

Detroit Water and Sewerage Department

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Meeting Agenda

Monday, October 19, 2015

7:30 AM

Finance Committee Special Meeting

5th Floor Board Room, Water Board Building

Finance Committee

1. CALL TO ORDER**2. ROLL CALL****3. APPROVAL OF AGENDA****4. APPROVAL OF MINUTES**

None

5. PUBLIC PARTICIPATION**6. OLD BUSINESS**

A. Bondholder Consent and 2015 Financing update (verbal)

7. NEW BUSINESS

A. Resolution and Ordinance Authorizing the Issuance and Sale of Sewage Disposal System Revenue SRF Junior Lien Bonds

8. REPORTS

A. FY2014 City of Detroit Internal Control Report

9. Look Ahead Schedule

Scheduled Meetings

-Finance Committee Meeting November 12, 2015

10. OTHER MATTERS**11. ADJOURNMENT**



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City of Detroit Water & Sewerage Department
Financial Services Group
Finance Committee Communication

Date: October 19, 2015

To: Board of Water Commissioners (BOWC) Finance Committee

From: Jon Wheatley, Public Finance Manager

Re: Resolution and Ordinance Authorizing the Issuance and Sale of Sewage Disposal System Revenue SRF Junior Lien Bonds

Background: Funding for the Detroit Water & Sewerage sewer system capital improvement plan contemplates the use of State Revolving Funds (SRF) which bear a lower interest and issuance costs. The proceeds of the Bonds will be used for the purpose of paying all or a part of the cost of the rectangular primary clarifier rehabilitation project (PC-757), aeration system improvements (PC-796), Biosolids Dryer Facility Segment II (PC-792) and the Rouge River Outflow disinfection (PC-797) to the City of Detroit's sewage disposal system. The expenditures related to these projects were planned to be financed by a combination of existing funds, proceeds from new "regular" revenue bonds, and/or transfers of revenues. By obtaining this low cost financing for these projects, the other capital funds can be freed up to address other capital project needs, and the issuance of additional "regular" debt can be mitigated.

The Resolution provides for a principal amount not to exceed \$125,000,000 which is based on the preliminary construction estimate of the projects with some level of flexibility if final design and related bid costs are higher.

The Bonds will be issued under Public Act 94 of 1933, as amended, as Junior Lien Revenue bonds and are payable solely from the specific revenues of the sewage disposal system. The Bonds will be sold to the Michigan Finance Authority in multiple series as part of the State Revolving Fund ("SRF") program for the State's 2015-16 fiscal year funding cycle.

The current SRF program interest rate is 2.50% and is payable over a 20 year term. The Biosolids project qualifies for \$2 million in "Green Project Reserve" principal forgiveness. Based on the combined project amounts of \$125 million, DWSD could save an estimated \$40 million in interest costs, avoided issuance costs and project costs savings based on a similar open market revenue bond with a 30 year term and 5.00% interest rate, over the life of the bond issues.

Analysis: On October 12, 2015, the BOWC Finance Committee was presented the "Resolution of the Board of Water Commissioners of the Detroit Water and Sewerage Department Authorizing Publication of Notice of Intent to Issue Sewage Disposal System Revenue Bonds in a principal

amount not to exceed \$125,000,000” (the “Notice of Intent”) which was the first step related to the issuance of State Revolving Fund Bonds for identified sewer projects to be funded in FY 2016. On October 14, 2015, the BOWC adopted this resolution and the Notice has been published. The referendum period will expire on or about December 1st.

The Authorizing Resolution presented today is the next formal step required by the BOWC in the bond issuance process which sets the guidelines for the bonds, authorizes the issuance of the bonds by the BOWC and further authorizes the Director to execute the final terms of the bonds, paying issuance costs and signing of the Purchase Contract and Sale Order, within the parameters set forth in the Authorizing Resolution. As a condition of the Authorizing Resolution, before any bonds are issued, the Director must confirm that 45 days have passed since the publication of the Notice of Intent, and that no petitions requesting a referendum on the issuance of bonds, as described in the Notice of Intent, have not been filed with the City Clerk.

Impact to Great Lakes Water Authority: As noted on page 9 of the resolution, “The New SRF Junior Lien Project Bonds are subject to assumption by the Great Lakes Water Authority on the terms set forth in the Sale Order.” This means that these new SRF bonds would pivot to the Great Lakes Water Authority provided other conditions are met.

Budget Impact: The first anticipated debt service payments on the Bonds will be October 1, 2016 and will be included in the FY 2017 Budget and thereafter.

Proposed Action: Finance Committee recommends that the Board of Water Commissioners adopt the Resolution and Ordinance Authorizing the Issuance and Sale of Sewage Disposal System Revenue SRF Junior Lien Bonds of the City of Detroit, all for the Purposes of Defraying Part of the Cost of Financing and/or Refinancing Replacements, Repairs, Extensions and Improvements to the City’s Sewage Disposal System Funds, and Paying Costs of Issuance, all under Act No. 94, Public Acts of Michigan, 1933, as Amended, and Ordinance No. 18-01 of the City Council of the City; Prescribing the Form of the Bonds Herein Authorized; and Authorizing the Director of the Detroit Water and Sewerage Department to Make Determinations with Respect to the Foregoing and to Take Other Actions

[SRF SEWER RESOLUTION]

**PROCEEDINGS OF THE BOARD OF WATER COMMISSIONERS
OF THE DETROIT WATER AND SEWERAGE DEPARTMENT
CITY OF DETROIT, MICHIGAN**

Meeting Date: October __, 2015

Present: _____

Absent: _____

A Resolution and Ordinance Authorizing the Issuance and Sale of Sewage Disposal System Revenue SRF Junior Lien Bonds of the City of Detroit, all for the Purposes of Defraying Part of the Cost of Financing and/or Refinancing Replacements, Repairs, Extensions and Improvements to the City’s Sewage Disposal System Funds, and Paying Costs of Issuance, all under Act No. 94, Public Acts of Michigan, 1933, as Amended, and Ordinance No. 18-01 of the City Council of the City; Prescribing the Form of the Bonds Herein Authorized; and Authorizing the Director of the Detroit Water and Sewerage Department to Make Determinations with Respect to the Foregoing and to Take Other Actions.

WHEREAS, the City of Detroit, Michigan (the “*City*”), pursuant to Ordinance No. 18-01 adopted by its City Council (the “*Council*”) on October 18, 2001 and as subsequently amended or supplemented (collectively, the “**Ordinance**”), which amended and restated certain prior ordinances, has generally authorized the issuance of Sewage Disposal System Revenue Bonds; and

WHEREAS, Article 7, Chapter 12, of the 2012 Detroit City Charter (the “*Charter*”) creates, pursuant to federal court order, the Water and Sewerage Department (the “*Department*”) which is part of the City and is “headed by a seven (7) member board known as the Board of Water Commissioners [(the “*DWSD Board*”)] [who are] be appointed by and serve at the pleasure of the Mayor...;” and

WHEREAS, as of June 1, 2012, the City, the Department and U.S. Bank National Association, as Trustee, (the “*Trustee*”) entered into a Trust Indenture relating to the outstanding secured obligations of the Detroit Water and Sewerage Department (Sewage Disposal System) (as amended, the “*Indenture*”); and

WHEREAS, pursuant to a series of federal court orders, the Board has been granted various powers including, pursuant to an Opinion and Order dated December 12, 2012, the sole power to approve the issuance of debt and the refinancing of debt by the Department, unless the

debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to the issuance; and

WHEREAS, the Department is operating under National Pollutant Discharge Elimination System (“*NPDES*”) Permit No. MI 0022802 issued March 1, 2013, as amended and supplemented, which expires October 1, 2017 (the “*Permit*”) which contains operating compliance, monitoring implementation provisions and deadlines; and

WHEREAS, the Department is also operating under Administrative Consent Order No. ACO-000131 entered into by the Department and by the State of Michigan Department of Environmental Quality Water Resources Division (“*DEQ*”) dated July 8, 2011, as amended and supplemented (the “*ACO*”) resulting from allegations by the DEQ that the Department was in violation of applicable law; and

WHEREAS, the ACO contains certain operating compliance, monitoring and implementation deadlines; and

WHEREAS, in the accordance with the Permit and the ACO, the DWSD Board approved a five year Capital Improvement Program dated as of January 2014, as modified by the Department from time to time (the “*CIP*”), to ensure compliance with the Permit and the ACO; and

WHEREAS, to ensure compliance with the permit and the ACO, and for the public health, benefit and welfare of the City, it is deemed necessary to acquire and construct certain repairs, extensions and improvements to the Sewage Disposal System of the City (the “*System*”) as described in the CIP (for purposes of this Resolution, the “*Project*”); and

