

**NEW ISSUE
BOOK-ENTRY ONLY**

RATINGS⁺:
Moody's: Aa3
Standard & Poor's: AA-

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, assuming compliance with certain covenants by the Lansing Board of Water and Light (the "Board"), (i) the interest on the Board's Utility System Revenue Bonds, Series 2011A (the "Bonds") is excludable from gross income for federal income tax purposes and (ii) the Bonds and interest thereon are exempt from all taxation by the State of Michigan (the "State") or by any taxing authority within the State except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" herein and Appendix E "FORM OF APPROVING OPINION" for a description of certain provisions of the Internal Revenue Code of 1986, as amended (the "Code") which may affect the tax treatment of interest on the Bonds for certain Bondholders.



\$250,000,000
LANSING BOARD OF WATER AND LIGHT
CITY OF LANSING, MICHIGAN
UTILITY SYSTEM REVENUE BONDS, SERIES 2011A

Dated: Date of Delivery

Due: July 1, as shown on the inside cover

The Utility System Revenue Bonds, Series 2011A (the "Bonds") will be issued to provide funds for the purposes of (i) financing costs of acquiring and constructing a cogeneration plant, (ii) acquiring and constructing other improvements to the Board's water supply, steam, chilled water and electric utilities (collectively, the "System"), (iii) funding a deposit to a Bond Reserve Account (as defined herein), (iv) providing for the payment of capitalized interest on the Bonds, and (v) paying costs of issuance of the Bonds. The Bonds are authorized to be issued pursuant to the Revenue Bond Act of 1933, Act No. 94, Public Acts of Michigan, 1933, as amended ("Act 94"), and an Amended and Restated Bond Resolution, as described herein (see "Introduction").

The Bonds are secured by a statutory lien on, and payable solely from, Net Revenues, as hereinafter defined, derived from the water supply, steam, chilled water and electric utilities of the Board. The Bonds are not a general obligation of the City of Lansing, Michigan (the "City") and neither the full faith and credit nor the taxing power of the City is pledged to the payment of the principal of and interest on the Bonds. The Bonds do not constitute an indebtedness of the City within any constitutional, statutory or charter limitation.

The Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by U.S. Bank National Association, as Transfer Agent, to Cede & Co., as nominee for DTC, and payment thereof will be made to purchasers by DTC participants or indirect participants. (See "Book-Entry Only System" herein) Purchasers will acquire beneficial ownership interests in the Bonds in denominations of \$5,000 or integral multiples thereof.

The Bonds will bear interest at the rates set forth on the inside cover of this Official Statement, payable semiannually on January 1 and July 1 of each year, commencing January 1, 2012. Certain maturities of the Bonds are subject to redemption prior to maturity as described herein.

The Bonds are offered when, and as if issued and received by the Underwriters, subject to the approving opinion of Bond Counsel, Miller, Canfield, Paddock and Stone, P.L.C., Lansing and Detroit, Michigan. Robert W. Baird & Co. Incorporated, Lansing, Michigan, is serving as the financial advisor to the Board in connection with the sale and issuance of the Bonds. Certain matters will be passed on for the Underwriters by their counsel, Foster, Swift, Collins & Smith, P.C., Lansing, Michigan. It is expected that the Bonds will be available for delivery through the facilities of the DTC in New York, New York on or about June 15, 2011.

This cover page contains certain information for quick reference only. It is not a summary of the Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

BofA Merrill Lynch

Ramirez & Co., Inc.

Citi

J.P. Morgan

Morgan Stanley

**Wells Fargo Bank,
National Association**

⁺See "Ratings" herein.
Dated: May 25, 2011.

\$250,000,000
LANSING BOARD OF WATER AND LIGHT
CITY OF LANSING, MICHIGAN
UTILITY SYSTEM REVENUE BONDS, SERIES 2011A

Serial Bonds

<u>Maturity</u> <u>July 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP*</u>
2015	\$ 5,000	3.000%	105.099%	516391AA7
2016	5,000	3.000	105.266	516391AB5
2017	5,000	3.000	103.756	516391AC3
2018	5,000	3.000	102.105	516391AD1
2019	3,630,000	5.000	114.506	516391AE9
2020	3,815,000	3.500	102.023	516391AF6
2021	3,965,000	5.000	112.699	516391AG4
2022	4,175,000	5.000	110.644 ⁽¹⁾	516391AH2
2023	4,395,000	5.000	109.328 ⁽¹⁾	516391AJ8
2024	2,540,000	4.000	99.696	516391AK5
2024	2,085,000	5.000	107.945 ⁽¹⁾	516391AW9
2025	4,835,000	5.000	106.583 ⁽¹⁾	516391AL3
2026	5,070,000	5.000	105.491 ⁽¹⁾	516391AM1
2027	8,180,000	5.000	104.661 ⁽¹⁾	516391AN9
2028	8,590,000	5.000	103.920 ⁽¹⁾	516391AP4
2029	9,030,000	5.000	103.186 ⁽¹⁾	516391AQ2
2030	9,485,000	5.000	102.458 ⁽¹⁾	516391AR0
2031	3,110,000	4.750	99.613	516391AS8
2031	6,855,000	5.000	101.736 ⁽¹⁾	516391AV1

Term Bonds

<u>Maturity</u> <u>July 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP*</u>
2034	\$ 8,230,000	5.000%	100.000%	516391AU3
2037	81,990,000	5.000	99.277	516391AX7
2041	80,000,000	5.500	104.309 ⁽¹⁾	516391AT6

(1) Priced to July 1, 2021 call date.

*Copyright 2011, American Bankers Association, CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds. The Board nor the Underwriters makes any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

Certain information contained in this Official Statement has been obtained by the Board, the City and from DTC and other sources that are deemed to be reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information by the Underwriters. Nothing contained in this Official Statement is or shall be relied on as a promise or representation by the Underwriters. This Official Statement is being used in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information in it is correct as of any time subsequent to its date.

No dealer, broker, salesman, or other person has been authorized by the Board, the City or by the Underwriters, to give any information or to make any representations other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

U.S. Bank National Association, Lansing, Michigan (the "Transfer Agent"), by acceptance of its duties as Transfer Agent, has not reviewed this Official Statement and has made no representations as to the information contained herein.

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

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any other sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board.

In connection with the offering of the Bonds, the Underwriters may overallocate or effect transactions that stabilize or maintain the market price of the Bonds at a level above the level that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time without notice. The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The registration or qualification of the Bonds in accordance with the applicable provisions of securities laws of the states in which the Bonds have been registered or qualified and the exemption from registration or qualification in other state cannot be regarded as a recommendation thereof. In making an investment decision, investors must rely on their own examination of the City's financial records and the terms of the offering, including the merits and risk involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

The Official Statement contains disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan" or "continue." These forward-looking statements are based on the current plans and expectations of the Board and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the Board's control that could significantly affect current plans and expectations and the Board's future financial position and results of operations. These factors include, but are not limited to, (i) changes in economic and fiscal conditions, and (ii) the outcome of pending and any future litigation. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of the Board. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. Neither the Board nor the City undertakes any duty to update any forward-looking statements.

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Mayor
Virg Bernero

City Council

President
A'Lynne Robinson

Vice President
Kathie Dunbar

Eric Hewitt	Tina Houghton	Brian Jeffries
Derrick Quiney	Carol Wood	Jessica Yorke

LANSING BOARD OF WATER AND LIGHT OFFICIALS

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Vice Chair
Dennis M. Louney

Margaret A. Bossenberg	Frank B. Lain	Marilyn D. Plummer
David J. Price	Tracy Thomas	Cynthia M. Ward

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J. Peter Lark

Assistant General Manager and
Chief Financial Officer
Susan C. Devon

Executive Director of
Strategic Planning and Development
George R. Stojic

Executive Director of
Electric Operations
Douglas K. Wood

Executive Director of Water
Operations and Special Projects
Richard Peffley

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PROFESSIONAL SERVICES

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Bond Counsel:	Miller, Canfield, Paddock and Stone, P.L.C., Lansing and Detroit, Michigan
Underwriters' Counsel:	Foster, Swift, Collins & Smith, P.C., Lansing, Michigan
Financial Advisor:	Robert W. Baird & Co., Traverse City, Michigan
Transfer/Paying Agent:	U.S. Bank National Association, Lansing, Michigan

OFFICIAL STATEMENT

\$250,000,000

LANSING BOARD OF WATER AND LIGHT CITY OF LANSING, MICHIGAN UTILITY SYSTEM REVENUE BONDS, SERIES 2011A

INTRODUCTION

The Bonds are being issued for the purposes of (i) financing costs of acquiring and constructing the Reo Town Plant, as hereinafter defined, a combined cycle natural gas facility producing steam and electricity including two combined cycle sets, each consisting of a combustion turbine, a heat recovery steam generator, a steam turbine and an auxiliary boiler to provide backup steam service, together with any appurtenances and attachments thereto and any related site acquisition or improvements, (ii) financing costs of acquiring and constructing certain improvements to the System including, but not limited to, construction, improvement and renovation of transmission and distribution lines and related utility system facilities for the water supply, steam and chilled water systems and electric transmission and distribution lines and related electric utility system facilities, together with any appurtenances and attachments thereto and any related site acquisition or improvements, (iii) funding the requisite deposit to the Bond Reserve Account (as defined below), (iv) providing for the payment of capitalized interest on the Bonds, and (v) paying costs of issuance of the Bonds.

The City, located in the Counties of Ingham and Eaton, is a municipal corporation of the State of Michigan (the "State"), organized and existing under the laws of the State including the City's Charter, as amended (the "Charter"). Under the Charter, the Board is an administrative board and permanent agency of the City and has full and exclusive management of the water, heat, steam and electric utility services of the City.

The Bonds are authorized to be issued pursuant to the Revenue Bond Act of 1933, Act No. 94, Public Acts of Michigan, 1933, as amended ("Act 94"), and an Amended and Restated Bond Resolution adopted by the Board on October 24, 1989, as supplemented by the First Supplemental Revenue Bond Resolution adopted October 26, 1993, the Second Supplemental Revenue Bond Resolution adopted January 11, 1994, the Third Supplemental Revenue Bond Resolution adopted September 2, 1999, the Fifth Supplemental Bond Resolution adopted April 24, 2001, the Sixth Supplemental Revenue Bond Resolution adopted July 23, 2002, the Seventh Supplemental Bond Resolution adopted July 23, 2002, the Eighth Supplemental Revenue Bond Resolution adopted August 12, 2003, the Ninth Supplemental Revenue Bond Resolution adopted July 26, 2005, the Tenth Supplemental Revenue Bond Resolution adopted January 29, 2008 and the Eleventh Supplemental Revenue Bond Resolution adopted May 10, 2011 (collectively, the "Bond Resolution"). U.S. Bank National Association, Lansing, Michigan, currently is Transfer Agent and bond registrar under the Bond Resolution.

Pursuant to the Bond Resolution, all bonds issued and outstanding thereunder (except for certain Junior Lien Bonds previously or subsequently issued as described below) are of equal standing and parity of lien and equally secured by the pledges and covenants in the Bond Resolution. See "THE BONDS -- Security." The outstanding bonds previously or hereafter issued on a parity basis with the Bonds are called the "Outstanding Senior Lien Bonds" below.

THE FINANCING

Purpose of the Bonds

The Bonds are being issued for the purposes of (i) financing costs of acquiring and constructing the Reo Town Cogeneration Plant (the "Reo Town Plant"), a combined cycle natural gas facility producing steam and electricity including two combined cycle sets, each set consisting of a combustion turbine, a heat recovery steam generator, a steam turbine and an auxiliary boiler to provide backup steam service, together with any appurtenances and attachments thereto and any related site acquisition or improvements, (ii) financing costs of acquiring and constructing certain improvements to the System including, but not limited to, construction, improvement and renovation of transmission and distribution lines and related utility system facilities for the water supply, steam and chilled water systems and electric transmission and distribution lines and related electric utility system facilities, together with any appurtenances and attachments thereto and any related site acquisition or improvements, (iii) funding the requisite deposit to the Bond Reserve Account (as defined below), (iv) providing for the payment of capitalized interest on the Bonds and (v) paying costs of issuance of the Bonds.

Estimated Sources and Uses of Funds

Estimated Sources of Funds

Principal amount of the Bonds	\$ 250,000,000.00
Net Original Issue Premium	<u>6,917,252.20</u>
Total Sources	<u>\$ 256,917,252.20</u>

Estimated Uses of Funds

Construction	\$ 216,944,884.24
Deposit to the Bond Reserve Account	11,919,873.00
Capitalized Interest.....	26,187,697.78
Costs of Issuance ⁽¹⁾	662,200.00
Underwriters' Discount.....	<u>1,202,597.18</u>
Total Uses	<u>\$ 256,917,252.20</u>

(1) Includes legal, ratings, financial advisory, printing and other miscellaneous costs of issuance.

The Reo Town Plant

As a replacement for aging generation units at the Board’s Moores Park Steam Plant, the Board plans to build the Reo Town Plant, a combined-cycle cogeneration plant to be built on the southern edge of the City’s REO Town neighborhood on land that was acquired by the Board in January 2011. The new facility will produce both steam and electricity for its customers. The Reo Town Plant’s configuration will consist of two combined cycle units and an auxiliary boiler and is designed to provide approximately 960,000,000 pounds (or, measured in thousand pounds (“Mlbs”), 960,000 Mlbs) of steam annually for the Board’s central steam loop. Each of the combined cycle units and the auxiliary boiler are designed to be capable of producing 150 Mlbs of steam per hour. With a maximum steam demand projected to be 300 Mlbs per hour, the new plant’s configuration can meet maximum demand with any one steam production unit out of service. The plant will also be capable of generating up to 110 megawatts (“MW”) of electricity and is anticipated to generate at least 420,000 megawatts per hour (“MWh”) annually by following steam demand and providing energy during the peak summer months. Construction of the Reo Town Plant is expected to cost the Board approximately \$182 million.

The highly efficient, state-of-the-art facility will be fueled by natural gas and replace the existing coal-fueled Moores Park Steam units. This switch to natural gas will reduce the Board’s dependency on coal and also reduce greenhouse gas emissions by fifty percent (50%) compared to the BWL’s existing steam plant. The Reo Town Plant will help the Board achieve its goal of reducing overall greenhouse gas emissions by twenty percent (20%) by the year 2020, surpassing the proposed federal regulations that require a seventeen percent (17%) reduction.

State and federal air quality regulations required the Board to obtain a permit to install from the MDEQ before commencing construction of the Reo Town Plant. MDEQ issued this permit (PTI No. 149-10) on December 7, 2010. No other environmental permits must be obtained before beginning construction of the Reo Town Plant.

The Reo Town Plant is expected to be placed in service on or about July 2013. The Moores Park Steam facility will continue to operate and produce steam for delivery to Steam Utility customers until such time as the Reo Town plan is operational. Once the Reo Town Plant is in service it is anticipated that the Board will retire the Moores Park facility.

THE BONDS

Authorization

The Utility System Revenue Bonds, Series 2011A are being issued by the City through the Board on parity with the outstanding portion of its (i) Water Supply, Steam and Electric Utility System Revenue Bonds, Series 1999A (“Series 1999A Bonds”), Water Supply, Steam and Electric Utility System Revenue Bonds, Series 2002A (“Series 2002A Bonds”), Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2002B (“Series 2002B Bonds”), Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2003A (“Series 2003A Bonds”), and Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2005A (“Series 2005A Bonds”) (the “Outstanding 1999-2005 Senior Lien Bonds”) and (ii) Water Supply, Steam, Chilled Water and Electric Utility System Revenue Bonds, Series 2008A (the “Outstanding Series 2008A Bonds” and, together with the Outstanding 1999-2005 Senior Lien Bonds, the “Outstanding Senior Lien Bonds”) under the provisions of Act 94 and the Bond Resolution.

The Fourth Supplemental Revenue Bond Resolution adopted by the Board on October 26, 1999 authorized the issuance of the Water Supply, Steam and Electric Utility System Subordinate Lien Revenue Bonds, Series 1999B Bonds (Taxable) (the "1999B Subordinate Bonds"). The Fourth Supplemental Revenue Bond Resolution was amended by the Board on August 12, 2008 and June 9, 2009 in connection with the issuance of the Water Supply, Steam, Chilled Water and Electric Utility System Subordinate Lien Revenue Refunding Bonds, Series 2009A (Federally Taxable) (the "2009A Subordinate Bonds"), which refunded the 1999B Subordinate Bonds.

Security

The principal of, and interest and redemption premium, if any, on the Bonds are payable solely from and secured by the Net Revenues (as defined below) of the System, defined in the Bond Resolution as the complete facilities of the Board for the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, including all plants, works, instrumentalities and properties used or useful in connection with the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, and all additions, extensions and improvements thereto existing or hereafter acquired by the Board and other moneys available therefor. Pursuant to Act 94 and the Bond Resolution, the Net Revenues are pledged to the Bonds and the Outstanding Senior Lien Bonds on a parity basis, and there is created a statutory lien thereon which is a first lien on a parity basis. As of May 13, 2011 there were \$108,670,000 aggregate outstanding principal amount of Outstanding Senior Lien Bonds, not including the Bonds described herein.

"Revenues" is defined in the Bond Resolution as the income derived from the rates charged for the services, facilities, and commodities furnished by the System, earnings on investment of funds and accounts of the System required to be deposited in the Receiving Fund pursuant to the Bond Resolution and other revenues derived from or pledged to the operation of the System. "Net Revenues" is defined in the Bond Resolution as the Revenues remaining after deducting the reasonable expenses of administration, operation, and maintenance of the System.

The statutory lien on the Net Revenues of the System securing the Bonds and the Outstanding Senior Lien Bonds is senior in priority to the statutory lien on Net Revenues of the System pledged to pay the City's outstanding 2009A Subordinate Bonds, which are the only currently outstanding Junior Lien Bonds (as defined in the Bond Resolution).

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

The Bonds are not a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of the principal of and interest on the Bonds. The Bonds do not constitute an indebtedness of the City within any constitutional, statutory or charter limitation.

Rate Covenant

The Board has covenanted and agreed that while any of the Outstanding 1999-2005 Senior Lien Bonds and 2009A Subordinate Bonds are outstanding, the Board will at all times fix, establish, maintain and collect rates, fees and charges for the sale of the output, capacity, use or service of the System which, together with other income, are reasonably expected to yield Net Revenues equal to at least 150% of the principal and interest due on the Bonds, the Outstanding Senior Lien Bonds, the 2009A Subordinate Bonds and any Additional Bonds (as defined below) for the forthcoming twelve month period plus such amount as is necessary to comply with all covenants in the Bond Resolution and to pay all charges and liens whatsoever payable out of Net Revenues in such period.

After payment or defeasance in full of the Outstanding 1999-2005 Senior Lien Bonds, the Board has covenanted that it will at all times fix, establish, maintain and collect rates, fees and charges for the sale of the output, capacity, use or service of the System which, together with other income, are reasonably expected to yield Net Revenues equal to at least 125% of the principal and interest due on the Outstanding Series 2008A Bonds, the Bonds and any Additional Bonds for the forthcoming 12-month period plus such amount as is necessary to comply with all covenants in the Bond Resolution and to pay all charges and liens whatsoever payable out of Net Revenues in such period.

Rate Setting Authority

The Charter provides that the Board shall have full and exclusive management of the water supply, steam and electric services of the City and such other services as may be agreed upon by the Board and the City. The Charter also provides that the Board may, with proper notice and hearing, fix just and reasonable rates as it deems necessary for such services. The implementation of new rates takes approximately three months and does not require any local, state or federal regulatory approval. It is the policy of the Board to review

all rates annually and to set such rates so that each respective utility (water supply, steam, chilled water and electric) is self-supporting. Rates are set on a cost of service basis.

Additional Bonds

In accordance with the provisions of Act 94 and the Bond Resolution, the Board may issue additional bonds payable from the Net Revenues of the System, which shall be of equal standing and priority of lien on the Net Revenues of the System with the Bonds and the Outstanding Senior Lien Bonds, for repairs, extensions, enlargements and improvements to the System or for the purpose of refunding all or (subject to certain conditions) part of the Bonds and the Outstanding Senior Lien Bonds (the "Additional Bonds"). Except as described below, no such Additional Bonds shall be issued unless the actual or augmented Net Revenues of the System for the fiscal year ending not more than 15 months prior to the sale of the Additional Bonds shall be equal to at least one hundred fifty percent (150%) of the maximum amount of principal and interest due in any current or future fiscal year on the Bonds, the Outstanding Senior Lien Bonds and any Additional Bonds outstanding or then being issued.

After payment or defeasance in full of the Outstanding 1999-2005 Senior Lien Bonds, Additional Bonds of equal standing and priority of lien on the Net Revenues of the System with the Outstanding Series 2008A Bonds, the Bonds and any Additional Bonds then outstanding may be issued provided that the actual or augmented Net Revenues of the System for the fiscal year ending not more than 15 months prior to the sale of Additional Bonds shall be equal to at least one hundred twenty-five percent (125%) of the maximum amount of principal and interest due in any current or future fiscal year on the Outstanding Series 2008A Bonds, the Bonds and any Additional Bonds outstanding or then being issued. If Additional Bonds are to be issued in whole or in part for refunding Outstanding Bonds, the maximum Aggregate Debt Service shall be determined by deducting from the principal and interest requirements for each operating year the annual Aggregate Debt Service Requirement of any Bonds to be refunded from the proceeds of the Additional Bonds. The Board has covenanted that it will not issue Additional Bonds of prior standing to the Bonds.

