of the interest on the 2014 DWSD Obligations; (d) receipt of a rating confirmation from one or more nationally recognized rating agencies that the 2014 Assumed Obligations are rated not less than the then-current rating on the 2014 DWSD Obligations; and (e) provide that in connection with the establishment of the Authority, any lease or other payment by the Authority to the City’s general fund or any other fund of the City (other than payments for

customary services historically provided by the City to the DWSD that constitute operation and maintenance expenses under the related bond ordinance and payments in respect of pension obligations to be paid as operation and maintenance expenses consistent with clause (a)(iii) above) shall be subordinated to all payments on the 2014 DWSD Obligations; and

WHEREAS, by purchasing the Series 2014C Bonds and 2014D Bonds, the proceeds of which were used to purchase the 2014 DWSD Obligations, upon satisfaction of the conditions described hereinabove, the purchasers thereof will have consented to the Change in Obligor and the assumption or substitution of the 2014 Assumed Obligations and further, the purchasers will have consented to and directed the MFA to accept the Change in Obligor and assumption or issuance of substitute obligations as 2014 Assumed Obligations; and

WHEREAS, the MFA, as purchaser of the 2014 DWSD Obligations, agreed that if the Authority was successfully created, it would consent to the Change in Obligor and accept the 2014 Assumed Obligations, so long as the conditions described hereinabove are met; and

WHEREAS, pursuant to a certain Solicitation of Consents to Changes to Certain Bond Financing Documents (the "Water Bonds Solicitation"), the City upon authorization from the Board of Water Commissioners of the DWSD, invited owners of those certain outstanding DWSD Water Bonds identified in the Water Bonds Solicitation (the "Remaining Outstanding DWSD Water Bonds") to provide the following consents: (i) consent to the Amendment to Ordinance No. 01-05, which amendment is set forth in the Water Bonds Solicitation (the "Amendment to Ordinance No. 01-05"); (ii) consent to the Second Supplemental Indenture to the DWSD Indenture, which Second Supplemental Indenture is set forth in the Water Bonds Solicitation (the "Second Supplemental Indenture"); and (iii) consent to the obligor on the Remaining Outstanding DWSD Water Bonds owned by the bondholder being changed from the City to the Authority on the Effective Date, and in connection with such change in obligor the release and discharge of the City from any liability or other obligation to such holders of the Remaining Outstanding DWSD Water Bonds and U.S. Bank National Association, as the Trustee therefor, all upon the completion of certain conditions, as described in the Water Bond Solicitation (the "Consent to the Change in Obligor"); and

WHEREAS, as described in the Amendment to Ordinance No. 01-05 and the Second Supplemental Indenture, the City is authorized to proceed with the Amendment to Ordinance No. 01-05 and enter into the Second Supplemental Indenture upon meeting certain conditions, which include obtaining the consent of the holders of not less than 51% in principal amount of the securities outstanding under Ordinance No. 01-05 and the DWSD Indenture; and

WHEREAS, pursuant to a certain Solicitation of Consents to Changes to Certain Bond Financing Documents (the "Sewer Bonds Solicitation"), the City upon authorization from the Board of Water Commissioners of the DWSD, invited owners of those certain outstanding Sewer System bonds identified in the Sewer Bonds Solicitation (the "Remaining Outstanding DWSD Sewer Bonds") to provide the following consents: (i) consent to the Amendment to Ordinance No. 18-01, the current authorizing ordinance for Sewer System bonds, which amendment is set forth in the Sewer Bonds Solicitation (the "Amendment to Ordinance No. 18-01"); (ii) consent to the Second Supplemental Indenture to the current Trust Indenture for Sewer System bonds, which Second Supplemental Indenture is set forth in the Sewer Bonds Solicitation (the "Second Supplemental Sewer Indenture"); and (iii) consent to the obligor on the Remaining Outstanding

DWSD Sewer Bonds owned by the bondholder being changed from the City to the Authority on the Effective Date, and in connection with such change in obligor the release and discharge of the City from any liability or other obligation to such holders of the Remaining Outstanding DWSD Sewer Bonds and U.S. Bank National Association, as the Trustee therefor, all upon the completion of certain conditions, as described in the Sewer Bonds Solicitation (the “Consent to the Change in Sewer Bonds Obligor”); and

WHEREAS, as described in the Amendment to Ordinance No. 18-01 and the Second Supplemental Sewer Indenture, the City is authorized to proceed with the Amendment to Ordinance No. 18-01 and enter into the Second Supplemental Sewer Indenture upon meeting certain conditions, which include obtaining the consent of the holders of not less than 51% in principal amount of the securities outstanding under Ordinance 18-01 and the Sewer Trust Indenture; and

WHEREAS, all things and consents necessary to the Change in Obligor and assumption by the Authority of the 2014 DWSD Water Obligations and the Remaining Outstanding DWSD Water Bonds will be accomplished pursuant to the Lease, the Water and Sewer Services Agreement and the Shared Services Agreement (each as hereinafter defined) and this Ordinance; and

WHEREAS, the issuance of the Bonds under the provisions of the Constitution and laws of the State and particularly Act 233, Act 94 and Act No. 34, Public Acts of Michigan, 2001, as amended (“Act 34”) is authorized and the Authority is now empowered and desires to authorize the Assumption and the issuance of Bonds by the Authority.

NOW, THEREFORE, BE IT ORDAINED BY THE BOARD OF THE GREAT LAKES WATER AUTHORITY AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 101. Meaning of Words and Terms. In addition to the terms elsewhere defined in this Ordinance, the following words and terms used in this Ordinance and the preambles hereto shall have the following meanings, unless some other meaning is plainly intended and shall be either singular or plural, as the context may require.

“Accountant” means an independent certified public accountant or a firm of independent certified public accountants having a favorable reputation for skill in performing similar duties to the duties imposed on the Accountant under this Ordinance selected by the Authority Board.

“Act 34” means Act 34, Public Acts of Michigan, 2001, as amended.

“Act 94” means Act 94, Public Acts of Michigan, 1933, as amended.

“Act 233” means Act 233, Public Acts of Michigan, 1955, as amended.

“Additional Bonds” means water supply revenue bonds or water supply revenue refunding bonds of the Authority of equal standing with or subordinate to the DWSD Water Bonds of any

Priority of Lien, issued under and in accordance with this Ordinance for the purposes set forth in Section 207.

“Additional Bonds Debt Service Coverage” means, for purposes of Section 207 and for each Priority of Lien, a number equal to Projected Net Revenues in the then current or next succeeding Fiscal Year, or Historical Net Revenues, all as determined by the Authority, divided by Maximum Annual Debt Service for such Priority of Lien and any higher Priority of Lien.

“Applicable Laws” means all laws, rules, regulations, ordinances, permit and license requirements, and orders of courts, governmental officials and agencies of competent jurisdiction with respect to the Leased Water Facilities or which generally relate to the Leased Water Facilities.

“Authority” means the Great Lakes Water Authority created pursuant to Act 233.

“Authority Board” means the governing body of the Authority.

“Authority Regional Construction Account” means the account of the Construction Fund for the Regional Water System created pursuant to Section 502(a)(15)(i).

“Authority Regional Improvement and Extension Account” means the account of the Improvement and Extension Fund for the Regional Water System created pursuant to Section 502(a)(11)(i).

“Authority Regional Operation and Maintenance Account” means the account of the Operation and Maintenance Fund created pursuant to Section 502(a)(3)(i).

“Authorized Officer” means the Chief Executive Officer, the Chief Financial Officer, or any officer designated by the Authority Board or the designee of any of them.

“Bankruptcy Case” means the City’s Chapter 9 Bankruptcy Case No. 13-53846 in the Bankruptcy Court.

“Bankruptcy Court” means the United States Bankruptcy Court, Eastern District of Michigan, Southern Division.

“Bankruptcy Order” means the Order Pursuant to (I) 11 U.S.C. §§ 105, 364(c), 364(d)(1), 364(e), 902, 904, 921, 922, and 928 (A) Approving Post Petition Financing and (B) Granting Liens and (II) Bankruptcy Rule 9019 Approving Settlement of Confirmation Objections, entered August 25, 2014 in the Bankruptcy Case.

“BC Note Obligation” means, collectively, the debt service on (a) the City of Detroit Financial Recovery Bonds, Series 2014B(1) and Series 2014B(2), dated December 10, 2014, and (b) the City of Detroit Financial Recovery Bonds, Series 2014C, dated December 10, 2014, which bonds were issued to satisfy in whole or in part claims relating to the City’s pension obligation certificates and post-retirement health benefits.

“Bond” or “Bonds” means, regardless of Priority of Lien, any DWSD Water Bond, established and created by the City and outstanding under Ordinance No. 01-05 and any bond or Series of bonds established and created by the Authority under Section 202 of this Ordinance and issued pursuant to a Series Ordinance, and Reimbursement Obligations and Junior Lien Reimbursement Obligations of any Priority of Lien established and created under Ordinance No. 01-05 or by a Series Ordinance.

“Bond Counsel” means a firm of nationally recognized bond counsel acceptable to the Authority.

“Bond Fund” means, collectively, the Bond Interest and Redemption Funds created pursuant to Section 502(a)(4), 502(a)(5), 502(a)(6), 502(a)(7) and 502(a)(8).

“Bond Interest and Redemption Fund” means each fund for the payment of Debt Service for each Series of Bonds of the same Priority of Lien.

“Bond Payment Date” means any of the dates specified in a Series Ordinance for payment of interest, or interest and principal on the Bonds or Junior Lien Bonds.

“Bond Registrar” means the Trustee.

“Bond Reserve Account” or “Reserve Account” means collectively, the Senior Lien Bond Reserve Account and the Second Lien Bond Reserve Account Fund created pursuant to Section 502(a).

“Bondholder” or “Holder” or any similar term means any person or party who shall be the registered owner of any Bond.

“Budget Stabilization Fund” means the fund created pursuant to Section 502(a)(11).

“Budget Stabilization Requirement” means with respect to the Local Water System, an amount calculated each Fiscal Year equal to (A) two times a number equal to twenty percent of the average bad debt expense of Retail Water Customers as a class for the two preceding Fiscal Years based on audited financial statements (or unaudited statements if audited statements are not available), which amount shall be funded from Retail Revenues initially in thirds over three Fiscal Years beginning in Fiscal Year 2016, or (B) such other amount specified by the Authority Board by supermajority (5/6) vote. For purposes of the required deposit for Fiscal Year 2016 the amount shall be \$2,327,026 for the Local Water System.

“Business Day” means a day other than (i) Saturday, Sunday or a legal holiday, (ii) a day on which the Trustee is authorized or required to remain closed, (iii) a day on which the New York Stock Exchange is closed or (iv) a day on which the Federal Reserve is closed.

“Capital Improvement Program” means the ongoing program of capital improvements for the Leased Water Facilities, as the same may be modified from time to time by the Authority.

“CIPs” means, collectively, the Capital Improvement Program and the Detroit Capital Improvement Program.

“City” means the City of Detroit, County of Wayne, State of Michigan.

“Chief Executive Officer” means the Chief Executive Officer of the Authority.

“Chief Financial Officer” means the Chief Financial Officer of the Authority.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and court decisions thereunder, as the context may require.

“Common-to-all” means the method or methods for allocating to wholesale customers of the Regional Water System and Retail Water Customers the cost of water service provided by the Regional Water System that benefits both wholesale customers and Retail Water Customers, which allocation is determined on a case by case analysis of the benefits derived from each customer class from such service.

“Construction Fund” means the fund created pursuant to Section 502(a)(15).

“Credit Entity” means, with respect to a Series of Bonds or a maturity of such Series, a commercial bank, a bond insurance company, any other financial institution or combination of such financial institutions or governmental entity which issues a Credit Facility for such Series of Bonds or maturities but only while such Credit Facility is outstanding or Reimbursement Obligations or Junior Lien Reimbursement Obligations or other amounts are outstanding under any written agreement with a Credit Entity pursuant to which a Credit Facility is issued.

“Credit Facility” means one or more credit facilities with respect to a Series of Bonds or maturity of such Series consisting of an irrevocable and unconditional letter of credit, line of credit, standby bond purchase agreement, municipal bond insurance policy, surety bond, liquidity facility, or other credit enhancement facility or other liquidity facility issued by a Credit Entity as described in Section 211 hereof to provide moneys for the purpose of paying the principal (whether upon tender or upon maturity or redemption) of and the interest on such Series of Bonds, but only while such Credit Facility is outstanding.

“Custodial Agreement” means a custodial agreement executed between a Custodian and the Authority pursuant to Section 504 and Section 512 hereof, relating to the Operating and Maintenance Fund and the Construction Fund, respectively.

“Custodian” means a financial institution appointed in accordance with Section 516 and acting as such under a Custodial Agreement.

“Debt Service” means with respect to Bonds of each Priority of Lien, the amount scheduled to become due and payable annually on all Outstanding Bonds as (i) interest, exclusive of interest capitalized on such Outstanding Bonds and paid from the proceeds of a Series of Bonds or investment earnings on such capitalized interest, plus (ii) principal, plus (iii) Mandatory Redemption Requirements. For purposes of calculating Debt Service:

- (i) All principal payments shall be deemed to be made as and when the same shall become due or upon mandatory redemption;

- (ii) Outstanding Variable Rate Bonds shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the weighted average of the actual rates on such Variable Rate Bonds for each day during the 365 consecutive days (or any lesser period such Variable Rate Bonds have been Outstanding) ending on the last day of the month next preceding the date of calculation, or at the effective fixed annual rate thereon as a result of a Swap Agreement with respect thereto; provided, that such effective fixed annual rate for Variable Rate Bonds subject to a Swap Agreement must be utilized as long as such Swap Agreement is contracted to remain in full force and effect, and provided further, that for purposes of establishing compliance with the requirements of Section 207, Outstanding Variable Rate Bonds shall be deemed to bear interest as provided for Variable Rate Bonds proposed to be issued in clause (iii) below;
- (iii) Variable Rate Bonds proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the average of the interest rates published in The Bond Buyer Revenue Bond Index during the twelve (12) months preceding the date of issuance of such Variable Rate Bonds, or at the effective fixed annual rate thereon as a result of a Swap Agreement with respect to such Variable Rate Bonds; and provided, that such effective fixed annual rate must be utilized only so long as such Swap Agreement is contracted to remain in full force and effect;
- (iv) Any computation of Debt Service shall recognize and give effect to the alternative, rather than the cumulative, nature of obligations on Bonds, including any related Reimbursement Obligations or Junior Lien Reimbursement Obligations to a provider of credit enhancement or a liquidity facility securing payment of such Bonds. The portion of any termination payment constituting regularly scheduled debt service which becomes payable pursuant to the terms of a Swap Agreement shall constitute interest as provided in Act 34.

“Debt Service Installment Requirement” means, as of the first day of the month with respect to each Priority of Lien of Outstanding Bonds, the amounts calculated as described below. For interest payments due on Bonds of such Priority of Lien semiannually, the amount set aside and transferred to the Bond Fund each month for interest on such Bonds shall be 1/6 of the total amount of interest on such Bonds next coming due or such lesser amount as is necessary to assure that the amount set aside in the Bond Fund as of the first day of such month is not less than the product of (a) 1/6 of the amount of interest next due on such Bonds times (b) the number of months elapsed since and including the last interest payment date. For Series of Bonds of such Priority of Lien with more frequent interest payment dates, the amounts set aside each month shall equal one month’s accrued interest on such Bonds as provided in the Series Ordinance for such Bonds. For the month immediately prior to each Bond Payment Date the amount set aside and transferred to the Bond Fund to pay interest shall be reduced by investment earnings in the Bond Fund which are available for such purpose and shall be increased by the amount, if any, necessary so that the amount on deposit is sufficient to pay the interest due on such Bond Payment Date. The amount set aside and transferred to the Bond Fund each month for principal on the Bonds of such Priority of Lien shall be 1/12 of the amount of principal next coming due by maturity or as a Mandatory

Redemption Requirement or such lesser amount as is necessary to assure that the amount set aside in the Bond Fund as of the first day of such month is not less than the product of (a) 1/12 of the amount of principal next due on such Bonds times (b) the number of months elapsed since and including the last principal payment date, If there is any deficiency in the amount previously set aside, that deficiency shall be added to the next succeeding month's requirement. For the month immediately prior to each Bond Payment Date, the amount set aside and transferred to the Bond Fund to pay principal shall be reduced by investment earnings in the Bond Fund which are available for such purpose and shall be increased by the amount, if any, necessary so that the amount on deposit is sufficient to pay the principal due on such Bond Payment Date. For all purposes of this Ordinance and the Bonds of such Priority of Lien, Term Bonds of such Priority of Lien shall be deemed to come due at the time and in the amounts of the Mandatory Redemption Requirements therefor and the principal amount due on such Term Bonds on the dates of their stated maturities shall be reduced by the Mandatory Redemption Requirements therefor coming due prior to the stated maturities for such Term Bonds. Mandatory Redemption Requirements for Term Bonds may be satisfied by the call of Bonds of such Priority of Lien of the same maturity in principal amount of the Mandatory Redemption Requirement at par and accrued interest or the purchase and surrender to the Trustee of Bonds of the same maturity in the principal amount of the Mandatory Redemption Requirement from moneys in the Bond Fund, or purchased with other funds legally available therefor, all as specified in a Series Ordinance.

“Detroit Capital Improvement Program” means the ongoing program of capital improvements for the Detroit Local Water Facilities, as the same may be modified from time to time by the City.

“Detroit Local Construction Account” means the account of the Construction Fund for the Local Water System created pursuant to Section 502(a)(16)(ii).

“Detroit Local Improvement and Extension Account” means the account of the Improvement and Extension Fund for the Local Water System created pursuant to Section 502(a)(11)(ii).

“Detroit Local Operation and Maintenance Account” means the account of the Operation and Maintenance Fund for the Local Water System created pursuant to Section 502(a)(3)(ii).

“Detroit Local Sewer Facilities” means those sewage disposal facilities, other than the Leased Sewer Facilities, that are used to provide sewer service directly to Retail Sewer Customers on the Effective Date, all as more fully described in the Water and Sewer Services Agreement and the Sewer Lease.

“Detroit Local Water Facilities” means those water supply system facilities, other than the Leased Water Facilities, that are used to provide water service directly to Retail Water Customers on the Effective Date, including fire hydrants, all as more fully described in the Water and Sewer Services Agreement and the Lease.

“DWSD” means the Detroit Water and Sewerage Department as in existence immediately prior to the Effective Date.

“DWSD Indenture” means the Trust Indenture dated as of February 1, 2013, between the City and U.S. Bank National Association, as Trustee, as amended by the First Supplemental

Indenture thereto, dated as of September 1, 2014 and the Second Supplemental Indenture thereto, dated as of October 1, 2015.