WHEREAS, to finance the Project Costs defined below, the Director of the Department (the “*Director*”) has recommended that the Sewage Disposal System Revenue Bonds be issued as “SRF Junior Lien Bonds” as defined in the Ordinance, which may include obligations issued for Stormwater Asset Management programs, (the “*New SRF Junior Lien Project Bonds*” or the “**New SRF Junior Lien Bonds**”); and

WHEREAS, the New SRF Junior Lien Project Bonds shall be issued in accordance with Act No. 94, Public Acts of Michigan of 1933, as amended (“*Act 94*”) and applicable provisions of Act No. 34, Public Acts of Michigan of 2001, as amended (“*Act 34*”) and the applicable provisions of the Ordinance and, as applicable, the Indenture; and

WHEREAS, all things necessary for the authorization and issuance of the New SRF Junior Lien Project Bonds under the Constitution and laws of the State of Michigan, including Act 94 and Act 34, and the applicable provisions of the Ordinance and the Indenture have been or will be done prior to the issuance and delivery of the New SRF Junior Lien Project Bonds, and the Board is now empowered and desires to authorize the issuance of the New SRF Junior Lien Project Bonds by supplementing the Ordinance by adoption of this Resolution, all as herein provided; and

WHEREAS, prior to the issuance of the New SRF Junior Lien Project Bonds, it is anticipated that the Detroit Financial Review Commission will approve the issuance of such bonds by Resolution to comply with Act No. 181, Public Acts of Michigan of 2014 (the “FRC Action”); and

WHEREAS, this Resolution and the FRC Action constitutes an “Act of Council” under the Ordinance, and this Resolution and the FRC Action constitutes an “Ordinance” under Act 94; and

WHEREAS, the DWSD Board desires to authorize the Director to establish the aggregate principal amount, purchase price, interest rates and maturities for the New SRF Junior Lien Project Bonds, the designations of the New SRF Junior Lien Project Bonds, the amounts and purposes of the New SRF Junior Lien Project Bonds, the dates for payment of principal of, premium, if any, and interest on the New SRF Junior Lien Project Bonds, and the Mandatory Redemption Requirements, if any, and other redemption provisions for the New SRF Junior Lien Project Bonds, and make such other determinations, including amendments to the Ordinance and the Indenture as described herein, as shall be confirmed in the Sale Order (as hereinafter defined, the “*Sale Order*”); and

WHEREAS, the DWSD Board desires to authorize the Director to sell the New SRF Junior Lien Project Bonds in one or more Series and at one or more times, as shall be described in the Sale Order, within the parameters established herein, by negotiated sale pursuant to a Bond Purchase Agreement or Agreements (individually and collectively, the “*Purchase Agreement*”) between the Michigan Finance Authority and the DWSD; and

WHEREAS, the DWSD Board desires to authorize and direct the Director and all other authorized persons to perform all acts consistent with the Ordinance, the Indenture and this Resolution necessary and appropriate to complete the sale, execution and delivery of the New SRF Junior Lien Project Bonds pursuant to the Purchase Agreement; and

WHEREAS, a notice of intent to issue Sewage Disposal System Revenue Bonds in an amount not to exceed \$125,000,000 has been previously published in one or more newspapers of general circulation in accordance with the requirements of Section 33 of Act 94 (the “*Notice of Intent*”) and the New SRF Junior Lien Project Bonds may only be issued under the authorization of this Resolution to the extent that (i) 45 days have passed after the publication of the Notice of Intent, and (ii) during such 45 day period petitions signed by 15,000 or more registered electors of the City requesting a referendum on the issuance of bonds, as described in the Notice of Intent, have not been filed with the City Clerk;

NOW, THEREFORE, BE IT RESOLVED by the DWSD Board that:

Section 1 Definitions.

(a) Capitalized terms not defined in this Resolution, and defined in the preamble hereto, in the Ordinance or in the Indenture, are used herein as therein defined.

(b) Except when otherwise clearly required by the context, the following terms shall have the following respective meanings:

“Authorized Denomination” means any denomination as determined by the Director in the Sale Order.

“Business Day” means any day except Saturday, Sunday or any day on which banking institutions located in the State of New York or the State of Michigan are required or authorized to close or on which the New York Stock Exchange is closed.

“Code” means the Internal Revenue Code of 1986, as amended.

“Construction Fund, SRF Series 2015” means a subaccount of the Construction Fund established in accordance with Section 14 of the Ordinance and under Section 11 of this Resolution, relating to the construction of the Project to be paid with the proceeds of the New SRF Junior Lien Project Bonds, provided that if any New SRF Junior Lien Project Bonds are issued in 2016, then references in this Resolution to “Construction Fund, SRF Series 2015” shall be deemed to be references to “Construction Fund, SRF Series 2016”.

“Interest Payment Date” means, except as otherwise determined in the Sale Order each April 1 and October 1.

“Issuance Costs” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of New SRF Junior Lien Project Bonds to the Michigan Finance Authority, including without limitation any underwriters’ discount or fee, purchaser’s discount or fee, insurance premiums, legal, financial, printing, escrow verification, consultants’ fees and costs, publications costs, and other expenses incident thereto.

“Maturity Date” means such dates of maturity for the New SRF Junior Lien Project Bonds as determined in the Sale Order.

“Person” means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

“Project Costs” means the costs of acquiring, constructing, equipping and installing and financing the Project, including, engineering, legal and financing costs. Project Costs includes, to the extent provided in the Sale Order, Issuance Costs.

“Regular Record Date” means the fifteenth day of the calendar month immediately preceding the Interest Payment Date.

“Sale Order” means any of one or more orders of the Director authorizing acts consistent with the Ordinance, the Indenture and this Resolution necessary and appropriate to complete the sale, execution and delivery of the New SRF Junior Lien Project Bonds and to complete the other transactions contemplated herein.

“Tax-Exempt DWSD Bonds” means any New SRF Junior Lien Project Bonds, the payment of interest on which is exempt from taxation under the Code.

“Taxable DWSD Bonds” means any New SRF Junior Lien Project Bonds other than Tax-Exempt DWSD Bonds.

“Transfer Agent” means the Transfer Agent under the Ordinance and, as the context requires, the Trustee under the Indenture.

(c) References to Sections and Exhibits refer to the corresponding Sections of and Exhibits to this Resolution unless otherwise stated.

(d) Whenever this Resolution provides for or authorizes doing anything or meeting any requirement in two or more ways, such act may be performed or such requirement may be met by a combination of such ways, and none of such ways shall be exclusive of any other unless such exclusivity shall be clearly required by the context.

Section 2 Approval of Project.

It is hereby determined to be necessary for the public health, benefit and welfare of the City to acquire, construct and undertake the Project, and the Project is hereby approved and accepted.

Section 3 Estimated Cost and Period of Usefulness of Project.

The Project Costs estimated by the Board are at least \$125,000,000 and the Project Costs are hereby approved and confirmed. The period of usefulness of the Project is estimated to be not less than 40 years.

Section 4 Authorization of New SRF Junior Lien Project Bonds; Incorporation of the Ordinance.

(a) Authorization of Borrowing.

(1) The City may borrow an aggregate amount not in excess of \$125,000,000, as is finally determined in the Sale Order, and issue New SRF Junior Lien Project Bonds at one or more times and in one or more series, all to evidence such borrowing pursuant to Act 94, the Ordinance and the Indenture, as New SRF Junior Lien Bonds, all as finally determined in the Sale Order.

(2) The amount of the borrowings authorized by subsection (a), above:

(i) shall include the amount of the net original issue premium, if any and

(ii) the principal amount shall not exceed the principal amount of New SRF Junior Lien Project Bonds approved for issuance by the Michigan Department of Treasury to the extent such approval is required by Act 34.

(b) Purposes of New SRF Junior Lien Project Bonds.

The New SRF Junior Lien Project Bonds shall be issued for the purpose of paying, reimbursing and/or refinancing Project Costs, which may, if necessary, include Issuance Costs.

(c) Insufficient Proceeds.

(i) To the extent that proceeds of New SRF Junior Lien Project Bonds are insufficient to pay Project Costs, the insufficiency shall be paid from the proceeds of future additional bonds, if any, and moneys of the System now on hand and legally available therefor and such moneys are hereby appropriated therefor.

(d) Separate Series.

New SRF Junior Lien Project Bonds are issuable at one or more times and as one or more separate series of Securities in such amounts as determined in the Sale Order or Sale Orders.

(e) Taxable and Tax-Exempt Securities.

New SRF Junior Lien Project Bonds may be issued as Taxable DWSD Bonds or Tax-Exempt DWSD Bonds, or as separate series of both.

(f) Source of Payment and Security.

The New SRF Junior Lien Project Bonds shall be payable and secured as provided in Section 6.

(g) Concerning the Ordinance.