In determining whether Additional Bonds can be issued in compliance with the Bond Resolution, (i) if the System rates or charges are increased at or prior to the time of the authorizing of the Additional Bonds, the Net Revenues may be augmented by an amount which in the opinion of a Consulting Engineer (as defined in the Bond Resolution) will reflect the effect of the increase had the System's billings during such time been at the increased rates, or (ii) the actual Net Revenues may be augmented by the estimated increase in Net Revenues which in the opinion of the Consulting Engineer will accrue as a result of new customers which have not been serviced during the fiscal year described above or as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System which have been made during or subsequent to the fiscal year described above or which will be acquired in whole or in part from the proceeds of the Additional Bonds to be issued.

After payment or defeasance in full of the Outstanding 1999-2005 Senior Lien Bonds in determining whether, Additional Bonds of equal standing and priority of lien on the Net Revenues of the System with the Outstanding Series 2008A Bonds can be issued in compliance with the Bond Resolution, Net Revenues may be augmented as follows, (i) if System rates, fees or charges shall be increased at or prior to the time of authorizing Additional Bonds, the Net Revenues may be augmented by an amount which in the opinion of the Board's financial advisor will reflect the effect of the increase had the System's billings during such time been at increased rates, or (ii) the actual Net Revenues may be augmented by the estimated increase in Net Revenues which in the opinion of the Board's financial advisor will accrue as a result of new customers which have not been serviced during the fiscal year described above or which will be acquired in whole or in part from the proceeds of Additional Bonds to be issued.

Based on the opinion of a Consulting Engineer and schedules provided by the Board's financial advisor, the Board has determined that the Net Revenues (augmented as described in the preceding paragraph) for the fiscal year ended June 30, 2010 are equal to at least one hundred fifty percent (150%) of the maximum amount of principal and interest due in any current or future fiscal year on the Bonds, the Outstanding Senior Lien Bonds and any Additional Bonds outstanding or then being issued.

Additional Bonds may be issued without meeting any of the conditions and tests set forth above to pay the cost of acquisition and construction of any repairs, replacements, betterments, improvements, major renewals or corrections of any damage or loss to the System necessary, in the opinion of the Consulting Engineer, to keep the System in good operating condition or to prevent a loss of revenues therefrom or to pay the cost of decommissioning, disposal or termination of the System.

For a complete description of the terms upon which Additional Bonds may be issued, see "AMENDED AND RESTATED BOND RESOLUTION - CONSOLIDATED VERSION" attached hereto as Appendix D.

Bond Reserve Account

The Board has established a bond reserve account (the "Bond Reserve Account") as required by the Bond Resolution. Until payment or defeasance in full of the Outstanding 1999-2005 Senior Lien Bonds, the required deposit in the Bond Reserve Account shall be the lesser of (i) the maximum amount of principal and interest due on the Bonds, the Outstanding Senior Lien Bonds and any

Additional Bonds in the then current or any subsequent operating year and (ii) ten percent of the aggregate proceeds of the Bonds, the Outstanding Senior Lien Bonds and any Additional Bonds.

After payment or defeasance in full of the Outstanding 1999-2005 Senior Lien Bonds, the required deposit in the Bond Reserve Account shall be the lesser of (i) the maximum amount of principal and interest due on the Outstanding Series 2008A Bonds, the Bonds and any Additional Bonds in the then current or any subsequent operating year, (ii) one hundred twenty-five percent (125%) of the average annual amount of principal and interest due on the Outstanding Series 2008A Bonds, the Bonds and any Additional Bonds, or (iii) the total of ten percent (10%) of the original aggregate face amount of each series of the Outstanding Bonds (as defined in the Bond Resolution), reduced by the net original issue discount, if any; but shall not exceed the amount allowed to be invested at an unrestricted yield pursuant to applicable U.S. Treasury regulations.

Except as provided in the Bond Resolution, the monies credited to the Bond Reserve Account shall be used solely for the payment of the principal of, redemption premium, if any, and interest on the Bonds and the Outstanding Senior Lien Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use monies in the Bond Reserve Account for such payment, then the monies so used shall be replaced from the Net Revenues first received thereafter which are not required for expenses of administration, operation and maintenance of the System or for current principal and interest requirements. If Additional Bonds from time to time are issued, each resolution authorizing the Additional Bonds shall provide for additional deposits to the Bonds Reserve Account to be made from the proceeds of the Additional Bonds in an amount that will result in the Bonds Reserve Account being equal to the applicable reserve requirement.

The Board may satisfy the reserve requirement with a letter of credit, a surety bond, or an insurance policy if the provider or issuer thereof shall be rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Corporation or any successor to either. The reserve requirement described above, currently in an amount of \$13,769,441, is cash funded with the exception of the portion of the reserve requirement related to the Series 2002A Bonds, which is secured by a surety bond issued by Ambac Assurance Corporation in an amount of \$874,500.

Flow of Funds

All Revenues of the System shall be set aside as collected and credited to the Water Supply And Electric Utility System Receiving Fund. Periodically, out of the Revenues credited to the Receiving Fund there shall be first set aside in, or credited to, a fund designated Operation And Maintenance Fund, a sum sufficient to provide for the payment during the succeeding period of the next month's expenses of administration and operation of the System, including such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order.

After provision for the Operation and Maintenance Fund, there shall be set aside on or before the first day of each month, in the Bond and Interest Redemption Fund a sum equal to 1/6 of the interest on the Bonds next coming due and 1/12 of the total amount of the principal of the Bonds due on the next July 1 and 1/12 of the maturing amount of Capital Appreciation Bonds due one year or less from the 1st day of such month. If there is any deficiency in the amount previously set aside, that deficiency shall be added to the requirements for the next succeeding month.

If at any time it shall be necessary to use moneys credited to the Bond Reserve Account for such payment, then the moneys so used shall be replaced from the Net Revenues first received thereafter which are not required for expenses of administration, operation and maintenance of the system or for current principal and interest requirements on any of the Bonds. Alternatively, the Board may satisfy the Reserve Requirement by a letter of credit, a surety bond or an insurance policy if the provider or issuer thereof shall be rated Aaa by Moody's Investors Service and AAA by Standard and Poor's Corporation. If at any time the amount in the Bond Reserve Account exceeds the Reserve Requirement, the excess may be transferred to such fund or account as the Board may direct.

Revenues remaining in the Water Supply And Electric Utility System Receiving Fund, after provision has been made for the requirements of the Operation and Maintenance Fund and of the Bond and Interest Redemption Fund, shall be set aside, but not more often than monthly, in the Junior Lien Bond and Interest Redemption Fund for the purpose of paying the principal of, redemption premium, if any, and interest on such Junior Lien Bonds as they come due. in accordance with the resolution authorizing the issuance of the Junior Lien Bonds.

Any Revenues in the Water Supply And Electric Utility System Receiving Fund after satisfying all requirements of the Operation and Maintenance Fund, the Bond and Interest Redemption Fund, the Rebate Fund and the Junior Lien Bond and Interest Redemption Fund shall be deemed to be surplus moneys and may be used for such purposes as the Board deems to be for the best interests of the City.

If there should be any deficit in the Operation and Maintenance Fund, Bond and Interest Redemption Fund or the Rebate Fund on account of defaults in setting aside required amounts therein, then transfers shall be made from the moneys remaining in the Receiving Fund at the end of any operating year to those funds in the priority and order specified herein, to the extent of any deficit, before any other disposition is made of the monies in the Receiving Fund at the end of any operating year.

For a complete description of the funds and accounts and flow of funds, see "AMENDED AND RESTATED BOND RESOLUTION - CONSOLIDATED VERSION" attached hereto as Appendix D.

Optional Redemption Prior to Maturity

The Bonds maturing prior to July 1, 2022, shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after July 1, 2022 shall be subject to redemption at the option of the Board on or after July 1, 2021 as a whole or in part at any time and by lot within a maturity at par plus interest accrued to the redemption date.

Mandatory Redemption Prior to Maturity

The Term Bonds maturing on July 1, 2034 are subject to mandatory redemption prior to maturity, at a redemption price of par plus accrued interest to the date fixed for redemption, on July 1 of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2032	\$2,150,000
2033	2,965,000
2034*	3,115,000

*To be paid at maturity unless previously retired.

The principal amounts of Bonds to be mandatorily redeemed in each year may be reduced through the earlier optional redemptions of such Bonds credited against sinking fund requirements in such order of the sinking fund payment dates as the Board may determine.

The Term Bonds maturing on July 1, 2037 are subject to mandatory redemption prior to maturity, at a redemption price of par plus accrued interest to the date fixed for redemption, on July 1 of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2032	\$ 8,310,000
2033	11,470,000
2034	12,040,000
2035	15,915,000
2036	16,710,000
2037*	17,545,000

*To be paid at maturity unless previously retired.

The principal amounts of Bonds to be mandatorily redeemed in each year may be reduced through the earlier optional redemptions of such Bonds credited against sinking fund requirements in such order of the sinking fund payment dates as the Board may determine.

The Term Bonds maturing on July 1, 2041 are subject to mandatory redemption prior to maturity, at a redemption price of par plus accrued interest to the date fixed for redemption, on July 1 of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2038	\$18,425,000
2039	19,435,000
2040	20,505,000
2041*	21,635,000

*To be paid at maturity unless previously retired.

The principal amounts of Bonds to be mandatorily redeemed in each year may be reduced through the earlier optional redemptions of such Bonds credited against sinking fund requirements in such order of the sinking fund payment dates as the Board may determine.

Notice and Manner of Redemption

Notice of redemption for any Bond shall be given at least thirty (30) days prior to the date fixed for redemption by mail to the registered holder thereof at the address shown on the registration books of the Board maintained by the U.S. Bank National Association, Lansing, Michigan (the "Transfer Agent"). The Bonds shall be called for redemption in multiples of \$5,000. The Bonds

in denominations of more than \$5,000 shall be treated as representing the number of Bonds obtained by dividing the denomination of the Bond by \$5,000 within a maturity. The Bonds may be redeemed in part. In the event of redemption of the Bonds in part, upon surrender of the Bond to be redeemed a new Bond or Bonds in aggregate principal amount equal to the unredeemed portion of the Bond surrendered shall be issued to the registered owner thereof. No further interest payment on the Bonds or portions of the Bonds called for redemption shall accrue after the date fixed for redemption, whether presented for redemption or not, provided the Board has funds on hand with the Transfer Agent to redeem the same.

Registration, Payment and Transfer

The Bonds are issuable only as fully registered Bonds without coupons, and when issued, will be registered in the name of Cede & Co., as nominee for DTC. DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial interests in Bonds purchased. So long as Cede & Co. is the Bondholder, as nominee for DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as hereinafter defined) of the Bonds. See "THE BONDS – Book-Entry Only System," herein.

The Bonds will be issued in the original aggregate principal amount as shown on the cover. The Bonds will be dated as of the date of delivery and will bear interest from that date. Interest on the Bonds shall be payable semiannually on July 1 and January 1 of each year commencing on January 1, 2012. Interest on the Bonds shall be computed using a 360-day year and twelve 30-day months. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the inside cover of this Official Statement. The Bonds will be registered Bonds in the denomination of \$5,000 or multiples thereof not exceeding for each maturity the principal amount of such maturity. The principal and interest shall be payable at the designated corporate trust office of the Transfer Agent or such other Transfer Agent as the Board may hereafter designate by notice mailed to the Bondholders. So long as DTC or its nominee, Cede & Co., is the Bondholder, such payments will be made directly to DTC. Disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants and Indirect Participants (both as hereinafter defined), as more fully described below. Interest shall be paid when due by check or draft mailed to the registered owners of Bonds as shown on the registration books as of the fifteenth day of the calendar month preceding the payment date for each interest payment.

Book-Entry Only System

The information in this section has been furnished by DTC. No representation is made by the Board, Bond Counsel, the Transfer Agent, or the Underwriters as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Board, its Bond Counsel, the Transfer Agent, or the Underwriters to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Board nor the Transfer Agent will have any responsibility or obligation to DTC participants, indirect participants or the persons for which they act as nominees with respect to the Bonds, or for any principal or interest payment thereof.

The DTC, New York, NY will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded

on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or Transfer Agent, on payable date in accordance with their respective holdings on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Transfer Agent or the Board, subject to any statutory or regulatory requires as may be in effect from time to time. Payments of redemption proceeds, distributions and divided payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or Transfer Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Transfer Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered to DTC.

The Board may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The Board, Bond Counsel, the Transfer Agent, and the Underwriters cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Bonds (i) payments of principal of or interest on the Bonds, (ii) any document representing or confirming beneficial ownership interests in the Bonds, or (iii) notices sent to DTC or Cede & Co. its nominee, as the registered owner of the Bonds, or that it will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "procedures" of DTC to be followed in dealing with the Participants are on file with DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Neither the Board, Bond Counsel, the Transfer Agent nor the Underwriters will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (a) the Bonds; (b) the accuracy of any

records maintained by DTC or any Direct Participant or Indirect Participant; (c) the payment by DTC to any Participant, or by any Direct Participant or Indirect Participant to any Beneficial Owner of any amount due with respect to the principal of or interest on the Bonds; (d) the delivery by DTC to any participant, or by and Direct Participant or Indirect Participant to any Beneficial Owner of any notice which is required or permitted under the terms of the authorizing resolution for each issue to be given to Bondholders; (e) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (f) any consent given or other action taken by DTC as Bondholder.

Transfer Outside Book-Entry Only System

In the event the book-entry only system is discontinued, the following provisions would apply to the Bonds. The Transfer Agent will act as transfer agent and bond registrar and shall keep the registration books for the Bonds (the "Bond Register") at its corporate trust office. Subject to the further conditions contained in the Bond Resolution, the Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations upon surrender thereof at the corporate trust office of the Transfer Agent by the registered owners or their duly authorized attorneys; upon surrender of any Bonds to be transferred or exchanged, the Transfer Agent shall record the transfer or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations; during the 15 days immediately preceding the date of mailing ("Record Date") of any notice of redemption or any time following the mailing of any notice of redemption, the Transfer Agent shall not be required to effect or register any transfer or exchange of any Bond which has been selected for such redemption, except the Bonds properly surrendered for partial redemption may be exchanged for new Bonds in authorized denominations equal in the aggregate to the unredeemed portion; the Board and Transfer Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owner of such Bonds for all purposes under the Bond Resolution. No transfer or exchange made other than as described above and in the Bond Resolution shall be valid or effective for any purposes under the Bond Resolution.

THE CITY OF LANSING

The City, the capital of the State of Michigan, encompasses an area of approximately 33.9 square miles and has a 2010 Census population of 114,297 people. It is located approximately 85 miles northwest of Detroit and 65 miles southeast of Grand Rapids. It is estimated that the City is within 90 miles of 90% of the State's population. Residential, commercial and industrial valuations account for 60.04%, 26.84% and 4.38%, respectively, of the City's 2010 Taxable Valuation, as hereinafter defined. The balance of the City's 2010 Taxable Valuation is personal property that is primarily commercial and industrial in nature. General Motors, the State of Michigan and Michigan State University, in adjacent East Lansing, are significant factors in the local economy.

The Bonds are not a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of the principal of and interest on the Bonds. The Bonds do not constitute an indebtedness of the City within any constitutional, statutory or charter limitation.

THE LANSING BOARD OF WATER AND LIGHT

History and Organization

By a vote of the City's electorate, the Board was founded in 1885 to provide safe drinking water and fire protection. In 1892, the Board took control of a local power plant to provide street lighting. Steam service was added in the early 1900s when the Michigan Heat and Power Company was purchased by the Board.

The Board is a combined municipal utility system. It provides electric, water, chilled water and steam services to some or all of the City, the City of East Lansing and surrounding townships. The City's Charter provides that the Board shall have full and exclusive management of the electric, water and steam services of the City and such other services as may be agreed upon by the Board and the City. The Charter provides that the Board may fix just and reasonable rates as it deems necessary for services provided by the Board. It is the policy of the Board to review all rates annually and to set such rates so that each respective utility within the System (water supply, steam, chilled water and electric) is self-supporting. The Board is composed of eight commissioners, appointed by the Mayor and confirmed by the City Council.

Capital Improvement Plan

The Board has a six-year capital improvement plan that is updated and adopted annually (the "Plan"). The Plan is designed to address current and future capital needs of the System in an effort to reliably meet existing and projected demand for the services provided by the Board. The current Plan covering the next six years was adopted in May 2010 and consists of approximately \$272 million in capital expenditures, exclusive of the Reo Town Plant. No major changes to the current six-year plan are anticipated for the Fiscal Year 2012 Plan. The Plan will be predominantly funded with surplus revenues along with a portion of proceeds of the Bonds and remaining proceeds from prior bond issues. No additional bonding to fund the Plan is anticipated at this time.

Board of Water and Light Administrators

J. Peter Lark became the General Manager of the Lansing Board of Water and Light in 2007.

In his first year, Mr. Lark established the Board as a State leader in renewable energy and energy conservation. Within a month of taking over the reins, he announced an historic, 21-year agreement to buy electricity generated by landfill gases, a source of renewable energy. In November 2008, thousands of Lansing-area homes began receiving this type of “green” energy. In December 2008, the Board powered up its first solar array – Michigan’s largest – which is now providing solar-generated electricity to its customers.

Mr. Lark is a Director of the Michigan Municipal Electric Association, where he has served as both Vice President and President. In 2007, he was presented with the MMEA’s Public Service Award.

Previously, Mr. Lark was Chairman of the Michigan Public Service Commission. In 2006, he authored “Michigan’s 21st Century Electric Energy Plan,” a blueprint for Michigan’s energy future.

In 2003, Mr. Lark served on the Joint United States - Canada Energy Task Force, established by President George W. Bush and Prime Minister Jean Chrétien to investigate the 2003 blackout.

Susan Devon currently serves as the Assistant General Manager and Chief Financial Officer for the Lansing Board of Water and Light. Ms. Devon is a Certified Public Account in the State of Michigan. Ms. Devon is currently the project director of the Board’s planned Reo Town Plant.

Prior to joining the Board in August of 2007, Ms. Devon served as the Director of the Regulated Energy Division of the Michigan Public Service Commission responsible for rate proceedings and regulatory oversight of all of Michigan’s regulated energy utilities. This included gas, electric, gas storage, and natural gas pipeline rate cases, natural gas and electric power supply programs, accounting, and depreciation programs. She was also responsible for overseeing Michigan’s retail gas and electric choice programs. Ms. Devon was involved in the rate regulation of Michigan’s energy utilities for over 28 years.

Ms. Devon was appointed a member of the Research Advisory Committee for the National Regulatory Research Institute in June 2004 and served as its chair. She is a past member of the NARUC Staff Subcommittee on Electricity.

Brandie F. Ekren is the Lansing Board of Water and Light’s General Counsel and Executive Director of Employment Affairs. She began her Board career more than six years ago as an Associate Attorney. During her career with the BWL, she has advised management on a number of business, employment, risk and compliance matters directing impacting the Board. She reviews all contracts, which include coal supply and transportation agreements, construction, consulting and insurance agreement.

Her most recent activities involve bulk power sales and purchases, NERC/FERC compliance, and the transition and participation into the Midwest Independent System Operator bulk power market.

Dick Peffley is the Lansing Board of Water and Light’s Executive Director of Water Operations and Special Projects. Mr. Peffley has been with the Board for 35 years.

His career achievements include:

- Project Director of the BWL’s \$20 million Chilled Water Plant (2008, on time and on budget).
- Headed up the conversion to western coal at the BWL’s Erickson and Eckert Power Stations.
- Oversaw control upgrades at both Erickson and Eckert, and the installation of a new electrostatic precipitator at the Erickson plant.

Mr. Peffley is currently the Project Manager of the Board’s planned Reo Town Plant.

George Stojic is the Executive Director of Strategic Planning and Development at the Lansing Board of Water and Light. He is responsible for long-term planning, bulk power operations, environmental compliance, customer projects, renewable energy and energy efficiency programs, and project engineering.

Mr. Stojic also manages wholesale electric and water sales, expansion planning, and water regulatory compliance. Mr. Stojic joined the Board in 2007. Prior to his current position; he was the Director of the Operations and Wholesale Markets Division at the Michigan Public Service Commission, where he led the development of the State’s 21st Century Energy Plan, which served as a blueprint for major utility restructuring in Michigan.

He also led in the review and development of electric and gas reliability operations at the Michigan Public Service Commission, and enforcement of the State's natural gas safety program, pipeline certification program, and natural gas storage operations. Mr. Stojic had numerous responsibilities including the Commission's power supply cost recovery and natural gas cost recovery programs.

Douglas K. Wood is the Lansing Board of Water and Light's Executive Director of Electric Operations. He began his Board career more than 26 years ago as an Electric Planning Engineer.

Mr. Wood has held various manager and director positions responsible for electric, water and steam engineering. In 2008, he was named Executive Director of Electric Operations. In these positions, Mr. Wood has overseen the planning, engineering and implementation of 138kV substations, electric transmission and distribution system projects, water pumping and distribution projects, and the operation, maintenance and capital improvements of the BWL power plants.

Prior to joining the Board, he worked at Consumers Energy for five years in various engineer positions in their Power Resources and Planning Department.

Mr. Wood holds a Bachelor's of Science degree in Electrical Engineering, and is a registered Professional Engineer in the State of Michigan.

Labor Relations and Personnel Matters

During the fiscal year ended June 30, 2010, the Board employed 708 people, of whom, 347 people were considered general System employees. The balance were considered utility-specific employees with electric, steam and combined water operations employing 262, 14 and 85 people, respectively.