“DWSD-R” means the Detroit Water and Sewerage Department, as in existence on and after the Effective Date.

“DWSD Water Bonds” means all bonds and other indebtedness of the City secured by a pledge of and a statutory lien on the Net Revenues of the Water System and Outstanding immediately prior to the Effective Date, as more fully described in Schedule B to the Lease.

“2014 DWSD Obligations” means, collectively, the 2014 DWSD Water Obligations and the 2014 DWSD Sewer Obligations.

“2014 DWSD Sewer Obligations” means, collectively, (i) \$123,220,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Senior Lien Bonds, Series 2014A; (ii) \$27,470,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Senior Lien Bonds, Series 2014B; (iii) \$446,170,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Senior Lien Bonds, Series 2014C; (iv) \$95,165,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Senior Lien Bonds, Series 2014D; (v) \$143,880,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Senior Lien Bonds, Series 2014E; (vi) \$76,715,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2014F; and (vii) \$23,240,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2014G.

“2014 DWSD Water Obligations” means, collectively, (i) \$206,540,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A; (ii) \$188,455,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014B; (iii) \$62,700,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014C; (iv) \$307,645,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014D; (v) \$9,270,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E; (vi) \$65,425,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014F, and (vii) \$14,815,000 City of Detroit, Michigan, Detroit Water and Sewerage Department Water Supply System Revenue Refunding Second Lien Bonds, Series 2014G.

“Effective Date” means the date on which the conditions set forth in Section 3.2 of the Lease have been satisfied, as determined by the Mayor of the City and a supermajority (5/6) vote of the Authority Board.

“Event of Default” means an Event of Default as such term is defined in Section 701.

“Extraordinary Repair and Replacement Maximum Requirement” means, for any Fiscal Year, 15% of the budgeted Operation and Maintenance Expenses of the Regional Water System

and the Local Water System for such Fiscal Year, less any amount that is withdrawn in the Fiscal Year from the Extraordinary Repair and Replacement Reserve Fund for paying a major unanticipated repair or replacement to the Regional Water System or the Local Water System pursuant to Section 507 of this Ordinance, but only in the Fiscal Year that such amount is withdrawn.

“Extraordinary Repair and Replacement Minimum Requirement” means, for any Fiscal Year, 1/12 of 3% of the budgeted Operation and Maintenance Expenses of the Regional Water System and the Local Water System for such Fiscal Year plus such amount as is necessary to restore to the Extraordinary Repair and Replacement Reserve Fund any amount credited to the Improvement and Extension Fund.

“Extraordinary Repair and Replacement Reserve Fund” means the fund created pursuant to Section 502(a)(12).

“Fiscal Year” means the fiscal year and operating year of the Authority which begins on July 1 and ends on the following June 30, as it may be modified.

“General Limitations” means those general limitations on Authority action or failure to act specified on Section 802.

“Government Obligations” means direct obligations of the United States, its agencies, or, or United States government sponsored enterprises or obligations the payment of principal and interest on which is fully and unconditionally guaranteed by the United States, or its agencies.

“GRS” means the General Retirement System of the City.

“GRS Plan” means the frozen defined benefit plan of the GRS in effect on December 10, 2014, the effective date of the Plan of Adjustment.

“Historical Net Revenues” means, for purposes of Section 207, (a) the Net Revenues of the Water System for either (i) the immediately preceding Fiscal Year for which audited financial statements of the Authority are available, and if not, the audited financial statements of DWSD for such Fiscal Year may be used, or (ii) any audited Fiscal Year ending not more than sixteen months prior to the date of delivery of the Additional Bonds then being issued pursuant to Section 207, as determined by the Authority, plus, at the option of the Authority, (b) an amount determined by the Authority in accordance with Section 207 to equal the effect of any change in the rates, fees and charges of the Regional Water System and the Local Water System authorized at or prior to the date of sale of the Additional Bonds then being issued pursuant to Section 207, as if the Water System’s billings during such Fiscal Year had been at the increased rates, plus, at the option of the Authority, (c) an amount determined by the Authority in accordance with Section 207 to equal one hundred percent of the estimated increase in Net Revenues projected to accrue as a result of (i) the acquisition of the repairs, extensions, enlargements and improvements to the Water System projected to be paid in whole or in part from the proceeds of the Additional Bonds then being issued pursuant to Section 207 and (ii) any acquisition, extension or connection which was made subsequent to the end of such Fiscal Year. For purposes of determining Historical Net Revenues, if the first Fiscal Year of such determination is comprised of less than 12 months, then Historical Net Revenues for the complete Fiscal Year shall be the combined Net Revenues of (i) DWSD’s

partial fiscal year and (ii) the Authority's partial Fiscal Year and shall be used with adjustments to assure no duplication of Revenues in the calculation.

“Improvement and Extension Fund” means the fund used for improvements, enlargements, extensions or betterment of the Water System, created pursuant to Section 502(a)(13).

“Incorporating Municipalities” means, collectively, the City, the Charter County of Macomb, the County of Oakland and the Charter County of Wayne, as the incorporating municipalities of the Authority.

“Insurance Consultant” means an independent person or a firm of persons having skill and experience in dealing with the insurance requirements of municipal water supply systems comparable in size and function to the Water System.

“Issuance Costs” means items of expense payable or reimbursable directly or indirectly by or to the Authority and related to the authorization, sale and issuance of Bonds and authorization of this Ordinance, which items of expense shall include, but not be limited to, application fees and expenses, publication costs, printing costs, costs of reproducing documents, filing and recording fees, Bond Counsel, financial and other consultants' fees, initial Trustee's fees, costs and expenses, underwriters' fees and discount, costs of credit ratings, costs of Credit Facilities and charges for execution, transportation and safekeeping of the Bonds and related documents, and other costs, charges and fees in connection with the foregoing.

“Junior Lien Bond Fund” means the fund created pursuant to Sections 502(a), (5), (6), (7) and (8).

“Junior Lien Bonds” means any Bonds or Series of Bonds, including Second Lien Bonds and SRF Junior Lien Bonds, issued by the City under of Ordinance No. 01-05 and Second Lien Bonds, SRF Junior Lien Bonds, Pension Junior Lien Bonds and any Additional Bonds of a Priority of Lien subordinate thereto issued by the Authority under Section 202(b) of this Ordinance and pursuant to a Series Ordinance and payable from Net Revenues deposited in the Junior Lien Bond Fund after satisfaction of requirements for funding the Senior Lien Bond Fund, and Junior Lien Reimbursement Obligations established and created by a Series Ordinance.

“Junior Lien Reimbursement Obligations” means any obligations to repay a Credit Entity for payments of Debt Service made with respect to a Series of Junior Lien Bonds, as provided in any written agreement between the Authority and a Credit Entity pursuant to which a Credit Facility is issued, which Junior Lien Reimbursement Obligations may be evidenced by Refunding Bonds or Junior Lien Bonds or contractual undertakings with the Credit Entity; provided, that for purposes of determining Debt Service, reimbursement of expenses, fees and other similar contractual undertakings shall not be included.

“Lease” means the Regional Water Supply System Lease dated June 12, 2015, between the City, as lessor, and the Authority, as lessee, of the Leased Water Facilities, as amended from time to time.

“Lease Payment” means the annual payment required to be made by the Authority for the benefit of the City pursuant to the Lease, in consideration for the leasing of the Leased Water Facilities to the Authority and the absolute and irrevocable assignment and transfer to the

Authority of the Revenues as provided in the Lease and to be applied by the Authority as provided herein.

“Leased Sewer Facilities” means, collectively, all of the City’s right, title and interest in and to that portion of the real and tangible personal property comprising a part of the Regional Sewer System and owned by the City and providing sewer service to the wholesale customers of the Regional Sewer System and Retail Sewer Customers up to the point of connection to the Detroit Local Sewer Facilities, all as more fully set forth in the Sewer Lease.

“Leased Water Facilities” means, collectively, all of the City’s right, title and interest in and to that portion of the real and tangible personal property comprising a part of the Water System and owned by the City and providing water service to both the wholesale customers of the Regional Water System and Retail Water Customers up to the point of connection to the Detroit Local Water Facilities, including without limitation, the land, buildings, water intakes, pump stations, storage facilities, other structures fixtures (including meters and transmission mains), and improvements and real property interests such as easements, access rights, rights of way, permits and leases, all as more fully set forth in Schedule A attached to the Lease (the “Real Property”), and any and all tangible personal property such as machinery, equipment, pumps, tanks, storage facilities, pipes, pipelines, transmission lines, vehicles, furniture, office equipment and inventory, including without limitation the personal property that is described in Schedule A attached to the Lease (the “Personal Property”). Leased Water Facilities include all improvements and additions to and replacements of the foregoing described Real Property and Personal Property, but do not include the Detroit Local Water Facilities.

“Local Sewer System” means that portion of the Sewer System that provides sewer service directly to Retail Sewer Customers, which on the Effective Date consists of the Detroit Local Sewer Facilities.

“Local Water System” means that portion of the Water System that provides water service directly to the Retail Water Customers, which on the Effective Date consists of the Detroit Local Water Facilities.

“Mandatory Redemption Requirement” means as to each Series of Bonds for any year, the principal amount of Bonds of such Series subject to mandatory sinking fund redemption in such year, as provided in the Series Ordinance or Sale Resolution for such Series of Bonds.

“Maximum Annual Debt Service” means, with respect to any given Priority of Lien, the maximum aggregate Debt Service Installment Requirements in any future Fiscal Year on Outstanding Bonds of such Priority of Lien and any Additional Bonds then being issued in accordance with Section 207. If any Additional Bonds (any of such, the “Refunding Bonds”) are to be issued to refund Outstanding Bonds (the “Bonds to be Refunded”), the Debt Service Installment Requirements to be used for determining Maximum Annual Debt Service shall include the Debt Service Installment Requirements with respect to the Refunding Bonds and not the Debt Service Installment Requirements with respect to the Bonds to be Refunded.

“MOU” means the Memorandum of Understanding entered into on September 9, 2014 by the chief executives of the Incorporating Municipalities and the State for the purpose of

establishing the Authority for the purposes described in the Lease, the Water and Sewer Services Agreement, the Shared Services Agreement and this Ordinance.

“Net Proceeds” means in the event of the destruction or taking of any portion of the Leased Water Facilities or the Detroit Local Water Facilities, the gross proceeds derived by the Authority or the City, as the case may be, from insurance on or condemnation of the Leased Water Facilities or the Detroit Local Water Facilities, respectively, less payment of attorneys’ fees, if any, and other expenses properly incurred in the collection thereof.

“Net Revenues” means for any period of time, all Revenues received during such period of time, except for those Revenues transferred to the Operation and Maintenance Fund.

“Operation and Maintenance Expenses” means the reasonable expenses of administration, operation and maintenance of the Regional Water System or the Local Water System, as the case may be, but shall not include the Required Annual GRS Payment.

“Operation and Maintenance Fund” means the Operation and Maintenance Fund established under Section 502(a)(3) of this Ordinance. As further provided in Section 504 hereof, such Fund shall not be part of the Trust Estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever, and any funds on deposit in or credited to such Fund are not and shall not be Pledged Assets.

“Ordinance” means this Ordinance as from time to time restated, amended or supplemented by Supplemental Ordinances in accordance with the terms and provisions hereof, and shall include the Series Ordinance and Sale Resolution (if any) or Sale Order (if any) of the Chief Executive Officer or other Authorized Officer, for each Series of Bonds.

“Ordinance No. 01-05” means Ordinance No. 01-05 of the City, adopted by the City Council of the City on January 26, 2005, and which amended and restated Ordinance No. 30-02 of the City related to the Water System.

“Outstanding” means, as of any date and unless otherwise provided in a Series Ordinance, all Bonds which have been authenticated and delivered by the Trustee under Ordinance No. 01-05 and this Ordinance (including tendered Bonds which may be owned by the Authority, from time to time, prior to the remarketing thereof), except:

- (i) Bonds (or portions of Bonds) for the payment or redemption of which there shall be held in trust by the Trustee under this Ordinance (whether at or prior to maturity or redemption) (a) moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption or (b) Sufficient Government Obligations in such principal amounts, having such maturities and bearing such interest, as together with the moneys described in clause (a), if any, shall be sufficient without reinvestment to pay when due the principal amount or Redemption Price, as the case may be, with interest due to the date of maturity or redemption; provided, that if such Bonds are to be redeemed, notice of such redemption shall have been given as provided in Article III or provisions satisfactory to the Trustee shall have been made for giving of such notice:

(ii) Bonds in lieu of or substitution for which other Bonds shall have been authenticated and delivered pursuant to this Ordinance;

(iii) Bonds deemed to have been paid or defeased as provided under this Ordinance; and

(iv) Bonds subject to a mandatory tender which have not been tendered prior to the related tender date which are deemed to have been redeemed.

“Pension Junior Lien Bonds” means Bonds, if any, issued to pay all or any part of the Required Annual GRS Payment, which may only be issued as Junior Lien Bonds with a Priority of Lien subordinate to SRF Junior Lien Bonds.

“Pension Obligation” means the amounts allocable to the Water System and required to be paid over time by DWSD and as provided in the Lease, the Authority, in respect of (i) the GRS Plan as provided in the Plan of Adjustment and the Bankruptcy Order and (ii) the BC Note Obligation as provided in the Plan of Adjustment.

“Pension Obligation Payment Fund” means the Pension Obligation Payment Fund established under Section 502(a)(9) of this Ordinance.

“Permitted Investment” means with respect to any particular amounts, an investment permitted by Act 94, including Government Obligations, and subject to such limitations as imposed under Section 517 of this Ordinance or a Series Ordinance for the investment of such amounts.

“Person” means any natural person, firm, partnership, entity or public body.

“Plan of Adjustment” means the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit, in the Bankruptcy Case, as confirmed by order of the Bankruptcy Court entered on November 12, 2014 and effective on December 10, 2014.

“Plans and Specifications” means the drawings, plans, blueprints and technical specifications approved by the Authority or by the City, as applicable, and relating to the design, installation and construction of various components of the Capital Improvement Program, or the Detroit Capital Improvement Program, each as amended from time to time.

“Pledged Assets” means:

(i) Net Revenues;

(ii) the funds and accounts established by or pursuant to this Ordinance except for the Operation and Maintenance Fund, the Construction Fund and the Rebate Fund and any account of any such fund; and

(iii) investments of amounts or any income or gain realized therefrom credited to any fund, account or subaccount that is a Pledged Asset.

“Priority of Lien” means, with respect to any particular Bonds, all other Bonds having a lien on Pledged Assets on parity with such Bonds.

“Program Costs” shall be deemed to include the costs of design, acquisition, construction, installation, and financing of the CIPs, including, but not limited to obligations of the Authority incurred for: (a) machinery, furnishings and equipment and for labor and to contractors, builders and materialmen in connection with the planning, design, acquisition, construction and installation of capital projects which comprise part of the CIPs or any portion thereof; (b) the cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of construction of capital projects which comprise part of the CIPs or any portion thereof which is not paid by the contractor or contractors or otherwise provided for; (c) architectural and engineering expenses for test borings, surveys, estimates, Plans and Specifications and preliminary investigations therefor, and for supervising construction, as well as for the performance of all other duties required for the proper construction of capital projects which comprise part of the CIPs or any portion thereof; (d) Issuance Costs; (e) all other costs which the Authority shall be required to pay, under the terms of any contract or contracts approved by the City or the Authority as the successor of the City, for the planning, design, acquisition, construction and installation of capital projects which comprise part of the CIPs or any portion thereof including any legal costs and master planning, environmental and economic impact studies undertaken in connection therewith; (f) any sums required to reimburse the City or the Authority for advances made by it for any of the above items, or for any other costs incurred and for work done by any of them which are properly chargeable to the CIPs; and (g) any other costs properly chargeable to the Construction Fund under Act 94.

“Projected Net Revenues” means, the Net Revenues of the Water System for any given Fiscal Year, which may include (a) one hundred percent of the estimated increase in Net Revenues projected to result from approved rate increases and (b) in the case of Section 207 for the purpose of determining the Additional Bonds Debt Service Coverage, one hundred percent of the estimated increase in Net Revenues projected to accrue as a result of the acquisition of the repairs, extensions, enlargements and improvements to the Water System projected to be paid for in whole or in part from the proceeds of the Additional Bonds under Section 207.

“Prudent Utility Practices” means those practices, methods, techniques, standards and acts engaged in or approved by a significant portion of the regulated water utility industry in the United States or any of the practices, methods, techniques, standards and acts which, in the exercise of reasonable judgment in light of the facts known (or which a qualified and prudent operator could reasonably be expected to have known) at the time a decision is made, would have been expected to accomplish a desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition, in each case related to the operation, maintenance and improvement of similar systems at utility facilities of the same or similar size and type as the Leased Water Facilities.

“Rate Covenant Debt Service Coverage” means, for purposes of Section 604 and for each Priority of Lien, a number equal to Projected Net Revenues for the Fiscal Year of calculation divided by the aggregate Debt Service Installment Requirements on Bonds for such Fiscal Year, net of funds on hand representing capitalized interest, all for such Priority of Lien and any higher Priority of Lien.

“Rating Agency” means any nationally recognized rating service then rating any of the Bonds.

“Rebate Fund” means the Rebate Fund created pursuant to Section 502(a)(16).

“Receiving Fund” means the Fund required to be established and maintained by the Authority under Section 502(a)(2) of this Ordinance to which all Revenues of the Water System are to be credited and applied as provided in Sections 502(b) and Section 503 hereof.

“Redemption Price” means the principal of any Bond which has been called for redemption, together with any premium thereon.

“Refunding Bonds” means any Bonds issued pursuant to Section 207(e) of this Ordinance.

“Regional Sewer System” means that portion of the Sewer System that provides sewer service to the wholesale customers thereof and Retail Sewer Customers up to the point of connection to the Local Sewer System, which on the Effective Date consists of the Leased Sewer Facilities.

“Regional Water System” means that portion of the Water System that provides water service to the wholesale customers thereof and Retail Customers up to the point of connection to the Local Water System, which on the Effective Date consists of the Leased Water Facilities.

“Reimbursement Obligations” means any obligations to repay a Credit Entity for payments of Debt Service made with respect to a Series of Senior Lien Bonds as provided in any written agreement between the Authority (as successor to the City or otherwise) and a Credit Entity pursuant to which a Credit Facility is issued, which Reimbursement Obligations may be evidenced by the Senior Lien Bonds of such Series, Refunding Bonds or contractual undertakings with the Credit Entity; provided, that for purposes of determining Debt Service, reimbursement of expenses, fees and other similar contractual undertakings shall not be included.

“Required Annual GRS Payment” means the amount determined as specified in Section 508(b).

“Required Coverage” means (a) for Senior Lien Bonds, 1.20, (b) for Second Lien Bonds, 1.10, and (c) for any Junior Lien Bonds other than Second Lien Bonds, 1.00.