Except as otherwise provided in this Resolution or the Sale Order, all of the provisions of the Ordinance shall apply to the New SRF Junior Lien Project Bonds as if set forth in full in this Resolution, the purpose of this Resolution being to supplement the Ordinance to authorize the issuance of New SRF Junior Lien Project Bonds for the purposes herein set forth.

Section 5 Details and Terms of New SRF Junior Lien Project Bonds.

(a) Designation.

(1) The New SRF Junior Lien Project Bonds shall bear the designations Sewage Disposal System Revenue SRF Junior Lien Bonds and shall include the series designation and such other designations, including, without limitation, designations for multiple series or subseries, as determined by the Director as shall be set forth in the Sale Order and not inconsistent with the Ordinance or this Resolution.

(2) if the New SRF Junior Lien Project Bonds are not issued in 2015, the Director is authorized in her discretion to re-designate the year and series designation of the New SRF Junior Lien Project Bonds and the various funds and accounts established hereunder to correspond with the year of issuance of the New SRF Junior Lien Project Bonds. Furthermore, the Director is authorized to establish designations within the various funds and accounts established hereunder if necessary in order to differentiate such funds and accounts from other similarly named funds and accounts related to other bonds.

(b) Numbering.

New SRF Junior Lien Project Bonds shall be numbered in such manner as shall be determined in the Sale Order.

(c) Principal.

New SRF Junior Lien Project Bonds shall be issued in the form of serial or term bonds, or any combination of serial and term bonds, in any Authorized Denomination, and the principal thereof shall mature on October 1, or such other date as set forth in the Sale Order, in such years and amounts and shall be or not be subject to redemption prior to maturity, all as shall be determined in the Sale Order subject to the following limitations:

(1) No New SRF Junior Lien Project Bonds shall mature later than 40 years after the date of issuance thereof.

(2) New SRF Junior Lien Project Bonds shall only be issued in annual principal and interest amounts permitted by the Ordinance, including Section 21 thereof.

(d) Interest.

(1) New SRF Junior Lien Project Bonds or portions thereof shall bear interest at fixed or variable rates not in excess of the maximum rate permitted by law except as otherwise provided in 0 of this Resolution.

(2) Interest on New SRF Junior Lien Project Bonds shall be payable on each Interest Payment Date to the registered owners as of the immediately preceding Regular Record Date by check drawn on the Trustee and Transfer Agent and mailed, or sent by other means, to such registered owners at their addresses, as shown on the registration books of the City maintained by the Trustee and Transfer Agent; provided, however, that at the written request of a registered owner of at least \$1,000,000 in principal amount of like New SRF Junior Lien Project Bonds of the same type at least five calendar days prior to any Interest Payment Date (which request may provide that it will remain in effect with respect to subsequent Interest Payment Dates unless and until changed or revoked at any time prior to an Interest Payment Date by subsequent written notice to the Trustee and Transfer Agent), interest shall be paid by wire transfer or other immediately available funds acceptable to the Trustee and Transfer Agent and the City.

(3) The principal of the New SRF Junior Lien Project Bonds shall be payable at the corporate office of the Trustee and Transfer Agent as principal paying agent or at such other co-paying agents as may be designated by the Director, upon presentation and surrender of the appropriate New SRF Junior Lien Project Bond.

(e) Dating.

The New SRF Junior Lien Project Bonds shall be dated such date or dates as determined in the Sale Order.

(f) Exchange.

The registered owner of any New SRF Junior Lien Project Bond may exchange such New SRF Junior Lien Project Bond for an equal aggregate principal amount of any other like New SRF Junior Lien Project Bond of the same type and maturity in one or more of the Authorized Denominations by surrendering such New SRF Junior Lien Project Bond to be exchanged at the designated office of the Transfer Agent together with an assignment duly executed by the registered owner thereof or his attorney or legal representative in such form as shall be satisfactory to the Transfer Agent.

(g) Transfer Agent.

U.S. Bank National Association, Detroit, Michigan, or such other Transfer Agent as set forth in the Sale Order, is appointed as the initial Transfer Agent for the New SRF Junior Lien Project Bonds. Its acceptance of the duties of Transfer Agent for the New SRF Junior Lien Project Bonds, and its agreement to fully and completely comply with the provisions of the Ordinances and the Indenture applicable to it, shall be evidenced by a document filed with the Director concurrently with the delivery of the New SRF Junior Lien Project Bonds.

(h) Execution of New SRF Junior Lien Project Bonds.

The Director and the Chief Financial Officer of the Department, together with the City Finance Director, are hereby authorized and directed to execute the New SRF Junior Lien Project Bonds by manual or facsimile signature for and on behalf of the City and in its name, to impress or imprint thereon the official seal of the City or a facsimile thereof and to deliver the New SRF Junior Lien Project Bonds to the Michigan Finance Authority upon receiving the purchase price therefor in lawful money of the United States.

(i) Form of New SRF Junior Lien Project Bonds.

The New SRF Junior Lien Project Bonds shall be in substantially the form contained in Exhibit A hereto, subject to such changes, additions or deletions as determined by the Director within the parameters of this Resolution.

(j) Assumption or Exchange.

The New SRF Junior Lien Project Bonds are subject to assumption by the Great Lakes Water Authority on the terms set forth in the Sale Order.

Section 6 Payment of New SRF Junior Lien Project Bonds; Confirmation of Statutory Lien.

(a) The New SRF Junior Lien Project Bonds and the interest thereon shall be payable solely from the Pledged Assets.

(b) To secure payment of the New SRF Junior Lien Project Bonds, the statutory lien upon the whole of the Pledged Assets established by Act 94 and the pledge created in Section 5 of the Ordinance is hereby confirmed in favor of the New SRF Junior Lien Project Bonds as follows:

Such lien in favor of the New SRF Junior Lien Bonds shall be a third lien of equal standing and Priority of Lien with all issued, to be issued and outstanding New SRF Junior Lien Bonds.

Section 7 Concerning the Securities Depository.

(a) As used herein:

Beneficial Owner means any Person who indirectly owns New SRF Junior Lien Project Bonds pursuant to the indirect ownership system maintained by a securities depository (the “**Securities Depository**”) and its Participants, commonly known as the “Book-Entry Only System.”

Participant means any Person whose ownership of New SRF Junior Lien Project Bonds is shown on books of the Securities Depository.

(b) The New SRF Junior Lien Project Bonds will initially be registered in the name of the Michigan Finance Authority, or such other Purchasers as designated in the Sale Order. In the event the New SRF Junior Lien Project Bonds are later to be registered in the name of a Securities Depository or its nominee, neither the City nor the Transfer Agent shall have any responsibility or obligation to any Participant or to any Beneficial Owner with respect to any matter, including the following:

(1) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any ownership interest in New SRF Junior Lien Project Bonds,

(2) the delivery to any Participant, Beneficial Owner or any other Person other than the Securities Depository of any notice with respect to: any New SRF Junior Lien Project Bonds, including any notice of redemption, or

(3) the payment to any Participant, Beneficial Owner or any other Person, other than the Securities Depository of any amount with respect to the principal (and premium, if any) of or interest on any New SRF Junior Lien Project Bonds.

(c) The Transfer Agent shall pay all principal (and premium, if any) of and interest on the New SRF Junior Lien Project Bonds only to or upon the order of the Michigan Finance Authority, or the Securities Depository, as applicable, and all such payments shall be valid and effective fully to satisfy and discharge the City's obligations with respect to the principal (and premium, if any) of, and interest on such New SRF Junior Lien Project Bonds to the extent of the sum or sums so paid.

(d) If the New SRF Junior Lien Project Bonds become registered in the name of the Securities Depository and (1) the City receives a written notice from the Securities Depository to the effect the Securities Depository is unable or unwilling to discharge its responsibilities or (2) the City determines that it is in the best interests of the Beneficial Owners of New SRF Junior Lien Project Bonds that they be able to obtain New SRF Junior Lien Project Bonds in certificated form, then, in either event, the City shall notify the Transfer Agent and, in the case of clause, (2), the Securities Depository.

(e) Upon discontinuance of the use of the Book-Entry Only System maintained by the Securities Depository, if any, pursuant to subsection (d), above and upon receipt of notice from the Securities Depository containing sufficient information, the City shall execute and the Transfer Agent shall authenticate and deliver New SRF Junior Lien Project Bonds in certificated form to Beneficial Owners in exchange for the beneficial interests of such Beneficial Owners in corresponding principal amounts and in any Authorized Denominations.