The International Brotherhood of Electric Workers, AFL-CIO, Local Union 352, represents approximately 415 Board employees. The labor agreement covering these employees expires on October 31, 2012. Remaining Board employees are non-union.

An unsuccessful election was held in March 2001 to organize clerical and technical employees. An unsuccessful election was also held on June 6, 2001, for non-supervisory employees in professional jobs to join the O.P.E.I.U., Local 512.

The Board has two retirement plans. The Board administers a tax qualified single-employer noncontributory defined benefit public employee retirement pension plan (the "Defined Benefit Plan") and the Board has a tax qualified single-employer noncontributory defined contribution public employee retirement pension plan (the "Defined Contribution Plan"). See APPENDIX B for more detail.

THE ELECTRIC UTILITY

General

The Electric Utility component of the System has been operated by the Board for over one hundred years. It is the largest municipally-owned electric utility in Michigan with more than 96,000 customers in the greater Lansing area.

The Electric Utility owns one operating hydroelectric generating unit, two coal-fired electric generating facilities, and a solar installation. Jointly, the hydroelectric unit and solar array produce under one MW. The coal-fired electric generating facilities consist of seven units with a combined net generating capacity of 462 MW. Through its participation in the Michigan Public Power Agency ("MPPA"), the Electric Utility has an additional capacity and energy entitlement of 150.8 MW from the Belle River generating facilities in St. Clair County, Michigan. The Electric Utility also has a power purchase contract with two landfill gas electric generation facilities in Lansing totaling 9 MW of capacity and a power purchase contract with a northern Michigan hydro-electric facility for 1.7 MW of capacity.

In addition to its generating facilities, the Electric Utility maintains 48 miles of transmission lines, 13 substations, 1,186 miles of overhead distribution lines and 668 miles of underground distribution lines. The 138 kilovolt ("kV") transmission lines loop through the 70 square mile service area and connect with transmission facilities owned by the International Transmission Company (the "ITC") at two locations. The bulk of the Board's distribution lines are operated at 13.2 kV, with the balance, operated at 4.16 kV and 8.320 kV, being in the process of conversion to 13.2 kV distribution lines.

Joint Agency Participation

The Board and 16 other Michigan municipalities which own and operate electric systems are members of MPPA. MPPA was created in 1978 pursuant to Act No 448, Public Acts of Michigan, 1976, as amended (the "MPPA Act"), for the purpose of undertaking the planning, financing, development, acquisition, construction, reconstruction, improvement, enlargement, betterment,

operation or maintenance of a project or projects to supply electric power and energy for the present and future needs of its member municipalities. Any Michigan municipality engaged in the generation, transmission or distribution of electricity may join MPPA if such municipality's governing body adopts an appropriate resolution and obtains unanimous approval of the governing bodies of the MPPA's existing members. MPPA's membership currently includes the cities of Bay City, Charlevoix, Chelsea, Eaton Rapids, Grand Haven, Harbor Springs, Hart, Holland, Lansing, Lowell, Marquette, Petoskey, Portland, St. Louis, Traverse City, Wyandotte, and Zeeland.

Purchased Power

In 1983, MPPA issued \$590,370,000 of revenue bonds to purchase an interest in the Detroit Edison Company's ("Detroit Edison") Belle River coal-fired generating facilities in St. Clair County, Michigan ("Belle River"). The MPPA, through its purchase agreements with Detroit Edison, owns 18.61% of Belle River Units Nos. 1 and 2, which have a combined nameplate rating of 1,260 MW. Through its participation in the MPPA, the Board has purchased a capacity and energy entitlement of 150.8 MW. The Board has entered into a power sales contract and project support contract with MPPA pursuant to which the Board is required to make payments to MPPA sufficient to pay the Board's proportionate share of MPPA's operation and maintenance expenses and debt service requirements on bonds associated with Belle River. The Board is entitled to its proportionate share of the capacity and energy from Belle River.

Under the power sales contract, the Board must pay for power and related costs so long as power is available, which charges are an operating expense of the Electric Utility and, as such, have priority over the lien securing the Bonds. The obligations of the Board under the power sales contracts are unconditional and payment must be made regardless of whether or not Belle River is in operation and notwithstanding the suspension or curtailment of the output of Belle River. The obligations of the Board under the project support agreement are not an operating expense of the Electric Utility, and therefore, are made after payment of operating expenses of the Electric Utility and after payment of debt service on the Bonds and certain other bonds of the Board issued pursuant to Act 94. Belle River was declared to be in commercial operation in July of 1985. The Electric Utility is utilizing the Board's full capacity and energy entitlement from Belle River.

The contracts which the Board has entered into with MPPA relating to the Belle River Project require the Electric Utility to assume the obligations of a defaulting participant and, in such event, entitle the Board to the capacity and energy of the defaulting participant; provided, however, such additional entitlement and obligation is not required to exceed twenty-five percent (25%) of the initial Electric Utility entitlement and obligation. There has never been a default by any of the participants of the Belle River Project.

Excluding possible transmission losses, the following table projects the Belle River power cost per kilowatt hour ("kWh") at 80% availability from 2010 through 2015.

**Lansing Board of Water and Light
Electric Utility
Projected Belle River Power Costs per kWh
Calendar Years Ended or Ending December 31, 2011 through 2015**

<u>Year</u>	<u>Cents Per kWh</u>
2011	5.67 cents
2012	5.66 cents ⁽¹⁾
2013	5.69 cents
2014	5.72 cents
2015	5.74 cents

(1) Other years have a higher plant availability.
Source: Lansing Board of Water and Light

In 2007, the Electric Utility entered into a long-term power purchase agreement with the Granger Company of Lansing. Granger owns and operates two landfill facilities in and near Lansing that capture landfill gas to fuel electric generating units. The contract currently provides electric energy from units totaling 9 MW of capacity, and this may expand up to 12 MW, depending on the future production of gas at the facilities. Payment to Granger is made on an energy delivered basis and the units have averaged a 94% capacity factor since 2007. The BWL pays Granger 7.4 cents per kWh for energy delivered. The purchase power contract entitles the Electric Utility to the environmental attributes associated with the operation of the electric generating units. The power from both facilities qualifies to meet Michigan's renewable energy portfolio standard.

The Board also has a power purchase contract with Tower Kleber hydro-electric, located in northern Michigan. The contract is for 1.7 MW and is scheduled to expire at the end of 2011. The Electric Utility is currently negotiating an extension with Tower Kleber. The current contract provides the Electric Utility with the environmental attributes associated with the unit. The power from this facility qualifies to meet Michigan's renewable energy portfolio standard.

Changes in Transmission Arrangements

ITC, the principal transmission owner in Lower Michigan, is a member of the Midwest Independent System Operator ("MISO"). As a member of MISO, ITC has turned over operation of its transmission facilities to MISO and operates under MISO's Open Access Transmission, Energy, and Operating Reserve tariff (Midwest Market). One impact of this membership has been an increase in transmission charges related to transmission investment and MISO overhead charges. The Electric Utility is not a network integration transmission customer of the MISO, but does have entitlement to 12.5 MW of network transmission service and 150 MW of firm point to point transmission service through its membership in various MPPA projects. The 150 MW of point to point entitlement is a grandfathered transmission agreement (GFA).

In September of 2004, the Federal Energy Regulatory Commission ("FERC") issued an order addressing the treatment of grandfathered transmission agreements within the Midwest Market. The order included MPPA transmission agreements relating to Belle River Project, which were designated as GFA's and were "carved out" of the Midwest Market. The GFA designation exempts the Board from various Midwest Market charges and market congestion costs for the energy delivered from the Belle River Plant to the Electric Utility.

As the owner of transmission facilities, the Electric Utility has, from time to time, considered making application to join the MISO. At this time, however, membership in MISO would not appear to produce net benefits for the Electric Utility.

Electric Generation

The Electric Utility currently owns one operating hydro electric generating unit, a solar installation, and two coal-fired electric generating facilities. The hydro electric generating unit produces 0.525 MW, and the solar installation produces 0.054 MW.

The coal-fired electric generating facilities are known as the "Eckert Station" and the "Erickson Station." The Eckert Station has six coal-fired generating units with a combined dependable net capacity of 307 MW. The generating units at the Eckert Station were placed in service between 1954 and 1970. The Erickson Station has one coal-fired generating unit with a dependable net capacity of 155 MW. The Erickson Station was placed in service in 1973. Together, the Eckert and Erickson Stations have a combined dependable net capacity of 462 MW.

The Eckert and Erickson Stations burn low sulfur, less than 1% sulfur, coal. Both facilities meet Michigan's air and water quality standards. The Eckert and Erickson Stations are also in compliance with federal and state environmental requirements. Information on the Electric Utility's coal-fired electric generating facilities is shown in the following table.

**Lansing Board of Water and Light
Electric Utility
Coal-Fired Generating Capacity by Station and Unit**

	<u>Fuel</u>	<u>Year of Initial Operation</u>	<u>Nameplate Rating (MW)</u>	<u>Dependable Net Capacity (MW)</u>
<u>Eckert Station</u>				
No. 1	Coal	1958	44.0	36.0
No. 2	Coal	1954	44.0	36.0
No. 3	Coal	1961	47.0	36.0
No. 4	Coal	1964	80.0	68.0
No. 5	Coal	1968	80.0	66.0
No. 6	Coal	1970	<u>80.0</u>	<u>65.0</u>
			375.0	307.0
<u>Erickson Station</u>				
No. 1	Coal	1973	<u>160.7</u>	<u>155.0</u>
Total			<u>535.7</u>	<u>462.0</u>

Source: Lansing Board of Water and Light

The Reo Town Plant

As replacement for aging generation units at the Board’s Moores Park Steam Plant, the Board plans to build the Reo Town Plant, a combined-cycle cogeneration plant to be built on the southern edge of the City’s REO Town neighborhood on land that was acquired by the Board in January 2011. The new facility will produce both steam and electricity for its customers. The Reo Town Plant’s configuration will consist of two combined cycle units and an auxiliary boiler and is designed to provide approximately 960 Mlbs of steam annually for the Board’s central steam loop. Each of the combined cycle units and the auxiliary boiler will be capable of producing 150 Mlbs of steam per hour. With a maximum steam demand projected to be 300 Mlbs per hour, the new plant’s configuration can meet maximum demand with any one steam production unit out of service. The plant will also be capable of generating up to 110 MW of electricity and is anticipated to generate at least 420,000 MWh annually by following steam demand and providing energy during the peak summer months. Construction of the Reo Town Plant is expected to cost the Board approximately \$182 million.

The Board is evaluating two pipeline options for natural gas transportation to the new plant site. One option is an extension of a natural gas utility’s medium pressure system for approximately three and one-half miles. The Board has reviewed the preliminary route design for this option and is currently discussing transportation rates with the utility. The second option is a high pressure pipeline running approximately 19 miles through a combination of rural and urban settings and providing access to a gas storage field. The Board’s engineering consultant is evaluating proposed routes for this option. The Board is also in the process of developing a purchasing strategy and securing gas procurement services for natural gas supply.

The highly efficient, state-of-the-art facility will be fueled by natural gas and replace the existing coal-fueled Moores Park Steam units. This switch to natural gas will reduce the Board’s dependency on coal and also reduce greenhouse gas emissions by fifty percent (50%) compared to the BWL’s existing steam plant. The Reo Town Plant will help the Board achieve its goal of reducing overall greenhouse gas emissions by twenty percent (20%) by the year 2020, surpassing the proposed federal regulations that require a seventeen percent (17%) reduction.

State and federal air quality regulations required the Board to obtain a permit to install from the MDEQ before commencing construction of the Reo Town Plant. MDEQ issued this permit (PTI No. 149-10) on December 7, 2010. No other environmental permits must be obtained before beginning construction of the Reo Town Plant.

The Reo Town Plant is expected to be placed in service on or about July 2013. The Moores Park Steam facility will continue to operate and produce steam for delivery to Steam Utility customers until such time as the Reo Town plan is operational. Once the Reo Town Plant is in service it is anticipated that the Board will retire the Moores Park facility.

In addition to rate increases implemented in the normal course of business and described herein, the Board has preapproved rates to cover the costs of constructing and operating the new plant. Electric rates will be increased by 3.75% on October 1, 2012, and another 3.75% on October 1, 2013 and Steam rates will be increased by 2% on October 1, 2012.

The following tables show the gross generation, net generation, availability factor and net capacity factor for the Eckert and Erickson Stations for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Electric Utility
Eckert Station Operating Statistics
Fiscal Years Ended June 30, 2006 through 2010**

Fiscal Year Ended <u>June 30</u>	Gross <u>Generation (MWh) ⁽¹⁾</u>	Net <u>Generation (MWh) ⁽²⁾</u>	Availability <u>Factor (%) ⁽³⁾</u>	Net Capacity <u>Factor (%) ⁽⁴⁾</u>
2006	1,655,320	1,505,647	77.6%	50.9%
2007	1,753,079	1,604,035	78.3%	54.4%
2008	1,903,467	1,753,038	79.9%	59.6%
2009	1,300,060	1,179,120	68.4%	41.6%
2010	1,412,432	1,285,617	76.7%	44.5%

(1) Annual total of MWh produced at the Eckert Station.

(2) Annual total of MWh available for sale. The difference between gross and net generation is the MWh used to operate the Eckert Station.

(3) The annual percentage of time that the Eckert Station facility was capable of generating electricity after taking into consideration scheduled and non-scheduled outages.

(4) Annual total of MWh generated as a percentage of annual net generation capacity.

**Lansing Board of Water and Light
Electric Utility
Erickson Station Operating Statistics
Fiscal Years Ended June 30, 2006 through 2010**

Fiscal Year Ended <u>June 30</u>	Gross <u>Generation (MWh) ⁽¹⁾</u>	Net <u>Generation (MWh) ⁽²⁾</u>	Availability <u>Factor (%) ⁽³⁾</u>	Net Capacity <u>Factor (%) ⁽⁴⁾</u>
2006	1,047,811	954,403	78.7%	69.7%
2007	1,126,221	1,038,664	88.7%	77.1%
2008	1,115,889	1,030,479	85.8%	76.0%
2009	1,123,929	1,029,769	94.5%	76.5%
2010	978,442	897,189	84.6%	66.7%

(1) Annual total of MWh produced at the Erickson Station.

(2) Annual total of MWh available for sale. The difference between gross and net generation is the MWh used to operate the Erickson Station.

(3) The annual percentage of time that the Erickson Station was capable of generating electricity after taking into consideration scheduled and non-scheduled outages.

(4) Annual total of MWh generated as a percentage of annual net generation capacity.

Fuel Supply and Delivery

The Eckert and Erickson Stations burn low sulfur, specifically less than 1% sulfur, coal, that contains approximately 8,800 British Thermal Units (“BTUs”) per pound. The Electric Utility is currently in the second year of a three year contract with Arch Coal for the purchase of the Utility’s coal requirements, approximately 1.8 million tons annually. The 2011 price is \$12.00 a ton and will increase to \$14.00 a ton for 2012. The contract with Arch Coal expires on December 31, 2012. Performance under the contract with Arch Coal is excused under force majeure.

Pursuant to a two party contract dated January 1, 2011, coal is delivered by the origin rail carrier, Burlington Northern, to the destination rail carrier, Canadian National at Chicago, IL. Canadian National then delivers the coal to Lansing, MI. at a combined cost to the Electric Utility of \$28.66 per ton plus a fuel surcharge. The contract with Burlington Northern/Canadian National is scheduled to expire on December 31, 2013. The two party contract, provides for the delivery price for calendar years 2012 and 2013 to be \$29.88 and \$31.17 per ton respectively. Performance under the combined Burlington Northern/Canadian National is excused under force majeure. The contract has a minimum of 900,000 tons per year and 3,000,000 tons over the three year contract.

The Board also leases 719 railcars. The Board has one lease with GATX for 589 railcars at a current cost of \$405 per railcar per month and another with General Electric for 130 railcars at a current cost of \$600 per railcar per month. The Board's obligation to pay the leases with GATX and General Electric Rail is absolute and unconditional. The term of the General Electric lease runs from April 1, 2007 through March 31, 2017, and the term of the GATX lease runs from December 1, 2009 through January 1, 2013.

The Board is evaluating two pipeline options for natural gas transportation to the new plant site. One option is an extension of a natural gas utility's medium pressure system for approximately three and one-half miles. The Board has reviewed the preliminary route design for this option and is currently discussing transportation rates with the utility. The second option is a high pressure pipeline running approximately 19 miles through a combination of rural and urban settings and providing access to a gas storage field. The Board's engineering consultant is evaluating proposed routes for this option. The Board is also in the process of developing a purchasing strategy and securing gas procurement services for natural gas supply.

Environmental Standards

Congress enacted the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments") with the intent of improving ambient air quality throughout the United States. One objective of these amendments is to reduce emissions of sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x"), two gaseous pollutants formed during the combustion of coal by coal-burning power plants. Two programs under the Clean Air Act Amendments, The Acid Rain Program and the NO_x Budget were combined into one program known as the Clean Air Interstate Rule ("CAIR"). On December 23, 2008, the U.S. Court of Appeals for the D.C. Circuit issued an opinion remanding the CAIR rules to EPA. In response, EPA has proposed to replace CAIR with the Transport Rule which would require additional reductions of SO₂ and NO_x. At this time, however, the rule has only been proposed and its final impacts are still unknown. EPA has proposed calendar year 2012 as the initial compliance year for the Transport Rule.

Under the CAIR Cap-And-Trade Program, the Electric Utility would have needed to purchase NO_x allowances to be in compliance. The installation of NO_x control equipment did not appear to be cost effective based on the CAIR NO_x regulations. However, Transport Rule compliance requirements, both reductions and schedules, are likely to be different from CAIR requirements. Since the Transport Rule NO_x compliance details have not yet been issued, the Electric Utility is currently investigating compliance options. If the EPA adopts a 2012 compliance schedule, the Electric Utility will need to either purchase additional allowances or construct selective non-catalytic reduction (SNCR) systems at one or more of its units. The capital cost of installing one or more SNCR's is not expected to be significant.

The Electric Utility had been allocated sufficient SO₂ allowances to be in compliance with the CAIR rule through the year 2014. After that date, the Electric Utility would have been required to purchase additional allowances or add controls to remain in compliance. However, Transport Rule compliance requirements, both reductions and schedules, are likely to be different from CAIR requirements. Since the Transport Rule SO₂ compliance details have not yet been issued, the Electric Utility is currently investigating compliance options, but has not yet determined what strategy it may use for compliance.

On January 2, 2011, EPA's Tailoring Rule took effect requiring New Source Review permitting for greenhouse gases ("GHG"), primarily carbon dioxide ("CO₂"). This rule also requires the use of Best Available Control Technology ("BACT") for all new or modified sources. It is currently unknown just how much of an impact this rule will have on the Electric Utility, as the Michigan Department of Environmental Quality has yet to issue a GHG permit or compliance rules. At this time it does not appear as though Congress will set GHG limits, so EPA is pursuing Standards of Performance for New Stationary Sources ("NSPS") for electric utilities. The Board will continue to track all greenhouse gas legislative efforts and other initiatives as well as their potential impact on operations.

In 2005 the United States Environmental Protection Agency (the "EPA") established the Clean Air Mercury Rule (the "CAMR"). The United States Court of Appeals in Washington D.C., however, ruled that the EPA did not properly delist utility boilers from section 112 of the Clean Air Act ("MACT" Rules). The court's action invalidated the CAMR, and the EPA, instead, has moved to regulate mercury and other hazardous emissions from electric power plants by means of the MACT rules. The Michigan Department of Environmental Quality ("DEQ") has adopted its own mercury standard, which requires compliance in 2015. The state and federal rules are likely to have differing compliance standards and dates, making development of a compliance strategy difficult. The Electric Utility is in the process of assessing its compliance options, however, it is likely that the proposed rule will result in capital expenditures for add-on control equipment. Due to complexities of its design and location, the Eckert Station received a special provision in the DEQ rule but it is unlikely that this special provision will be honored in the EPA's rule. Under that provision, the Board anticipates that the Eckert Station will be able to operate until 2018 without installation of certain control equipment. If EPA's MACT standard requires mercury reductions prior to 2018, then installation of additional control equipment may be necessary. The Board is currently studying mercury compliance options, which may include some or all of the following, installation of control equipment, operational changes to selected units, or unit retirements.

The Federal Clean Water Act contains requirements relating to the discharge of any pollutant and the environmental impact of cooling water intake structures. These requirements are enforced through a permitting program known as the National Pollutant Discharge Elimination System (NPDES). The NPDES permits for both the Eckert and Erickson Stations were renewed in June 2008.

Under 316(b) of the Clean Water Act, the design and operation of the cooling water intake structures is regulated to minimize impingement and entrainment of aquatic organisms. On March 14, 2011 the EPA issued its revised rulemaking governing cooling water intake structures at existing electric generation and manufacturing facilities. The Erickson Station already has closed cycle cooling in place and will likely be unaffected by the new rule. At this time, it appears that additional studies will be needed prior to determining any additional steps that may need to be taken at Eckert to comply with the proposed 316(b) standards.

The evolving nature of environmental regulations means that practices that once met regulations, may now no longer comply with new standards. Occasionally, this requires remediation programs. To separately identify and recover the cost of these programs and new environmental related costs, the Board has adopted an environmental surcharge. The surcharge is levied on a kWh basis and is currently \$.0025 kWh.