“Reserve Requirement” means, except as otherwise provided with respect to a particular Series of Bonds in the applicable Series Ordinance pursuant to Section 506(d), an amount equal to the Maximum Annual Debt Service requirements for each Series of Outstanding Senior Lien Bonds, which amount is required to be on deposit or, if permitted by law, otherwise provided for (including, but not limited to, through provision of a letter of credit, surety bond or insurance policy in the same amount and with a credit rating at the time of issuance of such Series of Bonds not less than the credit rating on such Series of Bonds) in the Senior Lien Bond Reserve Account; provided, however, that such requirement may be satisfied by a deposit of Bond proceeds at the time of issuance of a Series of Senior Lien Bonds, or by an accumulation on a scheduled basis of investment earnings or other deposits which will result in an amount equal to the Reserve Requirement for such Series of Bonds being on deposit no later than the date of the last scheduled application of all capitalized interest for such Series; provided, further, that with respect to a Series

of Senior Lien Bonds which are proposed to be issued as Variable Rate Bonds, the Reserve Requirement shall be calculated utilizing the assumptions set forth under subparagraph (iii) of the definition of Debt Service; and provided that in no event shall the Reserve Requirement exceed the maximum permitted by the Code. Any Reserve Requirement with respect to one or more Series of Junior Lien Bonds shall be established by the related Series Ordinance, and if no amount is established therein, the Reserve Requirement shall be based on the Maximum Annual Debt Service requirement. Notwithstanding the foregoing, (i) in the case of Senior Lien Bonds secured by the Senior Lien Bond Reserve Account, upon satisfaction of the conditions set forth in Section 506(e) of this Ordinance, the Reserve Requirement for all Outstanding Senior Lien Bonds secured by the Senior Lien Bond Reserve Account, regardless of when issued, at the election of the Authority set forth in a written notice to the Trustee, may be reduced or eliminated, and if reduced, the reduced Reserve Requirement in no event to be in excess of the maximum permitted by the Code, and (ii) in the case of Second Lien Bonds secured by the Second Lien Bond Reserve Account, upon the satisfaction of the conditions set forth in Section 506(f) of this Ordinance, the Reserve Requirement for all Outstanding Second Lien Bonds secured by the Second Lien Bond Reserve Account, regardless of when issued, at the election of the Authority set forth in a written notice to the Trustee, may be reduced or eliminated, and if reduced, the reduced Reserve Requirement in no event to be in excess of the maximum permitted by the Code.

“Retail Customers” means, collectively, the Retail Water Customers and the Retail Sewer Customers.

“Retail Revenues” means Revenues collected from Retail Customers.

“Retail Sewer Customers” means those individual customers located within and outside the City that receive sewer service directly from the Detroit Local Sewer Facilities.

“Retail Water Customers” means those individual customers located within and outside the City that receive water service directly from the Detroit Local Water Facilities.

“Revenue Receipts Fund” means the Revenue Receipts Fund created pursuant to Section 502(a)(1) and under the Authority’s Regional Sewer System Master Bond Ordinance and held in trust by the Trustee.

“Revenues” means the revenues, including the Retail Revenues, of the Authority from the Water System, which shall be construed as defined in Section 3 of Act 94, and shall also include:

(i) amounts received from a Swap Provider under a Swap Agreement, including any amounts payable upon termination thereof;

(ii) income earned and gain realized from the investment of amounts in the various funds, accounts and subaccounts established by this Ordinance other than the Construction Fund for any Fiscal Year in which earnings on the Construction Fund are not credited to the Receiving Fund; and

(iii) all moneys collected directly or indirectly by the Authority or by the City, as agent of the Authority, under the Water and Sewer Services Agreement, and deposited or to be deposited into the Receiving Fund under Section 503(a) .

“Sale Resolution” or “Sale Order” means a resolution or resolutions of the Authority adopted by the Authority Board in accordance with Article II or an Order of the Chief Executive Officer, Chief Financial Officer or other specified Authority official authorizing the sale of a Series of Bonds in accordance with the terms and provisions of this Ordinance and a Series Ordinance.

“Second Lien Bonds” means the outstanding DWSD Water Bonds having a second lien on the Net Revenues of the Water System that are being assumed by the Authority and any Additional Bonds of equal Priority of Lien.

“Senior Lien Bonds” means the DWSD Water Bonds having a first and senior lien on the Net Revenues of the Water System that are being assumed by the Authority, and any Additional Bonds of equal Priority of Lien.

“Serial Bonds” means the portion of the Bonds of any Series designated as serial bonds.

“Series” means a Series of Bonds issued and sold pursuant to a Series Ordinance and this Ordinance or Ordinance No. 01-05.

“Series Ordinance” means an ordinance or ordinances, including, if necessary, a Sale Resolution or Sale Order, of the Authority as successor to the City authorizing the issuance and sale of a Series of Bonds in accordance with the provisions hereof, adopted by the Authority as successor to the City in accordance with Article XI.

“Sewer Lease” means the Regional Sewage Disposal System Lease, to be effective on the Effective Date, relating to the lease of the Leased Sewer Facilities from the City to the Authority.

“Sewer Lease Payment” means the annual payment required to be made by the Authority for the benefit of the City pursuant to the Sewer Lease in consideration for the leasing of the Leased Sewer Facilities to the Authority as provided therein.

“Sewer System” means, the City’s sewage disposal system as existing immediately prior to the Effective Date, which consists on the Effective Date of the Regional Sewer System and the Local Sewer System as the same may be improved from time to time.

“Shared Services Agreement” means the Shared Services Agreement between the City and the Authority relating to the provision of services by the City to the Authority with respect to the Regional Water System and the Regional Sewer System, and the provision of services by the Authority to the City with respect to the operation and management of the Detroit Local Water Facilities and the Detroit Local Sewer Facilities, as it may be amended and supplemented as provided therein.

“SRF” means the State Drinking Water Revolving Fund financing program.

“SRF Junior Lien Bonds” means all SRF Junior Lien Bonds being assumed by the Authority and any Additional Bonds of equal Priority of Lien issued for the purpose of providing improvements to the Water System under the SRF and shall be the second Priority of Lien of Junior Lien Bonds.

“State” means the State of Michigan.

“Sufficient Government Obligations” means (a) direct obligations of the United States of America or (b) obligations the principal of and interest on which are fully guaranteed by the United States of America, and which (i) are not redeemable at the option of the issuer and (ii) without reinvestment of the interest, come due at such times and in such amounts as to be fully sufficient to pay the principal or Redemption Price and interest, respectively, as each becomes due on the Bonds.

“Supplemental Ordinance” means a Series Ordinance or other Ordinance supplemental to this Ordinance and authorized pursuant to Section 1102 or 1103.

“Surplus Fund” means the fund created pursuant to Section 502(a)(14).

“Swap Agreement” means any interest rate exchange or swap, hedge or other similar agreement or agreements entered into in connection with the issuance of obligations or other evidences of indebtedness or in connection with the Authority’s then Outstanding Bonds or Junior Lien Bonds within the limitations provided by Act 34 or its predecessor statute.

“Swap Provider” means any party with whom the Authority (as successor to the City or otherwise) has or shall enter into a Swap Agreement.

“System Consultant” means any professionally qualified person, firm or corporation nationally recognized in the municipal water supply industry and of favorable reputation for skill and experience in performing the duties of providing consulting services to municipal water supply systems comparable in size and function to the Water System, including setting of rates and charges for the use of such systems.

“Tax Certificate” means a Non-Arbitrage and Tax Compliance Certificate related to a Series of Bonds that are Tax-Exempt Bonds.

“Tax-Exempt Bonds” means Bonds, the interest on which is excludable from gross income for federal income tax purposes under the Code.

“Term Bonds” means that portion of the Bonds of any Series designated as term bonds.

“Trustee” means U.S. Bank National Association or any successor independent bank or trust company qualified and appointed pursuant to Article IX to act as Trustee hereunder and any company into which the Trustee may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor Trustee under Section 907, or any other bank or trust company at any time substituted in its place pursuant to this Ordinance.

“Variable Rate Bonds” means any Bonds the interest rate on which is not fixed to maturity as of the date of the calculation being performed.

“Water and Sewer Services Agreement” means the Water and Sewer Services Agreement, dated June 12, 2015, between the City and the Authority relating to the provision of water supply

service to the Retail Water Customers and sewage disposal service to Retail Sewer Customers, as it may be amended and supplemented as provided therein.

“Water System” means the City’s water supply system as existing immediately prior to the Effective Date, which on the Effective Date consists of the Regional Water System and the Local Water System, as the same may be improved from time to time.

“WRAP Fund” means the Water Residential Assistance Program Fund to be established pursuant to the MOU and created under Section 502(a)(10), which is a fund independently-administered on behalf of the Authority to provide assistance to indigent residential customers throughout the Water System and the Sewer System.

ARTICLE II

NECESSITY AND ISSUANCE OF BONDS

Section 201. Assumption; Necessity; Public Purpose.

(a) It is hereby determined to be a necessary public purpose for the Authority to replace the City as the obligor on the DWSD Water Bonds and assume all of the obligations of the City related to the operation, administration and maintenance of the Regional Water System.

(b) To facilitate the assignment to and the assumption of the DWSD Water Bonds by the Authority, and the issuance of Additional Bonds by the Authority, it is also determined to be a necessary public purpose of the Authority for this Ordinance to amend, restate and supersede the provisions of Ordinance No. 01-05 and the Indenture and to incorporate certain provisions thereof into this Ordinance as provided herein.

(c) It is hereby further determined to be a necessary public purpose of the Authority to acquire, construct and install capital projects included in the CIPs.

Section 202. Authorization of Senior Lien Bonds and Junior Lien Bonds.

(a) There is established and created an issue of Senior Lien Bonds of the Authority known and designated as “Water Supply System Revenue Bonds,” which Bonds may be issued in multiple series as hereinafter provided without limitation as to amount except as provided in this Ordinance. The Senior Lien Bonds shall be revenue obligations of the Authority, payable on a parity basis with other Bonds of the same Priority of Lien, solely from the Pledged Assets. This Ordinance creates, in the manner and to the extent provided herein and in Act 94, a statutory first and senior lien on the Pledged Assets, which are hereby pledged to secure the full and final payment of the principal or Redemption Price of and interest, if any, on all the Senior Lien Bonds on a pari passu basis as specified in a Series Ordinance or Sale Order relating to such Series of Senior Lien Bonds.

(b) There is also established and created an issue of Junior Lien Bonds of the Authority, known and designated as “Water Supply System Revenue Bonds, Junior Lien” which are also revenue obligations of the Authority, which may be issued from time to time in multiple Series payable from Net Revenues after making required deposits for the Senior Lien Bonds in the Bond Fund and otherwise as provided in a Series Ordinance or Sale Resolution. The Junior Lien Bonds

shall be revenue obligations of the Authority, payable on a parity basis with other Bonds of the same Priority of Lien, solely from the Pledged Assets. Subject to the prior lien of the Senior Lien Bonds, Ordinance No. 01-05 created or this Ordinance creates, in the manner and to the extent provided herein and in Act 94, a statutory lien on the Pledged Assets, which are also hereby pledged to secure the full and final payment of the principal or Redemption Price of and interest, if any, on all the Junior Lien Bonds. Junior Lien Bonds shall consist of (i) Second Lien Bonds, secured by a statutory second lien on the Pledged Assets, (ii) SRF Junior Lien Bonds, secured by a statutory third lien on the Pledged Assets and (iii) Pension Junior Lien Bonds secured by a statutory fourth lien and (iv) any other Junior Lien Bonds so designated in a Series Ordinance.

Section 203. Provisions for Issuance of Senior Lien Bonds and Junior Lien Bonds. The Bonds of each Series shall, in addition to the title “Water Supply System Revenue Bonds” contain an appropriate series designation. The issuance and sale of the Bonds of each Series shall be authorized by a Series Ordinance. Interest, if any, on each Series of Bonds shall be payable as provided in the Series Ordinance for such Series.

The Bonds of each Series shall be issued in the form of fully-registered bonds (as permitted by law) in denominations as specified in the related Series Ordinance, numbered in order of authentication, and may be Term Bonds, Serial Bonds or both, maturing on the dates or subject to Mandatory Redemption Requirements on the dates in the years, in the amounts and in the manner provided in the Series Ordinance or Sale Resolution or Sale Order for such Series.

Each Series Ordinance authorizing the issuance and sale of a Series of Bonds shall also specify:

- (1) The authorized principal amount and designation of such Series as Senior Lien Bonds or Junior Lien Bonds;
- (2) The Priority of Lien of such Series of Bonds.
- (3) If the Series of Bonds are issued to finance capital projects, the capital projects of the CIPs for which such Series of Bonds are being issued, which shall be for purposes authorized by this Ordinance, Act 233 and Act 94, and the description, estimated cost and period of usefulness of such capital projects proposed to be financed thereby under the related CIP;
- (4) If the Series of Bonds are Pension Junior Lien Bonds, the amount of the Required Annual GRS Payment or Payments to be paid from proceeds of such Pension Junior Lien Bonds.
- (5) The date or dates, maturity date or dates and amounts of each maturity and the interest payment dates (if any) of the Bonds of such Series;
- (6) The interest rate or rates or yields to maturity, or the method of determining such rates or yields to maturity;
- (7) The portion of the Series of Bonds that are Term Bonds and that are Serial Bonds;

- (8) The Mandatory Redemption Requirement, if any, for the Term Bonds;
- (9) The denomination or denominations of, and the manner of numbering and lettering the Bonds of such Series;
- (10) The place or places of payment of the principal or Redemption Price, if any, of and interest, if any, on the Bonds of such Series;
- (11) The Redemption Price or Redemption Prices, if any, and subject to Article III, the redemption terms, if any, for the Bonds of such Series;
- (12) Provisions for the sale and delivery of the Bonds of such Series;
- (13) The form or forms of the Bonds of such Series;
- (14) The Authorized Officer or Authorized Officers authorized to perform duties with respect to the Series of Bonds or capital projects to be financed therewith;
- (15) The period, if any, during which interest on such Series shall be capitalized and the method of capitalizing such interest, whether by a single deposit from Bond proceeds or a scheduled accumulation of investment earnings on an initial deposit;
- (16) The method by which the Reserve Requirement, if any, for such Series shall be satisfied;
- (17) Any other provisions deemed advisable by the Authority, not in conflict with the provisions of this Ordinance, including the provision of credit enhancement or liquidity for the payment of such Series or other methods of securing such Series, as well as provisions relating to the payment of Reimbursement Obligations or Junior Lien Reimbursement Obligations all as authorized by Section 7a of Act 94; and
- (18) Any Series Ordinance authorizing the issuance of Variable Rate Bonds shall specify:
 - (a) the method of calculating the interest rates to be borne by such Bonds,
 - (b) the interest rate period or periods for such interest rate calculations,
 - (c) the type of Credit Facility, if any, required for such Bonds and the terms relative to such Credit Facility,
 - (d) the method for changing the interest rate or interest rate periods including the method for changing the interest rate to a fixed rate,
 - (e) the maximum rate of interest which may be borne by such Bonds,
 - (f) provisions for the tender and remarketing of such Bonds, and

- (g) requirements for the selection of a remarketing agent, if any, and paying agent for such Bonds.

Except as otherwise provided in a Series Ordinance, Sale Resolution or Sale Order, all Senior Lien Bonds of a Series shall be identical in all respects, except as to maturity, denomination, number, letters, and rates of interest. Except as otherwise provided in a Series Ordinance, Sale Resolution or Sale Order, all Junior Lien Bonds of a Series, consisting of Second Lien Bonds, SRF Junior Lien Bonds, Pension Junior Lien Bonds or future Additional Bonds of a Priority of Lien established by a Series Ordinance shall be identical in all respects, except as to maturity, denomination, number, letters and rates of interest. Bonds of any Series may be issued without provision for interest payments and a Series Ordinance, Sale Resolution or Sale Order authorizing the issuance of a Series of Bonds may provide that the principal amount of such Bonds shall increase subsequent to the date of issuance in accordance with the terms and conditions of such Series Ordinance, Sale Resolution or Sale Order.

The Series Ordinance for each Series of Bonds may provide parameters for the principal amounts, interest rates, dates, maturities and redemption provisions for such Series referred to above, providing for a final determination of such matters in a Sale Resolution for such Series or in a Sale Order by delegation to an Authorized Officer.

The proceeds of the sale of each Series of Bonds shall be immediately deposited with the Trustee in the funds and accounts as specified in the Series Ordinance for such Series, provided, that unless otherwise specified in a Series Ordinance (i) an amount equal to the accrued interest and premiums, if any, received on the delivery of such Series of Bonds and an amount equal to any capitalized interest on such Series of Bonds to be paid from Bond proceeds shall be deposited in the Bond Fund for such Priority of Lien, as appropriate, and (ii) any Bond proceeds required to satisfy a Reserve Requirement shall be deposited in the Bond Reserve Account in the Bond Fund for such Priority of Lien, as appropriate, (iii) Bond proceeds to be used to pay Program Costs for Capital Improvement Program projects shall be deposited in the Authority Regional Construction Account established for such Series in the Construction Fund and (iv) Bond proceeds to be used to pay Program Costs for Detroit Capital Improvement Program projects shall be deposited in the Detroit Local Construction Account for such Series in the Construction Fund. Such deposits may be made in amounts which together with anticipated investment earnings thereon will equal the related requirements of such Funds and Accounts by a scheduled date.

Section 204. Bond Execution and Delivery. The Bonds shall be executed in the name of the Authority by manual or facsimile signature of the Chief Executive Officer and countersigned by manual or facsimile signature of the Secretary of the Board, and shall have the Authority's seal, if any, or facsimile thereof affixed or printed thereon. No Bond shall be valid until authenticated by an authorized representative of the Trustee.

Each Series of Bonds shall be delivered to the Trustee for authentication and be delivered by the Trustee to the purchaser(s) thereof in accordance with a written direction of the Authorized Officer of the Authority upon payment of the purchase price for such Series of Bonds. Executed blank bonds for registration and issuance to transferees shall simultaneously, and from time to time thereafter as necessary, be delivered to the Trustee for safekeeping.

Section 205. Preparation of Definitive Bonds; Temporary Bonds. Until the definitive Bonds of a Series are ready for delivery, there may be executed, and upon direction of the Authorized Officer of the Authority, the Trustee shall deliver, in lieu of definitive Bonds and subject to the same limitations and conditions, except as to identifying numbers, printed, engraved, lithographed or typewritten temporary bonds or as a single bond in the form of a registered bond or bonds without coupons, substantially of the tenor specified in the Series Ordinance for such Series of Bonds and with appropriate omissions, insertions and variations as may be required. The Authority shall cause the definitive bonds to be prepared and to be executed and delivered to the Trustee, and the Trustee, upon presentation to it of any temporary bond, shall cancel the same or cause the same to be canceled and shall deliver, in exchange therefor, at the place designated by the Bondholder, without expense to the Bondholder, a definitive bond or bonds in the same aggregate principal amount and bearing interest at the same rate as the temporary bonds and entitled to the same benefit of this Ordinance.