(f) Notwithstanding any other provision of this Resolution to the contrary, so long as any New SRF Junior Lien Project Bond is registered in the name of the Securities Depository or its nominee:

(1) all payments with respect to the principal, premium, if any, and interest on such New SRF Junior Lien Project Bond and all notices of redemption, tender and otherwise with respect to such New SRF Junior Lien Project Bond shall be made and given, respectively, to the Securities Depository as provided in the letter of representations from the City and the Transfer Agent to the Securities Depository with respect to such New SRF Junior Lien Project Bonds or any master letter of representations from the City and the Transfer Agent to the Securities Depository;

(2) if less than all of the New SRF Junior Lien Project Bonds of the same type of any maturity are to be redeemed, then the particular New SRF Junior Lien Project Bonds or portions of New SRF Junior Lien Project Bonds of such type and maturity to be redeemed shall be selected by the Securities Depository in any such manner as the Securities Depository may determine;

(3) all payments with respect to principal of the New SRF Junior Lien Project Bonds and premium, if any and interest on the New SRF Junior Lien Project Bonds shall be made in such manner as shall be prescribed by the Securities Depository; and

(4) if a New SRF Junior Lien Project Bond is redeemed or tendered in part, then all amounts payable in respect of such redemption or tender shall be paid without presentation and surrender of such New SRF Junior Lien Project Bond pursuant to the procedures of the Securities Depository.

Section 8 Funds and Accounts; Flow of Funds.

Except as otherwise provided in this Resolution, all of the provisions relative to funds and accounts, their maintenance, the flow of funds and other details relative thereto, shall remain as specifically set forth in the Ordinance.

Section 9 Term Bond Sinking Fund Accounts.

(1) If any New SRF Junior Lien Bonds are issued as term bonds, there shall be established in the New SRF Junior Lien Bonds Interest and Redemption Fund authorized by Section 12 of the Ordinance, an account to be designated “SRF Junior Lien Term Bond Sinking Fund Account” and the series designation of the respective bonds shall proceed such name (the “*SRF Junior Lien Sinking Fund*”) for such New SRF Junior Lien Bonds.

(2) There shall be credited to the SRF Junior Lien Sinking Fund the amounts required to be deposited in the SRF Junior Lien Bond Interest and Redemption Fund to meet the next due Mandatory Redemption Requirement for such SRF Junior Lien Bonds coming due within the next twelve months.

(3) A Mandatory Redemption Requirement for a maturity of New SRF Junior Lien Project Bonds issued as term bonds may be satisfied in the manner provided by Section 13(C)(b)(2) of the Ordinance.

Section 10 Disposition of Proceeds.

(a) New SRF Junior Lien Bonds.

(1) Disposition of Accrued Interest and Capitalized Interest. From the proceeds of the sale of the New SRF Junior Lien Bonds there shall be immediately deposited in the New SRF Junior Lien Bonds and Interest Redemption Fund, an amount equal to any accrued interest received on the delivery of the New SRF Junior Lien Bonds and any Capitalized Interest on the New SRF Junior Lien Bonds, and the City may take credit for the amount so deposited against the amount required to be deposited in the SRF Junior Lien Bond and Interest Redemption Fund for payment of the next maturing interest payment on the New SRF Junior Lien Bonds.

(2) Reimbursement. Such portion of the proceeds from the sale of the New SRF Junior Lien Bonds as shall be determined in the Sale Order shall be applied to the reimbursement of the primary source funds or accounts from which any amounts were applied to costs of the Project pursuant to Section 15 of this Resolution and not paid from the proceeds of the New SRF Junior Lien Bonds.

(3) Issuance Costs. Such portion of the proceeds from the sale of the New SRF Junior Lien Bonds shall be applied to the payment of Issuance Costs upon submission of proper documentation to the Director to the extent such Issuance Costs are not paid from the proceeds of other New SRF Junior Lien Project Bonds.

(4) Construction Fund. The balance of the proceeds from the sale of the New SRF Junior Lien Bonds shall be deposited in the Construction Fund, Series 2015 and shall be used to pay Project Costs.

Section 11 Construction Fund.

(a) A subaccount of the Construction Fund established by the Ordinance shall be designated the “Construction Fund, SRF Series 2015,” and shall be established and maintained as a separate depository account with a depository qualified to be a depository of moneys under Michigan law as designated by the Director.

(b) Moneys in the Construction Fund, SRF Series 2015 shall be applied solely to payment of Project Costs.

(1) Payments for Project Costs for construction, either on account or otherwise, shall not be made unless the registered engineer in charge of such work shall file with the DWSD Board a signed statement to the effect that the work has been completed in accordance with the plans and specifications therefor, that it was done pursuant to and in accordance with the contract therefor, that such work is satisfactory and that such work has not been previously paid for.

(2) Payment for Project Costs consisting of the costs of engineering, legal, financial (including unpaid Issuance Costs) shall be made upon submission of appropriate documentation to the Director, which may include documentation in connection with issuance by the Michigan Finance Authority of its related revenue bonds.

(c) Any unexpended balance remaining in the Construction Fund, SRF Series 2015 after completion of the Project may be used, in the discretion of the Director, for:

(1) meeting the Reserve Requirement for Senior Lien Bonds or the Reserve Requirement for Second Lien Bonds or

(2) further improvements, replacements, enlargements and extensions to the System not constituting part of the Project in accordance with applicable law so long as such expenditure will not, in the opinion of nationally recognized bond counsel, impair the exclusion of interest on Tax-Exempt New SRF Junior Lien Project Bonds from gross income for federal income tax purposes.

(d) Any remaining balance after all expenditures made pursuant to subsection (c), above, if any, have been made, shall be paid into the SRF Junior Lien Bond and Interest Redemption Fund for the purpose of redemption or purchase at not more than the fair market value, plus accrued interest, of outstanding New SRF Junior Lien Project Bonds.

Section 12 Tax Covenant.

(a) The Department hereby covenants and represents with the registered owners of the Tax-Exempt DWSD Bonds, and the City will covenant and represent prior to issuance of the Tax-Exempt DWSD Bonds, that so long as any of the Tax-Exempt DWSD Bonds remain outstanding and unpaid as to either principal or interest, the Department and the City, respectively, shall, to the extent permitted by law, take all actions within its control to maintain and will refrain from taking any action which would impair the exclusion of the interest on the Tax-Exempt DWSD Bonds from gross income for federal income tax purposes under the Code, as currently amended.

(b) The actions referred to in subsection (a), above include, but are not limited to actions relating to any required rebate of arbitrage earnings and the expenditure and investment of proceeds of Tax-Exempt DWSD Bonds and moneys deemed to be proceeds of Tax-Exempt DWSD Bonds, and to prevent the Tax-Exempt DWSD Bonds from being or becoming “private activity bonds” as that term is used in the Code, as currently amended.

Section 13 Sale of New SRF Junior Lien Project Bonds; Purchase Agreement; Expiration of Referendum Period.

(a) The New SRF Junior Lien Project Bonds shall be sold by negotiated sale to the Michigan Finance Authority pursuant to a Purchase Agreement or Agreements in customary form with such changes thereto as the Director shall determine are in the best interests of the Department and the City, within the parameters established hereby. Such determination shall be conclusively established by the Director's execution and delivery of the Purchase Agreement to the Michigan Finance Authority.

(b) The reasons for choosing a negotiated sale instead of a competitive sale include the belief of the DWSD Board, based upon the recommendation of the Director and the Department's Financial Advisor, that a negotiated sale will allow the New SRF Junior Lien Project Bonds to receive a subsidized interest rate via participation in the Michigan Finance Authority's State Revolving Fund Program.

(c) The Director is authorized to accept, on behalf of the Department, an offer from the Michigan Finance Authority and, if applicable, an offer from the underwriters of the Michigan Finance Authority's bonds used to finance its acquisition of the New SRF Junior Lien Project Bonds, to purchase the New SRF Junior Lien Project Bonds subject to the following limitations:

(1) The true interest cost (TIC) of the New SRF Junior Lien Project Bonds shall not exceed:

- (i) 3.25% with respect to Tax-Exempt DWSD Bonds; and
- (ii) 5.00% with respect to Taxable DWSD Bonds.

(2) The aggregate purchaser's discount at which the New SRF Junior Lien Project Bonds shall be sold to the Michigan Finance Authority shall not exceed 5.00%.

(d) The Director is authorized to determine if the Purchase Agreement shall provide for liquidated damages and if so, the amount thereof, and if the Representative shall be required to provide a good faith check and if so, the amount thereof.

(e) The Director is authorized to enter into one or more Letters of Representation in connection with any Purchase Agreement for the New SRF Junior Lien Project Bonds or Michigan Finance Authority bonds issued in connection with the New SRF Junior Lien Project Bonds.

(f) Prior to the sale of the New SRF Junior Lien Project Bonds, the Director shall confirm (i) that 45 days have passed since the publication of the Notice of Intent, and (ii) during such 45 day period petitions signed by 15,000 or more registered electors of the City requesting a referendum on the issuance of bonds, as described in the Notice of Intent, have not been filed with the City Clerk.

Section 14 Delegation of Authority to, and Authorization of Actions of Director.