Power Requirements

During the fiscal years ended June 30, 2006 through 2010, the Electric Utility produced between 65.97% and 74.15% of its total annual power requirements. Nearly all of the Electric Utility’s remaining power requirements are met by way of the Board’s energy entitlement from Belle River. The following table sets forth the Electric Utility’s total power requirements, sales and losses in megawatt hours (“MWh”) for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Electric Utility
Power Availability, Sales and Losses in MWh
Fiscal Years Ended June 30, 2006 through 2010**

	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
MWh Generated ⁽¹⁾	2,460,053	2,645,078	2,784,140	2,210,645	2,183,339
MWh Purchased ⁽²⁾	<u>918,592</u>	<u>921,274</u>	<u>961,071</u>	<u>1,060,734</u>	<u>1,126,015</u>
Total MWh Available	3,378,645	3,566,352	3,745,211	3,271,379	3,309,354
Less MWh Sold ⁽³⁾	<u>3,357,678</u>	<u>3,437,322</u>	<u>3,648,904</u>	<u>3,181,598</u>	<u>3,213,991</u>
Transmission and Distribution Losses	<u>20,967</u>	<u>129,030</u>	<u>96,307</u>	<u>89,781</u>	<u>95,363</u>
Losses as a percentage of MWh Available.....	0.62%	3.62%	2.57%	2.74%	2.88%

(1) See “Electric Generation” herein.

(2) Primarily from Belle River. See “Purchased Power” herein.

(3) Includes Power Pool sales through December 2010 and wholesale sales. See “The Power Pool” herein.

Source: Lansing Board of Water and Light

The following table sets forth the peak demand, total power requirements and load factor for the fiscal years ended June 30, 2006 through 2010. Peak demand and total power requirements are measured in MWh. Peak demand represents the highest sixty minute interval of continuous demand during the fiscal year. Load Factor is the percentage of total power requirements to annualized peak demand.

**Lansing Board of Water and Light
Electric Utility
Peak Demand, Total Power Requirement and Load Factor
Fiscal Years Ended June 30, 2006 through 2010**

Fiscal Year Ended <u>June 30</u>	<u>Peak Demand</u>		<u>Total Power Requirement</u>		<u>Load Factor %</u>
	<u>MWh</u> ⁽¹⁾	<u>% Change</u>	<u>MWh</u>	<u>% Change</u>	
2006	464.704	-1.0%	3,378,646	n/a	83.0%
2007	515.885	11.0%	3,566,352	5.6%	78.9%
2008	479.009	-7.1%	3,745,211	5.0%	89.0%
2009	454.034	-5.2%	3,271,379	-12.7%	82.3%
2010	401.687	-11.5%	3,309,354	1.2%	94.0%

(1) Fiscal year 2010 weather was 12% colder than normal.

Source: Lansing Board of Water and Light

Power Costs

The following tables set forth the total cost of generated and purchased power and the average cost of generated and purchased power by kilowatt hour (kWh) for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Electric Utility
Cost of Generated and Purchased Power⁽¹⁾
Fiscal Years Ended June 30, 2006 through 2010**

<u>Source</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Generated.....	\$ 77,092,121	\$ 84,358,384	\$ 98,418,253	\$ 84,937,022	\$ 84,000,740
Purchased:					
Wholesale.....	429,985	507,390	668,327	889,510	1,122,886
Green Power-Granger...	0	0	0	2,213,293	5,735,158
Belle River.....	<u>45,782,347</u>	<u>40,862,526</u>	<u>42,314,935</u>	<u>45,237,570</u>	<u>45,901,174</u>
Total.....	<u>\$123,304,453</u>	<u>\$125,728,300</u>	<u>\$141,400,975</u>	<u>\$133,277,396</u>	<u>\$136,759,959</u>

(1) See "Electric Generation," "Purchased Power," and "Joint Agency Participation" herein.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Electric Utility
Cost of Net Generated and Purchased Power per kWh ⁽¹⁾
Fiscal Years Ended June 30, 2006 through 2010**

<u>Source</u>	Cost Per kWh				
	2006	2007	2008	2009	2010
Generated.....	\$0.032	\$0.032	\$0.035	\$0.038	\$0.038
Purchased:					
Wholesale.....	\$0.048	\$0.043	\$0.046	\$0.040	\$0.040
Green Power-Granger...	0.000	0.000	0.000	0.070	0.072
Belle River.....	0.050	0.045	0.045	0.045	0.045
Average Cost Per kWh	\$0.037	\$0.035	\$0.038	\$0.041	\$0.041

(1) See “Electric Generation,” “Purchased Power,” and “Joint Agency Participation” herein.
Source: Lansing Board of Water and Light

Service Area

The Electric Utility provides electric service to the City and Lansing Township, most of the City of East Lansing and Delta Township and portions of Meridian, Watertown, Windsor, Delhi and DeWitt Townships. Michigan State University, which is located in the City of East Lansing, generates its own electricity and is not serviced by the Electric Utility. The Electric Utility’s service area totals approximately 70 square miles. The estimated population in the service area is 266,472 persons. By comparison, the City encompasses an area of approximately 33.9 square miles and has a current estimated population of approximately 113,968 persons. Electric service outside of the Electric Utility’s service area is provided by Consumers Energy Company (“Consumers”).

Franchises

Article VII, Section 29 of the Michigan Constitution of 1963 provides that a utility must have a franchise to render service within a local governmental unit. A description of the Electric Utility’s existing franchises is included in the table below.

**Lansing Board of Water and Light
Electric Utility
Electric Franchises ⁽¹⁾**

<u>Township</u>	<u>Franchise Period</u>	<u>Effective Date</u>	<u>Expiration Date</u>
Delhi	30 Years	08/01/88	08/01/18
Delta	30 Years	02/15/87	02/15/17
Dewitt	30 Years	11/10/89	11/10/16
Lansing	30 Years	07/22/86	07/22/16
Meridian	30 Years	02/20/89	02/20/19
Watertown	20 Years	04/27/89	04/27/09 ⁽²⁾
Windsor	30 Years	07/18/86	07/18/16

(1) The Electric Utility serves electric customers in East Lansing pursuant to Act 264, Public Acts of Michigan, 1905, as amended (the “Foote Act”).

(2) In the process of negotiation.

Source: Lansing Board of Water and Light

Customers

The Electric Utility currently serves over 96,000 customers within its service area. The following tables set forth the number and percent of customers by location and classification for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Electric Utility
Average Number and Percent of Customers by Location
Fiscal Years Ended June 30, 2006 through 2010**

	Fiscal Year Ended June 30				
<u>Location</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
City	60,637	60,639	60,332	60,103	59,969
Outside City	<u>35,536</u>	<u>35,862</u>	<u>36,048</u>	<u>36,100</u>	<u>36,096</u>
Total	<u>96,173</u>	<u>96,501</u>	<u>96,380</u>	<u>96,203</u>	<u>96,065</u>
City	63.05%	62.84%	62.60%	62.48%	62.43%
Outside City	<u>36.95</u>	<u>37.16</u>	<u>37.40</u>	<u>37.52</u>	<u>37.57</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Electric Utility
Average Number and Percent of Customers by Classification
Fiscal Years Ended June 30, 2006 through 2010**

	Fiscal Year Ended June 30				
<u>Classification</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	83,165	83,280	83,166	83,005	82,925
Commercial	12,722	12,937	12,933	12,919	12,866
Industrial	<u>287</u>	<u>284</u>	<u>280</u>	<u>278</u>	<u>274</u>
Total	<u>96,173</u>	<u>96,501</u>	<u>96,379</u>	<u>96,202</u>	<u>96,065</u>
Residential	86.47%	86.30%	86.29%	86.28%	86.32%
Commercial	13.23	13.41	13.42	13.43	13.39
Industrial	<u>0.30</u>	<u>0.29</u>	<u>0.29</u>	<u>0.29</u>	<u>0.29</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

Ten Largest Customers

The following table sets forth the ten largest customers of the Electric Utility by revenue and kWh used for the fiscal year ending June 30, 2010.

**Lansing Board of Water and Light
Electric Utility
Ten Largest Customers
Fiscal Year Ended June 30, 2010**

<u>Name</u>	<u>Product/Service</u>	<u>Revenue</u>	<u>% of Total Revenues ⁽¹⁾</u>	<u>kWh</u>	<u>% of Total kWh ⁽²⁾</u>
General Motors	Automotive Manufacturing...	\$15,068,492	6.50%	217,038,638	6.75%
State of Michigan	State Government	6,724,563	2.90	85,145,663	2.65
City of Lansing,	Municipal Government	6,244,618	2.69	49,411,372	1.54
Sparrow Hospital	Hospital	4,820,669	2.08	68,543,703	2.13
Meijer, Inc.....	Retailing, Warehousing.....	3,890,265	1.68	53,088,979	1.65
Jackson National	Insurance	2,345,991	1.01	30,306,110	0.94
Demmer	Metal Fabricating	2,162,251	0.93	29,217,666	0.91
Auto Owners	Insurance	2,038,638	0.88	23,936,322	0.74
City of East Lansing.....	Municipal Government	2,001,810	0.86	20,764,510	0.65
Ingham Regional Medical Center	Hospital.....	<u>1,943,793</u>	<u>0.84</u>	<u>26,954,033</u>	<u>0.84</u>
		<u>\$47,241,090</u>	<u>20.38%</u>	<u>604,406,996</u>	<u>18.81%</u>

(1) City of Lansing, City of East Lansing and State of Michigan totals include Street Lighting and Traffic Signal billings, which include a capital recovery factor on Board investment in Street Lights and Traffic Signals. Based on total revenues of \$231,810,593 for the fiscal year ended June 30, 2010.

(2) Based on total sales of 3,213,991,025 kWh for the fiscal year ended June 30, 2010.

Source: Lansing Board of Water and Light

Rates and Charges

The Charter provides that the Board shall have full and exclusive management of the water supply, steam and electric services of the City and such other services as may be agreed upon by the Board and the City. The Charter also provides that the Board may, with proper notice and hearing, fix just and reasonable rates as it deems necessary for such services. The implementation of new rates takes approximately three months and does not require any local, state or federal regulatory approval. It is the policy of the Board to review all rates annually and to set such rates so that each utility is self-supporting. Rates are set on a cost of service basis.

Customers of the Electric Utility pay basic service and capacity charges based on customer classification and an energy charge based on kWh used. All energy charges per kWh are subject to an energy cost adjustment ("Energy Cost Adjustment"). The Energy Cost Adjustment permits the monthly increase or decrease of the energy charge for the cost of fuel used in supplying electricity. In addition, customers are charged monthly Environmental, Renewal Energy, and Energy Optimization Surcharges. Customers are billed monthly. Historic and existing rates and charges by customer classification are set forth in the table below. For the fiscal year ending June 30, 2011, the budget approved by the Board assumes no rate increase for Electric Utility customers. However, the Board has approved a rate increase of 1.5% effective March 1, 2011. In addition, the Board has preapproved rates to cover the costs of operating the new plant. Electric rates will be increased by 3.75% on October 1, 2012, and another 3.75% on October 1, 2013.

<u>Rate No. 1 - Residential Service</u>	<u>3/1/2008</u>	<u>5/1/2009</u>	<u>3/1/2010</u>	<u>5/1/2010</u>	<u>3/1/2011</u>
Basic Service Charge/month	\$ 4.76	\$ 5.00	\$ 7.50	\$ 7.50	\$ 7.50
Commodity Charge/kWh					
Summer Months (June-Oct.)					
1st 500 kWh	\$ 0.0705	\$ 0.0799	\$ 0.0799	\$ 0.0799	\$ 0.0812
over 500 kWh	\$ 0.0752	\$ 0.0847	\$ 0.0847	\$ 0.0847	\$ 0.0861
Winter Months (Nov-May)					
1st 500 kWh	\$ 0.0705	\$ 0.0799	\$ 0.0799	\$ 0.0799	\$ 0.0812
over 500 kWh	\$ 0.0734	\$ 0.0829	\$ 0.0829	\$ 0.0829	\$ 0.0842
Environmental Charge/kWh	\$ -	\$ 0.0005	\$ 0.0005	\$ 0.0025	\$ 0.0025
Energy Optimization Surcharge/kWh	\$ -	\$ -	\$ 0.001853	\$ 0.001853	\$ 0.001853
Renewable Energy Plan Surcharge/Month	\$ -	\$ -	\$ 2.50	\$ 2.50	\$ 2.50
<u>Rate No. 3 - General Secondary Voltage Service</u>	<u>3/1/2008</u>	<u>5/1/2009</u>	<u>3/1/2010</u>	<u>5/1/2010</u>	<u>3/1/2011</u>
Basic Service Charge/month	\$ 16.78	\$ 17.20	\$ 17.98	\$ 17.98	\$ 17.98
Commodity Charge/kWh					
Summer Months (June-Oct.)	\$ 0.0827	\$ 0.0924	\$ 0.0924	\$ 0.0924	\$ 0.0939
Winter Months (Nov-May)	\$ 0.0796	\$ 0.0892	\$ 0.0892	\$ 0.0892	\$ 0.0906
Environmental Charge/kWh	\$ -	\$ 0.0005	\$ 0.0005	\$ 0.0025	\$ 0.0025
Energy Optimization Surcharge/month	\$ -	\$ -	\$ 6.58	\$ 6.58	\$ 6.58
Renewable Energy Plan Surcharge					
per kWh	\$ -	\$ -	\$ 0.003	\$ 0.003	\$ 0.003
Minimum Charge/month	\$ -	\$ -	\$ 3.50	\$ 3.50	\$ 3.50
Maximum Charge/month	\$ -	\$ -	\$ 15.00	\$ 15.00	\$ 15.00
<u>Rate No. 4 - Large General Secondary Voltage Service</u>	<u>3/1/2008</u>	<u>5/1/2009</u>	<u>3/1/2010</u>	<u>5/1/2010</u>	<u>3/1/2011</u>
Basic Service Charge/month	\$ 35.79	\$ 36.68	\$ 38.35	\$ 38.35	\$ 38.35
Capacity Charge/kW of Max Demand	\$ 9.79	\$ 10.03	\$ 10.03	\$ 10.03	\$ 10.19
Commodity Charge/kWh					
Summer Months (June-Oct.)	\$ 0.0441	\$ 0.0528	\$ 0.0528	\$ 0.0528	\$ 0.0537
Winter Months (Nov-May)	\$ 0.0403	\$ 0.0489	\$ 0.0489	\$ 0.0489	\$ 0.0497
Reactive Power/kvar	\$ 0.0089	\$ 0.0091	\$ 0.0091	\$ 0.0091	\$ 0.0092
Environmental Charge/kWh	\$ -	\$ 0.0005	\$ 0.0005	\$ 0.0025	\$ 0.0025
Energy Optimization Surcharge/month	\$ -	\$ -	\$ 65.78	\$ 65.78	\$ 65.78
Renewable Energy Plan Surcharge					
per kWh	\$ -	\$ -	\$ 0.003	\$ 0.003	\$ 0.003
Minimum Charge/month	\$ -	\$ -	\$ 3.50	\$ 3.50	\$ 3.50
Maximum Charge/month	\$ -	\$ -	\$ 15.00	\$ 15.00	\$ 15.00
<u>Rate No. 5 - Primary Service</u>	<u>3/1/2008</u>	<u>5/1/2009</u>	<u>3/1/2010</u>	<u>5/1/2010</u>	<u>3/1/2011</u>
Basic Service Charge/month	\$ 89.49	\$ 91.73	\$ 95.90	\$ 95.90	\$ 95.90
Capacity Charge					
per kW of On-Peak Billing Demand	\$ 7.94	\$ 8.14	\$ 8.14	\$ 8.14	\$ 8.27
per kW of maximum Demand	\$ 2.63	\$ 2.70	\$ 2.70	\$ 2.70	\$ 2.74
Commodity Charge/kWh					
Summer Months (June-Oct.)					
On-Peak	\$ 0.0387	\$ 0.0473	\$ 0.0473	\$ 0.0473	\$ 0.0481
Off-Peak	\$ 0.0350	\$ 0.0435	\$ 0.0435	\$ 0.0435	\$ 0.0442
Winter Months (Nov-May)					
On-Peak	\$ 0.0369	\$ 0.0454	\$ 0.0454	\$ 0.0454	\$ 0.0461
Off-Peak	\$ 0.0350	\$ 0.0435	\$ 0.0435	\$ 0.0435	\$ 0.0442
Reactive Power/kvar	\$ 0.0089	\$ 0.0091	\$ 0.0091	\$ 0.0091	\$ 0.0092
Environmental Charge/kWh	\$ -	\$ 0.0005	\$ 0.0005	\$ 0.0025	\$ 0.0025
Energy Optimization Surcharge/delivery point	\$ -	\$ -	\$ 461.20	\$ 461.20	\$ 461.20
Renewable Energy Plan Surcharge/delivery point	\$ -	\$ -	\$ 160.00	\$ 160.00	\$ 160.00

Note: Does not include rate increases scheduled to take effect in 2012 and 2013.

Source: Lansing Board of Water and Light

In addition to the above rates and charges, the Electric Utility has separate rate schedules for large capacity service, traffic lights, street lighting, security lighting and municipal water pumping.

Electric service outside of the Electric Utility's service area is provided by Consumers. The rates and charges of the Electric Utility are currently lower than Consumers. Based on rates and charges currently in effect, the following table provides an estimate of the total monthly payments a residential customer of the Electric Utility would make at various usage levels.

**Lansing Board of Water and Light
Electric Utility
Total Estimated Monthly Billing**

<u>kWh Usage Per Month</u>	<u>Basic Service Charge</u>	<u>Energy Charge</u>	<u>Total Estimated Monthly Billing</u>
250.....	\$7.50	\$25.14	\$32.64
500.....	\$7.50	\$47.80	\$55.30
750.....	\$7.50	\$71.64	\$79.14
1,000.....	\$7.50	\$95.49	\$102.99

Source: Lansing Board of Water and Light.

Electric Sales

The following table sets forth the sales and percent of sales by customer classification for the fiscal years ended June 30, 2006 through 2010. Sales are measured in MWh.

**Lansing Board of Water and Light
Electric Utility
Amount in MWh and Percent of Sales by Customer Classification
Fiscal Years Ended June 30, 2006 through 2010**

<u>Classification</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	616,697	600,028	598,233	570,987	554,129
Commercial	1,188,943	1,185,517	1,201,530	1,182,000	1,155,024
Industrial.....	437,175	437,543	451,338	367,885	350,005
Wholesale ⁽¹⁾	1,071,789	1,171,071	1,355,444	1,018,660	1,113,770
Other	43,074	43,162	42,360	42,066	41,063
Total.....	<u>3,357,678</u>	<u>3,437,321</u>	<u>3,648,905</u>	<u>3,181,598</u>	<u>3,213,991</u>
<u>Classification</u>					
Residential	18.37%	17.46%	16.39%	17.95%	17.24%
Commercial	35.41	34.49	32.93	37.15	35.94
Industrial.....	13.02	12.73	12.37	11.56	10.89
Wholesale ⁽¹⁾	31.92	34.07	37.15	32.02	34.65
Other	<u>1.28</u>	<u>1.26</u>	<u>1.16</u>	<u>1.32</u>	<u>1.28</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Includes sales to Power Pool participants.

Source: Lansing Board of Water and Light

Electric Revenues

Electric rates and charges have historically accounted for approximately 80% of gross System revenues. The following table sets forth amount and percent of electric revenues by customer classification for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Electric Utility
Amount and Percent of Revenues by Customer Classification
Fiscal Years Ended June 30, 2006 through 2010**

Classification	Fiscal Year Ended June 30				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential.....	\$ 46,619,811	\$ 45,824,023	\$ 48,422,858	\$ 49,925,125	\$ 55,332,997
Commercial.....	78,719,119	78,778,398	86,704,956	89,848,449	97,338,031
Industrial	23,640,179	23,700,726	26,429,206	24,854,984	25,846,087
Wholesale ⁽¹⁾	37,382,002	59,098,338	63,476,738	45,229,387	42,571,604
Other.....	<u>10,125,192</u>	<u>10,157,595</u>	<u>10,681,478</u>	<u>10,471,609</u>	<u>10,721,874</u>
Total	<u>\$196,486,303</u>	<u>\$217,559,080</u>	<u>\$235,715,236</u>	<u>\$220,329,554</u>	<u>\$231,810,593</u>
<u>Classification</u>					
Residential.....	23.73%	21.06%	20.54%	22.66%	23.87%
Commercial.....	40.06	36.21	36.78	40.78	41.99
Industrial	12.03	10.89	11.21	11.28	11.15
Wholesale ⁽¹⁾	19.03	27.16	26.93	20.53	18.36
Other.....	<u>5.15</u>	<u>4.67</u>	<u>4.53</u>	<u>4.75</u>	<u>4.63</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Includes sales to Power Pool participants.
Source: Lansing Board of Water and Light

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The Electric Utility Industry Generally

The electric utility industry has been, and in the future may be, affected by a number of factors which could affect the financial condition of electric utilities, such as the Electric Utility. Such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from energy efficiency and demand-side management programs on the timing and use of electric energy, (iii) other federal and state legislative changes particularly with respect to renewable energy requirements, (iv) “self-generation” by certain industrial and commercial customers, (v) issues relating to the ability to issue tax-exempt obligations, (vi) restrictions on the ability to sell electricity from generation projects financed with outstanding tax-exempt obligations to non-governmental entities, (vii) changes from projected future load requirements, (viii) increases in costs, (ix) shifts in the availability and relative costs of different fuels, and (x) restructuring of the electric industry. Some of these factors are discussed in greater detail below.