The Series Ordinance or Sale Resolution for a Series of Bonds may provide for the delivery of such Series in book-entry-only form.

Section 206. Bond Registration and Transfer. Any Bond may be transferred upon the books required to be kept pursuant to this Section by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the Series, same interest rate, maturity and Priority of Lien for like aggregate principal amount. The Trustee shall require payment by the Bondholder requesting the transfer of any tax or other governmental charge required to be paid with respect to the transfer. The Authority shall not be required to issue, register the transfer of, or exchange any Bond selected for redemption, except the unredeemed portion of the Bonds being redeemed in part, or after the record date immediately prior to the maturity of any Bond.

The Trustee shall keep or cause to be kept, at its corporate trust office, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, transfer or cause to be transferred, on said books, Bonds as hereinbefore provided.

Section 207. Additional Bonds.

(a) The Authority may authorize the issuance of a Series of Bonds under any circumstances so long as there exists no Event of Default under this Ordinance known to the Authority at the time the Series of Bonds is authorized to be issued by adoption of a Series Ordinance.

(b) Limitations on Indebtedness. The Authority shall not incur any obligations payable from Pledged Assets except for Bonds and no obligations of the Authority shall be secured by a lien on Pledged Assets except as provided in this Ordinance.

(c) Limitations on Issuance of Bonds:

(1) The Authority shall not issue any Bonds except in accordance with this Section 207.

(2) Other limitations on the issuance of Bonds may be added by a Series Ordinance.

(d) Determining Additional Bonds Debt Service Coverage. Prior to or concurrently with the issuance of Additional Bonds of any Priority of Lien, the Authority shall calculate the Additional Bonds Debt Service Coverage. The Authority may elect to determine Additional Bonds Debt Service Coverage on the basis of Projected Net Revenues or Historical Net Revenues. In determining Projected Net Revenues, the Authority shall engage the services of and be guided by a System Consultant. In determining Historical Net Revenues the Authority may engage the services of and be guided by a System Consultant if it is relying on audited financial statements without augmenting Net Revenues on the basis of changes in rates, fees or charges or repairs, extensions, enlargements, improvements, acquisitions, extensions or connections to the Water System. In determining Historical Net Revenues the Authority shall engage the services of and be guided by a System Consultant if it is augmenting Net Revenues on such a basis.

(e) General Authority for Additional Bonds. The Authority may issue Additional Bonds of any Priority of Lien for repairs, extensions, enlargements, and improvements to the Regional Water System or the Local Water System (including repaying amounts withdrawn from the Extraordinary Repair and Replacement Reserve Fund for the Regional Water System or the Local Water System), and/or refunding all or a part of any Outstanding Bonds and paying the costs of issuing such Additional Bonds, including deposits, if any, to be made to any Reserve Account established or to be established for such Additional Bonds or any other Bonds, if, but only if the Authority shall certify that the Additional Bonds Debt Service Coverage for each Priority of Lien (regardless of the Priority of Lien of the Additional Bonds) is not less than the Required Coverage. The determination in a Series Ordinance that the Additional Bonds Debt Service Coverage for each Priority of Lien is not less than the Required Coverage shall be conclusive.

(f) Debt Service Reduction – An Additional Means of Refunding. The Authority may issue Additional Bonds of any Priority of Lien, including a portion of a Series of Bonds without regard to Section 207(e) for refunding all or part of Bonds then Outstanding and paying costs of issuing the Refunding Bonds, including deposits which may be made to any Reserve Account established or to be established for such Additional Bonds or any other Bonds if, but only if, the aggregate Debt Service Installment Requirements in the current Fiscal Year and each Fiscal Year thereafter until maturity on (A) the Additional Bonds and (B) giving effect to the refunding, all Outstanding unrefunded Bonds of equal and higher Priority of Lien is less than the aggregate Debt Service Installment Requirements in the current Fiscal Year and each Fiscal Year thereafter until maturity on all equal and higher Priority of Lien Bonds, without giving effect to the refunding.

(g) A series of Refunding Bonds may be delivered by the Authority only if:

(i) There shall at the time of delivery thereof be deposited with the Trustee Sufficient Government Obligations and cash in an amount sufficient to effect payment on the redemption date of the applicable Redemption Price or purchase price (in the event of a tender) of the Bonds to be refunded or purchased, together with interest on such Bonds

to the redemption or payment date, which moneys shall be held by the Trustee or escrow trustee in a separate irrevocable trust account for the Holders of Outstanding Bonds being refunded, and

(ii) The Authority shall have given irrevocable written instructions to the Trustee satisfactory to it, to give due notice of redemption of all the Bonds to be redeemed on a redemption date specified in such instructions and to give notice in the manner provided in Article III that the moneys payable on the Bonds upon such redemption will be available on said redemption date for payment to the Holders of the Bonds entitled thereto; and

(iii) The Trustee shall furnish to the Authority at the time of delivery of the Series of Refunding Bonds a certificate stating that in reliance upon a certificate of an Accountant or a third party verification agent, it holds in trust the Sufficient Government Obligations and/or moneys required to effect such redemption, payment or prepayment.

Section 208. Lost or Mutilated Bonds. If any Bond shall become mutilated, the Authority, at the expense of the registered owner of the Bond, shall execute, and the Trustee shall authenticate and deliver, a new Bond of like tenor in exchange and substitution for the mutilated Bond, upon surrender to the Trustee of the mutilated Bond. If any Bond issued under this Ordinance shall be lost, destroyed or stolen, evidence of the loss, destruction or theft may be submitted to the Trustee and, if this evidence is satisfactory to both the Chief Financial Officer and the Trustee and indemnity satisfactory to the Trustee shall be given, upon the approval by the Authority Board and if all requirements of any applicable law including Act 354, Public Acts of Michigan, 1972, as amended (“Act 354”), being sections 129.131 to 129.135, inclusive, of the Michigan Compiled Laws have been met, the Authority, at the expense of the owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Priority of Lien and bearing the statement required by Act 354, or any applicable law hereafter enacted, in lieu of and in substitution for the Bond so lost, destroyed or stolen. If any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof.

Section 209. Authority to Enter into Swap Agreements. In order to allow the Authority to more effectively manage its debt service by entering into Swap Agreements in connection with the issuance of obligations or other evidences of indebtedness or in connection with its then outstanding obligations or other evidences of indebtedness, the Authority is authorized to enter Swap Agreements within the limitations provided in Act 34, Section 210, and other applicable law.

Section 210. Swap Agreements. A Swap Agreement shall contain the following:

- (a) the interest rates, term, the methods for calculating the floating and fixed rates for the Swap Agreement;
- (b) the terms for commencement and termination of payments;
- (c) methods for terminating or reversing the Swap Agreement;

- (d) provisions for providing credit enhancement or other security, if any, for the payments required under the Swap Agreement; and
- (e) provisions providing for the Priority of Lien of amounts payable under the Swap Agreement, which, except as provided in this Ordinance, shall be as specified in a Series Ordinance.

Any resolution of the Authority Board authorizing the execution of a Swap Agreement shall contain direction to an Authorized Officer to take any and all actions, perform any and all acts and execute any and all contracts, applications and other documents that shall be required, necessary or desirable to effect the proper execution and delivery of the Swap Agreement and authority to terminate a Swap Agreement within specified parameters.

In no event shall the Authority enter into a Swap Agreement which causes a reduction in a rating for the Bonds to which such Swap Agreement relates. The Authority shall give the Rating Agencies at least 15 days' prior written notice of the effectiveness of any intended Swap Agreement. Except as provided in Section 704, any payment by the Authority, other than Debt Service, for terminating a Swap Agreement shall be made from the Junior Lien Bond Fund.

Section 211. Authority for Credit Facilities. While any Series of Bonds is Outstanding or in connection with the issuance of any Series of Bonds, the Authority may obtain a Credit Facility on terms to be described in the Series Ordinance for such Series of Bonds. Any Credit Entity providing a Credit Facility which is a surety bond or insurance policy and any Credit Entity providing a Credit Facility which is a Letter of Credit shall be rated as of the date of acquisition thereof in such rating categories as provided in the Series Ordinance related to such Series of Bonds.

Any Reimbursement Obligations or Junior Lien Reimbursement Obligations pertaining to such Credit Facility may be evidenced by a Series of Bonds in the nature of Refunding Bonds issued in accordance with the provisions of this Ordinance. Any such Reimbursement Obligations or Junior Lien Reimbursement Obligations shall specify the rate of interest borne thereby, which shall not exceed the maximum rate permitted by law.

ARTICLE III

REDEMPTION OF BONDS

Section 301. General Redemption Provisions. The Bonds of each Series shall be subject to redemption prior to maturity at such times, at such Redemption Prices and upon such terms as may be specified in the Series Ordinance or the Sale Resolution or Sale Order for such Series of Bonds.

Section 302. Redemption in Part. In case less than the full amount of an Outstanding Bond is called for redemption, the Trustee upon presentation of the Bond called in part for redemption shall register, authenticate and deliver to the registered owner a new Bond in the principal amount of the portion of the original Bond not called for redemption.

Section 303. Notice of Redemption. Except as otherwise provided for a Series of Bonds by the Series Ordinance for that Series, when the Trustee shall receive notice from the Authority

of its election or direction to redeem Bonds, and upon redemption of the Bonds of a particular Series required by the terms of this Ordinance, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Unless a conditional notice is given, such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Except as otherwise provided in a Series Ordinance, the Trustee shall mail a copy of such notice, postage prepaid, not less than 30 days (or not less than seven days' notice in the event of a mandatory redemption in connection with Bondholder tender rights or a redemption from surplus Bond proceeds) before the redemption date, to the Holders of any Bonds or portions of Bonds which are to be redeemed at their last addresses appearing upon the registration books but failure to mail such notice to any registered owner or defect therein shall not affect the validity of the redemption proceedings as to the Bonds or of any other owner. Anything in this Section to the contrary notwithstanding, the Authority reserves the right to provide that any notice of redemption may be conditioned upon such terms as provided in a Series Ordinance, and if the conditions for giving effect to the redemption have not been satisfied, any such notice of redemption shall be cancelled and be of no further force or effect. The Authority may cancel such redemption by delivering a written notice of rescission to the Trustee rescinding such notice of redemption not later than 5:00 p.m. Eastern Time on the second Business Day prior to the redemption date and such notice of redemption and redemption shall be rescinded, cancelled and of no force or effect. Upon such receipt of the rescission notice from the Authority, the Trustee shall send a copy of the notice to the holders of the Bonds subject to the notice in the same manner as the notice or redemption was given.

ARTICLE IV

LEASE OF LEASED WATER FACILITIES; ASSUMPTION OF DWSD BONDS

Section 401. Lease of Leased Water Facilities. The City and the Authority have entered into the Lease of the Leased Water Facilities. The term of the Lease (the "Term") shall commence on the Effective Date and shall terminate on the later of the Initial Lease Termination Date or the Extended Lease Termination Date as such terms are hereinafter defined. The Lease shall not constitute a sale, lease or disposition of the Water System or any substantial part thereof, as contemplated by Section 18 of Ordinance No. 01-05, until the Effective Date, which is contingent on the satisfaction of the conditions set forth in the Lease. The Lease shall initially terminate on the fortieth (40th) anniversary of the Effective Date (the "Initial Lease Termination Date"). Upon the issuance of the Bonds with a final stated maturity date after the Initial Lease Termination Date, the Initial Lease Termination Date shall automatically, and without further action of the parties thereto, be amended to coincide with the date on which all the Bonds have been paid or defeased under Section 1001 hereof and are no longer Outstanding (the "Extended Lease Termination Date").

Section 402. Assumption of DWSD Water Bonds. On the Effective Date, the City is assigning to the Authority and the Authority is assuming from the City, all rights and obligations of the City under the DWSD Water Bonds and accordingly, the Authority is the successor issuer of the DWSD Water Bonds. The DWSD Water Bonds shall be payable solely from the Net Revenues of the Water System and shall not constitute a full faith and credit obligation of the Authority. This Ordinance which amends, restates and supersedes the DWSD Indenture and Ordinance No. 01-05, with respect to the Outstanding DWSD Water Bonds being assumed on the Effective Date, shall constitute a contract between the Authority and the Holders of the DWSD Water Bonds, and such provisions shall be enforceable by such Holders against the Authority or any or all of its successors, by mandamus or any other appropriate suit, action or proceeding at law or in equity in any court of competent jurisdiction in accordance with law.

ARTICLE V

FUNDS AND ACCOUNTS; FLOW OF FUNDS; INVESTMENTS

Section 501. Pledge of Trust Estate.

The Pledged Assets for the Bonds constituting the trust estate (the “Trust Estate”) are pledged to the Trustee for the payment of the Bonds in accordance with the terms and provisions of Act 94 and Ordinance No. 01-05 and the Indenture which on the Effective Date are hereby amended, restated and superseded by this Ordinance and any Series Ordinance relating to a Series of Bonds. This pledge will be valid and binding from and after the effective date of this Ordinance, and the Pledged Assets will immediately be subject to the lien of such pledge without any physical delivery thereof, recordation of this Ordinance or further act, and the lien of such pledge will be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, regardless of whether such parties have notice thereof.

Section 502. Establishment of Funds and Accounts.

(a) The Authority hereby establishes the following funds and accounts (each a “Fund” and collectively, the “Funds”), which, except for the Operation and Maintenance Fund, the Construction Fund, and the Rebate Fund, shall be held in trust by the Trustee pursuant to the terms of this Ordinance:

- (1) Revenue Receipts Fund;
- (2) Receiving Fund;
- (3) Operation and Maintenance Fund consisting of a:
 - (i) Authority Regional Operation and Maintenance Account (and within such account a subaccount to be designated the “Pension Obligation Subaccount”); and
 - (ii) Detroit Local Operation and Maintenance Account (and within such account a subaccount to be designated the “Pension Obligation Subaccount”);
- (4) Senior Lien Bond Interest and Redemption Fund consisting of a:

- (i) Senior Lien Debt Service Account; and
 - (ii) Senior Lien Bond Reserve Account;
- (5) Second Lien Bond Interest and Redemption Fund consisting of a:
- (i) Second Lien Debt Service Account; and
 - (ii) Second Lien Bond Reserve Account;
- (6) SRF Junior Lien Bond Interest and Redemption Fund consisting of a SRF Junior Lien Debt Service Account;
- (7) Pension Junior Lien Bond Interest and Redemption Fund consisting of a Pension Junior Lien Debt Service Account;
- (8) Such Bond Interest and Redemption Funds as are established by a Series Ordinance for other priorities of Junior Lien Bonds;
- (9) Pension Obligation Payment Fund;
- (10) WRAP Fund;
- (11) Budget Stabilization Fund;
- (12) Extraordinary Repair and Replacement Reserve Fund;
- (13) Improvement and Extension Fund consisting of a:
- (i) Authority Regional Improvement and Extension Account; and
 - (ii) Detroit Local Improvement and Extension Account;
- (14) Surplus Fund;
- (15) Construction Fund consisting of a:
- (i) Authority Regional Construction Account; and
 - (ii) Detroit Local Construction Account; and
- (16) Rebate Fund;

(b) There has been established under Ordinance No. 01-05 and the DWSD Indenture with U.S. Bank National Association, the trustee, a trust fund (the “DWSD Revenue Receipts Fund”), similar in purpose and scope to the Revenue Receipts Fund created under Section 502(a)(1). On the Effective Date the Trustee is hereby authorized and directed to transfer any and all Revenues remaining in the DWSD Revenue Receipts Fund to the Revenue Receipts Fund. The Revenue Receipts Fund shall be held and administered by the Trustee, in trust, for the sole purpose of receiving all Revenues collected by the Authority (or by the City, as agent for the Authority under the Water and Sewer Services Agreement) which are not deposited directly into the Receiving Fund and transferring such Revenues to the Receiving Fund as hereinafter provided.

Revenues in the Revenue Receipts Fund may be commingled with gross revenues of the Sewer System until such time as the Revenues in the Revenue Receipts Fund shall have been transferred by the Trustee into the Receiving Fund. Revenues of the Water System deposited in the Revenue Receipts Fund are subject to the statutory lien of Act 94.

Revenues of the Water System deposited in the Revenue Receipts Fund that are attributable and allocable to the Water System, shall be transferred by the Trustee for deposit to the Receiving Fund, within two (2) Business Days after receipt by the Trustee of written direction from the Authority, on a form acceptable to the Trustee, as to the allocation of the Revenue Receipts Fund between Revenues of the Water System and revenues of the Sewer System.

(c) Additional Funds and Accounts may be established by a Series Ordinance for other Bonds of other Priorities of Lien or for other purposes not inconsistent with the purposes and intent of this Ordinance.

Section 503. Application of Lease Payments; Payments into the Accounts; Withdrawals.

(a) (1) On the Effective Date, the Authority shall deposit into each of the WRAP Fund, the Budget Stabilization Fund, the Pension Obligation Payment Fund and the funds designated by the City for application of the Lease Payments for the Fiscal Year 2016, an amount equal to the annual deposit required for each such Fund or Lease Payment for Fiscal Year 2016 divided by 12 which shall be multiplied by the number of months (including partial months which shall be treated as whole months for this purpose), already elapsed during Fiscal Year 2016.

(2) Consistent with the sale, assignment and transfer of Revenues contained in the Lease, the Authority and the City, as agent of the Authority under the Water and Sewer Services Agreement, shall deposit or cause to be deposited all Revenues each receives from the operation of the Regional Water System and the Local Water System into the Revenue Receipts Fund of the Authority. The Authority shall allocate moneys in the Revenue Receipts Fund between the Water System and the Sewer System and cause funds related to the Regional Water System and the Local Water System to be deposited in the Receiving Fund. The City shall act as an agent of the Authority when collecting the Retail Revenues, and shall hold the Retail Revenues in trust for the exclusive benefit of the Authority until such funds are transferred to the Trustee and deposited into the Revenue Receipts Fund.