(a) The Director shall make all determinations herein provided to be made in the Sale Order and shall make all such determinations in accordance with the best interests of the Department and the City and within the parameters of this Resolution.

(b) In addition to determinations authorized elsewhere in this Resolution, the Director shall determine the aggregate principal amount of New SRF Junior Lien Project Bonds to be issued, but not in excess of the aggregate principal amount authorized by this Resolution, on the basis of her evaluation of the maximum amount of New SRF Junior Lien Project Bonds which can be sold, given anticipated interest rates and the revenue coverage requirements with respect to the New SRF Junior Lien Project Bonds and for any other reasons the Director deems appropriate.

(1) Such determination shall also include the type or types of New SRF Junior Lien Project Bonds to be issued and if in one or more series and the redemption provisions for New SRF Junior Lien Project Bonds.

(2) The Director shall also determine and establish, in accordance with this Resolution, the maturities of New SRF Junior Lien Project Bonds, whether such maturities shall be serial or term maturities and the Mandatory Redemption Requirements for any term maturities.

(c) The Director is authorized to file applications and to pay the related fees, if any, to the Michigan Department of Treasury at her discretion under Act 34 for one or more orders of approval to issue all or a portion of the New SRF Junior Lien Project Bonds, and such waivers or other Treasury approvals as necessary to implement the sale, delivery and security for the New SRF Junior Lien Project Bonds as authorized herein, and as required by the Michigan Department of Treasury or Act 34.

The Director is hereby authorized and directed to do and perform any and all other acts and things with respect to the New SRF Junior Lien Project Bonds which are necessary or appropriate to carry into effect, consistent with the Ordinance, the Indenture and this Resolution, the authorizations therein and herein contained including without limitation the securing of ratings by bond rating agencies, and the incurring of reasonable fees costs and expenses incidental to the foregoing, for and on behalf of the Department.

All determinations and decisions of the Director with respect to the issuance and sale of the New SRF Junior Lien Project Bonds as permitted or required by this Resolution shall be confirmed and approved by the Director in the Sale Order.

During the Director's absence or disability, or while the Director's position is vacant, the Chief Financial Officer shall exercise all the powers, perform all the duties and make all the determinations herein required or permitted by the Director.

Section 15 Advancement of Costs of the Project.

At the direction of the Director, the Department may advance certain costs of the Project from the Department's funds prior to the issuance of the New SRF Junior Lien Project Bonds to the extent that such costs are expenditures appropriate for reimbursement under the Notice of Intent and the Code.

Section 16 Ratification.

All determinations and decisions of the Director with respect to the issuance and sale of the New SRF Junior Lien Project Bonds as permitted or required by the Ordinance, the Indenture, or law are hereby ratified, confirmed and approved.

Section 17 Additional Authorization.

The Director, Chief Financial Officer and Corporation Counsel to the Department, any such officials acting in an interim or acting capacity to such officers, their deputies and staff, or any of them, are hereby authorized to execute and deliver such certificates, supplemental agreements, documents, instruments, opinions and other papers as may be deemed necessary or appropriate to complete the sale, execution and delivery of the New SRF Junior Lien Project Bonds and otherwise give effect to the transactions contemplated by this Resolution, as determined by such officials executing and delivering the foregoing items.

Section 18 Resolution a Contract.

The provisions of this Resolution shall constitute a contract between the City, the Department and each registered owner of an outstanding New SRF Junior Lien Project Bond.

Section 19 Election with Respect to New SRF Junior Lien Project Bonds.

The New SRF Junior Lien Project Bonds shall be issued as "Additional Securities" pursuant to such subsection(s) of Section 21 of the Ordinance, as shall be determined by the Director in the Sale Order.

Section 20 Appointment of Bond Counsel and Financial Advisor; Engagement of Other Parties.

(a) The appointment by the Director of the law firm of Dykema Gossett PLLC, as Bond Counsel for the New SRF Junior Lien Project Bonds is hereby ratified, approved and confirmed, notwithstanding the periodic representation by Dykema Gossett PLLC, in unrelated matters of other parties and potential parties to the issuance of the New SRF Junior Lien Project Bonds.

(b) The appointment by the Director of the firm of First Southwest Company as Financial Advisor for the New SRF Junior Lien Project Bonds is hereby ratified, approved and confirmed, notwithstanding the periodic representation by First Southwest Company, in unrelated

matters of other parties and potential parties to the issuance of the New SRF Junior Lien Project Bonds

(c) The fees and expenses of Dykema Gossett PLLC and First Southwest Company shall be payable as an Issuance Cost from the proceeds of the New SRF Junior Lien Project Bonds or other available funds in accordance with the letters of such firms on file with the Director.

(d) The Director is authorized to engage other consultants, including, without limitation, financial advisors, verification agents, or other parties as she deems necessary or appropriate in connection with the sale, issuance and delivery of the New SRF Junior Lien Project Bonds and to pay the fees and expenses thereof from the proceeds of the New SRF Junior Lien Project Bonds or other available funds.

Section 21 Repeal; Savings Clause.

All other ordinances, resolutions or orders of the City, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

Section 22 Severability; Paragraph Headings; and Conflict.

If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this Resolution. The paragraph headings in this Resolution are furnished for convenience of reference only and shall not be considered to be part of this Resolution.

Section 23 Publication.

This Resolution shall be published in full in the *Detroit Legal News*, or such other newspaper selected by the Director which constitutes a newspaper of general circulation in the City qualified under State law to publish legal notices, promptly after its adoption.

Section 24 Effective Date.

This Resolution shall be effective immediately upon adoption.

FORM OF NEW SRF JUNIOR LIEN PROJECT BONDS

R-__

UNITED STATES OF AMERICA
STATE OF MICHIGAN
COUNTY OF WAYNE
CITY OF DETROIT
DETROIT WATER AND SEWERAGE DEPARTMENT

SEWAGE DISPOSAL SYSTEM REVENUE
SRF JUNIOR LIEN BOND, SERIES 2015B

REGISTERED OWNER: [Michigan Finance Authority (the "Authority")]

PRINCIPAL AMOUNT: \$ _____

ORIGINAL ISSUE DATE:

The City of Detroit, County of Wayne, State of Michigan (the "Issuer"), upon authorization from (i) the Board of Water Commissioners (the "Board of Water Commissioners") of the Detroit Water and Sewerage Department (the "DWSD") and (ii) the Detroit Financial Review Commission established and operating pursuant to Public Act 181 of 2014, has issued this Bond. The Issuer, for value received, promises to pay, in lawful money of the United States of America, but only from the Pledged Assets (as defined below), to the Registered Owner named above, or registered assigns, the Principal Amount stated above, or so much thereof as shall have been advanced to the Issuer and not prepaid or reduced pursuant to a Purchase Contract between the Issuer and the Authority, a Supplemental Agreement by and among the Issuer, the Authority and State of Michigan acting through the Department of Environmental Quality and the Order of Approval issued by the Department of Environmental Quality. The Principal Amount shall be payable on the dates and in the principal installments set forth in Schedule A attached hereto.

In the event less than the Principal Amount of the Bond is disbursed by the Authority, any portion of the Principal Amount is prepaid as provided herein, or any serial principal payment becomes due before the Issuer has received proceeds from corresponding purchased principal installments of at least a like amount, then the Authority may prepare a new serial principal installment repayment schedule which shall be presented to the Issuer and be effective upon receipt as provided in the Purchase Contract.

Interest on this Bond shall accrue from the Original Issue Date set forth above at the interest rates set forth in Schedule A attached hereto, only on that portion of installments of the Principal Amount which have been disbursed by the Authority, shall be payable on _____, _____ and semiannually on each April 1 and October 1 thereafter (each an "Interest Payment Date").

Principal of this Bond is payable upon presentation and surrender at the designated office of U.S. Bank National Association, as Trustee and as Transfer Agent under the Indenture (as defined below) or such other trustee or such other transfer agent as the Issuer may hereafter designate by notice mailed to the registered owner not less than 60 days prior to any Interest Payment Date (the “Trustee” or the “Transfer Agent”).

Interest on this Bond is payable to the registered owner of record as of the close of business on the 15th day of the month immediately preceding any Interest Payment Date as shown on the registration books kept by the Trustee and Transfer Agent by check or draft mailed by the Trustee and Transfer Agent to the registered owner at the registered address. Interest on this Bond shall be computed on the basis of a 360-day year comprised of twelve 30-day months. During the time funds are being drawn down by the Issuer under this Bond, the Authority will periodically provide the Issuer with a statement showing the amount of principal that has been advanced and the date of each advance, which statement shall constitute prima facie evidence of the reported information; provided, that no failure on the part of the Authority to provide such a statement or to reflect a disbursement or the correct amount of a disbursement shall relieve the Issuer of its obligation to repay the outstanding principal amount actually advanced (subject to any principal forgiveness as provided for herein), all accrued interest thereon, and any other amount payable with respect thereto in accordance with the terms of this Bond.