Regional Transmission Organization, Midwest Market, and Wholesale Competition

General

The electric utility industry in the United States has undergone fundamental change prompted by (i) the Energy Policy Act of 2005 (the “Energy Policy Act”), (ii) policies of the Federal Energy Regulatory Commission regarding transmission access and pricing, (iii) increased consolidation and mergers of electric utilities, (iv) the rise of regional transmission organizations (“RTOs”) as market entities, (v) the proliferation of merchant or self-generators, (vi) substantial changes in pricing and structures for electric services by RTOs, and (vii) many regulatory commissions and legislative bodies promoting increased competition in the electric utility industry.

Attempts to promote competition through retail customer choice is prevalent in the Northeast and Mid-Atlantic states, some Great Lakes states, Texas, and Oregon. Most states have either not implemented or suspended retail customer choice programs. Instead, the focus in much of the country is on wholesale competition. Four regional transmission organizations (RTO’s), ISO New England, PJM Interconnection, the Midwest Independent System Operator, and the southwest Power Pool span the Northeast, Mid-Atlantic, Great Lakes and mid-continent states. These RTO’s together with Independent System Operators (ISO’s) in a few other states assure non-discriminatory open access transmission and transparent, liquid energy and ancillary services markets. These organizations have changed the way many electric generating and transmission systems have been operated in the past. RTO’s and ISO’s have been created by FERC or the states to promote and assure vibrant wholesale electricity competition. However large sections of the country, predominately in the Southeast and West, are not served by an RTO or ISO, but, instead, maintain traditional wholesale and retail markets.

Exposure to Dealings with Third Parties

Several large power marketing and independent power producer companies have experienced difficulties as a result of accounting practices that have or could have misled investors or lenders. These difficulties have resulted in loss of stock value, reductions in activities and corporate bankruptcy of power marketers. This has resulted in an increase scrutiny of the financial stability and long-term viability of electric marketers and developers in general, and an associated concern for entities that have long-duration (greater than one year) agreements with electric marketers and developers. The Board does not have any long-term agreements with a power marketer or developer. The Board believes that its exposure to this situation is negligible.

FERC Initiatives

On July 20, 2006, FERC issued Order No. 679, which adopted incentive based rate treatment for transmission of electricity in interstate commerce by public utilities. This final rule is intended to encourage transmission infrastructure investment. The International Transmission Company has approval to automatically adjust transmission rates based on a forward looking test year, which will make it more likely transmission rates will increase. It has also received approval to collect incentive rates for transmission service. This could increase transmission costs for the Electric Utility.

The FERC has recently approved a MISO tariff request to create a new category of transmission projects referred to as Multi Value Projects (MVP). MISO's rate request results in the cost of these projects being charged to all transmission customers regardless of where the project occurs in the MISO footprint or to whom the benefits may accrue. In the future, MVP transmission related rate increases could be significant to most transmission customers. Because of its GFA carve-out, the Board does not anticipate that the MVP rate treatment will have a significant impact on its electric transmission costs or its financial condition.

The Midwest Independent System Operator

MISO, which was originally created under FERC's jurisdiction to assure open and non-discriminatory access to the bulk transmission system, has substantially expanded its activities. MISO has effectively implemented a version of FERC's Standard Market Design which is known as the "Midwest Market Initiative" (Midwest Market) and "MISO Day 2", Under the Midwest Market arrangements; MISO has significantly changed wholesale electric purchases, sales, and operations within its footprint. The Electric Utility is a market participant of and is affected by the Midwest Market.

MISO performs the following services for the Midwest Market:

1. MISO performs scheduling and dispatching of most of the electric generating units in the MISO footprint. The goal of this is to achieve lower cost energy through a more efficient dispatch of resources than can be obtained by utilities making separate generation scheduling and dispatching decisions.
2. MISO has replaced traditional transmission congestion management where transmission transactions were interrupted to relieve congestion with an arrangement that uses generation re-dispatch and energy pricing signals to encourage transmission users to avoid transactions that cause transmission congestion. Under this arrangement, MISO will use generation re-dispatch as much as possible to relieve transmission congestion, and only interrupt transactions as a last resort
3. MISO operates day-ahead and real time energy and ancillary services markets based on the Locational Marginal Price ("LMP") at the various injection and withdrawal points on the transmission grid. LMP is calculated by MISO as the cost to supply the next increment of load using the bids that have been made by market participants to either supply additional energy or reduce energy usage.
4. MISO implemented its ancillary services and operating reserves market in January, 2009. Ancillary services include regulation and operating reserves that market participants can self-supply or purchase from the MISO. Suppliers can sell these services to other market participants.

Beginning in January 2011, the Board became a market participant with a load and a generation asset in the Midwest Market. The Board has placed all six Eckert units "behind the meter" and uses its GFA from Belle River to serve retail customers. The Board placed its Erickson plant "in front of the meter" so that it can serve both the Lansing retail load, provide power to wholesale customers, or participate in the Midwest day-ahead markets. This configuration allows the Electric Utility to minimize transmission costs, participate in the Midwest markets, and maintain reliability.

Participation in the Midwest Market has had a net positive impact on the Board's electric operations. The Board sells excess generation into wholesales markets on an hourly basis at LMP prices and to brokers for durations ranging from one day up to a year. The Board received approximately \$42.66 million in revenues from these sales in 2010.

The Board's wholesale portfolio consists of a long-term cost based sale to another Michigan Municipality, fixed price annual sale(s) to other companies, and other seasonal and opportunity sales. The term of the cost base sale is five years and it includes the recovery of fuel, and fixed and variable O&M costs with a 15% markup. Aside from day-ahead sales into the Midwest Market, all of the Electric Utility's sales are system firm, and the Electric Utility is not obligated to provide electric energy in the event units are unavailable. The Electric Utility has used the system firm sale structure for the past eight years.

Retail Wheeling

The State of Michigan enacted the "Customer Choice and Electric Reliability Act" ("PA 141") in 2000 as a means to promote electric competition in Michigan. The Electric Utility was subject to PA 141 until October of 2008. Between 2000 and 2008, the Electric Utility did not lose any customers to alternate electric suppliers. In October, 2008, the

Michigan Legislature adopted major changes to the electric utility industry in Michigan through PA 295 of 2008 and PA 141 as amended by PA 286 of 2008. Most of the changes affected utilities under the jurisdiction of the Michigan Public Service Committee (MPSC), which are investor owned utilities and certain electric cooperative utilities. Since municipal utilities are not under the jurisdiction of the MPSC, many of the changes did not affect the Electric Utility. However two provisions in the legislation were applicable to the Electric Utility. The first required all electric utilities to meet certain renewable energy and energy efficiency standards. The second changed the scope of Michigan's retail customer choice program, relieving municipal utilities of any obligation of offer retail customer choice in their service territories. With this change, the Electric Utility is no longer subject to retail electric competition within its service territory. It remains subject to competition with neighboring utilities for new customers that locate in areas served by both the neighboring utilities and the Electric Utilities, except within the Lansing city boundaries within which only the Electric Utility can serve.

Renewable Energy and Energy Efficiency Standards

In October, 2008, the Michigan Legislature adopted PA 295 of 2008, which required all Michigan electric utilities to meet certain renewable energy and energy efficiency targets. The renewable energy standards will be phased-in beginning in 2012 and require each utility to purchase or generate a growing percentage of the power used to serve their retail customers from a qualifying renewable energy facility. The percentage renewable energy required each year is shown below:

<u>Year</u>	<u>Required Renewable Energy Portfolio Percentage</u>
2012	2.0%
2013	3.3
2014	5.0
2015	10.0

Each MW produced by a qualifying renewable energy facility creates one renewable energy credit (REC) that can be used to meet the renewable energy standard. Bonus credits are provided for Michigan made sources that meet certain characteristics. Utilities comply with the requirements by either generating electric energy from qualifying facilities, or by purchasing REC's.

The legislation also adopted rate impact limits on compliance costs, which legislation defines as the incremental costs incurred in procuring the energy and REC's necessary to meet the renewable energy standards. The rate limits are \$3.00 per residential customer per month, \$16.58 per commercial secondary customer meter per month, and \$187.50 per commercial primary customer per meter month.

The Electric Utility has already secured multiple sources of qualifying energy, consisting of two landfill gas generation facilities, two hydro units, and a solar installation. Collectively, these sources provide approximately 4% of the Electric Utility's retail load. The legislation permits the Electric Utility to carry forward unused renewable energy credits for three years. Based on current generation levels, the Electric Utility is projected to have sufficient renewable energy credits to meet the standard through 2015.

The Electric Utility is currently exploring options to meet requirements after 2015 through use of biomass fuel and biofuel in its existing generation units, through a purchase power agreement for wind energy, construction of additional solar installations, and through the purchase of qualifying renewable energy credits from other sources and fully expects to comply with both the percentage of renewable energy requirements and the rate limits.

PA 295 also required each Michigan electric utility to meet energy efficiency targets, for the reduction of energy consumption by retail customers, limits on rate impacts of energy efficiency programs, and cost-benefit tests. Like the renewable energy program, the energy efficiency goals are increased each year for four years. With few exceptions, the energy efficiency goals do not include load management programs that shift energy use from peak periods to off-peak periods. The goal of the energy efficiency standard is to reduce electric energy consumption through deployment of energy efficient appliances and devices. The goals have been structured as energy savings as a percentage of total retail sales, and are incremental each year.

The electric energy reduction goals are shown below:

<u>Year</u>	<u>Percentage Energy Savings</u>
2009	0.30%
2010	0.50
2011	0.75
2012	1.00

Each year after 2012, PA 295 requires electric utilities to save an additional 1% of retail energy sales through energy efficiency programs.

A second requirement of the energy efficiency legislations constrains each electric utility to spend no more than the following percentage of retail revenues in complying with energy savings standards:

<u>Year</u>	<u>Percentage Energy Savings</u>
2009	0.75% of 2007 retail revenue
2010	1.00% of 2008 retail revenue
2011	1.50% of 2009 retail revenue
2012	2.00% of 2010 retail revenue

For each year after 2012, spending is limited to 2.0% of the retail revenue from the 2nd year preceding the program year.

The Electric Utility has successfully complied with the savings and spending standards required by PA 295 in 2009 and 2010 and fully expects to continue complying in future years.

Collectively, the renewable energy and energy efficiency programs have provided environmental compliance and generation planning benefits to the Electric Utility and have been popular with Board customers. These programs are likely to remain important components of the Electric Utility's resource portfolio in future years.

Environmental Factors

Electric generation, including that of the Electric Utility, is subject to multiple environmental regulations. Federal, state and local laws and regulations governing the environmental impact of these operations are subject to change. These changes may arise from legislative, regulatory and judicial actions. Consequently, there is no assurance that the electric generating units in operation or contemplated will remain subject to the regulation currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in installation of environmental control equipment, reduced operating levels, or the complete shutdown of individual electric generating units.

Fossil fuels in particular have caused concerns among the public, the scientific community, regulators and legislators because of the impact that these fuels, especially coal can have on the environment. Congressional support for increased regulation of air, water and soil contaminants fluctuates over time, but there are a number of proposed or recently adopted legislative and EPA proposed regulations, which will in all likelihood affect the electric utility industry. In particular, the Clean Air Act Amendments seek to improve the ambient air quality throughout the United States with specified deadlines for reducing emissions of various pollutants. Regulatory proposals for mercury and other hazardous emissions, for greenhouse gas emissions, SO₂ and NO_x, fine particulates (PM), and cooling water have created evolving standards which will almost certainly affect the Electric Utility. While the Electric Utility is currently in compliance with applicable environmental regulations, the Board cannot predict how future, and currently unknown, legislation or rules will impact the operations of the Electric Utility.

Coal Combustion Residuals ("CCRs"), commonly known as coal ash, are the materials remaining after burning coal at electric utilities. CCRs are currently regulated as non-hazardous waste under the Resource Conservation and Recovery Act (RCRA), which regulates both solid waste (Subtitle D) and hazardous waste (Subtitle C). On June 21, 2010, following the 2009 failure of a CCR surface impoundment retaining wall in Kingston, Tennessee, the Environmental Protection Agency issued proposed rules that may force changes in how CCRs will be managed in the future. EPA's proposed rules are unusual in that they offer three possible management options. One option is to manage the waste under the Subtitle C provisions of RCRA as a hazardous waste. The second option is to manage the waste under the Subtitle D provisions as non-hazardous

with some additional management restrictions. The third is to manage the waste under a modified Subtitle D program that is somewhat less restrictive than the alternate "D" proposal. All three options would involve changes in operations.

Under the Subtitle C option, surface impoundment would have to cease operations five years from the effective date of the new regulations and be closed under RCRA protocols. Ash designated for disposal would be sent to licensed hazardous waste landfill, of which there is currently only one in Michigan. Disposal costs could increase substantially. Ash that is "beneficially reused" could continue, however this market could shrink substantially because the taint of a hazardous waste designation might be perceived as a liability. Plants may also need to be retrofitted for dry ash handling.

Under the Subtitle D option, surface impoundments would have to be retrofitted with a composite liner or cease receiving CCRs within five years of the effective date of the new regulations. Ground water monitoring would be required. Current disposal arrangements with licensed non-hazardous waste landfills could continue. Ash sales would not be impacted.

The third option, designated as the "D" Prime option by EPA, is the same as the first "D" option except that it allows for continued use of existing surface impoundments until the end of their useful life.

The proposed CCR rule has proven to be controversial and has generated considerable comment. The volume and substance of the comments from stakeholders appears to have delayed the original timetable for EPA's issuance of a final rule. Publication of the final rule is expected to occur sometime in 2012. To alleviate some of the uncertainty surrounding disposal of CCRs, the Board is in the process of excavating CCRs from two sites and disposing of the material in licensed non-hazardous waste landfills.

Issues of General Concern to the Board

On March 16, 2011, EPA proposed air quality regulations entitled National Emission Standards for Hazardous Air Pollutants from Coal-and Oil-fired Electric Utility Steam Generating Units and Standards of Performance for Fossil-Fuel-Fired Electric Utility Generating Units, which are commonly referred to as the "EGU MACT." The EPA subsequently published the proposed EGU MACT in the federal register on May 3, 2011. The proposed EGU MACT will require existing coal-fired electric generating units to reduce emissions of heavy metals (including mercury, arsenic, chromium and nickel) and acid gases (including hydrogen chloride). EPA anticipates that many existing coal and oil fired electric generating units will be retrofitted with new or upgraded control technologies within three to four years after these regulations become effective. EPA has entered into a consent decree requiring it to complete promulgation of these regulations by November 16, 2011.

Issues Specific to the Reo Town Project

State and federal air quality regulations required the Board to obtain a permit to install from the MDEQ before commencing construction of the Reo Town Plant. MDEQ issued this permit (PTI No. 149-10) on December 7, 2010. No other environmental permits must be obtained before beginning construction of the Reo Town Plant.

THE WATER UTILITY

General

The Water Utility component of the System was established in 1885 and currently serves more than 54,000 customers. Water is obtained from 141 wells averaging 400 feet in depth with a total hydraulic capacity of approximately 63 million gallons per day ("MGD"). During the fiscal year ended June 30, 2010, the average and maximum daily flows were approximately 20.6 MGD and 29.3 MGD, respectively. The Water Utility has two water conditioning plants that soften water in a process that reduces hardness from about 450 parts per million to 85-100 parts per million. The two conditioning plants are interconnected and have a combined capacity of 50 MGD. Water is fluoridated and virtually all water is supplied through meters. The distribution system has 750 miles of mains, most of which are six inches or more in diameter. The Water Utility has four covered reservoirs with a combined capacity of 22 million gallons.

Lead Service Replacement

The Board is in the process of replacing all lead water service lines to be accomplished over a period of ten years. The Board is in the seventh year of this program. Approximately 3,200 services remain, representing a financial obligation of approximately \$10 million. This project is not in response to regulatory requirements, but was undertaken as a proactive response to general public concerns regarding water borne lead.

Service Area and Customer Base

The Water Utility provides water supply services to over 54,000 retail customers and 3 wholesale customers, which include Delta and Lansing Townships and the East Lansing-Meridian Water and Sewer Authority. The Water Utility’s retail service area includes the City, Delhi and Watertown Townships and portions of the City of DeWitt and the Townships of Lansing, Windsor, Bath, Alaiedon and Dewitt. Retail customers that are not located in the City receive water supply services pursuant to various water supply contracts. The Water Utility has retail and wholesale water supply contracts with the authority and townships set forth in the table below.

**Lansing Board of Water and Light
Water Utility
Water Supply Contracts**

<u>Municipality</u>	<u>Expiration Date</u>
Delhi Township.....	08/15/12
Watertown Township.....	11/25/25
Lansing Township (Retail).....	03/06/32
Lansing Township (Wholesale)	06/28/35
Windsor Township.....	12/18/31
Alaiedon Township.....	07/26/29
Dewitt Township.....	07/14/25
Delta Township (Wholesale).....	06/30/35
East Lansing-Meridian Authority (Wholesale) .	12/31/14
Bath Township.....	08/11/28
City of DeWitt.....	08/08/30

Source: Lansing Board of Water and Light

The following tables set forth the average number and percent of water customers by customer classification, meter size and location for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Water Utility
Average Number and Percent of Water Customers by Classification
Fiscal Years Ended June 30, 2006 through 2010**

<u>Classification</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	47,979	48,084	47,938	48,078	48,282
Commercial	6,649	6,780	6,800	6,546	6,563
Industrial.....	99	91	94	98	95
Total.....	<u>54,727</u>	<u>54,955</u>	<u>54,832</u>	<u>54,722</u>	<u>54,940</u>
 <u>Classification</u>					
Residential	87.67%	87.50%	87.43%	87.86%	87.88%
Commercial	12.15	12.34	12.40	11.96	11.95
Industrial.....	<u>0.18</u>	<u>0.16</u>	<u>0.17</u>	<u>0.18</u>	<u>0.17</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Average Number and Percent of Water Customers by Location
Fiscal Years Ended June 30, 2006 through 2010**

Location	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Inside of City	41,177	40,961	40,602	40,388	40,461
Outside of City.....	<u>13,550</u>	<u>13,994</u>	<u>14,230</u>	<u>14,333</u>	<u>14,479</u>
Total.....	<u>54,727</u>	<u>54,955</u>	<u>54,832</u>	<u>54,721</u>	<u>54,940</u>
Location					
Inside of City	75.24%	74.54%	74.05%	73.81%	73.65%
Outside of City.....	<u>24.76</u>	<u>25.46</u>	<u>25.95</u>	<u>26.19</u>	<u>26.35</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

Ten Largest Customers

The following sets forth the principal product or service as well as the water revenues and volume as billed for the ten largest customers of the Water Utility for the fiscal year ended June 30, 2010.

**Lansing Board of Water and Light
Water Utility
Ten Largest Water Customers
Fiscal Year Ended June 30, 2010**

Name	Principal Product or Service	Revenue	% of Total Revenue ⁽²⁾	ccf	% of Total ccf ⁽³⁾
City of Lansing ⁽¹⁾	Municipal Government.....	\$1,684,697	5.84%	171,071	1.86%
State of Michigan	State Government.....	426,373	1.48	98,284	1.07
Sparrow Hospital.....	Hospital	384,410	1.33	137,089	1.49
General Motors.....	Automotive Manufacturing ...	262,276	0.91	88,640	0.97
Bioport	Medical Vaccines	225,025	0.78	93,381	1.02
Lansing School District.....	Education.....	185,565	0.64	41,532	0.45
DTN Management.....	Property Management	172,929	0.60	50,660	0.55
Ingham Regional Medical Center ..	Hospital	150,832	0.52	49,794	0.54
Lansing Community College	Education.....	100,270	0.35	21,725	0.24
Demmer.....	Metal Fabricating	<u>90,669</u>	<u>0.31</u>	<u>24,198</u>	<u>0.26</u>
		<u>\$3,683,045</u>	<u>12.77%</u>	<u>776,374</u>	<u>8.46%</u>

(1) City of Lansing includes fire hydrant rental sales of \$1,229,913 with no consumption for the fiscal year ended June 30, 2010.

(2) Based on total water sales of \$28,843,792 for the fiscal year ended June 30, 2010.

(3) Based on total water volume in 100 CF totaling 9,173,813 the fiscal year ended June 30, 2010.

Source: Lansing Board of Water and Light

Rates and Charges

The Charter provides that the Board shall have full and exclusive management of the water supply, steam and electric services of the City and such other services as may be agreed upon by the Board and the City. The Charter also provides that the Board may, with proper notice and hearing, fix just and reasonable rates as it deems necessary for such services. The implementation of new rates takes approximately three months and does not require any local, state or federal regulatory approval. It is the policy of the Board to review all rates annually and to set such rates so that each utility is self-supporting. Rates are set on a cost of service basis.

Retail customers of the Water Utility pay basic service and water commodity charges. Basic service charges are based on water meter size. Water commodity charges are based on metered water usage. Water usage is measured in cubic feet (“cf”) and 100 CF (“ccf”). All retail customers are subject to a power and chemical cost adjustment (“Power and Chemical Adjustment”). The Power and Chemical Adjustment permits the monthly increase or decrease in the water commodity charge based on the cost of power and chemicals required to deliver treated water to customers. Customers are billed monthly. The following tables set forth a history of the Water Utility’s basic service and water commodity charges as well as an estimate of the monthly bill for a residential customer at various usage levels.