(b) All Revenues of the Water System shall be deposited with the Trustee and, with the exception of Revenues transferred to the Authority Regional Operation and Maintenance Account or the Detroit Local Operation and Maintenance Account of the Operation and Maintenance Fund as directed by the Authority as herein provided, held in trust pursuant to the terms of this Ordinance. As of the first day of each month (or, in the case of the transfer to the respective Reserve Account, following the annual July 1 valuation of investments in such Reserve Account pursuant to Section 519), amounts credited to the Receiving Fund, including any Lease Payment (which is to be applied to the Fund(s) and Account(s) designated by the City pursuant to the Lease) shall be transferred seriatim into (i) the Operation and Maintenance Fund, (ii) the Bond Interest and Redemption Funds, (iii) the Debt Service Accounts, (iv) the Reserve Accounts, (v) the Pension Obligation Payment Fund, (vi) the WRAP Fund, (vii) the Budget Stabilization Fund, (viii) the Extraordinary Repair and Replacement Reserve Fund, (ix) the Improvement and Extension Fund,

and (x) the Surplus Fund, all of which are held by the Trustee pursuant to Section 502 of this Ordinance, as follows:

First: to the Authority Regional Operation and Maintenance Account and the Detroit Local Operation and Maintenance Account of the Operation and Maintenance Fund, 1/12 of the then current Fiscal Year's Operation and Maintenance Expenses of the Regional Water System and the Local Water System, respectively, as determined by the Authority and certified to the Trustee by an Authorized Officer as sufficient to provide for the payment of the next month's expenses of administration and operation of the Regional Water System and the Local Water System, respectively, and such current expenses for the maintenance of the Regional Water System and the Local Water System, respectively, as may be necessary to preserve the same in good repair and working order;

Second: to the Senior Lien Debt Service Account, an amount that, when added to amounts then on deposit in such account, shall equal the Debt Service Installment Requirement for Bonds as of the first day of such month;

Third: following the annual July 1 valuation of investments in the Senior Lien Bond Reserve Account pursuant to Section 519, to the Senior Lien Bond Reserve Account, an amount, if any, that when added to amounts then on deposit in such account shall equal the Reserve Requirement for Senior Lien Bonds;

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

First: to the Debt Service Account established for such Priority of Lien, an amount that, when added to amounts then on deposit in such account, shall equal the Debt Service Installment Requirement for Junior Lien Bonds of such Priority of Lien as of the first day of such month; and

Second: following the annual July 1 valuation of investments in the Reserve Accounts pursuant to Section 519, to the Reserve Account, if any, established for such Priority of Lien, an amount that when added to amounts then on deposit in such account shall equal the Reserve Requirement for such Priority of Lien of Junior Lien Bonds;

Fifth: except as provided in Section 503(a)(1) with respect to the initial deposit to the Pension Obligation Payment Fund, to the extent Pension Junior Lien Bonds are not issued, to the Pension Obligation Payment Fund an amount that equals to 1/12 of the Required Annual GRS Payment and 1/12 of the BC Note Obligation at the written direction of an Authorized Officer to the Trustee;

Sixth: except as provided in Section 503(a)(1) with respect to the initial deposit to the WRAP Fund, to the WRAP Fund, 1/12 of the amount to be deposited therein for the current Fiscal Year as directed in writing by an Authorized Officer of the Authority to the Trustee;

Seventh: except as provided in Section 503(a)(1) with respect to the initial deposit to the Budget Stabilization Fund, for each of the Fiscal Years 2016, 2017 and 2018, to the Budget Stabilization Fund, an amount equal to 1/12 of one third of the amount necessary to assure that the Budget Stabilization Requirement will be on deposit in the Budget Stabilization Fund within three full Fiscal Years at the written direction of an Authorized Officer to the Trustee and for subsequent Fiscal Years thereafter, 1/12 of an amount that when added to amounts then on deposit in the Budget Stabilization Fund shall equal the Budget Stabilization Requirement, at the written direction of an Authorized Officer to the Trustee;

Eighth: to the Extraordinary Repair and Replacement Reserve Fund, the amount of the Extraordinary Repair and Replacement Minimum Requirement to the extent that the balance thereof is less than the Extraordinary Repair and Replacement Maximum Requirement; and

Ninth: at the written direction of an Authorized Officer to the Trustee, to the Authority Improvement and Extension Account and the Detroit Local Improvement and Extension Account of the Improvement and Extension Fund, such amounts as the Authority may deem advisable for the Regional Water System and Local Water System; provided that no amount shall be deposited in either such account for so long as a withdrawal from the Extraordinary Repair and Replacement Reserve Fund remains unpaid.

In any month, funds on deposit in the Receiving Fund in excess of the requirements set forth above in this Section 503 may, upon the direction of the Authority, be transferred to the Improvement and Extension Fund (provided that no amount shall be deposited to the Improvement and Extension Fund or credited thereto for so long as a withdrawal from the Extraordinary Repair and Replacement Reserve Fund remains unpaid). Any amounts remaining in the Receiving Fund as of the last day of each Fiscal Year shall be applied against future years' Revenue deposit obligations under Section 503, unless directed by the Authority within thirty (30) days of completion of the Fiscal Year's audited financial statements to be deposited in the Surplus Fund.

Any funds authorized to be withdrawn from any Fund or Account hereunder by the Authority upon its written request to the Trustee may be so withdrawn pursuant to any arrangement mutually acceptable to the Trustee and the Authority, including a checking arrangement under which checks may be written by the Trustee to such payees as are directed in writing by the Chief Executive Officer or her or his authorized representative.

Section 504. Operation and Maintenance Fund; Use of Money in the Operation and Maintenance Fund.

(a) The Operation and Maintenance Fund consisting of its two accounts, the Authority Regional Operation and Maintenance Account and the Detroit Local Operation and Maintenance Account, and within each account a Pension Obligation Subaccount, shall be established as a custodial account solely between the Authority and a Custodian. The Authority is hereby authorized to execute a Custodial Agreement outside this Ordinance in such form and upon such terms as will allow the Authority to satisfy the operation and maintenance requirements of the

Regional Water System and the City to satisfy the operation and maintenance requirements of the Local Water System as herein and as may hereafter by the Authority be provided.

(b) The Operation and Maintenance Fund shall not be part of the Trust Estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever. Any funds at any time on deposit in or credited to the Operation and Maintenance Fund are not and shall not be Pledged Assets.

(c) Amounts in the Authority Regional Operation and Maintenance Account of the Operation and Maintenance Fund shall be used to pay the expenses of administration and operation of the Regional Water System and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order. The Authority shall have sole and exclusive authority to withdraw funds from the Authority Regional Operation and Maintenance Account of the Operation and Maintenance Fund to pay the expenses of administration and operation of the Regional Water System and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order as it, in its sole discretion, may at any time and from time to time deem necessary or appropriate. The Regional Water System's allocable share of the Pension Obligation that is required to be paid as an Operation and Maintenance Expense pursuant to the Bankruptcy Order shall be deposited and held in the Pension Obligation Subaccount until paid to GRS. No other Person, shall have the right or authority to use or withdraw funds from the Authority Regional Operation and Maintenance Account of the Operation and Maintenance Fund.

(d) Amounts in the Detroit Local Operation and Maintenance Account of the Operation and Maintenance Fund shall be used to pay the expenses of administration and operation of the Local Water System and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order. The City shall have sole and exclusive authority to withdraw funds from the Detroit Local Operation and Maintenance Account of the Operation and Maintenance Fund to pay the expenses of administration and operation of the Local Water System and such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order as it, in its sole discretion, may at any time and from time to time deem necessary or appropriate. The Local Water System's allocable share of the Pension Obligation that is required to be paid as an Operation and Maintenance Expense pursuant to the Bankruptcy Order shall be deposited and held in the Pension Obligation Subaccount until paid to GRS. No other Person, shall have the right or authority to use or withdraw funds from the Detroit Local Operation and Maintenance Account of the Operation and Maintenance Fund.

(e) Except for amounts retained by the City on the Effective Date for Operation and Maintenance Expenses pursuant to Section 4.4(a)(ii) of the Lease, the Trustee is hereby authorized and directed to transfer any and all funds held by it as trustee or in any other capacity in the existing Operation and Maintenance Fund created under Ordinance No. 01-05 to the Operation and Maintenance Fund established hereby, in such amounts as directed by the Authority.

Section 505. Use of Money in the Debt Service Accounts.

(a) Amounts in the Bond Interest and Redemption Fund established for one or more Series of Bonds of the same Priority of Lien shall be applied to pay Debt Service on such Series of Bonds when due.

(b) Mandatory Redemption Requirements:

(1) The Mandatory Redemption Requirement for a maturity of Term Bonds may be satisfied in whole or in part by the redemption of Term Bonds of such maturity or by the surrender to the Trustee of such Term Bonds purchased with funds legally available therefor. Not less than forty (40) days prior to the due date of such Mandatory Redemption Requirement, unless otherwise provided in the Series Ordinance providing for the issuance of such Term Bonds, the Chief Financial Officer shall notify the Trustee of the manner in which all or a portion of a Mandatory Redemption Requirement for particular Term Bonds shall be satisfied and, if funds on deposit in the related Bond Interest and Redemption Fund are to be used for such purposes, the Chief Financial Officer shall direct the Trustee as to the amount of such funds to be used to redeem or purchase all or a portion of such Term Bonds. In the absence of direction from the Chief Financial Officer as provided above, or upon the failure of the Trustee to acquire Term Bonds before the redemption date for credit against a Mandatory Redemption Requirement, the Trustee shall use funds on deposit in the appropriate account of the Bond Interest and Redemption Fund to satisfy the Mandatory Redemption Requirement.

(2) Unless otherwise provided in a Series Ordinance providing for the issuance of Term Bonds, the Authority will receive a credit against the Mandatory Redemption Requirement for Term Bonds for which such Mandatory Redemption Requirement was established that have been redeemed (other than by application of Mandatory Redemption Requirements) or otherwise acquired by the Authority and delivered to the Trustee for cancellation prior to the giving of the notice of redemption and that have not been applied as a credit against any other Mandatory Redemption Requirements.

(i) Not less than forty (40) days prior to any mandatory redemption date for Term Bonds, the Chief Financial Officer shall give notice to the Trustee, that such Term Bonds are to be so credited.

(ii) Term Bonds shall be credited by the Trustee at 100% of the principal amount thereof against the Mandatory Redemption Requirement, and the principal amount of Term Bonds to be redeemed on such mandatory redemption date shall be reduced accordingly and any excess over such amount shall be credited to future Mandatory Redemption Requirements in such order as the Chief Financial Officer shall direct; provided, however, that any excess resulting from the purchase, at less than par, of such Term Bonds shall be transferred to the Receiving Fund.

Section 506. Use of Money in the Reserve Accounts.

(a) Except as otherwise provided herein, amounts in a Reserve Account shall be used solely for the payment of the Debt Service on Bonds of the same Priority of Lien for which such Reserve Account was established, as to which there would otherwise be a Default.

(b) Following the annual valuation as provided in Section 519, if the amount then on deposit in or credited to a Reserve Account exceeds the Reserve Requirement for such Reserve Account, the amount of such excess shall be transferred by the Trustee into the Debt Service Account of the Bond Interest and Redemption Fund to which such Reserve Account relates if the Reserve Account was funded from proceeds of related Bonds, and if not, then to the Receiving Fund upon the direction of the Authority.

(c) No further payments need be made into a Bond Interest and Redemption Fund after enough of the Bonds for which such Bond Interest and Redemption Fund was established have been retired so that the amount then held in such Fund, including any Reserve Account therein subject to annual valuation as required by Section 519, is then equal to the entire amount of principal and interest which will be payable at the time of maturity of all the then Outstanding Bonds of such Priority of Lien.

(d) A separate Reserve Account may be established by the Authority with the Trustee for a Series of Bonds by the Series Ordinance providing for the issuance of such Series of Bonds. The amounts to be paid into any separate Reserve Account to restore such account to its Reserve Requirement shall be treated by the Trustee as being on a parity with payments into all other Reserve Accounts established for the Bonds of the same Priority of Lien and shall not exceed, in any Fiscal Year, its Proportionate Deficit Payment. "Proportionate Deficit Payment" means for a separate Reserve Account the same proportion that the amount available to remedy deficits in each Reserve Account for such Priority bears to the aggregate deficit in all Reserve Accounts for such Priority of Lien.

(e) The Authority may elect to reduce or eliminate the Reserve Requirement for all Outstanding Senior Lien Bonds secured by the Senior Lien Bond Reserve Account in accordance with the last sentence of the definition of Reserve Requirement in Section 101 at such time as the Authority shall have provided evidence to the Trustee that the Senior Lien Bonds are rated at least Aa3, AA- or AA- by at least two of Moody's, S&P, and Fitch, respectively, and that neither of such ratings will be reduced solely as a result of the change in the Reserve Requirement for such Senior Lien Bonds. Such election shall be set forth in a written notice to the Trustee and shall be effective on the date of delivery of such notice to the Trustee. Following such election by the Authority, notwithstanding any other provision of this Ordinance, amounts on deposit in the Senior Lien Bond Reserve Account in excess of the Reserve Requirement for the Outstanding Senior Lien Bonds secured by the Senior Lien Bond Reserve Account shall be transferred by the Trustee into the Senior Lien Debt Service Account, the Receiving Fund and/or the Surplus Fund, as directed by the Authority.

(f) The Authority may elect to reduce or eliminate the Reserve Requirement for all Outstanding Second Lien Bonds secured by the Second Lien Bond Reserve Account in accordance with the last sentence of the definition of Reserve Requirement in Section 101 at such time as the Authority shall have provided evidence to the Trustee that the Senior Lien Bonds are rated at least Aa3, AA- or AA- by at least two of Moody's, S&P, and Fitch, respectively, and that neither of such ratings will be reduced solely as a result of the change in the Reserve Requirement for such

Second Lien Bonds. Such election shall be set forth in a written notice to the Trustee and shall be effective on the date of delivery of such notice to the Trustee. Following such election by the Authority, notwithstanding any other provision of this Ordinance, amounts on deposit in the Second Lien Bond Reserve Account in excess of the Reserve Requirement for the Outstanding Second Lien Bonds secured by the Second Lien Bond Reserve Account shall be transferred by the Trustee into the Second Lien Debt Service Account, the Receiving Fund and/or the Surplus Fund, as directed by the Authority.

Section 507. Use of Money in the Extraordinary Repair and Replacement Reserve Fund.

(a) Amounts in the Extraordinary Repair and Replacement Reserve Fund may be used by the Authority to pay the costs of making major unanticipated repairs and replacements to the Regional Water System which individually have cost or are reasonably expected by the Authority Board to cost in excess of \$1,000,000 as determined by the Authority Board. The Authority may withdraw funds from the Extraordinary Repair and Replacement Fund for such purposes at any time and from time to time upon written request to the Trustee therefor.

(b) Amounts in the Extraordinary Repair and Replacement Reserve Fund may also be used by the City to pay the costs of making major unanticipated repairs and replacements to the Local Water System which individually have cost or are reasonably expected by the Authority Board to cost in excess of \$1,000,000 as determined by the Authority Board based on certifications provided by an authorized representative of the City. The City may withdraw funds from the Extraordinary Repair and Replacement Fund for such purposes at any time and from time to time upon written request to the Authority and to the Trustee therefor.

(c) On and after the first day of each Fiscal Year, by a certificate of an Authorized Officer authorized by the Authority Board and delivered to the Trustee, the Trustee may be instructed to transfer from the Extraordinary Repair and Replacement Reserve Fund to the Authority Regional Improvement and Extension Account and the Detroit Local Improvement and Extension Account of the Improvement and Extension Fund, not more than fifty percent (50%) in aggregate current market value of the balance in the Extraordinary Repair and Replacement Reserve Fund on the first day of such Fiscal Year if, but only if (i) by the first day of the month in which the transfer is to be made, the full amount of the Extraordinary Repair and Replacement Minimum Requirement for each prior month in the current Fiscal Year has been deposited in this Fund and (ii) the amounts of all prior transfers from this Fund to the Improvement and Extension Fund on behalf of the Authority and/or the City, as the case may be, have been restored in full by the Authority and/or the City, respectively.

(d) For the purpose of determining the Extraordinary Repair and Replacement Fund Minimum Requirement and Maximum Requirement, no later than ten (10) days following the completion of the Regional Water System's budget for each Fiscal Year, the Authority shall deliver to the Trustee a certificate signed by an Authorized Officer stating the amount budgeted by the Regional Water System and the Local Water System for Operation and Maintenance Expenses for such Fiscal Year.

Section 508. Use of Money in the Pension Obligation Payment Fund.

The Pension Obligation Payment Fund established by the Authority under Section 502(a)(9) shall be funded under Section 503 and used for the purposes set forth in this Section 508.

(a) Subject to the issuance of Pension Junior Lien Bonds to satisfy all or a portion of the Pension Obligation, at the written direction of an Authorized Officer to the Trustee, the Trustee shall pay from the Revenues of the Water System on deposit in the Pension Obligation Payment Fund, on the same ratable basis as the allocation of payroll costs between the Water System and the Sewer System, (i) to GRS the difference between the annual allocation of the Plan of Adjustment GRS pension contributions provided in the Plan of Adjustment and \$24 million in the aggregate, and (ii) the Water System's allocable share of the BC Note Obligation, as determined by the Authority.

(b) Subject to the provisions of Section 503, at the written direction of an Authorized Officer to the Trustee, sufficient funds shall be allocated and disbursed by the Trustee, to the Pension Obligation Payment Fund on a monthly basis until such time as the Pension Obligation Payment Fund contains funds sufficient to pay (i) the difference between the Water System's allocable share of the annual allocation of the Pension Obligation contributions required to be paid to GRS as provided in the Plan of Adjustment, and the Water System's allocable share of \$24 million (the "Required Annual GRS Payment") and (ii) the Water System's allocable share of the BC Note Obligation as provided in the Plan of Adjustment, as determined by the Authority.

(c) If such amounts in the Pension Obligation Payment Fund are insufficient to provide for that Fiscal Year's requirement for the Water System's contribution of the Required Annual GRS Payment to the GRS pension plan by June 30 of that Fiscal Year, then any amounts or securities held in the respective Improvement and Extension Fund, Extraordinary Repair and Replacement Reserve Fund (in excess of the Extraordinary Repair and Replacement Minimum Requirement) and any other now-existing or after arising accounts under Section 502 of this Ordinance to which payments are subordinate to the payments to the Bond Interest and Redemption Funds (including the Reserve Accounts, if any, therein) as listed in Section 503 hereof, shall be credited or transferred from such Funds or accounts in the priority and order listed above (after satisfaction of the transfers required by Section 511 hereof to the Operating and Maintenance Fund and the Bond Interest and Redemption Funds) to the Pension Obligation Payment Fund; provided, however, that solely for purposes of determining the crediting or transferring of funds to the Pension Obligation Payment Fund: (i)(a) the formula existing as of August 25, 2014, the date of the Bankruptcy Order related to the issuance of the DWSD Obligations, used to determine the Extraordinary Repair and Replacement Minimum Requirement and (b) the definition of "Extraordinary Repair and Replacement Minimum Requirement" will not be changed unless and until the Authority has paid in full the aggregate annual allocation of the Pension Obligation contributions provided in the Plan of Adjustment; (ii) the amount of the Extraordinary Repair and Replacement Minimum Requirement is not increased over the amount of such minimum, which as of August 25, 2014 was \$4,693,660 for the Water System, until the GRS pension contributions provided in the Plan of Adjustment are paid in full; and (iii) provided such funds are not subject to restriction barring transfer under Section 511 hereof; and provided, further, that in no event shall any amounts held in a Construction Fund be used to pay the Pension Obligation that are (x) the proceeds of any debt issued for the Regional Water System or Local

Water System pursuant to Ordinance No. 01-05 or this Ordinance, as the same may be amended, modified or supplemented, or (y) otherwise lawfully restricted to use for capital improvements to the Regional Water System or Local Water System be credited to the Pension Obligation Payment Fund; provided that the Trustee shall be entitled to request written certification from the Authority with respect to the foregoing amounts, and provided, further, that nothing set forth in this Section 508(c) shall prevent the Authority from issuing Pension Junior Lien Bonds to satisfy all or a portion of the Pension Obligation as contemplated by Section 508(a).