Notwithstanding any other provision of this Bond, so long as the Michigan Finance Authority (the “MFA”) is the owner of this Bond, (a) this Bond is payable as to principal, premium, if any, and interest at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., Detroit, Michigan or at such other place as shall be designated in writing to the Issuer by the MFA (the “MFA’s Depository”); (b) the Issuer agrees that it will deposit with the MFA’s Depository payments of the principal of, premium, if any, and interest on this Bond in immediately available funds at least five business days prior to the date on which any such payment is due whether by maturity, redemption or otherwise; and (c) written notice of any redemption of this Bond shall be given by the Issuer and received by the MFA’s Depository at least 40 days prior to the date on which such redemption is to be made.

This Bond is issued pursuant to (i) the provisions of Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”), (ii) Ordinance No. 18-01 adopted by the City Council of Detroit on October 18, 2001, as amended (the “Bond Ordinance”), (iii) the Orders of the United States District Court in United States v. City of Detroit, et al., 77-71100, E.D. Michigan, (iv) the Resolution and Ordinance Authorizing the Issuance and Sale of Sewage Disposal System Revenue SRF Junior Lien Bonds of the City of Detroit, adopted by the Board of Water Commissioners on _____, 2015, and approved by the Detroit Financial Review Commission on _____, 2015, (collectively, the “Bond Resolution”), (v) a Trust Indenture by and among the Issuer, the DWSD and U.S. Bank National Association, as trustee dated as of June 1, 2012, as amended and supplemented (the “Indenture”), and (vi) a Sale Order of the Director of the DWSD dated _____, 2015, (the “Sale Order,” and, collectively with the Bond Ordinance, the Bond Resolution and the Indenture, the “Authorizing Documents”). This Bond is issued for the purposes set forth in the Bond Resolution and the Sale Order.

For the prompt payment of the principal of and interest on this Bond, and other bonds issued by the Issuer pursuant to the Bond Ordinance and the Bond Indenture, the Issuer has irrevocably pledged the revenues of the Issuer's sewage disposal System (as defined in the Bond Ordinance) (the "System"), after provision is made for reasonable and necessary expenses of operation, maintenance and administration of the System (the "Net Revenues"), and a statutory lien on the Net Revenues and Pledged Assets (as defined in the Bond Ordinance) (the "Pledged Assets") is hereby recognized and acknowledged. Such lien is a third lien, subject to obligations heretofore and hereafter issued or incurred under the Bond Ordinance secured by a first or second lien on Pledged Assets. The Bonds are of equal standing on a parity with all other obligations heretofore and hereafter issued or incurred under the Bond Ordinance and secured by a third lien on Pledged Assets.

For a complete statement of the revenues from which and the conditions under which this Bond is payable, a statement of the conditions under which Additional Securities (as defined in the Bond Ordinance) of senior or equal standing and Additional Securities of junior standing may hereafter be issued and the general covenants and provisions pursuant to which this Bond is issued, reference is made to the Bond Ordinance.

The Bonds are subject to redemption prior to maturity to the extent, and as provided in, the Sale Order.

THIS BOND IS ISSUED UNDER ACT 94. IT IS A SELF-LIQUIDATING BOND AND IS NOT A GENERAL OBLIGATION OF THE ISSUER AND DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE ISSUER WITHIN ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION, BUT IS PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST SOLELY FROM THE PLEDGED ASSETS OF THE SYSTEM. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THIS BOND ARE SECURED BY A STATUTORY LIEN ON THE PLEDGED ASSETS AS DESCRIBED HEREIN.

The Issuer has covenanted and agreed, and hereby covenants and agrees, to fix and maintain at all times while any bonds payable from the Pledged Assets of the System shall be outstanding, such rates for service furnished by the System as shall be sufficient to provide for payment of the interest upon and the principal of this Bond and all other Securities (as defined in the Bond Ordinance) issued and to be issued under the Bond Ordinance as and when the same shall become due and payable, to create and maintain a bond redemption fund therefor, including a bond reserve, to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the same in good repair and working order, and to provide for such other expenditures and funds for the System, all as are required by the Bond Ordinance.

This Bond is transferable only upon the books of the Issuer kept for that purpose at the office of the Trustee and Transfer Agent by the registered owner hereof in person, or by his attorney duly authorized in writing, upon the surrender of this Bond together with a written instrument of transfer satisfactory to the Trustee and Transfer Agent duly executed by the registered owner or his attorney duly authorized in writing, and thereupon a new registered bond or bonds of the same type, in the same aggregate principal amount and of the same maturity shall be issued to the transferee in exchange therefor as provided in the Bond Resolution and upon the payment of the charges, if any, therein prescribed.

It is hereby certified and recited that all acts, conditions and things required by law precedent to and in the issuance of this Bond have been done and performed by regular and due time and form as required by law.

This Bond is not valid or obligatory for any purpose until the Trustee and Transfer Agent's Certificate of Authentication hereon has been executed by the Trustee and Transfer Agent.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the City of Detroit, County of Wayne, State of Michigan, has caused this Bond to be signed in its name by the facsimile signatures of its Mayor, its Finance Director and the Director and the Chief Financial Officer of the Detroit Water and Sewerage Department and a facsimile of its corporate seal to be printed, impressed or otherwise reproduced hereon, all as of the Original Issue Date.

CITY OF DETROIT

By:
Mayor, City of Detroit

Countersigned:

By:
Finance Director, City of Detroit

By:
Director, Detroit Water and
Sewerage Department

By:
Chief Financial Officer, Detroit Water and
Sewerage Department

[Seal]

CERTIFICATE OF AUTHENTICATION

This Bond is authenticated as the bond designated by the Issuer as “Detroit Water and Sewerage Department Sewage Disposal System Revenue SRF Junior Lien Bond, Series _____”.

U.S. Bank National Association,
Trustee and Transfer Agent

By: _____

Date of Authentication: _____, 2015

ASSIGNMENT

For value received, the undersigned sells, assigns and transfers unto _____ this Bond and all rights hereunder and hereby irrevocably appoints _____ attorney to transfer this Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Signature

NOTICE: The signature to this assignment must correspond with the name as it appears on the face of this Bond in every particular.

Schedule A

The following payment schedule indicates repayment by the Issuer of Principal Amount due on this Bond. Repayment of the Principal Amount shall be made according to this schedule until the full Principal Amount disbursed to the Issuer is repaid; provided, however, that the Issuer shall have no obligation to repay any serial principal installment for which the Issuer did not receive a disbursement of Principal Amount by the date such serial principal installment is due. In such an event, and in the event that less than the principal amount set forth below is disbursed by the MFA to the Issuer, or in the event of prepayment or principal forgiveness of the Bond, the MFA shall prepare a new payment schedule which shall be effective upon receipt by the Issuer.

Bonds maturing October 1, – Coupon %

<u>Date</u>	<u>Amount</u>
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During the time funds are being drawn down by the Issuer under this Bond, the MFA will periodically provide the Issuer a statement showing the amount of principal that has been advanced and the date of each advance, which statement shall constitute prima facie evidence of the reported information; provided that no failure on the part of the MFA to provide such a statement or to reflect a disbursement or the correct amount of a disbursement shall relieve the Issuer of its obligation to repay the outstanding principal amount actually advanced, all accrued interest thereon, and any other amount payable with respect thereto in accordance with the terms of this Bond.



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City of Detroit Water & Sewerage Department
Financial Services Group
Finance Committee Communication

Date: October 19, 2015

To: Board of Water Commissioners (BOWC) Finance Committee

From: Nicolette Bateson, CPA, Chief Financial Officer

Re: FY 2014 City of Detroit Internal Control Report

Background: The City of Detroit's Auditors, KPMG, completed the Detroit Water & Sewerage Department (DWSD) financial statement audit in late May 2015. The citywide audit was completed soon after. The DWSD is a city department and is dependent on the City's financial systems which impact the deployment of internal controls and related business processes. The DWSD has some level of authority to establish separate systems and processes due to a series of federal court orders. Those orders serve as the foundation for the finance transformation effort that is underway. A key source document for the transformation work plan and priorities stems from the matters described in the auditors internal control report. Many of the comments in the FY 2014 report mirror prior years.

Analysis: Attached is the "Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" for the FY 2014 audit. A representative of KPMG, the City's Auditor, will review this report at the meeting on October 19, 2015 or soon after.

Proposed Action: Finance Committee receives and files the Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards report.



KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Honorable Mayor Mike Duggan,
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2015. Our report included an emphasis of matter paragraph which states, along with other matters, that the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code on July 18, 2013 and exited bankruptcy on December 10, 2014. Our report also includes a reference to other auditors who audited the financial statements of the General Retirement System, the Police and Fire Retirement System, the Public Lighting Authority, and the Detroit Building Authority, and all of the discretely presented component units, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the General Retirement System, Police and Fire Retirement System, and certain discretely presented component units identified in note I (a) to the City's basic financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the



deficiencies described in the accompanying schedule of findings and responses as findings 2014-01, 2014-02, and 2014-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2014-04, 2014-05, 2014-06, 2014-07, 2014-08, 2014-09, and 2014-10.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Detroit, Michigan
June 17, 2015

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

June 30, 2014

Finding 2014-01 – Financial Closing and Reporting

The City of Detroit (the City) had internal control deficiencies in the financial closing and reporting processes, the processes to evaluate accounts, and in the processes to record entries into the general ledger in a timely, complete, and accurate manner. These deficiencies included the following:

- The process to prepare closing entries and financial statements relied partly upon decentralized accounting staff and multiple disparate software applications.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment did not result in timely consideration of how to record or report such transactions. Certain of these transactions were not identified until the end of the fiscal year during the financial reporting process. There was inadequate communication between various City departments on transactions and on how they affected the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books was not consistently communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements included the recording of a significant number of manual post-closing entries. For the year ended June 30, 2014, there were 238 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurred only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations were not performed timely and required an extended amount of time to complete during the year-end closing process.
- The management review control for review of the financial statements prior to submitting to the auditors did not operate at an appropriate level of precision.
- The procedures to identify and accurately disclose certain information within the notes to the financial statements were not consistently followed.
- Continuing professional education and training was not offered or required to maintain an appropriate level of skills and knowledge of the accounting staff. Additionally, the employee evaluation process was not consistently utilized or enforced to assist the accounting staff in managing their performance.

Recommendation

We recommend management continue to develop and refine its financial reporting systems and processes. Refinements should include assignment of accounts and reporting units to qualified personnel to conduct detailed analysis of accounts throughout the year on a monthly and quarterly basis. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City's accounting and financial reporting policies and procedures. Management should perform an annual risk assessment process at the entity and process levels to identify and evaluate past internal control deficiencies and any internal and external changes that may impact the design or operating effectiveness of control activities. Based on the results of the assessments, management should determine the need to develop new policies, procedures, and internal controls and should reinforce the new and existing policies and procedures to personnel through training and monitoring.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

June 30, 2014

Views of Responsible Officials

We have reviewed the findings and concur with the recommendations. Emergency Manager Order No. 41 requires the City of Detroit, under the direction of the Chief Financial Officer, to establish a centralized financial management organization, also known as the Office of the Chief Financial Officer “OCFO”. The OCFO will create an operational environment of financial accountability; provide integrated financial management focused on ensuring financial management integrity; and promote the long-term financial recovery of the City. The CFO has appointed the executive leadership and we have begun recruitment for the Management Supervisory Service (MSS). In addition, the City of Detroit is implementing a new Enterprise Resource Planning (ERP) software, which will enhance our overall productivity and efficiency by focusing on the use of best practices and automating a significant number of manual processes. We are in the process of creating new policies and procedures based on best practices. We feel the execution of these two projects will allow us to address the issues outlined by our external auditors. In the interim, we will continue to work diligently and find more effective ways to manage the current environment.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

June 30, 2014

Finding 2014-02 – Reconciliations, Transaction Processing, Account Analysis, and Document Retention

Operations of the City are carried out by numerous City departments utilizing a variety of people, processes, and systems. This type of environment requires diligence in ensuring accurate information is processed and shared with others in the City. Performing reconciliations of data reported from different systems and sources and account analysis are an integral part of ensuring transactional data integrity and accurate financial reporting. During our audit, we noted deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- Bank reconciliations were not completed timely throughout the year.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS for key accounts were either not completed, not completed timely, or contained inappropriately aged, unsupported or unreconciled items (e.g. Cash, Grants Receivable, Interfunds, Accounts Receivable, Accounts Payable, Revenue, etc.)
- The City did not have appropriate user entity controls implemented for data provided to third party service providers. Additionally, the City did not review the internal controls employed by its third party service providers including: AccuMed, Duncan Solutions, Pierce Monroe, Park-Rite, ECI, and Blue Cross Blue Shield.
- Interfund and inter-departmental transfers, balances, and other transactions were not reconciled throughout the year on a timely basis or reviewed for accuracy and proper financial statement classification. Additionally, committed fund balance was transferred from the Risk Management Fund to the General Fund without obtaining the approvals required by the City's accounting policies.
- A physical inventory count of capital assets was not completed by all agencies, as required by the City's asset management policies. Additionally, due to lack of proper source documents from various City Agencies as well as the lack of a formal policy, capital assets were not adequately tracked, capitalized, or recorded in CAS (the City's subledger) in a timely manner.
- The City did not have an adequate process in place to identify properties that are subject to pollution remediation obligations (per GASB 49). Also, an analysis of capital asset impairment (GASB 42) was not performed at each City agency.
- The calculations of average weekly wages as a basis for weekly payments of workers' compensation are a manual calculation that contained errors. No management level review control existed over the calculations.
- The City did not maintain individual claim data typically maintained as insurance statistics for self-insurance programs for its workers' compensation program. Additionally, data provided by the City to the actuaries for estimating workers' compensation liabilities was not reviewed by the City for accuracy nor reconciled by the City to supporting data prior to submission.
- The City's process to follow up and resolve prior audit findings was not operating effectively.
- The City did not have effectively operating controls in place to record, administer, and monitor grant revenues and the related deferred revenues.
- Manual journal entries were not consistently reviewed and approved by an appropriate supervisor in a timely manner. Additionally, for those journal entries that were reviewed, the review was often not conducted at an

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appropriate level of precision to detect errors or was approved with limited or no proper supporting documentation

- The City's accounts receivable write-off policy was not specific enough to explain when and how amounts determined uncollectable should be written off. In addition, the City was not following their current Accounts Receivable write-off policy.
- The City did not implement a set of controls in order to monitor the accounting implications of the system implementation of City Law, replacing the legacy system, Legal Edge, which stores key elements of information required for accounting related to all relevant legal claims/cases made against the City.
- The City did not perform a sufficient review of the projects within the construction work in progress accounts balance to properly capitalize or expense costs within a timely manner.
- The City did not have a process in place to identify and assess potential related party transactions for accounting purposes.
- The City's HR department did not have an appropriate process or controls in place to properly calculate accrued compensated absences. As a result of various system limitations preventing the application of new payroll policies, the actual compensated absences amount paid to employees was calculated manually with the use of internally generated reports created with unreliable source data.
- 7 out of 40 employee new hires selected for testing contained hire dates in the human resources system that did not match information on documents in the personnel files. Upon researching the discrepancies, the City was unable to provide adequate explanations for the discrepancies. In addition, the City was unable to provide new hire documentation for 11 out of the 40 employee new hires selected for testing.
- 10 out of 40 employee terminations tested contained termination dates in the human resources system that did not match information on documents in the personnel files. Upon researching the discrepancies, the City was unable to provide adequate explanations for the discrepancies. In addition, the City was unable to provide termination documentation for 20 out of the 40 employee terminations selected for testing.
- The City's process to identify necessary expense accruals was not adequate to ensure expenses were recorded in the proper fiscal year. Although the City had implemented a second level review over accruals, the review did not operate at an appropriate level of precision considering the knowledge and skill sets of the operators of the first level accrual control activity.
- Underlying transaction data provided to actuaries was not reconciled or reviewed by management at the appropriate level of precision before distribution (e.g. pension data to Gabriel Roeder Smith, workers' and compensation data to Pinnacle Actuarial Resources, etc.).

Recommendation

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis. We recommend the City undertakes a comprehensive risk assessment process which would consider risks to organizational and operational objectives. Such an approach should take place at both the entity wide and the individual activity level. The risk assessment should be undertaken not as a theoretical exercise but instead as a practical means to identify actions required by management to mitigate risks and to identify areas which require the establishment or strengthening of control activities.

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We further recommend that the City review its document retention and filing policies and procedures and make necessary adjustments such that information is accessible and provides for an adequate audit trail. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations and reports are saved to well-organized file servers instead of just desktop computers.

We recommend the creation of a comprehensive listing of required reconciliations. Individuals and departments should be provided a subset of the listing (a checklist) to indicate which specific reconciliations they are responsible for, what frequency is required, who is responsible for monitoring to ensure timeliness, and who is responsible for reviewing to ensure accuracy. Additionally, specific parameters should be developed for how to conduct an appropriate management level review for each reconciliation. Each reconciliation needs to have its own review parameters that take into consideration the level of judgment required in the operation of the control activities, the underlying process level controls, and the skills and knowledge of the reviewer and the operator of the process level controls. Additionally, we recommend training staff how to prepare reconciliations that are thorough and well documented and how to conduct effective reviews of the work of others.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendations. As previously noted, the City of Detroit, under the direction of the Chief Financial Officer, has created and is currently implementing the Office of the Chief Financial Officer "OCFO". As also previously mentioned, we are implementing a new Enterprise Resource Planning (ERP) software, which will enhance our overall productivity and efficiency by focusing on the use of best practices and automating a significant number of manual processes. In conjunction with these two initiatives, we are also developing an internal controls framework, data governance model, and will offer continuous staff training and development to staff in the Office of the Chief Financial Officer. We feel the execution of these initiatives will allow us to address the issues outlined by our external auditors. In the interim, we will continue to work diligently and find more effective ways to manage the current environment.