**Lansing Board of Water and Light
Water Utility
Monthly Basic Service Charge by Water Meter Size**

<u>Meter Size</u>	<u>Effective Date</u>					
	July 1, 2005	July 1, 2006	March 1, 2008	May 1, 2009	March 1, 2010	March 1, 2011
5/8"	\$ 6.60	\$ 7.03	\$ 7.52	\$ 7.71	\$ 8.90	\$ 10.27
3/4"	9.24	9.84	10.53	10.79	12.46	14.38
1"	17.17	18.29	19.57	20.06	23.16	26.73
1 1/2"	38.30	40.79	43.65	44.74	51.65	59.61
2"	67.35	71.73	76.75	78.67	90.81	104.81
3"	151.87	161.74	173.06	177.39	204.77	236.34
4"	270.72	288.32	308.50	316.21	365.02	421.30
6"	608.80	648.37	693.70	711.04	820.79	947.34
8"	1,081.57	1,151.87	1,232.50	1,263.31	1,458.30	1,683.14
10"	n/a	n/a	n/a	1,974.42	2,279.16	2,630.56

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Monthly Water Commodity Charge per ccf of Metered Usage**

<u>Effective Date</u>	<u>Charge Per ccf</u>
July 1, 2005	1.58
July 1, 2006	1.68
March 1, 2008	1.80
May 1, 2009.....	2.13
March 1, 2010	2.24
March 1, 2011	2.35

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Estimated Monthly Residential Bill**

<u>Usage in CF Per Month</u>	<u>Basic Service Charge</u>	<u>Water Commodity Charge</u>	<u>Estimated Monthly Bill</u>
500.....	\$10.27	\$11.75	\$22.02
750.....	10.27	17.63	27.90
1,000.....	10.27	23.50	33.77
1,250.....	10.27	29.38	39.65

Source: Lansing Board of Water and Light

Water Volume

Water volume is measured in ccf. There are 748 gallons of water in 1 ccf. The following tables set forth information regarding total, average and peak water volume as pumped and/or billed by customer classification and location for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Water Utility
Total Water Volume in ccf as Billed
Fiscal Years Ended June 30, 2006 through 2010**

Fiscal Year Ended <u>June 30</u>	Water Sales (ccf)	% Increase (Decrease)
2006	10,597,076	2.94%
2007	10,135,472	(4.55)
2008	10,187,505	0.51
2009	9,488,760	(7.36)
2010	9,173,813	(3.43)

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Total Water Volume in ccf as Pumped and Billed
Fiscal Years Ended June 30, 2006 through 2010**

<u>Water Volume</u>	Fiscal Year Ended June 30				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Pumped	11,514,104	11,107,086	10,875,547	10,499,999	10,043,051
Billed.....	<u>10,597,076</u>	<u>10,135,472</u>	<u>10,187,505</u>	<u>9,488,760</u>	<u>9,173,813</u>
Unaccounted ⁽¹⁾	<u>917,028</u>	<u>971,614</u>	<u>688,042</u>	<u>1,011,239</u>	<u>869,238</u>
Unaccounted as a Percent of Pumped.....	7.96%	8.74%	6.33%	9.63%	8.66%

(1) Unaccounted water volume is due primarily to the flushing of lines, fire flows, pressure releases during routine maintenance, line loss and slow meters. As part of its quality control efforts, the Water Utility routinely flushes transmission lines.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Average and Peak Daily Water Volume in MGD as Pumped
Fiscal Years Ended June 30, 2006 through 2010**

<u>Water Volume</u>	Fiscal Year Ended June 30				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Average Daily	22.76	23.10	22.30	21.0	20.6
Peak Daily	34.82	39.65	41.00	32.0	29.3
Peak as a Percent of Average	152.9%	171.6%	183.9%	152.4%	142.2%

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Amount and Percent of Water Volume in ccf as Billed by Customer Classification
Fiscal Years Ended June 30, 2006 through 2010**

Classification	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Residential	3,555,779	3,409,606	3,425,822	3,204,479	3,028,600
Commercial	3,075,620	3,025,814	3,053,235	2,854,246	2,844,751
Industrial.....	1,188,089	977,091	921,690	833,683	741,738
Sales for Resale ⁽¹⁾	2,664,941	2,610,314	2,674,111	2,483,705	2,427,303
Other	<u>112,647</u>	<u>112,647</u>	<u>112,647</u>	<u>112,647</u>	<u>131,421</u>
Total.....	<u>10,597,076</u>	<u>10,135,472</u>	<u>10,187,505</u>	<u>9,488,760</u>	<u>9,173,813</u>
Classification					
Residential	33.55%	33.64%	33.63%	33.77%	33.01%
Commercial	29.02	29.85	29.97	30.08	31.01
Industrial.....	11.21	9.64	9.05	8.79	8.09
Sales for Resale ⁽¹⁾	25.15	25.75	26.25	26.18	26.46
Other	<u>1.06</u>	<u>1.11</u>	<u>1.11</u>	<u>1.19</u>	<u>1.43</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Represents the wholesale sales to Delta Township, Lansing Township and the East Lansing-Meridian Water and Sewer Authority.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Amount and Percent of Water Volume in ccf as Billed by Location
Fiscal Years Ended June 30, 2006 through 2010**

Location	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Inside of City	5,954,388	5,625,277	5,469,557	5,159,088	4,939,955
Outside of City ⁽¹⁾	<u>4,642,688</u>	<u>4,510,195</u>	<u>4,717,948</u>	<u>4,329,672</u>	<u>4,233,858</u>
Total.....	<u>10,597,076</u>	<u>10,135,472</u>	<u>10,187,505</u>	<u>9,488,760</u>	<u>9,173,813</u>
Location					
Inside of City	56.19%	55.50%	53.69%	54.37%	53.85%
Outside of City ⁽¹⁾	<u>43.81</u>	<u>44.50</u>	<u>46.31</u>	<u>45.63</u>	<u>46.15</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Includes the wholesale sales to Delta Township, Lansing Township and the East Lansing-Meridian Water and Sewer Authority.

Source: Lansing Board of Water and Light

Water Revenues

Water sales have historically accounted for approximately 10% of gross System revenues. The following tables set forth the amount and percent of water sales by customer classification and location for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Water Utility
Amount and Percent of Water Sales by Customer Classification
Fiscal Years Ended June 30, 2006 through 2010**

<u>Classification</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	\$ 9,998,617	\$10,603,910	\$ 10,817,453	\$ 10,982,204	\$11,495,839
Commercial.....	7,512,839	8,075,224	8,332,206	8,348,257	9,035,747
Industrial	2,219,882	2,028,073	1,938,423	1,844,139	1,787,386
Sales for Resale ⁽¹⁾	1,515,655	1,787,394	1,967,461	2,154,086	2,438,198
Other	<u>3,319,864</u>	<u>3,513,755</u>	<u>3,674,851</u>	<u>3,887,213</u>	<u>4,086,622</u>
Total.....	<u>\$24,566,857</u>	<u>\$26,008,356</u>	<u>\$26,730,394</u>	<u>\$27,215,900</u>	<u>\$28,843,792</u>
<u>Classification</u>					
Residential	40.70%	40.77%	40.47%	40.35%	39.86%
Commercial.....	30.58	31.05	31.17	30.67	31.33
Industrial	9.04	7.80	7.25	6.78	6.20
Sales for Resale ⁽¹⁾	6.17	6.87	7.36	7.91	8.45
Other	<u>13.51</u>	<u>13.51</u>	<u>13.75</u>	<u>14.28</u>	<u>14.17</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Represents the wholesale sales to Delta Township, Lansing Township and the East Lansing-Meridian Water and Sewer Authority.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Water Utility
Amount and Percent of Water Revenues by Location
Fiscal Years Ended June 30, 2006 through 2010**

<u>Location</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Inside of City	\$17,285,996	\$17,548,829	\$18,200,768	\$18,092,927	\$18,820,053
Outside of City ⁽¹⁾	<u>7,280,861</u>	<u>8,459,507</u>	<u>8,529,638</u>	<u>9,122,973</u>	<u>10,023,739</u>
Total.....	<u>\$24,566,857</u>	<u>\$26,008,356</u>	<u>\$26,730,406</u>	<u>\$27,215,900</u>	<u>\$28,843,792</u>
<u>Location</u>					
Inside of City	70.36%	67.47%	68.09%	66.48%	65.25%
Outside of City ⁽¹⁾	<u>29.64</u>	<u>32.53</u>	<u>31.91</u>	<u>33.52</u>	<u>34.75</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Includes the wholesale sales to Delta Township, Lansing Township and the East Lansing-Meridian Water and Sewer Authority.

Source: Lansing Board of Water and Light

THE STEAM UTILITY

General

The Steam Utility component of the System was established in the early 1900's when the Michigan Heat and Power Company was purchased by the Board. Steam is currently supplied to approximately 80 square blocks in the City's downtown business district as well as a GM plant in Lansing. In addition to heat, some downtown buildings use steam in absorption units to provide air conditioning and GM utilizes steam for processing.

During the fiscal year ended June 30, 2010, the Steam Utility served approximately 220 customers. The following table sets forth average number and percent of steam customers by classification for the fiscal years ended June 30, 2006 through 2010.

Steam Generation

The Steam Utility owns and operates the Moores Park Steam Plant which consists of four coal burning steam generation units. The plant has a steam production capacity of 745 Mlbs/hour, and in the fiscal year ending June 30, 2010 produced a total of 753,184 Mlbs of steam. Three of the four steam generation units at the Moores Park facility are more than 55 years old, and the fourth unit is 43 years old. Due to numerous and costly environmental regulations, the Moores Park facility must be retired within a few years. As replacement for aging generation units located at Moores Park, the Board plans to build the Reo Town Plant (see "The Reo Town Plant", under "THE FINANCING").

Lansing Board of Water and Light Steam Utility Average Number and Percent of Customers by Classification Fiscal Years Ended June 30, 2006 through 2010

Classification	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Residential	19	17	19	16	13
Commercial	237	230	219	213	206
Industrial.....	<u>5</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>1</u>
Total.....	<u>261</u>	<u>252</u>	<u>241</u>	<u>232</u>	<u>220</u>
Classification					
Residential	7.20%	6.75%	7.88%	6.82%	6.03%
Commercial	90.88	91.27	90.87	91.89	93.37
Industrial.....	<u>1.92</u>	<u>1.98</u>	<u>1.24</u>	<u>1.29</u>	<u>0.60</u>
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

Rates and Charges

The Charter provides that the Board shall have full and exclusive management of the water supply, steam and electric services of the City and such other services as may be agreed upon by the Board and the City. The Charter also provides that the Board may, with proper notice and hearing, fix just and reasonable rates as it deems necessary for such services. The implementation of new rates takes approximately three months and does not require any local, state or federal regulatory approval. It is the policy of the Board to review all rates annually and to set such rates so that each utility is self-supporting. Rates are set on a cost of service basis.

Customers of the Steam Utility pay a steam commodity charge as well as a basic service charge or a demand charge. The steam commodity charge is based on metered steam usage that is measured in thousand pounds. The basic service charge is based on a maximum gauge pressure of 15 pounds per square inch ("psi"). The demand charge replaces the customer charge for large industrial users. The demand charge is based on contracted hours of use. All customers are subject to a Fuel Cost Adjustment. The Fuel Cost Adjustment permits the monthly increase or decrease in steam commodity charges for the cost of fuel used in supplying steam. In addition customers are subject to a monthly environmental charge. Customers are billed monthly. The following table sets forth a history of the Steam Utility's customer, demand and commodity charges. For the fiscal year ending June 30, 2011, the budget approved by the Board assumes a rate increase of 9% effective on March 1, 2011. This increase has been approved by the Board. In addition, the Board has preapproved rates to cover the costs of operating the new plant. Steam rates will be increased by 2% on October 1, 2012.

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**Lansing Board of Water and Light
Steam Utility
Historic and Existing Rates by Customer Classification ⁽¹⁾**

Steam Rate 1 History - General Steam Service

<u>Effective Date</u>	1/1/2003	9/1/2006	3/1/2008	5/1/2009	5/1/2010	3/1/2011
Basic Service Charge/month	\$ 7.00	\$ 9.45	\$ 10.02	\$ 10.27	\$ 10.27	\$ 11.19
Commodity Charge: per 1000 lbs						
Summer Month (June - November)						
1st 200,000 lbs	\$ 6.95	\$ 9.38	\$ 9.95	\$ 11.71	\$ 11.71	\$ 13.06
over 200,000 lbs	\$ 7.35	\$ 9.90	\$ 10.52	\$ 12.29	\$ 12.29	\$ 13.70
Winter Month (December through May)						
1st 200,000 lbs	\$ 7.05	\$ 9.52	\$ 10.09	\$ 11.85	\$ 11.85	\$ 13.22
over 200,000 lbs	\$ 7.45	\$ 10.06	\$ 10.66	\$ 12.44	\$ 12.44	\$ 13.86
Environmental Charge (per Mlb)				\$ 0.10	\$ 0.30	\$ 0.30

Steam Rate 2 History - Industrial Steam Service

<u>Effective Date</u>	1/1/2003	9/1/2006	3/1/2008	5/1/2009	5/1/2010	3/1/2011
Monthly Rate:						
Demand Charge:						
lb/hrs of contract demand	\$ 0.80	\$ 1.08	\$ 1.14	\$ 1.17	\$ 1.17	\$ 1.28
lb/hrs exceeding contract demand	\$ 0.70	\$ 0.95	\$ 1.00	\$ 1.03	\$ 1.03	\$ 1.12
Commodity Charge: per Mlb	\$ 3.88	\$ 5.24	\$ 5.55	\$ 7.20	\$ 7.20	\$ 8.15
Environmental Charge (per Mlb)				\$ 0.10	\$ 0.30	\$ 0.30

Steam Rate 5 History

<u>Effective Date</u>	9/1/2006	3/1/2008	5/1/2009	5/1/2010	3/1/2011
Monthly Rate:					
Basic Service charge:	\$ 7.00	\$ 7.42	\$ 7.61	\$ 7.61	\$ 8.29
Commodity Charge: per 1000 lbs.					
Summer Months (June - November)					
1st 200,000 lbs	\$ 6.95	\$ 7.37	\$ 9.06	\$ 9.06	\$ 10.18
over 200,000 lbs	\$ 7.35	\$ 7.79	\$ 9.49	\$ 9.49	\$ 10.64
Winter Months (December - May)					
1st 200,000 lbs	\$ 7.05	\$ 7.47	\$ 9.17	\$ 9.17	\$ 10.30
over 200,000 lbs	\$ 7.45	\$ 7.90	\$ 9.61	\$ 9.61	\$ 10.77
Environmental Charge (per Mlb)			\$ 0.10	\$ 0.30	\$ 0.30

(1) Does not include rate increase scheduled to take effect in 2012.
Source: Lansing Board of Water and Light

Steam Volume

Steam volume is measured in Mlbs. The following table sets forth amount and percent of Steam as billed by customer classification for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Steam Utility
Amount and Percent of Steam as Billed in Mlbs by Customer Classification
Fiscal Years Ended June 30, 2006 through 2010**

Classification	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Residential	2,130	2,288	1,749	2,037	1,246
Commercial	380,249	400,921	402,164	427,383	371,355
Industrial.....	446,642	272,609	249,825	209,708	178,098
Other.....	61,597	59,318	72,705	21,083	55,908
Total.....	<u>890,618</u>	<u>735,136</u>	<u>726,443</u>	<u>660,211</u>	<u>606,607</u>
Classification					
Residential	0.24%	0.31%	0.24%	0.31%	0.21%
Commercial	42.69	54.54	55.36	64.73	61.22
Industrial.....	50.15	37.08	34.39	31.76	29.36
Other.....	6.92	5.63	10.01	3.19	9.22
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

Steam Revenues

The following table sets forth amount and percent of Steam revenue as billed by customer classification for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Steam Utility
Amount and Percent of Steam Revenues as Billed by Customer Classification
Fiscal Years Ended June 30, 2006 through 2010**

Classification	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Residential	\$ 16,567	\$ 18,408	\$ 16,249	\$ 19,412	\$ 12,921
Commercial	3,016,967	4,019,783	4,428,301	5,111,454	4,720,039
Industrial.....	4,876,246	6,395,288	3,397,943	4,157,146	3,045,061
Other.....	454,492	622,989	854,299	352,947	667,528
Total.....	<u>\$8,364,273</u>	<u>\$11,056,468</u>	<u>\$8,696,792</u>	<u>\$9,640,959</u>	<u>\$8,445,549</u>
Classification					
Residential	0.20%	0.17%	0.19%	0.20%	0.15%
Commercial	36.07	36.36	50.92	53.02	55.89
Industrial.....	58.30	57.84	39.07	43.12	36.06
Other.....	5.43	5.63	9.82	3.66	7.90
Total.....	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Lansing Board of Water and Light

Ten Largest Customers

The following sets forth the principal product or service as well as the steam revenues and volume as billed for the ten largest customers of the Steam Utility for the fiscal year ended June 30, 2010. The Steam Utility recently added two new customers, the Accident Fund and the State Police Post. The Accident Fund began service in July of 2010 and the State Police Post began service in June of 2009. The expected annual sales for the Accident Fund and the State Police Post are 11,000 Mlb and 6,500 Mlb, respectively.

Lansing Board of Water and Light Steam Utility Ten Largest Steam Customers Fiscal Year Ended June 30, 2010

Name	Principal Product or Service	Revenue	% of Revenues ⁽¹⁾	Mlbs	% of Mlbs ⁽²⁾
General Motors	Automotive Manufacturing....	\$2,780,249	32.92%	178,711	29.46%
State of Michigan.....	State Government	2,071,151	24.52	164,159	27.06
Lansing Comm. College	Education	371,979	4.40	29,831	4.92
City of Lansing	Municipal Government	254,184	3.01	20,076	3.31
LEPFA	Entertainment.....	233,080	2.76	18,649	3.07
Ingham County	Municipal Government	125,840	1.49	9,997	1.65
Boji Group	Real Estate Management	120,613	1.43	8,999	1.48
Lake Trust Credit Union	Financial Institution	112,021	1.33	8,456	1.39
Radisson	Hotel	86,104	1.02	6,476	1.07
Lansing State Journal.....	Publication	<u>72,330</u>	<u>0.86</u>	<u>5,400</u>	<u>0.89</u>
		<u>\$6,227,551</u>	<u>73.74%</u>	<u>450,754</u>	<u>74.31%</u>

(1) Based on total steam revenues of \$8,445,549 for the fiscal year ended June 30, 2010.

(2) Based on total steam sales of 606,607 Mlbs for the fiscal year ended June 30, 2010.

Source: Lansing Board of Water and Light

THE CHILLED WATER UTILITY

General

In June of 2001, the Chilled Water Utility component of the System commenced operations upon completion of its chilled water production and distribution facilities. Beginning with the fiscal year ended June 30, 2006, the Chilled Water Utility was separated from the Steam Utility.

A new 8,000 ton hour chilled water production facility was completed in September 2009. The facility was constructed at 625 West Allegan Street on land leased from the State of Michigan; the facility was completed on time and within budget resulting in no adverse financial impact on the Board of Water and Light or its customers. The project was also completed without disruption of chilled water service. The decommissioning of the original chilled water facility was completely shortly thereafter and is no longer an asset of the Board of Water and Light.

Service Area and Customer Base

During the fiscal year ended June 30, 2010, the Chilled Water Utility served 6 commercial customers in the City's downtown business district. At this time the Utility does not serve any residential, industrial or other type of customer besides these 6 commercial customers. The following table sets forth the number of service leads and chilled water volume for the fiscal years ended June 30, 2006 through 2010. Chilled water sales are measured in thousand ton hours ("Thrs").

**Lansing Board of Water and Light
Chilled Water Utility
Number of Service Leads and Volume in 1,000 Thrs by Classification
Fiscal Years Ended June 30, 2006 Through 2010**

<u>Classification</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Commercial					
Customers	14	14	14	14	15
Sales	9,776	10,048	9,834	9,210	8,711
Total					
Customers	14	14	14	14	15
Sales	9,776	10,048	9,834	9,210	8,711

Source: Lansing Board of Water and Light

Rates and Charges

The Charter provides that the Board shall have full and exclusive management of the water supply, steam and electric services of the City and such other services as may be agreed upon by the Board and the City, such as chilled water. The Charter also provides that the Board may, with proper notice and hearing, fix just and reasonable rates as it deems necessary for such services. The implementation of new rates takes approximately three months and does not require any local, state or federal regulatory approval. It is the policy of the Board to review all rates annually and to set such rates so that each utility is self-supporting. Rates are set on a cost of service basis.

Customers of the Chilled Water Utility pay capacity and commodity charges. Capacity charges are based on contracted hours of use. Chilled water commodity charges are based on metered usage measured in Thrs. Customers are billed monthly. The following table sets forth a history of the Chilled Water Utility's capacity and commodity charges. For the fiscal year ending June 30, 2011, the budget approved by the Board assumes a rate increase of 1.3% effective on March 1, 2011. An increase of 5% on March 1, 2011 has been approved by the Board.

**Lansing Board of Water and Light
Chilled Water Utility
Historic and Existing Rates**

<u>Gen. Chilled Water Service</u>	<u>January 1 2003</u>	<u>September 1 2006</u>	<u>March 1 2008</u>	<u>May 1 2009</u>	<u>March 1 2011</u>
Capacity Charge per Thrs					
Up to 105% of Contract					
Demand.....	\$40.64	\$40.64	\$40.64	\$41.66	\$43.74
Over 105% of Contract					
Demand.....	\$56.90	\$56.90	\$56.90	\$58.32	\$61.24
Commodity Charger per					
Thrs.....	\$0.115	\$0.115	\$0.115	\$0.118	\$0.124

Source: Lansing Board of Water and Light

Chilled Water Revenues

The following table sets forth amount and percent of chilled water revenue as billed by customer classification for the fiscal years ended June 30, 2006 through 2010.