Section 509. Use of Money in the Improvement and Extension Fund.

Amounts in the Authority Regional Improvement and Extension Account and the Detroit Local Improvement and Extension Account of the Improvement and Extension Fund shall be used for improvements, enlargements or extensions to the Regional Water System and the Local Water System, respectively. The Authority may withdraw funds from the Regional Authority Improvement and Extension Account of the Improvement and Extension Fund for the purposes of paying the costs of improvements, enlargements or extensions to the Regional Water System at any time and from time to time upon written request to the Trustee therefor and may withdraw funds from the Extraordinary Repair and Replacement Reserve Fund for such purposes as provided in Section 507(b). The City may withdraw funds from the Detroit Local Improvement Account of the Improvement and Extension Fund for the purpose of paying the costs of improvements, enlargements or extensions to the Local Water System at any time and from time to time upon written request to the Trustee therefor.

Section 510. Use of Money in the Surplus Fund.

Amounts from time to time on hand in the Surplus Fund may, at the option of the Authority, be withdrawn upon written request to the Trustee and used for any purposes related to the Water System; provided, however, that, if and whenever there should be any deficit in the Operation and Maintenance Fund or in any Bond Interest and Redemption Fund (excluding any Reserve Account therein), then transfers shall be made by the Trustee from the Surplus Fund to such funds in the priority and order set forth in Section 511 hereof to the extent of any such deficit.

Section 511. Priority of Funds and Accounts.

(a) If amounts in the Receiving Fund are insufficient to provide for the current requirements of the Operation and Maintenance Fund and each Bond Interest and Redemption Fund (including the Reserve Account, if any, therein), then any amounts or securities held in the Surplus Fund, the Improvement and Extension Fund, the Extraordinary Repair and Replacement Reserve Fund, the WRAP Fund, the Budget Stabilization Fund and the Pension Obligation Payment Fund shall be credited or transferred from such Funds in the order listed, first, to the Operation and Maintenance Fund and, second, to the particular Bond Interest and Redemption Fund to the extent of the insufficiency therein.

(b) If any Debt Service on Bonds of the same Priority of Lien becomes due (whether on a stated or scheduled date, by reason of call for redemption or otherwise), and there are insufficient amounts for the payment thereof in the Bond Interest and Redemption Fund established for Bonds of such Priority of Lien after applying payments in any Reserve Account established for

Bonds of such Priority of Lien, then there shall be applied by the Trustee to such payment amounts in each Bond Interest and Redemption Account established for Series of Bonds of each lower Priority of Lien, beginning with the lowest Priority of Lien and proceeding seriatim in ascending order of Priority of Lien, until such payments are made in full.

Section 512. Construction Fund; Use of Money in the Construction Fund.

(a) The Construction Fund consisting of the Authority Regional Construction Account and the Detroit Regional Construction Account, shall be established as a custodial account solely between the Authority or the City and a Custodian. The Authority and the City are each hereby authorized to execute a Custodial Agreement outside this Ordinance in such form and upon such terms as will allow the Authority and the City to efficiently and expeditiously pay their respective Construction Costs (as defined in paragraph (c) below) and other costs permitted to be paid therefrom. The Authority may designate separate accounts in the Construction Fund for different Series of Bonds for administrative purposes and to better able the Authority to comply with tax covenants, including rebate covenants, relating to any such Series of Bonds issued as Tax-Exempt Bonds in connection with maintaining the exclusion, if any, from gross income for federal income tax purposes of interest on such Series of Bonds.

(b) The Construction Fund shall not be part of the Trust Estate held for the benefit of Holders, who shall have no interest in such Fund whatsoever. Any funds at any time on deposit in or credited to the Construction Fund are not and shall not be Pledged Assets.

(c) Amounts in the Authority Regional Construction Account and the Detroit Local Construction Account of the Construction Fund shall be used to pay the cost of repairs, extensions, enlargements, and improvements to the Regional Water System and the Local Water System, respectively, and any Issuance Costs. A separate account shall be established at the direction of the Authority within the Construction Fund, entitled "Issuance Costs Account," from which the Custodian shall pay the Issuance Costs related to Outstanding Bonds and any Additional Bonds issued subject to this Ordinance. The Authority and the City each shall have sole and exclusive authority to withdraw funds from the Authority Regional Construction Account and the Detroit Local Construction Account, respectively, for such purposes as they, in their sole discretion, may at any time and from time to time deem necessary or appropriate. No other Person shall have the right or authority to use or withdraw funds from the Construction Fund.

(d) Any unexpended balance remaining in an account of the Construction Fund may in the discretion of the Authority be used for meeting any Reserve Requirement or for further improvements, enlargements and extensions to the Regional Water System or the Local Water System, as the case may be, if, at the time of such expenditure, such use based upon an opinion of Bond Counsel, is permitted by this Ordinance and, in the case of Tax-Exempt Bonds, will not adversely affect the exclusion from gross income for federal income tax purposes of the Series of Bonds, the proceeds of which were deposited in such account. Any remaining balance after such expenditure shall be paid into the Bond Interest and Redemption Fund established for the Series of Bonds of the Priority of Lien giving rise to such balance for the purpose of purchasing Bonds of such Priority of Lien or used for the purpose of calling such Bonds for redemption. The Authority may provide additional or different lawful uses for such unexpended balance or remaining balance by Series Ordinance which shall, nonetheless, be subject to the Authority's relevant tax covenants.

(e) Additional Accounts and Subaccounts of the Construction Fund may be established by the Authority for purposes not described herein which are not inconsistent with the purposes and intent of this Ordinance.

(f) The Trustee is hereby authorized to transfer to the Construction Fund (and related custodial account) established hereby any and all funds held by it as trustee or in any other capacity on deposit in an existing Construction Fund and any and all Accounts and subaccounts thereunder created under Ordinance No. 01-05 and relating to the Outstanding DWSD Water Bonds. The Authority is hereby authorized to create or continue such Accounts and subaccounts under the Construction Fund as are necessary or appropriate to distinguish one Series of Bonds from another and Bonds of one Priority of Lien from Bonds of another Priority of Lien.

Section 513. Use of Money in the WRAP Fund. The WRAP Fund shall be used to provide assistance to indigent residential customers throughout the Water System and the Sewer System as directed by an Authorized Officer to the Trustee.

Section 514. Use of Money in the Rebate Fund. The Rebate Fund shall be maintained by the Trustee as a separate depository account. The Rebate Fund is not pledged as security for any Bonds and is established for the sole purpose of paying to the United States of America (the "United States") the amounts required to be rebated pursuant to Section 103(c)(6) of the Code. Rebate calculations shall be obtained by the Trustee at the written direction of the Authority. Transfers to the Rebate Fund from the Operation and Maintenance Fund may be directed by the Authority to the Trustee in writing. The Authorized Officer shall direct the Trustee to transfer to the Rebate Fund, an amount sufficient to make the amount on deposit in the Rebate Fund equal to 100% of the amount certified by the Authority as the amount required to be rebated to the United States pursuant to Section 103(c)(6) of the Code as of the close of the bond year (as defined in the Code) for the related Series of Bonds. Such amount shall be certified by an Authorized Officer to the Trustee. The Trustee shall make payments to the United States from the Rebate Fund at the written direction of an Authorized Officer to the Trustee, no less frequently than every five years, or as otherwise provided in Section 103(c)(6) of the Code, or in a non-arbitrage and tax compliance certificate related to a Series of Tax-Exempt Bonds, together with all investment earnings thereon as the Authorized Officer shall direct. The Trustee shall retain records of determination of the amounts deposited in the Rebate Fund, the proceeds of any investments of moneys in the Rebate Fund and the amounts paid to the United States, until the date six years after the payment in full of the related Series Bonds. If the Rebate Fund is overfunded, as determined at the market value of any investments therein, at the written direction of an Authorized Officer to the Trustee, the Trustee shall withdraw the excess and return such excess to the Receiving Fund.

Section 515. Use of Money in the Budget Stabilization Fund. The Budget Stabilization Fund shall be maintained in the amount of the Budget Stabilization Requirement. Moneys in the Budget Stabilization Fund may be applied by the Authority in its discretion for any lawful purpose of the Water System in the event of shortfalls in the Retail Revenues attributable to unfavorable variances between actual bad debt expenses and budgeted bad debt expenses of Retail Water Customers as a class. At least quarterly, in connection with the preparation of the annual audit for the Local Water System and the Local Sewer System, the Chief Financial Officers of the Authority and the DWSD-R shall determine whether a draw on the Budget Stabilization Fund is necessary in accordance with the requirements and procedures set forth in the Water and Sewer Services Agreement. If so, an Authorized Officer may provide written direction to the Trustee to draw on the

Budget Stabilization Fund an amount equal to the amount by which the actual bad debt expenses of the Retail Water Customers as a class exceeds the budgeted bad debt expenses of that class, and deposit such amount into the appropriate fund or account. Amounts on deposit in the Budget Stabilization Fund in excess of the Budget Stabilization Requirement for the following Fiscal Year based on audited financial statements shall be transferred to the Detroit Local Improvement and Extension Account of the Improvement and Extension Fund. The deposit of Retail Revenues in the Budget Stabilization Fund shall be subordinate to payment of Operation and Maintenance Expenses and the payment of principal of and interest on the Bonds.

Section 516. Custodian; Appointment and Qualifications.

(a) A Custodian shall be appointed by the Chief Financial Officer for such term and upon such terms and conditions as shall be set forth in a Custodial Agreement approved by the Authorized Officer.

(b) A Custodian shall be a financial institution with trust powers and authorized to act as a depository of public moneys under State law.

Section 517. Permitted Investments.

(a) The Trustee will invest all funds and accounts under this Ordinance in Permitted Investments as directed by an Authorized Officer in writing to the Trustee.

(b) The Permitted Investments for amounts held under this Ordinance are subject to the following:

(1) Investment of amounts in any Reserve Account shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the holder thereof, not later than ten (10) years from the date of the investment.

(2) Except as otherwise provided herein or in a Series Ordinance, a certified copy of which shall be delivered to the Trustee, investments shall mature at such times as it is estimated the funds will be required, but shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the holder thereof, not later than five (5) years from the date of investment.

(3) A Series Ordinance may provide for limitations in addition to or in lieu of the above limitations on Permitted Investments or may eliminate any of such limitations.

(4) Notwithstanding paragraph (3) above, no Permitted Investments for the defeasance of particular Series of Bonds may be changed without confirmation from each Rating Agency that such change will not reduce the rating of such Series of Bonds.

(c) The Trustee shall have no liability whatsoever for any loss, fee, tax or other charge incurred in connection with any investment, reinvestment, sale or liquidation of an investment hereunder. Investment of funds pursuant to this Section 517 shall be limited as to amount and yield of investment in such manner that no part of the Outstanding Bonds shall be deemed "arbitrage bonds" under the Code; provided that the Trustee has no duty to monitor the yield on

any directed investment or any obligation to limit the yield on any investment the Authority directs the Trustee to make. In the absence of written direction delivered to the Trustee from the Authority, the Trustee shall hold such funds uninvested. The Trustee shall be entitled to rely on any written direction of the Authority as to the suitability and legality of the directed investments. The Trustee shall have no responsibility whatsoever to determine whether any investments made pursuant to this Ordinance are or continue to be Permitted Investments. Any deposit or investment directed by the Authority shall constitute a certification by the Authority to the Trustee that the assets so deposited or to be purchased pursuant to such directions are Permitted Investments. In no event shall the Trustee be deemed an investment manager or adviser in respect of any selection of investments under this Ordinance. In the event of a loss on the sale of such investments, the Trustee shall have no responsibility in respect of such loss, except that the Trustee shall notify the Authority of the amount of such loss, and the Authority shall promptly pay such amount to the Trustee to be credited as part of the monies originally invested.

(d) The Authority acknowledges that regulations of the Comptroller of the Currency grant the Authority right to receive brokerage confirmations of security transactions as they occur. The Authority specifically waives such right to notification to the extent permitted by law and acknowledges that it will receive periodic transaction statements that will detail all investment transactions.

Section 518. Allocation and Transfers of Investment Income.

(a) Profit realized or interest income earned on investment of amounts in the Receiving Fund, the Extraordinary Repair and Replacement Reserve Fund, and Improvement and Extension Fund shall be credited to the Receiving Fund no less frequently than monthly.

(b) Profit realized or interest earned on investments of funds in the Construction Fund relating to any Series of Bonds, Operation and Maintenance Fund and any Bond Interest and Redemption Fund (including any Reserve Account or Subaccount established for any Series of Bonds) shall be credited as received to the funds from which such investments were made.

Section 519. Valuation of Investments.

(a) Investments credited to any Reserve Account shall be valued at least annually on each July 1, unless otherwise specified in the Series Ordinance providing for the issuance of such Bonds, at the market value thereof. Any funds on deposit in a Reserve Account on or as of such valuation date in excess of the Reserve Requirement shall be transferred by the Trustee as provided in Section 506(b). Any deficit in a Reserve Account shall be restored by the Trustee at the beginning of the next succeeding Fiscal Year with Funds on deposit in the Receiving Fund and Surplus Fund, in that order.

(b) Investments in the Extraordinary Repair and Replacement Reserve Fund shall be valued at least annually on each July 1 at the market value thereof.

Section 520. Additional Funds and Accounts. Additional Funds and/or Accounts may be established as necessary or desirable to satisfy the requirements of this Ordinance, any Series Ordinance or any Swap Agreement.

ARTICLE VI
COVENANTS

Section 601. Management and Operation of Leased Water Facilities. Pursuant to Act 94, Act 233 and the Lease, the operation, maintenance and management of the Leased Water Facilities shall be under the supervision and control of the Authority. The Authority agrees to manage and operate the Leased Water Facilities in accordance with the Lease for the purpose of furnishing water service to its customers in accordance with Applicable Laws and Prudent Utility Practices, all in a manner so as to provide water service to customers in the same or an improved manner as was provided by DWSD immediately prior to the Effective Date (collectively, the “Performance Standards”). In connection therewith, the Authority shall pay all costs of operating, using, repairing, maintaining, enlarging, extending, improving, financing and refinancing the Leased Water Facilities, including by way of illustration and not by way of limitation, all capital costs, utility rates and charges, fees and other amounts due under existing contracts, taxes and special assessments, salaries and other employment costs, permits and license fees and rents. The Authority shall not cause or permit any waste, damage or injury to the Leased Water Facilities and shall keep the Leased Water Facilities in good condition and repair (reasonable wear and tear and damage by act of God, fire or other causes beyond the control of the Authority excepted).

Section 602. Fiscal Year. The Regional Water System shall continue to be operated on the basis of a Fiscal Year which currently begins on July 1 of each year.

Section 603. No Free Service or Use. No free service or use of the Water System, or service or use of the Water System at less than cost, shall be furnished by the Authority to any person, firm or corporation, public or private, or to any public agency, instrumentality or municipality.

Section 604. Fixing and Revising Rates; Rate Covenant. The Authority covenants that it will fix, charge and collect, or cause to be fixed, charged and collected, rates, fees and charges for the use and operation of the Water System as required by Act 94. Such rates, fees and charges shall be fixed and maintained as may be expected to be necessary to produce the greater of:

- (a) The amounts required:
 - (1) To provide for the payment of the Operation and Maintenance Expenses of the Water System; and
 - (2) To provide for the payment of all Debt Service Installment Requirements coming due during the Fiscal Year of calculation; and
 - (3) To provide for the creation and maintenance of reserves therefor as required by this Ordinance; and
 - (4) To provide for the payment of the Lease Payment; and
 - (5) To provide for the deposit to the WRAP Fund; and

- (6) To repay any withdrawals from the Extraordinary Repair and Replacement Fund; and
 - (7) To provide for such other expenditures and funds for the Water System as this Ordinance may require; and
- (b) Amounts so that the Rate Covenant Debt Service Coverage shall not be less than the Required Coverage; and
 - (c) Amounts required by Act 94.

Section 605. Insurance. While any Bonds remain Outstanding hereunder the Authority shall at its own expense maintain or cause to be maintained insurance (which may include self-insurance) on the Leased Water Facilities belonging to the Regional Water System and/or operations of the Regional Water System, of the kinds and in the amounts as specified in the Lease. The Authority shall retain an Insurance Consultant for the Regional Water System for the purpose of determining compliance with this Section.

The Authority shall, and the Trustee may, demand, collect and sue for the insurance money that may become due and payable under any policies payable to it. Any appraisal or adjustment of any loss of damages and any settlement or payment of indemnity therefor that may be agreed upon between the Authority and any insurer shall be evidenced to the Trustee by a certificate signed by the Chief Executive Officer.

The Authority shall require the Insurance Consultant to report to it annually on or before each January 1 on the adequacy of the Authority's insurance coverage hereunder. A signed copy of any reports of any Insurance Consultant required hereby shall be filed with the Chief Financial Officer and copies thereof shall be sent to the Trustee. Delivery of the insurance report to the Trustee under this section is for informational purposes only and the Trustee's receipt of the foregoing shall not imply a duty to review and shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Authority's compliance with any of its covenants hereunder.

The Net Proceeds paid in satisfaction of any claim made under policies shall be applied as provided in Section 607.

Section 606. Notice of Taking; Cooperation of Parties. If any public authority or entity attempts to take or damage all or any part of the Leased Water Facilities through eminent domain proceedings, the Authority shall take prompt and appropriate measures to protect and enforce its rights and interests and those of the Trustee in connection with such proceedings. Upon receiving notice of the institution of eminent domain proceedings by any public instrumentality, body, agency or officer, the Authority shall deliver written notice thereof to the Trustee.

The Net Proceeds of any award or compensation resulting from eminent domain proceedings shall be applied in accordance with the provisions of Section 607.