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Finding 2014-03 – Information Technology

General controls and application controls work together to ensure the completeness, accuracy, and validity of financial and other information in the systems. Deficiencies existed in the areas of general and application controls. Those deficiencies include the following for some or all systems:

- Administrative access was granted to unauthorized accounts.
- Segregation of duties conflicts existed between the database administration function and the backend database administration function.
- Adequate procedures were not in place to remove and review segregation of duties conflicts.
- Automated methods were not in place for tracking of the changes and customizations made to certain applications.
- Program developers had access to move program changes into production for certain applications.

Recommendation

We recommend the following:

- Access to the backend database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all configuration changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all configuration changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.

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Views of Responsible Officials

We have reviewed the findings and concur with the recommendations identified by KPMG. The Department of Innovation and Technology (DoIT) is implementing the recommendations for those systems supported by DoIT. The City is currently in the development/implementation phase of a new Cloud based Financial Management and Payroll systems that will include security best practice controls. By being in a managed environment, these controls will aid the system owners and administrators in enforcing access and security policies. The new Cloud based system(s) along with implementing standard security policies should address the audit findings in the areas of access authorization (both database and application layers), segregation of duties, tracking changes/customizations (change management), maintaining proper back-ups and restores along with promoting applications from development to production. DoIT is undergoing a restructuring pursuant to Emergency Manager Order No. 39, to consolidate all IT functions under DoIT. This consolidation will help to improve the consistency in the enforcement of policies for those ancillary systems currently outside of centralized IT control. Additionally, DoIT is working with technology staff in other agencies to implement the recommendations for findings related to the systems supported directly by the agencies themselves.

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Finding 2014-04 – Act 451

The City's Solid Waste fund was not in compliance with Michigan Public Act 451 Part 115. In fiscal year 2012-2013, the General Fund borrowed cash from the Solid Waste fund, which should be restricted for a specific purpose. The borrowing was not repaid in fiscal year 2013-2014. As such, the City is still not in compliance with Public Act 451 Part 115.

Public Act 451 Part 115 Section 324.11520 states that Solid Waste fees collected under the Part shall be deposited in a special fund designated for the use in implementing this Part.

Recommendation

We recommend opening a separate bank account where restricted funds can be isolated and maintained without comingling with unrestricted funds.

Views of Responsible Officials

The Office of the Treasury has opened a new bank account for the Solid Waste fund and we plan to begin transferring the appropriate funds to the Solid Waste new bank account in FY 14-15. This new bank account and a final reconciliation will allow us to cease comingling restricted solid waste funds with the General Fund.

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Finding 2014-05 – Public Act 206 Property Tax Act

The City is required by the State of Michigan Public Act 2005 and the General Property Tax Act, MCL 211.43(3)(a) to deliver within 10 business days after the 1st and 15th of each month, the property tax and Industrial Facilities Tax (IFT) collections on hand to the county treasurer and other tax assessing units. The City did not deliver within 10 days, and thus, was noncompliant with PA 206 related to property tax and IFT collections and disbursements. Additionally, per Public Act 198, the City is required to remit the IFT Form 170 to the State of Michigan by July 30th of each year. The City has not filed Form 170 since tax year 2010. Further, the City was unable to provide documentation supporting the tax exempt status for 17 of 65 properties selected for testing.

Recommendation

We recommend Management assesses the process in place to distribute General Property Tax Act collections to the county treasurer and other tax assessing units and implement control procedures to ensure timely distribution of collections subject to the General Property Tax Act.

Views of Responsible Officials

During FY15, the Office of the Treasury worked with the State of Michigan to rectify the prior year errors and omissions. In addition, we have developed a process to comply with the provisions of Public Act 206 Property Tax Act going forward.

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Finding 2014-06 – Escheatment Law

The City filed the required annual report of unclaimed property to the State of Michigan; however, it was inaccurate as it did not include property tax overpayments. Additionally, the City did not remit escheatable property to the State.

The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property be submitted annually by November 1.

Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.

Recommendation

We recommend the City conduct an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines and remit all property required to be remitted.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendation. The Office of the Treasury is still developing a process to identify and remit property tax overpayments to the State of Michigan in accordance with annual required deadlines. In addition, as part of the property tax refund process, the Office of the Treasury will routinely review tax payer overpayments and issue overpayment refunds in a timely manner. This measure will mitigate the likelihood of any escheatable items. The Office of the Treasury is also coordinating efforts with the Office of the Controller to identify other potential escheatable items that will need to be addressed.

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Finding 2014-07 – Retirement Pension Contributions

The City is required by State of Michigan law to fund its minimally required pension contributions for the fiscal year ended June 30, 2014, prior to said date. The City did not make the complete required pension contributions to the General Retirement System (GRS) or the Police and Fire Retirement System (PFRS) prior to June 30, 2014. Contributions to the General Retirement and Police and Fire Retirement Systems totaled \$78.4 million and \$122.5 million, respectively, at June 30, 2014.

Views of Responsible Officials

The City acknowledges noncompliance with the State of Michigan law to fund its minimally required pension contributions. This was caused by the City's overall liquidity issue and the eventual filing for Chapter 9 bankruptcy on July 18, 2013. The bankruptcy was confirmed on December 10, 2014 and as a result, the City will begin making the required pension contributions outlined in the bankruptcy beginning in FY15.

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Finding 2014-08 – Uniform Budgeting and Accounting Act

The City was not in compliance with Michigan Compiled Laws Act 2 of 1968, Uniform Budgeting and Accounting Act. For certain appropriations stated in note II (d), the City's actual expenditures were more than budgeted expenditures.

Per Act 2 of 1968, Section 141.438 (3), "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

Views of Responsible Officials

We concur with the finding and City management has taken steps to prevent recurring violations of the Uniform Budgeting and Accounting Act. The Office of Budget is implementing significant changes – in line with OCFO restructuring and the implementation of a new ERP – to improve the monitoring, reporting and analysis functions of its operations. During FY15, the Office of Budget had periodic meetings with departments to assist in compliance with the budget. This resulted in amendments to better align the budget with actual spending. Also, the Office of Budget is now preparing monthly budget to actual reports that are being shared with the department(s), the CFO, and the Mayor's team to maintain compliance with the budget.

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Finding 2014-09 – Public Act 346

The City participates in PILOT (Payment in Lieu of Taxes) programs governed under the Michigan State Housing Development Act of 1966 (MSHDA P.A. 346). Under this act, developers may propose a building project to the City's Assessment Division to be approved for the PILOT program, which would allow the developer to pay a service fee instead of property taxes. The development project must meet several requirements to be approved, including providing a portion of housing to low-income or a disadvantaged group of persons and the City will bill the development owner (customer) once a year for the PILOT service fee.

Per MSHDA P.A. 346, the City must distribute PILOT service fee collections to Wayne County, the State of Michigan, and to Detroit Public Schools (DPS). The MSHDA Fee Annual Return is provided to the City each year by the State, indicating the millage rates to be used to determine the allocation for distribution to the three entities. Certain PILOT Annual Returns and distributions were not made timely for fiscal year 2014.

Views of Responsible Officials

We have reviewed the finding and concur. The Office of the Treasury has transitioned this function to the Office of the Assessor during FY15. The Office of the Assessor will monitor and implement controls to ensure PILOT compliance is maintained.

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Finding 2014-10 – OMB Circular A-133 Section 300

The City did not appropriately track grant activities in the General Ledger for the fiscal year ended June 30, 2014. The General Ledger records are not accurate at the individual grant level, as required by OMB Circular A-133, Section 300.

OMB Circular A-133, Section 300 states, “The auditee shall:

- 1) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- 2) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- 3) Comply with laws, regulations, and the provisions of contracts or grant agreements to each of its Federal programs.”

Recommendation

The City should maintain records to allow it to identify all Federal awards received and expended and the Federal programs under which they were received.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City has created an Office of Grants Management that will be responsible for proper grants administration and compliance with Federal, State and City laws and regulations. The City is in the process of reconciling grant accounts to allow for proper tracking and reporting at the individual grant level. The Office of the Controller has established a separate Grants Accounting Branch to work closely with the Office of Grants Management moving forward to ensure proper grant accounting, reporting and compliance.