**Lansing Board of Water and Light
Chilled Water Utility
Chilled Water Revenues by Classification ⁽¹⁾
Fiscal Years Ended June 30, 2006 Through 2010**

<u>Customer Classification</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	0	0	0	0	0
Commercial	\$4,736,085	\$4,796,149	\$4,720,885	\$4,670,157	\$4,733,042
Industrial.....	0	0	0	0	0
Other.....	0	0	0	0	0
Total	<u>\$4,736,085</u>	<u>\$4,796,149</u>	<u>\$4,720,885</u>	<u>\$4,670,157</u>	<u>\$4,733,042</u>

(1) Includes billed and accrued, unbilled revenues.

Source: Lansing Board of Water and Light

Chilled Water Customers by Volume and Revenues

The following sets forth the principal product or service as well as the chilled water revenues and volume as billed for the customers of the Chilled Water Utility for the fiscal year ended June 30, 2010. The Chilled Water Utility recently added two new customers, the Accident Fund and the State Police Post. The Accident Fund began service in July of 2010 and the State Police Post began service in June of 2009. The expected annual sales for the Accident Fund and the State Police Post are 900,000 Thrs and 300,000 Thrs, respectively.

**Lansing Board of Water and Light
Chilled Water Utility
Chilled Water Customers by Volume and Revenues
Fiscal Year Ended June 30, 2010**

<u>User</u>	<u>Principal Product or Service</u>	<u>Thrs</u>	<u>% Thrs</u>	<u>Revenues</u>	<u>% Revenues</u>
State of Michigan ⁽¹⁾	State Government.....	8,007,967	91.94%	\$4,465,867	94.11%
MEDC.....	State Government.....	176,724	2.03	118,130	2.49
Ingham Co Financial Services	Municipal Government	326,540	3.75	112,020	2.36
River St. Triangle (State Police Post)	Property Management	<u>198,776</u>	<u>2.28</u>	<u>49,288</u>	<u>1.04</u>
		<u>8,710,007</u>	<u>100.00%</u>	<u>\$4,745,305</u>	<u>100.00%</u>

(1) The State of Michigan has multiple service leads.

Source: Lansing Board of Water and Light

SYSTEM FINANCIAL INFORMATION

System Debt

The following tables set forth the outstanding debt of the System as well as the debt service supported by the System, including the Bonds described herein, for the fiscal years ending June 30, 2011 through 2041.

**Lansing Board of Water and Light
Total System Senior Outstanding Principal
Fiscal Years Ending June 30, 2011 through 2041 ⁽¹⁾**

<u>Year</u>	<u>1999A Bonds</u>	<u>2002A Bonds</u>	<u>2002B Bonds</u>	<u>2003A Bonds</u>	<u>2005A Bonds</u>	<u>2008A Bonds</u>	<u>The Bonds</u>	<u>Total Sr. Lien Principal</u>
2011	\$1,035,000	\$395,000	\$2,205,000	\$430,000	\$1,490,000	\$ 0	\$ 0	\$5,555,000
2012	0	405,000	2,315,000	450,000	2,595,000	5,000	0	5,770,000
2013	0	420,000	2,410,000	465,000	2,720,000	5,000	0	6,020,000
2014	0	435,000	0	485,000	5,520,000	5,000	0	6,445,000
2015	0	450,000	0	1,625,000	0	820,000	5,000	2,900,000
2016	0	7,000,000	0	1,695,000	0	1,065,000	5,000	9,765,000
2017	0	6,000,000	0	1,765,000	0	1,675,000	5,000	9,445,000
2018	0	6,200,000	0	1,845,000	0	1,745,000	5,000	9,795,000
2019	0	0	0	1,925,000	0	1,825,000	3,630,000	7,380,000
2020	0	0	0	2,020,000	0	1,905,000	3,815,000	7,740,000
2021	0	0	0	2,115,000	0	1,985,000	3,965,000	8,065,000
2022	0	0	0	2,215,000	0	2,075,000	4,175,000	8,465,000
2023	0	0	0	2,325,000	0	2,170,000	4,395,000	8,890,000
2024	0	0	0	2,440,000	0	2,270,000	4,625,000	9,335,000
2025	0	0	0	2,565,000	0	2,375,000	4,835,000	9,775,000
2026	0	0	0	2,710,000	0	2,485,000	5,070,000	10,265,000
2027	0	0	0	0	0	2,600,000	8,180,000	10,780,000
2028	0	0	0	0	0	2,725,000	8,590,000	11,315,000
2029	0	0	0	0	0	2,855,000	9,030,000	11,885,000
2030	0	0	0	0	0	2,990,000	9,485,000	12,475,000
2031	0	0	0	0	0	3,135,000	9,965,000	13,100,000
2032	0	0	0	0	0	3,285,000	10,460,000	13,745,000
2033	0	0	0	0	0	0	14,435,000	14,435,000
2034	0	0	0	0	0	0	15,155,000	15,155,000
2035	0	0	0	0	0	0	15,915,000	15,915,000
2036	0	0	0	0	0	0	16,710,000	16,710,000
2037	0	0	0	0	0	0	17,545,000	17,545,000
2038	0	0	0	0	0	0	18,425,000	18,425,000
2039	0	0	0	0	0	0	19,435,000	19,435,000
2040	0	0	0	0	0	0	20,505,000	20,505,000
2041	0	0	0	0	0	0	21,635,000	21,635,000
Total	\$1,035,000	\$21,305,000	\$6,930,000	\$27,075,000	\$12,325,000	\$40,000,000	\$250,000,000	\$358,670,000

(1) Amounts shown for each fiscal year ending June 30th include principal due on the following day, which is July 1 of the next fiscal year.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Total System Outstanding Principal
Fiscal Years Ending June 30, 2011 through 2041 ⁽¹⁾**

<u>Year</u>	Total Sr. Lien <u>Principal</u>	2009A Subordinate <u>Bonds</u>	Total <u>Principal</u>
2011	\$5,555,000	\$6,645,000	\$12,200,000
2012	5,770,000	7,000,000	12,770,000
2013	6,020,000	7,375,000	13,395,000
2014	6,445,000	7,770,000	14,215,000
2015	2,900,000	8,185,000	11,085,000
2016	9,765,000	3,030,000	12,795,000
2017	9,445,000	0	9,445,000
2018	9,795,000	0	9,795,000
2019	7,380,000	0	7,380,000
2020	7,740,000	0	7,740,000
2021	8,065,000	0	8,065,000
2022	8,465,000	0	8,465,000
2023	8,890,000	0	8,890,000
2024	9,335,000	0	9,335,000
2025	9,775,000	0	9,775,000
2026	10,265,000	0	10,265,000
2027	10,780,000	0	10,780,000
2028	11,315,000	0	11,315,000
2029	11,885,000	0	11,885,000
2030	12,475,000	0	12,475,000
2031	13,100,000	0	13,100,000
2032	13,745,000	0	13,745,000
2033	14,435,000	0	14,435,000
2034	15,155,000	0	15,155,000
2035	15,915,000	0	15,915,000
2036	16,710,000	0	16,710,000
2037	17,545,000	0	17,545,000
2038	18,425,000	0	18,425,000
2039	19,435,000	0	19,435,000
2040	20,505,000	0	20,505,000
2041	<u>21,635,000</u>	<u>0</u>	<u>21,635,000</u>
Total	<u>\$358,670,000</u>	<u>\$40,005,000</u>	<u>\$398,675,000</u>

(1) Amounts shown for each fiscal year ending June 30th include principal due the following day, which is July 1 of the next fiscal year.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Total Senior Lien Debt Service
Fiscal Years Ending June 30, 2011 through 2041 ⁽¹⁾**

<u>Year</u>	<u>1999A Bonds</u>	<u>2002A Bonds</u>	<u>2002B Bonds</u>	<u>2003A Bonds</u>	<u>2005A Bonds</u>	<u>2008A Bonds</u>	<u>The Bonds</u>	<u>Total Sr. Lien Debt Service</u>
2011	\$1,087,785	\$1,434,113	\$2,456,469	\$1,708,679	\$2,091,350	\$1,942,569	\$ 0	\$ 10,720,965
2012	0	1,430,288	2,489,294	1,711,479	3,136,750	1,947,569	13,378,498	24,093,878
2013	0	1,430,606	2,500,375	1,708,479	3,132,000	1,947,419	12,809,200	23,528,079
2014	0	1,429,856	0	1,709,298	5,796,000	1,947,262	12,809,200	23,691,616
2015	0	1,428,000	0	2,829,291	0	2,762,100	12,814,200	19,833,591
2016	0	7,960,000	0	2,831,041	0	2,978,400	12,814,050	26,583,491
2017	0	6,610,000	0	2,828,156	0	3,545,800	12,813,900	25,797,856
2018	0	6,510,000	0	2,830,496	0	3,548,800	12,813,750	25,703,046
2019	0	0	0	2,827,471	0	3,559,000	16,438,600	22,825,071
2020	0	0	0	2,833,440	0	3,547,750	16,442,100	22,823,290
2021	0	0	0	2,833,500	0	3,532,500	16,458,575	22,824,575
2022	0	0	0	2,827,750	0	3,523,250	16,470,325	22,821,325
2023	0	0	0	2,827,000	0	3,514,500	16,481,575	22,823,075
2024	0	0	0	2,825,750	0	3,506,000	16,491,825	22,823,575
2025	0	0	0	2,828,750	0	3,497,500	16,495,975	22,822,225
2026	0	0	0	2,845,500	0	3,488,750	16,489,225	22,823,475
2027	0	0	0	0	0	3,479,500	19,345,725	22,825,225
2028	0	0	0	0	0	3,474,500	19,346,725	22,821,225
2029	0	0	0	0	0	3,468,250	19,357,225	22,825,475
2030	0	0	0	0	0	3,460,500	19,360,725	22,821,225
2031	0	0	0	0	0	3,456,000	19,366,475	22,822,475
2032	0	0	0	0	0	3,449,250	19,371,000	22,820,250
2033	0	0	0	0	0	0	22,823,000	22,823,000
2034	0	0	0	0	0	0	22,821,250	22,821,250
2035	0	0	0	0	0	0	22,823,500	22,823,500
2036	0	0	0	0	0	0	22,822,750	22,822,750
2037	0	0	0	0	0	0	22,822,250	22,822,250
2038	0	0	0	0	0	0	22,825,000	22,825,000
2039	0	0	0	0	0	0	22,821,625	22,821,625
2040	0	0	0	0	0	0	22,822,700	22,822,700
2041	0	0	0	0	0	0	22,824,925	22,824,925
Total	<u>\$1,087,785</u>	<u>\$28,232,863</u>	<u>\$7,446,138</u>	<u>\$40,806,080</u>	<u>\$14,156,100</u>	<u>\$69,577,169</u>	<u>\$543,575,873</u>	<u>\$704,882,008</u>

(1) Amounts shown for each fiscal year ending June 30th include principal due the following day, which is July 1 of the next fiscal year.

Source: Lansing Board of Water and Light

**Lansing Board of Water and Light
Total System Debt Service
Fiscal Years Ending June 30, 2011 through 2041 ⁽¹⁾**

<u>Year</u>	Total Sr. Lien <u>Debt Service</u>	2009A Subordinate <u>Bonds</u>	Total <u>Debt Service</u>
2011	\$10,720,965	\$8,781,267	\$19,502,232
2012	24,093,878	8,781,424	32,875,302
2013	23,528,079	8,782,624	32,310,703
2014	23,691,616	8,783,799	32,475,415
2015	19,833,591	8,783,881	28,617,472
2016	26,583,491	3,191,802	29,775,293
2017	25,797,856	0	25,797,856
2018	25,703,046	0	25,703,046
2019	22,825,071	0	22,825,071
2020	22,823,290	0	22,823,290
2021	22,824,575	0	22,824,575
2022	22,821,325	0	22,821,325
2023	22,823,075	0	22,823,075
2024	22,823,575	0	22,823,575
2025	22,822,225	0	22,822,225
2026	22,823,475	0	22,823,475
2027	22,825,225	0	22,825,225
2028	22,821,225	0	22,821,225
2029	22,825,475	0	22,825,475
2030	22,821,225	0	22,821,225
2031	22,822,475	0	22,822,475
2032	22,820,250	0	22,820,250
2033	22,823,000	0	22,823,000
2034	22,821,250	0	22,821,250
2035	22,823,500	0	22,823,500
2036	22,822,750	0	22,822,750
2037	22,822,250	0	22,822,250
2038	22,825,000	0	22,825,000
2039	22,821,625	0	22,821,625
2040	22,822,700	0	22,822,700
2041	<u>22,824,925</u>	<u>0</u>	<u>22,824,925</u>
Total	<u>\$704,882,008</u>	<u>\$47,104,797</u>	<u>\$751,986,805</u>

(1) Amounts shown for each fiscal year ending June 30th include principal due the following day, which is July 1 of the next fiscal year.

Source: Lansing Board of Water and Light

Historic and Projected Operating Cash Flows and Debt Service Coverage

The following tables set forth the historic operating cash flow and debt service coverage for the fiscal years ended June 30, 2007 through 2010 as well as the projected operating cash flow and debt service coverage of the System, including the Bonds described herein, for the fiscal years ending June 30, 2011 through 2014. The projections and assumptions are subject in all respects to unforeseen forces and events beyond the control of the Board. Such projections and assumptions, while believed by the Board to be reasonable, may not be actually realized. Investors should form their own judgment as to the reasonableness of the assumptions and accuracy of the projections.

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Lansing Board of Water and Light
Historic Operating Cash Flow and Debt Service Coverage
Fiscal Years Ended June 30, 2007 Through 2010

	<u>2007</u> (1)	<u>2008</u> (1)	<u>2009</u> (1)	<u>2010</u> (1)
Operating Revenues (2)				
Water	\$ 26,008,356	\$ 26,730,394	\$ 27,215,900	\$ 28,843,792
Electric	217,042,128	235,579,866	220,200,316	231,810,593
Steam	11,056,468	8,696,792	9,640,959	8,445,549
Chilled Water	4,796,149	4,720,885	4,670,157	4,773,042
Total Operating Revenues	<u>\$ 258,903,101</u>	<u>\$ 275,727,937</u>	<u>\$ 261,727,332</u>	<u>\$ 273,872,976</u>
Operating Expenses				
Production	\$ 145,651,180	\$ 162,185,507	\$ 154,055,211	\$ 157,011,811
Transmission and distribution	13,688,761	16,318,988	14,159,236	13,382,010
Administrative and general	48,340,486	48,204,627	50,093,424	60,271,297
Depreciation and impairment	27,355,440	29,160,354	41,437,632	29,664,302
Total Operating Expenses	<u>\$ 235,035,867</u>	<u>\$ 255,869,476</u>	<u>\$ 259,745,503</u>	<u>\$ 260,329,420</u>
Operating Income (Loss)	\$ 23,867,234	\$ 19,858,461	\$ 1,981,829	\$ 13,543,556
Non-Operating Revenues (Expenses)				
Investment income	\$ 5,310,787	\$ 6,160,524	\$ 3,567,772	\$ 1,521,483
Other income	8,134,821	2,402,122	14,292,802	5,196,043
System capacity fee	9,278,623	9,325,252	9,332,685	9,220,856
Bonded debt interest expense	(8,661,208)	(8,401,608)	(9,174,755)	(8,093,536)
Amortization-Central Utilities Complex	(4,375,000)	(4,700,000)	(5,045,000)	(5,926,370)
Payment in lieu of taxes (3)	(9,910,616)	(10,747,503)	(10,293,071)	(10,523,512)
Other interest expense	(126,238)	(154,288)	(55,286)	(10,633)
Net Income (Loss)	\$ 23,518,403	\$ 13,742,960	\$ 4,606,976	\$ 4,927,887
Add:				
Depreciation	\$ 27,355,440	\$ 29,160,354	\$ 41,437,632	\$ 29,664,302
Interest on long-term debt--revenue bonds	8,661,208	8,401,608	9,174,755	8,093,536
Interest on long-term debt--notes	126,238	154,288	55,286	10,633
Amortization of deferred costs	-	-	-	-
Gain on defeasance of bonds	-	-	-	-
Total Additions/ Deductions	<u>\$ 36,142,886</u>	<u>\$ 37,716,250</u>	<u>\$ 50,667,673</u>	<u>\$ 37,768,471</u>
NET INCOME AVAILABLE FOR DEBT SERVICE	<u>\$ 59,661,289</u>	<u>\$ 51,459,210</u>	<u>\$ 55,274,649</u>	<u>\$ 42,696,358</u>
Debt Service Requirements				
1994A Bonds	\$ 48,550	\$ 1,019,550	\$ -	\$ -
1999A Bonds	2,535,955	1,585,560	2,583,460	2,572,785
1999B Bonds (Jr. Lien)	8,882,821	8,886,258	5,418,330	-
2002A Bonds	1,434,513	1,427,438	1,430,188	1,432,413
2002B Bonds	2,430,849	2,418,099	2,428,999	2,448,719
2003A Bonds	1,711,329	1,709,929	1,707,741	1,709,241
2005A Bonds	601,350	601,350	601,350	601,350
2008A Bonds	-	366,929	1,942,569	1,942,569
2009A Refunding Bonds (Jr. Lien)	-	-	-	8,781,767
2011A Bonds	-	-	-	-
Total	<u>\$ 17,645,366</u>	<u>\$ 18,015,113</u>	<u>\$ 16,112,637</u>	<u>\$ 19,488,844</u>
Senior Lien Debt Service Coverage	6.81x	5.64x	5.17x	3.99x
Total Debt Service Coverage	3.38x	2.86x	3.43x	2.19x

(1) Actual.

(2) This information was obtained from the Consolidated Financial Statements of the Board and includes eliminations between utilities of certain operating revenues.

(3) The payment in lieu of taxes equals 4% of revenue.

Source: Lansing Board of Water and Light

Lansing Board of Water and Light
Projected Operating Cash Flow and Debt Service Coverage
Fiscal Years Ending June 30, 2011 Through 2015

	Budgeted 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
Operating Revenues (1)					
Water	\$ 32,890,803	\$ 36,092,245	\$ 39,409,386	\$ 43,021,200	\$ 46,963,427
Electric	264,281,528	276,151,617	287,151,523	307,544,838	316,729,894
Steam	10,391,843	11,462,786	12,801,875	14,091,903	15,351,405
Chilled Water	4,954,804	5,132,728	5,242,051	5,330,346	5,441,303
Total Operating Revenues	\$ 312,518,978	\$ 328,839,376	\$ 344,604,835	\$ 369,988,287	\$ 384,486,029
Operating Expenses (2)					
Production	\$ 184,507,556	\$ 191,658,686	\$ 197,835,977	\$ 203,627,971	\$ 209,682,405
Transmission and distribution	16,943,902	17,600,613	18,167,892	18,699,789	19,255,787
Administrative and general	59,945,184	62,268,535	64,275,493	66,157,270	68,124,313
Depreciation and impairment	32,656,000	33,106,566	37,018,998	41,033,364	41,317,362
Total Operating Expenses	\$ 294,052,642	\$ 304,634,400	\$ 317,298,360	\$ 329,518,394	\$ 338,379,867
Operating Income (Loss)	\$ 18,466,336	\$ 24,204,976	\$ 27,306,475	\$ 40,469,893	\$ 46,106,162
Non-Operating Revenues (Expenses)					
Investment income (3)	\$ 1,468,036	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
Other income (3)	4,374,475	1,854,015	234,027	862,945	220,045
System capacity fee (3)	9,220,330	9,220,495	9,221,755	9,222,989	9,223,075
Bonded debt interest expense	(10,262,958)	(13,991,786)	(9,731,587)	(17,333,702)	(16,426,756)
Amortization-Central Utilities Complex	(6,645,000)	(7,000,000)	(7,375,000)	(7,770,000)	(8,185,000)
Payment in lieu of taxes (4)	(12,370,067)	(13,304,688)	(13,914,863)	(14,984,224)	(15,521,469)
Other interest expense	(29,510)	(103,844)	(192,088)	(233,164)	(278,765)
Net Income (Loss)	\$ 4,221,642	\$ 3,079,168	\$ 7,748,719	\$ 12,434,737	\$ 17,337,292
Add:					
Depreciation	\$ 32,656,000	\$ 33,106,566	\$ 37,018,998	\$ 41,033,364	\$ 41,317,362
Interest on long-term debt--revenue bonds	10,262,958	13,991,786	9,731,587	17,333,702	16,426,756
Interest on long-term debt--notes	29,510	103,844	192,088	233,164	278,765
Amortization of deferred costs	-	-	-	-	-
Gain on defeasance of bonds	-	-	-	-	-
Total Additions/ Deductions	\$ 42,948,468	\$ 47,202,196	\$ 46,942,673	\$ 58,600,230	\$ 58,022,883
NET INCOME AVAILABLE FOR DEBT SERVICE	\$ 47,170,110	\$ 50,281,364	\$ 54,691,392	\$ 71,034,967	\$ 75,360,175
Debt Service Requirements					
1994A Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
1999A Bonds	1,087,785	-	-	-	-
1999B Bonds (Jr. Lien)	-	-	-	-	-
2002A Bonds	1,434,113	1,430,288	1,430,606	1,429,856	1,428,000
2002B Bonds	2,456,469	2,489,294	2,500,375	-	-
2003A Bonds	1,708,679	1,711,479	1,708,479	1,709,298	2,829,291
2005A Bonds	2,091,350	3,136,750	3,132,000	5,796,000	-
2008A Bonds	1,942,569	1,947,569	1,947,419	1,947,263	2,762,100
2009A Refunding Bonds (Jr. Lien)	8,781,267	8,781,424	8,782,624	8,783,799	8,783,881
2011A Bonds (5)	-	-	-	12,809,200	12,814,200
Total	\$ 19,502,232	\$ 19,496,804	\$ 19,501,503	\$ 32,475,416	\$ 28,617,472
Senior Lien Debt Service Coverage	4.40x	4.69x	5.10x	3.00x	3.80x
Total Debt Service Coverage	2.42x	2.58x	2.80x	2.19x	2.63x

(1) Reflects a 1.5% increase in electric rates, a 9% increase in water rates, a 9% increase in steam rates and a 5% increase in chilled water rates effective March 1, 2011.