Section 607. Insurance and Eminent Domain Proceeds. (a) All Net Proceeds of all hazard insurance and all Net Proceeds resulting from eminent domain proceedings related to Leased Water Facilities or the Detroit Local Water Facilities shall be paid to the Trustee and shall be deposited and applied at the election of the Authority, in the case of Net Proceeds related to the Leased Water Facilities, and at the election of the City, in case of Net Proceeds related to the Detroit Local Water Facilities, as follows:

(1) deposited in the Authority Regional Construction Account or the Detroit Local Construction Account of the Construction Fund, as the case may be, which shall be reactivated as necessary and used to promptly replace, repair, rebuild or restore the Leased Water Facilities or the Detroit Local Water Facilities, respectively, to substantially the same condition as that which existed prior to such damage, destruction or taking, with such alterations and additions as the Authority may determine and as will not impair or otherwise adversely affect the Revenue-producing capability of the Leased Water Facilities or the Detroit Local Water Facilities, as the case may be, provided that prior to the commencement of such replacement, repair, rebuilding or restoration, the Authority shall deliver to the Trustee a report setting forth (A) an estimate of the total cost of the replacement, repair, rebuilding or restoration, (B) the estimated date upon which such replacement, repair, rebuilding or restoration will be substantially complete, and (C) a statement to the effect that Net Proceeds, together with other funds made available or to be made available or caused to be made available by the Authority or the City, as the case may be, are projected to be sufficient to pay the costs of the replacement, repair, rebuilding or restoration of the Leased Water Facilities or Detroit Local Water Facilities; or

(2) deposited in the Senior Lien Bond Fund or the Junior Lien Bond Fund, as the case may be, and applied to the redemption of first the Senior Lien Bonds and then the Junior Lien Bonds, provided that Senior Lien Bonds or Junior Lien Bonds may be redeemed only if (A) the Leased Water Facilities or Detroit Local Water Facilities have been restored to substantially the same condition as prior to such damage, destruction or taking or (B) the Authority has determined that the portion of the Leased Water Facilities or Detroit Local Water Facilities damaged, destroyed or taken is not necessary to the operation of the Leased Water Facilities or Detroit Local Water Facilities and that the failure of the Authority or the City, as the case may be, to repair and restore the same will not impair or otherwise adversely affect the Revenue-producing capability of the Leased Water Facilities or Detroit Local Water Facilities; or (C) the System Consultant has been unable to make the statement required by subparagraph (1)(C) of this paragraph (a).

If the Authority does not apply Net Proceeds or cause them to be applied, to replace, repair, rebuild, or restore the Leased Water Facilities or Detroit Local Water Facilities, the Authority shall first redeem or purchase the Senior Lien Bonds and after redemption or purchase of all of the Senior Lien Bonds the Authority shall redeem or purchase the Junior Lien Bonds, in each case in accordance with Article III of this Ordinance and the relevant Series Ordinance and transfer from the Construction Fund to the Bond Fund and the Junior Lien Bond Fund amounts sufficient to pay the Redemption Price or purchase price of the Senior Lien Bonds and the Junior Lien Bonds to be redeemed or purchased.

If the Authority elects to apply Net Proceeds, or cause them to be applied, to replace, repair, rebuild, or restore the Leased Water Facilities or Detroit Local Water Facilities, the Authority shall

retain such Net Proceeds in the Authority Regional Improvement and Extension Account or the Detroit Local Improvement and Extension Account, respectively, and shall make disbursements therefrom at the written direction of an Authorized Officer to the Trustee.

(b) Notwithstanding the foregoing, the proceeds of any use and occupancy insurance carried pursuant to Section 605 shall be deposited into the Receiving Fund.

Section 608. Payment of Charges and Covenant Against Encumbrances. Except as permitted herein, the Authority shall not create or suffer to be created any lien or charge upon the Water System or any part thereof, or on the Trust Estate. The Authority acknowledges that under the Lease, the City has covenanted not to create or suffer to be created any lien or charge upon the Local Water System or any part thereof. The Authority shall pay or cause to be discharged, or shall make adequate provision to satisfy and discharge, within 60 days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the Leased Water Facilities and the operation of the Leased Water Facilities if unpaid. Nothing contained in this Section shall require the Authority to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings and so long as such contest will not cause an imminent sale or foreclosure of the Regional Water System or any significant part thereof.

Section 609. Sale of Leased Water Facilities. Except as provided in this Section 609, the Authority shall not sell, transfer, assign, lease, sublease or otherwise dispose of all or any part of the Leased Water Facilities constituting the Regional Water System.

(a) Subject to the Lease, the Authority shall have the right to sell, lease, sublease or dispose of any real property or any machinery, fixtures, apparatus, tools, instruments or other personal property which may be determined to be part of the Leased Water Facilities, or any materials used in connection therewith if the Authority determines that such property is not or is no longer needed or useful in connection with the construction or maintenance of the properties constituting the Leased Water Facilities or that such sale, lease, sublease or disposition will not impair the operating efficiency of the Leased Water Facilities or, as projected by the System Consultant, reduce the ability of the Authority to satisfy the requirements (including the coverage requirements) of Section 604 or impair the tax-exempt status of Tax-Exempt Bonds under Section 802.

(b) Unless some other disposition is required by law or by contract, the Authority shall, in its sole discretion, deposit the proceeds resulting from any abandonment, sale or disposition of the Leased Water Facilities in the Authority Regional Improvement and Extension Account.

Section 610. Access to Regional Water System and Records. Subject to reasonable security and safety regulations and reasonable requirements as to notice, the Trustee, the Insurance Consultant, the System Consultant and the Accountant and their duly authorized agents shall have the right at all reasonable times to enter and inspect the Leased Water Facilities in the performance of their respective duties. The Trustee, the Insurance Consultant, the System Consultant and the Accountant shall also have the right to inspect the books and records of the Authority pertaining to the Water System, subject to reasonable requirements as to notice and during regular business hours.

Section 611. Enforcement of Water and Sewer Services Agreement. The Authority covenants and agrees to enforce the representations, warranties and covenants of the City set forth in Section 8.1 of the Water and Sewer Services Agreement and incorporated herein by this reference.

Section 612. Compliance with Bankruptcy Order. The Authority covenants and agrees to comply with the provisions of the Bankruptcy Order, including, but not limited to, paragraph 24 thereof.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 701. Events of Default. Each of the following events is an “Event of Default”:

(a) the Authority shall default in the payment of the principal or Redemption Price of any Bond or Bonds when and as the same shall become due, whether at maturity or upon redemption or otherwise; or

(b) payment of any installment of interest on any Bond or Bonds shall not be made, when and as the same shall become due.

No default in the payment of the principal of, interest on or Redemption Price of any Junior Lien Bond shall be considered a default for any Senior Lien Bond.

Section 702. Remedies. Upon the happening and continuance of any Event of Default specified in Section 701, the Trustee may, or upon the request of the Holders of not less than 20% in principal amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders, by suit, action, or other proceedings, and to protect and enforce the statutory lien on the Net Revenues and enforce and compel the performance of all duties of the officials of the Authority. The Trustee shall on behalf of the Bondholders be entitled as a matter of right, upon application to a court of competent jurisdiction, to have appointed a receiver of the Authority for the business and property of the Water System, or any part thereof, including all Revenues, issues, income, receipts and profits derived, received or had by the Authority thereof or therefrom, with such power as the Authority may have to operate and maintain such business and property, collect, receive and apply all Revenues, income, receipts and profits arising therefrom, and prescribe fees and other charges in the same way and manner as the Authority might do. The Trustee is entitled to indemnification against fees, costs, expenses and liabilities for its enforcing any of the remedies permitted by this Ordinance on the terms provided in Section 902(m) in connection with its exercise of any of the foregoing remedies.

Section 703. Limitation on Rights of Bondholders. No individual Bondholders may initiate legal proceedings to enforce rights under this Ordinance unless such Holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such proceeding is to be taken, and unless the Holders of not less than 20% in principal amount of all Bonds then Outstanding have made written request of the Trustee after the right to exercise such right of action has occurred, and have afforded the Trustee a reasonable opportunity either to exercise the powers granted to it under this Ordinance or to institute such proceedings in its name

and unless, also, there has been offered to the Trustee reasonable security and indemnity against fees, costs, expenses and liabilities, and the Trustee has refused or neglected to comply with such request within a reasonable time.

Section 704. Application of Revenues and Other Moneys After Default. After an Event of Default, the Trustee shall have a first lien on the Pledged Assets with right of payment for all reasonable fees, charges, costs and expenses made in the performance of the duties of the Trustee and for the cost and expense included in defending any liability, unless such liability is adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee (collectively the “Trustee’s Default Fees and Costs”). During the continuance of an Event of Default, the Trustee, except as otherwise provided in the provisions of this Ordinance relating to remedies, shall apply moneys, securities, funds and Revenues and the investment income thereon in the Funds and Accounts as follows and in the following order:

(i) to the payment of the Trustee’s Default Fees and Costs and the reasonable fees, charges, costs, expenses and liabilities of the System Consultant selected by the Authority pursuant to this Ordinance;

(ii) to the payment of the amounts required for reasonable and necessary Operation and Maintenance Expenses; and for the reasonable renewals, repairs and replacements of the Leased Water Facilities necessary to prevent loss of Revenues, as certified to the Trustee by the System Consultant. For this purpose the books of records and accounts of the Authority relating to the Regional Water System shall at all times be subject to the inspection of the System Consultant during the continuance of such Event of Default;

(iii) to the payment of the interest and principal or Redemption Price then due on the Senior Lien Bonds or Junior Lien Bonds, as follows:

First: To the payment to the persons entitled thereto of all installments of interest on Senior Lien Bonds (including payments in the nature of interest payable to Swap Providers), then due in order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Senior Lien Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

Third: To the payment to the persons entitled thereto of all installments of interest on Junior Lien Bonds, including payments in the nature of interest payable to a Swap Provider under a Swap Agreement, then

due in order of Priority of Lien and order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Fourth: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Junior Lien Bonds which shall have become due, whether at maturity or by call for redemption, in the order of Priority of Lien and order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Junior Lien Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

Fifth: To the payment to any Swap Provider of any termination payment due and payable under a Swap Agreement, and if the amounts available shall not be sufficient to pay in full all termination payments due under the Swap Agreements then to the payment thereof ratably according to the amounts of termination payments due on such date to the persons entitled thereto without any discrimination or preference.

If and whenever all overdue installments of interest on all Senior Lien Bonds and Junior Lien Bonds, together with the reasonable fees, charges, costs, expenses and liabilities of the Trustee and the System Consultant, and all other sums payable by the Authority to the Trustee under this Ordinance, including the principal and Redemption Price of and accrued unpaid interest on the Senior Lien Bonds and Junior Lien Bonds which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under this Ordinance shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Authority all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of this Ordinance to be deposited or pledged, with the Trustee), and thereupon the Authority and the Trustee shall be restored, respectively to their former positions and rights under this Ordinance, and all Revenues shall thereafter be applied as provided in the provisions of this Ordinance governing the establishment and use of Funds and Accounts. No such payment over to the Authority by the Trustee or resumption of the application of Revenues as so provided shall extend to or affect any subsequent default under this Ordinance or impair any right consequent thereon.

Section 705. Bondholder's Direction of Proceedings. Anything in this Ordinance to the contrary notwithstanding, following and during the continuation of an Event of Default only, subject to Section 902(p), the Holders of not less than 20% in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder subject to the right of the Trustee to indemnification for fees, charges, costs, expenses and liabilities prior to exercising any remedy, and provided that such direction shall not be otherwise than in accordance with law or the provisions of this Ordinance,

and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders of Bonds not parties to such direction.

Section 706. Possession of Bonds by Trustee Not Required. All rights of action under this Ordinance or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds appertaining thereto or the production thereof in the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds, subject to the provisions of this Ordinance.

Section 707. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 708. No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and every power and remedy given by this Ordinance to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 709. Notice of Event of Default. The Trustee shall promptly give to the holders of Bonds notice of each Event of Default unless such Event of Default shall have been remedied or cured before the giving of such notice. Each notice required under this Section shall be given by the Trustee by mailing written notice thereof to all Holders of Bonds, at the registered addresses of such Holders shown upon the registration books of the Authority held by the Trustee.

ARTICLE VIII

ADDITIONAL COVENANTS OF THE AUTHORITY

Section 801. Covenants. The Authority covenants and agrees with the registered Holders of the Bonds that so long as any of the Bonds remain outstanding and unpaid as to either principal or interest:

- (a) The Authority will keep proper books of record and account in which shall be made full and correct entries of all transactions relating to the Regional Water System and the Local Water System. The Authority shall have an annual audit of the books of record and account of the Regional Water System for the preceding Fiscal Year made each year by the Accountant. The Authority shall use its best efforts to complete its audit and make it available not later than six (6) months after the close of each Fiscal Year, and in any event, the Authority shall complete the audit and make it available as soon as practicable after the close of each Fiscal Year. The Authority shall file a copy of the completed audit with the Trustee as soon as it is available; provided, however, the Trustee shall have no duty to review the completed audit.

(b) The Authority will not operate, and unless otherwise required by law, will not grant rights to any person, firm or corporation to operate, a water supply system that will compete with the Regional Water System or the Local Water System.

Section 802. General Limitations with Respect to Non-Impairment of Tax-Exempt Status of Tax-Exempt Bonds. Notwithstanding any other provisions of this Ordinance, the Authority shall not take or permit to be taken by its agents or assigns or the Trustee any action which, or fail to take any reasonable action the omission of which, would

(i) impair the exemption of interest on Tax-Exempt Bonds from federal or State income taxation; or

(ii) affect the validity of the Bonds.

The Authority shall use the proceeds of all Series of Tax-Exempt Bonds in a manner which will comply with the requirements of Section 103 of the Code and to such end will assure that the capital improvements shall constitute a project which complies with the requirements of Section 103 of the Code. The Trustee, upon notification of action to be taken by the Authority or prior to taking any action requested by the Authority under this Ordinance, may require, at the expense of the Authority, an opinion of Bond Counsel or the System Consultant or both, as may be appropriate, in writing with respect to compliance with the foregoing General Limitations.

Section 803. Non-Arbitrage Covenant. (a) The Authority shall not make any use and the Trustee is directed not make any use of the proceeds of any Tax-Exempt Bonds, or any funds which may be deemed to be proceeds of Tax-Exempt Bonds pursuant to Section 103(c) of the Code and the applicable regulations thereunder, which could cause the Tax-Exempt Bonds to be “arbitrage bonds” within the meaning of such Section and such regulations, and the Authority shall comply and the Trustee is directed to comply with the requirements of such Section and such regulations throughout the term of the Tax-Exempt Bonds, including rebate requirements.

(b) The Trustee shall not be responsible for any determination or calculation concerning arbitrage rebate with respect to the Bonds, or for determining whether the yield on any investments made in accordance with the Ordinance would cause, or whether any other facts exist which would cause, any of the Bonds to become arbitrage bonds under the Code.

Section 804. Annual Budget. The Authority, prior to the commencement of each Fiscal Year beginning with the Fiscal Year next commencing after the effective date of this Ordinance, shall adopt a budget for the Regional Water System as required by Act 21 of the Michigan Public Acts of 1968, as amended, covering the Operation and Maintenance Expenses, Debt Service and other known monetary requirements of the Lease, this Ordinance and the Regional Water System for each Fiscal Year. A copy of the completed annual budget shall be filed by the Authority with the Trustee as soon as it is available.

ARTICLE IX

THE TRUSTEE

Section 901. Continuation of Trustee. Subject to the provisions of Sections 905, 906 and 907, the bank or trust company serving as Trustee for the DWSD Water Bonds under Ordinance No. 01-05 shall continue to serve in such capacity under this Ordinance for the Bonds.

Section 902. Acceptance of Trust and Conditions Thereof. The Trustee shall accept and agree to perform the trusts imposed upon it by this Ordinance or any resolution of the Authority by depositing with the Authority a written instrument of acceptance, subject to the following terms and conditions:

(a) Prior to an Event of Default, the Trustee shall have the obligation to perform such express duties and only such express duties as are provided for in this Ordinance, including any Series Ordinance or Supplemental Ordinance, and no implied covenants or obligations shall be read into this Ordinance against the Trustee.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, accountants, engineers, surveyors, agents, receivers or employees but shall be answerable for the conduct of agents selected by the Trustee in accordance with the standard specified in this clause (b), and shall be entitled to advice of counsel concerning all matters of the trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of counsel, accountants, engineers or surveyors selected by it in the exercise of reasonable care.

(c) The Trustee shall have the right to accept and act upon instructions or directions pursuant to this Ordinance sent in the form of a manually signed document by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Authority shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such instructions and containing specimen signatures of such designated persons, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Authority elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The Authority agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(d) The Trustee shall not be responsible for:

(i) any recital herein or in any Bonds (except for the certificate of the Trustee, if any, endorsed on any Bonds);

(ii) insuring the Regional Water System or the security for the Bonds or collecting any insurance moneys;

(iii) the validity of the adoption of this Ordinance or any Series Ordinance, Supplemental Ordinance or resolution;

(iv) the validity or execution by the Authority of the Bonds or instruments of further assurance;

(v) the nature or sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby; or

(vi) any breach by the Authority of any covenants herein contained;

and the Trustee shall not be bound to ascertain or inquire as to the performance of any covenants or other obligations of the Authority under this Ordinance or any Series Ordinance, Supplemental Ordinance or resolution, except as hereinafter set forth; but the Trustee may require of the Authority full information and advice as to the performance of such covenants and other obligations.

(e) The Trustee shall not be accountable for the use by the Authority of the proceeds of the Bonds following proper requisition therefor. The Trustee may become the Holder of Bonds with the same rights which it would have if not Trustee.

(f) The Trustee shall be protected in acting upon any resolution, notice, order, request, consent, certificate, opinion, affidavit, letter, telegram or other document in good faith believed by it to be genuine and correct and to have been adopted, signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Ordinance upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Holder of any Bond shall be conclusive and binding upon all future Holders of the same Bond and upon Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as a Holder of the Bonds issued hereunder unless and until such Person appears as a Holder of Bond on a list of registered Holders.

(g) As to the existence of any fact or as to the sufficiency or validity of any document or proceeding, the Trustee shall be entitled to rely upon a certificate signed on behalf of the Authority by (i) its Chief Executive Officer, or (ii) any other duly authorized officer thereof (such authority to be conclusively presumed by an appropriate certified ordinance or resolution of the Authority as sufficient evidence of the facts therein contained) and, prior to the occurrence of an Event of Default of which the Trustee has been notified as provided in Section 902(h) hereof or of which by such Section it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may in its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound

to secure the same. The Trustee may accept a certificate of the Authority Board Chairman or Secretary or an Authorized Officer of the Authority to the effect that proceedings in the form therein set forth have been adopted by the Authority Board as conclusive evidence that such proceedings have been duly adopted and are in full force and effect.

(h) The permissive right of the Trustee to do things enumerated in this Ordinance shall not be construed as a duty, and the Trustee, except for its gross negligence or willful misconduct, shall not be liable for (i) any loss or damage whatsoever arising out of any action or failure to act in connection with its obligations under this Ordinance or for (ii) the exercise of any discretion or power hereunder, or mistake of judgment, or otherwise. The Trustee shall be under no obligation to institute any suit, or to undertake any proceeding under this Ordinance, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created under this Ordinance or in the enforcement of any rights and powers hereunder, until it shall be indemnified, to the extent permitted by applicable law, to its satisfaction against any and all reasonable costs and expenses, outlays and counsel fees and other anticipated disbursements, and against all liability except to the extent determined by a court of competent jurisdiction to have been caused solely by its own gross negligence or willful misconduct. Nevertheless, the Trustee may begin suit, or appear in and defend suit or do anything else in its judgment proper to be done by it as the Trustee, without indemnity, and in such case the Trustee shall, to the extent not reimbursed by the Authority, reimburse itself from the monies available in the Surplus Fund under this Ordinance for all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements properly incurred in connection therewith.

(i) At all reasonable times during business hours, the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right fully to inspect the Regional Water System and all improvements, extensions, additions and enlargements thereto including without limitation all records of the Authority pertaining to such improvements, extensions, additions, enlargements and this Ordinance, and to take copies of such relevant documents from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers herein contained or otherwise in respect of this Ordinance.

(k) Notwithstanding any contrary provision of this Ordinance, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as it shall deem necessary for the purpose of establishing the right of the Authority to and as a condition to (i) the authentication, if any, of any Bonds, (ii) the withdrawal of any cash or (iii) the release of any property or the taking of any action by the Trustee whatsoever within the purview of this Ordinance.

(l) The Trustee shall be under no obligation or duty to perform any act hereunder or defend any suit unless indemnified (other than by the Authority) to its reasonable satisfaction for the reimbursement of all fees, costs and expenses to which it may be put and to protect it against all liability, except liability that is adjudicated to have

resulted from its own gross negligence or willful misconduct in connection with any action so taken.

(m) The Trustee shall be entitled to payment from the Authority for the Trustee's services rendered hereunder and to reimbursement from the Authority for all advances, counsel fees and other costs and expense reasonably made or incurred by the Trustee in connection with such services. The Authority agrees that it shall pay all such fees owed to the Trustee within 30 days of receipt of an invoice from the Trustee.

(n) Upon the occurrence of an Event of Default and during the continuance of an Event of Default (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Ordinance and shall use the same degree of care and skill in the exercise or use as an ordinarily prudent trustee under a corporate indenture would exercise or use under the circumstances in the conduct of its own affairs.

(o) Whenever by the terms of this Ordinance the Trustee shall be required to take any action if directed by the Holders of at least 20% in aggregate principal amount of Bonds then Outstanding, if conflicting or inconsistent directions are received from more than one group of such Holders, each satisfying such 20% criterion, the Trustee shall be entitled to rely upon the direction given by the Holders with the largest percentage in aggregate principal amount of Bonds then Outstanding.

Section 903. Authority Access to Records. The Trustee shall keep and maintain adequate records pertaining to the Funds and Accounts held by it and all receipts and disbursements pertaining thereto, and shall furnish periodic statements with respect thereto to the Authority and the Accountant. The records of the Trustee with respect to all income and disbursements relating to all Funds and Accounts held by it shall be made available to the Authority and the Accountant by the Trustee at its corporate trust office during normal business hours.

Section 904. Funds to be Held in Trust. The Trustee shall hold all sums received by it hereunder as special trust funds, and all of said funds shall be used only for the purposes and in the manner herein set forth. Except to the extent required by this Ordinance or by law, such funds need not be segregated from other funds, and the Trustee shall not otherwise be under any liability for interest on any sums received hereunder except as provided herein.

Section 905. Resignation of Trustee. The Trustee may resign by giving written notice to the Authority and mailing notice thereof by first class mail to each registered Bondholder as shown by the registration books held by the Trustee, and such resignation shall take effect upon the day that a successor shall have been appointed as provided in Section 907.

Section 906. Removal of Trustee. The Trustee shall be removed by the Authority at any time on 30 days' prior written notice if so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority, and signed by the Holders of not less than 51% of the principal amount of the Outstanding Bonds or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority. The Authority may remove the Trustee at any time, except during the existence of any Event of Default, in the sole discretion of the Authority, by filing with the Trustee an instrument to such effect signed by the Treasurer of

the Authority. Any such removal of the Trustee shall take effect upon the day that a successor shall have been appointed as provided in Section 907.

Section 907. Appointment of and Transfer to Successor Trustee. If the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Authority covenants and agrees that the Authority Board will thereupon appoint a successor Trustee which shall be a bank or trust company authorized to do business in the State having a capital and surplus aggregating at least \$50,000,000 and which shall accept and agree to perform the trusts imposed upon it by this Ordinance by depositing with the Authority and the predecessor Trustee a written instrument of acceptance. If no successor Trustee is appointed by the Authority Board within 60 days after the Trustee's giving of written notice of resignation to the Authority or the Authority's giving of written notice of removal, any Bondholder or the resigning party may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may, after such notice appoint a successor Trustee in accordance with the requirements of the preceding sentence. The Authority Board (or the appointing court) shall mail notice of any such appointment made by it by first class mail to each registered Bondholder within 20 days after such appointment.

The Trustee ceasing to act shall, upon receiving payment of all of its uncontested fees, costs and expenses, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Ordinance and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth.

ARTICLE X

DISCHARGE OF LIEN

Section 1001. Discharge of Lien on Pledged Assets.

(a) Upon the defeasance (as defined in Section 1002 hereof) of a Series of Senior Lien Bonds or Junior Lien Bonds, and payment of the Trustee's fees, costs and expenses related thereto, the lien of this Ordinance upon the Pledged Assets with respect to such Series of Senior Lien Bonds or Junior Lien Bonds shall cease, terminate and be void.

(b) Upon the defeasance (as defined in Section 1002 hereof) of all Outstanding Bonds, the lien of this Ordinance upon the Pledged Assets shall cease, terminate and be void and thereupon the Trustee, upon determining that all conditions precedent to the satisfaction and discharge of this Ordinance have been complied with, and upon payment of the Trustee's fees, costs and expenses hereunder, shall (i) cancel and discharge the Ordinance and the lien on Pledged Assets, (ii) execute and deliver to the Authority such instruments in writing as shall be required to cancel and discharge this Ordinance and the lien on Pledged Assets, (iii) re-convey to the Authority the Pledged Assets, and (iv) assign and deliver to the Authority so much of the Pledged Assets as may be in its possession or subject to its control, except, in the event of a

defeasance of a Series of Bonds, moneys and Government Obligations held in the related Bond Interest and Redemption Funds, Debt Service Accounts, and Reserve Accounts for the purpose of paying such Series of Bonds; provided, however, such cancellation and discharge of this Ordinance shall not terminate the powers and rights granted to the Trustee with respect to the payment, transfer and exchange of Bonds; and, provided, further, that the rights of the Trustee to indemnity and payment of all reasonable fees and expenses shall survive.

Section 1002. Defeasance of Bonds.

(a) Bonds are “defeased” and a “defeasance” has occurred for purposes of this Ordinance if:

(1) there has been deposited in trust sufficient cash and Sufficient Government Obligations, not callable by the issuer, the principal of and interest on which mature at the time and in the amounts, without the reinvestment thereof, necessary to pay principal of and interest on such Bonds to its maturity, or, if called for redemption, to the date fixed for redemption, together with the amount of the redemption premium, if any, provided, however, that the sufficiency of the deposit to effectuate the defeasance of a Bond shall have been verified by a nationally recognized accounting firm or verification agent; and

(2) if such Bonds are to be redeemed prior to maturity, irrevocable instruments have been given to the Trustee, acting as a transfer agent, to call such Bonds for redemption.

(b) A Series Ordinance may be delivered to the Trustee with respect to a Series of Bonds which may:

(1) provide different means of defeasing such Series of Bonds, and such means may be in addition to or in lieu of the means set forth in subparagraph (a);

(2) provide for Permitted Investments for the defeasance of such Bonds, but no such Permitted Investments may thereafter be changed except as provided herein; and

(3) provide for the consequences of such Bonds being defeased.

(c) Except as otherwise provided in a Series Ordinance:

(1) cash or Government Obligations for the defeasance of such Bonds are the Permitted Investments therefor; and

(2) the statutory lien herein granted pursuant to Act 94 shall be terminated with respect to defeased Bonds, the Holders of such defeased Bonds shall have no further rights under this Ordinance except for payment from the deposited funds and registration and replacement of such Bonds, and such Bonds shall no longer be considered to be Outstanding under this Ordinance.

Section 1003. Unclaimed Moneys.

Any moneys deposited with the Trustee in accordance with the terms and provisions of this Ordinance, or any moneys held by any paying or transfer agent, in trust for the payment of the principal of and redemption premium, if any, or interest on a Bond and remaining unclaimed by the Holders for three (3) years after the final maturity of a Bond or the redemption date of the Bond, as the case may be, shall be applied by the Trustee in accordance with the Uniform Unclaimed Property Act, Act. No. 29, Public Acts of Michigan, 1995, as amended from time to time. The Authority and the Trustee shall have no responsibility with respect to such moneys or the affected Holders of the Bond.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 1101. Ordinance Constitutes Contract. The provisions of this Ordinance shall constitute a contract between the Authority and the Holder or Holders of the Bonds from time to time, and after the issuance of the Bonds, no change, variation or alteration of the provisions of this Ordinance may be made which would in any way lessen the security of the Bonds. The provisions of this Ordinance shall be enforceable by appropriate proceedings in accordance with this Ordinance taken by the Trustee or such Holder or Holders either at law or in equity.

Section 1102. Series Ordinances; Supplemental Ordinances. The Authority may, without the consent of the Bondholders, but with the prior written consent of the Trustee in case the Series Ordinance or Supplemental Ordinance changes any of the Trustee's duties under this Ordinance, and where required by a Credit Facility, the consent of the related Credit Entity, adopt at any time or from time to time Series Ordinances or Supplemental Ordinances for any one or more of following purposes, and any Series Ordinance or Supplemental Ordinance shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authorized Officer:

- (1) To provide for the issuance of a Series of Bonds and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;
- (2) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in this Ordinance;
- (3) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;
- (4) To surrender any right, power or privilege reserved to or conferred upon the Authority by terms of this Ordinance;
- (5) To confirm as further assurance any security created under and subject to any lien or claim created or to be created by the provisions of this Ordinance;

(6) To modify the provisions of this Ordinance or any previously adopted Series Ordinance to permit compliance with changes in federal tax law which is required to maintain the tax exempt status of the Tax-Exempt Bonds;

(7) With the consent of the Trustee in reliance upon an opinion of Bond Counsel, to cure any ambiguity or defect or inconsistent provision in this Ordinance or to insert such provisions clarifying matters or questions arising under this Ordinance as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with this Ordinance as theretofore in effect;

(8) To comply with the Trust Indenture Act of 1939; or

(9) To amend or supplement this Ordinance in any respect with regard to Bonds of one or more Priorities of Lien so long as such amendment does not materially adversely affect the Holders of Outstanding Bonds.

No Holders of Bonds of a Priority of Lien shall be “materially adversely affected” for the purposes of this Ordinance by the change of any coverage percentage established for Bonds of any other Priority of Lien, and no amendment of or supplement to this Ordinance that provides for or facilitates the issuance of Bonds of any Priority of Lien shall “materially adversely affect” the Holders of Bonds of any other Priority of Lien for the purposes of this Ordinance so long as such amendment does not change any coverage percentage established for such Priority of Lien or is not an amendment that requires the consent of the Holders of such Bonds under Section 1103.

Notice of the adoption and delivery of any Supplemental Ordinance or resolution and a copy thereof shall be filed by the Trustee with the Rating Agency at the time of such adoption and delivery.

Section 1103. Supplemental Ordinances Requiring Consent of Bondholders. Exclusive of Supplemental Ordinances covered by Section 1102, the Holders of at least 51% of the principal amount of Outstanding Bonds affected by the proposed Supplemental Ordinance and when required by of a Credit Facility, the related Credit Entity, shall have the right to consent to and approve the adoption by the Authority of other Supplemental Ordinances; provided, however, that nothing contained in this Article shall permit or be construed as permitting the following actions without the following consents: (i) an extension of the maturity of the principal of, or mandatory redemption date of, or the interest on any Bond, except upon the consent of the Holders of 100% of the principal amount of Bonds being affected thereby, (ii) a reduction in the principal amount of, or the premium or rate of interest on any Bond, except upon the consent of the Holders of 100% of the principal amount of all Bonds being affected thereby, (iii) modification of the privilege or priority of any Senior Lien Bond or Bonds over any other Senior Lien Bonds, except upon the written consent of the Holders of 100% of the principal amount of the Senior Lien Bonds Outstanding or (iv) modification of the privilege or priority of any Junior Lien Bond or Junior Lien Bonds of a Priority of Lien over any other Junior Lien Bonds of a different Priority of Lien, except upon the written consent of the Holders of 100% of the principal amount of Junior Lien Bonds Outstanding. For the purposes of consents pursuant to this Section 1103, a Credit Entity shall be deemed to be the Holder of Senior Lien Bonds or Junior Lien Bonds pledged by the Authority to the Credit Entity or owned by the Credit Entity or Senior Lien Bonds or Junior Lien Bonds secured

by a Credit Facility except to the extent the Credit Entity has not honored a draw on its Credit Facility which draw complies with the requirements of the Credit Facility.

The Trustee shall give written notice of the proposed adoption of a Supplemental Ordinance by mail to the registered addresses of Holders of the Outstanding Bonds and to the Credit Entity. Such notice shall briefly set forth the nature of the proposed Supplemental Ordinance and shall state that copies thereof are on file at the designated trust office of the Trustee for inspection by Holders of Bonds. If, within 60 days or such longer period as shall be prescribed by the Trustee at the written direction of an Authorized Officer following the mailing of such notice, the Holders of not less than the required percent of the principal amount of the Senior Lien Bonds and Junior Lien Bonds Outstanding by instruments filed with the Trustee shall have consented to the adoption thereof and any other prerequisites such as the approval of any Credit Entity having such right, such Supplemental Ordinance may be adopted and this Ordinance shall be deemed to be modified and amended in accordance therewith.

Anything herein to the contrary notwithstanding, a Supplemental Ordinance under this Article XI which affects the rights, duties and obligations of the Trustee shall not become effective unless and until the Trustee shall have consented in writing in the case of the Trustee, to the adoption of such Supplemental Ordinance and unless the Authority has first obtained the approval of the State Department of Treasury if such approval is required.

If a Series of Bonds will be unaffected by the terms of the Supplemental Ordinance, such Bonds shall not be deemed to be Outstanding for purposes of any required consent.

For the purposes of this Section, a Series or maturity or Priority of Lien of Bonds shall be deemed to be affected by a modification or amendment of this Ordinance if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular Series or maturity or Priority of Lien would be affected by any modification or amendment of this Ordinance and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds. The Trustee may receive an opinion of Bond Counsel as conclusive evidence as to whether Bonds of any particular Series or maturity or Priority of Lien of Bonds would be so affected by any such modification or amendment of this Ordinance.

A Supplemental Ordinance authorizing the issuance of Variable Rate Bonds may set forth provisions that are different from the provisions of this Section 1103 relating to the consent or deemed consent of the Holders of such Variable Rate Bonds to an amendment or modification of this Ordinance.

Section 1104. General Provisions Relating to Series Ordinances and Supplemental Ordinances. This Ordinance shall not be modified or amended in any respect except in accordance with and subject to the provisions of this Article XI. Nothing contained in this Article XI shall affect or limit the right or obligation of the Authority to execute or deliver to the Trustee any instrument pursuant to elsewhere in this Ordinance provided or permitted to be delivered to the Trustee.

A copy of every Supplemental Ordinance adopted by the Authority when filed with the Trustee shall be accompanied by an opinion of Bond Counsel satisfactory to the Trustee stating

that such Supplemental Ordinance has been duly and lawfully adopted in accordance with the provisions of this Ordinance, is authorized or permitted by this Ordinance and is valid and binding upon the Authority and enforceable in accordance with its terms.

The Trustee is hereby authorized to accept delivery of a certified copy of any Series Ordinance or Supplemental Ordinance permitted or authorized pursuant to the provisions of this Ordinance and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on an opinion of Bond Counsel that such Series Ordinance or Supplemental Ordinance is authorized or permitted by the provisions of this Ordinance.

Section 1105. Notation on Bonds. Bonds delivered after the effective date of any action taken as provided in Article XI may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case, upon demand of the Holder of any Bond Outstanding at such effective date and upon presentation of his or her Bond for the purpose at the designated trust office of the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity then Outstanding, upon surrender of such Bonds.

Section 1106. Notice. All notices, requests or other communications required to be given herein to the Authority and the Trustee shall be sufficiently given when mailed by registered or certified mail, postage prepaid, addressed, respectively, as follows:

To the Authority, at the addresses supplied from time to time to the Trustee by the Chief Executive Officer.

To the Trustee, at the address designated by the Trustee from time to time given to the Chief Executive Officer.

Section 1107. Computation of Principal on Non-Interest Bearing Bonds. In the event the Authority issues any Bonds which do not bear interest, and which appreciate in principal amount between the date of issuance and the maturity date thereof, in any context in which this Ordinance requires a computation of the percentage of the principal amount of Outstanding Bonds, the Holders of which are required to or may take or require action, the appreciated principal amount of any such non-interest bearing Bond as of the date of such action shall be deemed to be the principal amount of such Bond.

Section 1108. Governing Law. This Ordinance and the Bonds shall be governed by, and construed in accordance with, the internal laws of the State applicable to agreements made and to be performed in such State without regard to conflicts of law principles thereof to the extent the law of another jurisdiction would be applied thereby.

Section 1109. Severability; Paragraph Headings; and Conflict. If any section, paragraph, clause or provision of this Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this Ordinance. The paragraph

headings in this Ordinance are furnished for convenience of reference only and shall not be considered to be part of this Ordinance.

Section 1110. Publication and Recordation. This Ordinance shall be published in full in the Detroit Legal News, a newspaper of general circulation within the geographic boundaries of the Authority qualified under State law to publish legal notices, promptly after its adoption, and shall be maintained in the official records of the Authority and such recording authenticated by the signatures of the Chairperson and Secretary of the Authority Board.

Section 1111. Repeal. All ordinances, resolutions, indentures or orders, or parts thereof, in conflict with the provisions of this Ordinance are, to the extent of such conflict, repealed.

Section 1112. Effective Date. This Ordinance shall be effective as of the Effective Date.