Reflects a 3.75% increase in electric rates and a 2% increase in steam rates for the 2013 fiscal year.

Reflects a 3.75% increase in electric rates for the 2014 fiscal year.

(2) Operating expenses, excluding depreciation, are assumed to grow 3% annually.

(3) Non-operating revenues are not assumed to change.

(4) The payment in lieu of taxes equals 4% of revenue.

(5) Excludes estimated capitalized interest.

Source: Lansing Board of Water and Light

COLLECTION AND ENFORCEMENT

All customers of the System are billed monthly. Billings are based on actual readings and are due and payable within fifteen days of the mailing date. Accounts remaining unpaid are charged 5% per month on the amount owed. Service is disconnected when the unpaid balance is 90 days past due. Further collection attempts on closed accounts are made by the Board's internal staff for an additional 60 days, after which unpaid accounts are turned over to a collection agency. Uncollectible accounts approximate 0.5% of revenues.

INSURANCE

The Board has purchased various property and casualty insurance policies to cover many of the risks of loss that it faces. However, the deductibles, scope and limits of the insurance coverages vary from time to time depending on such factors as pricing and availability. By way of illustration, the Board currently has a total limit of \$1 billion for property losses on a replacement cost basis. The amount of deductibles currently varies, with the largest deductible being \$2,000,000. There is also a combination of liability coverages that totals \$26 million for certain bodily injury and property damage claims.

RETURN ON CITY EQUITY

Effective June 30, 2002, the Board entered into a ten-year agreement with the City to provide annual payments to the City as a return on the City's equity in accordance with a formula based on 4% of wholesale and retail sales from its water supply, steam, chilled water and electric utilities. This payment is a subordinate to debt service. During the past eight fiscal years, the Board has made payments to the City as noted in the table below. This payment is treated by each utility as a payment in lieu of taxes. The current agreement expires on June 30, 2012, and negotiations on a new agreement between the Board and the City have not yet commenced.

<u>Fiscal Year Ended June 30,</u>	<u>Payment to City</u>
2003	\$8,728,280
2004	8,526,209
2005	8,795,755
2006	9,227,727
2007	9,910,616
2008	10,747,503
2009	10,293,071
2010	10,523,512

LITIGATION

There is no litigation pending or, to the knowledge of the Board or the City, threatened in any court (either state or federal) restraining or enjoining the issuance or delivery of the Bonds, or questioning (i) the proceedings under which the Bonds are to be issued, (ii) the validity of the Bonds, (iii) the pledge by the Board of the moneys and other property pledged under the Bond Resolution, or (iv) the legal existence of the Board or the City or the title to office of the present officials of the Board or the City.

BOND RATINGS

Moody's Investors Service and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. have assigned their ratings of "Aa3" and "AA-," respectively, to the Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. The Board has furnished to the rating agencies certain information to be considered in evaluating the Bonds. The above ratings reflect the independent judgments of the rating agencies and there is no assurance that such ratings will prevail for any given period of time or that they will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such revision or withdrawal of such ratings may have an effect on the market price of the Bonds.

BOND COUNSEL'S RESPONSIBILITY

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

Bond Counsel has reviewed the statements made under the captions entitled "THE BONDS," "TAX MATTERS," "LEGAL MATTERS," "CONTINUING DISCLOSURE UNDERTAKING" (except for the last three paragraphs thereof) and "BOND COUNSEL'S RESPONSIBILITY" and in Appendix D and E . Bond Counsel has not been retained for review and has not reviewed any other portions of the Official Statement for accuracy or completeness and has not made inquiry of any official or employee of the Board or the City, or any other person and has made no independent verification of such portions hereof, and further has not expressed and will not express an opinion as to any such portions hereof.

MUNICIPAL FINANCE QUALIFYING STATEMENT

The Board has filed a Qualifying Statement for the fiscal year ended June 30, 2010. The Michigan Department of Treasury has determined that the Board is in material compliance with the criteria identified in Act 34 of the Public Acts of Michigan 2001, as amended.

TAX MATTERS

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, the interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Bond Counsel is also of the opinion that, under existing law, the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. Bond Counsel will express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

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

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

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

Tax Treatment of Accruals on Original Issue Discount Bonds

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

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

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

Amortizable Bond Premium

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

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

Market Discount

The “market discount rules” of the Code apply to the Bonds. Accordingly, holders acquiring their Bonds subsequent to the initial issuance of the Bonds will generally be required to treat market discount recognized under the provisions of the Code as ordinary taxable income (as opposed to capital gain income). Holders should consult their own tax advisors regarding the application of the market discount provisions of the Code and the advisability of making any of the elections relating to market discount allowed by the Code.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid after March 31, 2007 on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy

the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

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

Future Developments

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

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals which could cause the interest on the Bonds to be subject directly or indirectly to Federal or State of Michigan income taxation, adversely affect the market price or marketability of the Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. Further, no assurance can be given that any such future legislation, or any actions of the Internal Revenue Service, including, but not limited to, selection of the Bonds for audit examination, or the course or result of any examination of the Bonds, or other Bonds which present similar tax issues, will not affect the market price of the Bonds.

Investors should consult with their tax advisors as to the tax consequences of their acquisition, holding or disposition of the Bonds.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Miller, Canfield, Paddock and Stone, P.L.C., Lansing and Detroit, Michigan, Bond Counsel. A copy of the opinion of Bond Counsel will be delivered with the Bonds, which opinion will be substantially in the form as set forth in Appendix E. Certain matters will be passed on for the Underwriters by their counsel, Foster, Swift, Collins & Smith, P.C., Lansing, Michigan.

UNDERWRITING

The Bonds are being purchased, subject to certain conditions, by a group of underwriters listed on the cover page of this Official Statement and other firms comprising a syndicate for the purchase of the Bonds (collectively, the "Underwriters"), represented by Merrill Lynch, Pierce, Fenner & Smith Incorporated, from the Board pursuant to a bond purchase agreement at an aggregate underwriters’ discount of \$1,202,597.18.

The following paragraphs relate to and have been provided by Citigroup Inc., Morgan Stanley, J.P. Morgan Securities LLC and Wells Fargo Securities, respectively, for inclusion in this Official Statement. The City and the Board take no responsibility as to the accuracy or completeness of such information.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the Bonds.

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

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association ("WFBNA") has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the 2011 Series A Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the 2011 Series A Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

FINANCIAL ADVISOR TO THE BOARD

Robert W. Baird & Co., Traverse City, Michigan (the "Financial Advisor"), has been retained by the Board to provide certain financial advisory services including, among other things, preparation of the deemed "final" Preliminary Official Statement and the final Official Statement (the "Official Statements"). The information contained in the Official Statements was prepared in form by the Financial Advisor and is based on information supplied by various officials from records, statements and reports required by various local, county or state agencies of the State in accordance with constitutional or statutory requirements.

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

The Financial Advisor's duties, responsibilities and fees arise solely as financial advisor to the Board and it has no secondary obligation or other responsibility. The Financial Advisor's fees are expected to be paid from Bond proceeds.

CONTINUING DISCLOSURE UNDERTAKING

Prior to delivery of the Bonds, the Board will execute a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of Beneficial Owners (as defined in the Undertaking) of the Bonds to cause certain annually updated information and notice of certain events to be filed with the Municipal Securities Rulemaking Board ("MSRB") by electronic transmission through the Electronic Municipal Market Access Dataport of the MSRB, pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and the other terms of the Undertaking are as set forth in "Appendix F – FORM OF CONTINUING DISCLOSURE UNDERTAKING" to this Official Statement.

A failure by the Board to comply with the Undertaking will not constitute an event of default under the Bond Resolution and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking.

The Board has not failed to comply with the requirements as described in Section(b)(5) of the Rule of any undertaking made by the Board or the City for the previous five years.

A failure by the Board to comply with the undertaking must be reported by the Board in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

**GENERAL INFORMATION
REGARDING THE CITY OF LANSING**

The following information is provided for informational purposes only. The Bonds are payable solely from the Net Revenues of the System. See "THE BONDS - Authorization" and "-Security" herein.

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CITY OF LANSING

General

The City, the capital of the State of Michigan, encompasses an area of approximately 33.9 square miles and has a 2010 Census population of 114,297 people. It is located approximately 85 miles northwest of Detroit and 65 miles southeast of Grand Rapids. It is estimated that the City is within 90 miles of 90% of the State's population. Residential, commercial and industrial valuations account for 60.04%, 26.84% and 4.38%, respectively, of the City's 2010 Taxable Valuation, as hereinafter defined. The balance of the City's Taxable Valuation is personal property that is primarily commercial and industrial in nature. General Motors, the State of Michigan and Michigan State University, in adjacent East Lansing, are significant factors in the local economy.

Population

The City's 1980, 1990, 2000 and 2010 Census populations are set forth in the following table.

City of Lansing Population Statistics

<u>Census</u>	<u>Population</u>
1980	130,414
1990	127,321
2000	119,128
2010	114,297

Property Assessments

Real property is land and the things permanently attached to or part of the land ("Real Property"). Examples of Real Property include land, buildings, crops and mineral rights. Personal property is property consisting of movable articles, both corporeal, such as furniture or jewelry, or incorporeal, such as stocks or bonds ("Personal Property").

As of December 31 of each year, Real and Personal Property is assessed, or valued, by the City, equalized by the Counties of Clinton, Eaton and Ingham (the "Counties") and further equalized by the State. The value as equalized by the State becomes the state equalized valuation ("State Equalized Valuation" or "SEV"). See "Property Valuations" following.

Article IX, Section 3, of the Michigan Constitution provides that Real and Personal Property assessments will not exceed 50% of true cash value. The Michigan Legislature has provided, by statute, that Real and Personal Property will be assessed at 50% of true cash value. The Michigan Legislature, or the electorate, may change the percentage of true cash value at which Real and Personal Property is assessed.

Personal Property assessments also reflect the taxpayer reported cost of the Personal Property and the application of one or more depreciation schedules formulated by the State Tax Commission. The City's assessor determines which depreciation schedule will be used to value the Personal Property.

Owners of taxable property may appeal their assessment to the City Assessor, the City's Board of Review and to the State Tax Tribunal. Outstanding appeals are not anticipated to adversely impact the financial condition of the City.

Property Valuations

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize the levy of taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as taxable value ("Taxable Value"). Since 1995, property that is taxable has two valuations, SEV and Taxable Value. Michigan statute provides that Real and Personal Property taxes ("Ad Valorem Taxes") be levied on Taxable Value (the "Ad Valorem Tax Roll").

Generally, the Taxable Value of Real or Personal Property is the lesser of (a) the SEV or Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the inflation rate, plus additions, or (b) the property's current SEV. Under certain circumstances, the Taxable Value of property may be different from the same property's SEV. When Real or Personal Property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the true cash value. The Taxable Value of new construction is equal to its SEV.

**City of Lansing
History of State Equalized and Taxable Valuations ⁽¹⁾
Fiscal Years Ended or Ending June 30, 2007 through 2011**

<u>Year</u>	<u>Fiscal Year Ending</u>	<u>Real Property SEV Valuation</u>	<u>Personal SEV Valuation</u>	<u>Total SEV</u>	<u>Taxable Value</u>
2010	2011	\$2,331,405,600	\$204,951,200	\$2,536,356,800	\$2,345,554,884
2009	2010	\$2,611,937,348	\$214,605,100	\$2,826,542,448	\$2,509,268,730
2008	2009	\$2,821,793,030	\$197,985,400	\$3,019,778,430	\$2,496,988,704
2007	2008	\$2,876,473,010	\$210,793,500	\$3,087,266,510	\$2,459,900,927
2006	2007	\$2,791,981,635	\$214,849,578	\$3,006,831,213	\$2,378,454,861

(1) Does not include the value of any property granted tax abatement under Act 198 of the Public Acts of Michigan of 1974, as amended ("Act 198").

Source: City of Lansing

**City of Lansing
Taxable Value by Location, Use and Classification
Fiscal Year Ending June 30, 2011**

<u>By County</u>	<u>Taxable Value</u>	<u>Percent of Total</u>
Ingham County	\$2,262,567,048	96.46%
Eaton County	<u>82,987,836</u>	<u>3.54%</u>
Total	<u>\$2,345,554,884</u>	100.00%
 <u>By Class</u>		
Real Property	\$2,140,603,684	91.26%
Personal Property	<u>204,951,200</u>	<u>8.74%</u>
Total	<u>\$2,345,554,884</u>	<u>100.00%</u>
 <u>By Use</u>		
Commercial	\$629,496,072	26.84%
Industrial	102,806,502	4.38%
Residential	1,408,301,110	60.04%
Personal	<u>204,951,200</u>	<u>8.74%</u>
Total	<u>\$2,345,554,884</u>	<u>100.00%</u>

Source: City of Lansing

Profile of the Ten Largest Taxpayers

Reflected below are the City's ten largest property taxpayers, their principal product or service and respective Taxable Value for the fiscal year ending June 30, 2011.

City of Lansing Ten Largest Taxpayers Fiscal Year Ending June 30, 2011

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Total Taxable Value (1)</u>	<u>% of Total (2)</u>
General Motors Corp. ⁽³⁾	Automotive	\$ 97,245,402	4.15%
Jackson National Life Insurance	Insurance	33,598,974	1.43
Consumers Energy	Utility	22,660,900	0.97
Delta Township Utilities II	Utility	20,259,900	0.86
General Motors LLC	Automotive	20,222,572	0.86
Demmer Corporation	Stamping Plant	17,254,600	0.74
Lansing Retail Center LLC	Retail	12,000,900	0.51
Trappers Cove Ltd Partners	Apartment Housing	11,129,000	0.47
River Street Triangle LLC	Developer	10,950,800	0.47
Blue Cross Blue Shield of MI	Real Estate	<u>9,787,000</u>	<u>0.42</u>
		<u>\$255,110,048</u>	<u>10.88%</u>

(1) Includes the Equivalent Taxable Value of property granted tax abatement under Act 198 for the fiscal year ending June 30, 2011. See "Property Valuations" herein.

(2) Based on \$2,345,554,884, which is the City's Total Taxable Value for its fiscal year ending June 30, 2011, including the value of property granted tax abatement under Act 198.

(3) The tax appeal filed with the State Tax Tribunal by General Motors Corporation has not yet been finalized. For the fiscal year ending June 30, 2011, the City and General Motors Corporation have stipulated on appeals resulting in an overall reduction in the Taxable Value of General Motors Corporation of approximately 20-22%.

Source: City of Lansing

Profile of Major Employers

The following table reflects the diversity of major employers in the Lansing area by the products manufactured or services performed and the approximate number of employees.

<u>Company</u>	<u>Principal Product or Service</u>	<u>Approximate Number of Employees</u>
State of Michigan.....	State Government	14,355
Michigan State University	College Education.....	11,218
Sparrow Hospital System	Health Care	7,400
General Motors Corporation.....	Automotive	3,688
Lansing Community College.....	Education	3,180
Ingham Regional Medical Center	Health Care	2,500
Lansing School District	Education	2,106
Meijer, Inc.	Retail.....	2,000
Auto Owners Insurance	Insurance.....	1,500
Peckham Industries.....	Textiles, Auto Parts.....	1,400
Jackson National Life Insurance.....	Insurance.....	1,393
City of Lansing	Government	1,240

Source:City of Lansing

Employment:

Reflected below are the unadjusted yearly average unemployment statistics for the City and the State for the calendar years 2006 through 2011.

For the fiscal year ended June 30, 2010, electric and waters sales accounted for approximately 95% of the Board's total revenues. The service area for the Board's electric and water operations includes the cities of Lansing, East Lansing and DeWitt and the townships of Alaiedon, Bath, Delhi, Delta, DeWitt, Lansing and Windsor. Collectively, these municipalities make up much of the population in the Lansing-East Lansing Metropolitan Statistical Area. For the month of February 2011 the seasonally unadjusted unemployment rate for the Lansing-East Lansing Metropolitan Statistical Area totaled 8.3%, versus 11.0% for the State.

City of Lansing:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u> ⁽¹⁾
Employed.....	61,404	61,612	60,833	56,859	56,412	58,289
Unemployed.....	<u>5,677</u>	<u>5,474</u>	<u>6,392</u>	<u>10,087</u>	<u>9,099</u>	<u>8,085</u>
Labor Force.....	<u>67,081</u>	<u>67,086</u>	<u>67,225</u>	<u>66,946</u>	<u>65,511</u>	<u>66,374</u>
Unemployed as Percent of Labor Force ⁽²⁾	8.5%	8.2%	9.5%	15.1%	13.9%	12.2%

(1) Through March 2011.

(2) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Career Development.

Source: Office of Labor Market Information – Michigan Department of Career Development

State of Michigan:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u> ⁽²⁾
Employed	4,756,000	4,629,000	4,519,000	4,224,000	4,199,000	4,195,000
Unemployed	<u>366,000</u>	<u>383,000</u>	<u>416,000</u>	<u>665,000</u>	<u>632,000</u>	<u>469,000</u>
Labor Force	<u>5,122,000</u>	<u>5,012,000</u>	<u>4,936,000</u>	<u>4,889,000</u>	<u>4,831,000</u>	<u>4,664,000</u>
Unemployed as Percent of Labor Force ⁽¹⁾	7.1%	7.6%	8.4%	13.6%	13.1%	10.2%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information- Michigan Department of Labor and Economic Growth.

(2) As of April 2011.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

FINANCIAL STATEMENTS AND RELATED NOTES

This Appendix contains the financial statements and related notes of the Board for the fiscal year ended June 30, 2010. The entire comprehensive annual financial report for the fiscal year ended June 30, 2010, is available at http://www.lbwl.com/aboutbwl_financials.asp.

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Independent Auditor's Report

To the Honorable Mayor, Members of
 the City Council, and Commissioners of
 the Board of Water and Light
 City of Lansing, Michigan

We have audited the accompanying financial statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light - City of Lansing, Michigan (the BWL) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Board of Water and Light's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the BWL's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund and Pension Fiduciary Funds of the BWL as of June 30, 2010 and 2009 and the respective changes in financial position and cash flows, where applicable, as of and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWL's basic financial statements. The additional information on pages 50 through 56 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



To the Honorable Mayor, Members of
 the City Council, and Commissioners of
 the Board of Water and Light

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2010 on our consideration of the BWL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 7, 2010



Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the BWL). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2010.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 95,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 66 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its membership in the Michigan Public Power Agency, which includes the BWL's partial ownership of Detroit Edison's Belle River Plant and through its landfill gas renewable energy purchase agreement with Granger Electric of Lansing.

The BWL owns and operates water wells, a raw water transmission system, water conditioning facilities, and an extensive water distribution system serving potable water to over 55,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving nearly 210 customers, and a chilled water facility and distribution piping system serving 15 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet growing customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt principal back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were \$39.4 and \$68.0 million in fiscal years 2010 and 2009, respectively.

The BWL generally pays the major portion of the cost of its capital improvements from internally generated funds and a lesser portion from the proceeds of revenue bonds that are issued from time to time.

Detailed financial information for the separate utilities of water, electric, steam, and chilled water can be found in the additional information section beginning on page 50.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions)

	June 30			% Change 2009 to 2010
	2010	2009	2008	
Assets				
Utility plant	\$ 532.4	\$ 531.3	\$ 519.8	0.2
Other assets	<u>227.3</u>	<u>232.0</u>	<u>262.9</u>	(2.0)
Total assets	759.7	763.3	782.7	(0.5)
Liabilities				
Long-term liabilities	189.6	197.5	216.4	(4.0)
Other liabilities	<u>40.8</u>	<u>41.5</u>	<u>46.6</u>	(1.7)
Total liabilities	<u>230.4</u>	<u>239.0</u>	<u>263.0</u>	(3.6)
Net Assets				
Invested in capital assets	373.1	371.3	372.5	0.5
Restricted for debt service	39.9	39.0	37.7	2.3
Unrestricted	<u>116.2</u>	<u>114.0</u>	<u>109.5</u>	1.9
Total net assets	<u>\$ 529.3</u>	<u>\$ 524.3</u>	<u>\$ 519.7</u>	1.0

Other assets decreased by \$4.7 million. The net decrease is primarily attributable to \$6.7 million reduction in the construction fund account.

Long-term liabilities decreased by \$7.9 million due primarily to a principal payments of \$10.6 million on existing bonds and a slight net increase in other long-term liabilities.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions) (Continued)

	June 30			% Change 2009 to 2010
	2010	2009	2008	
Results of Operations				
Operating revenue	\$ 273.9	\$ 261.7	\$ 275.7	4.7
Operating expenses	260.3	259.7	255.9	0.2
Nonoperating (expense) income - Net	(8.7)	2.6	(6.1)	(434.6)
Change in Net Assets	\$ 4.9	\$ 4.6	\$ 13.7	6.5

Operating revenues increased \$12.2 million, due primarily to an \$11.5 million increase in electric revenues. The electric revenue increase was primarily due to rate increases including the implementation of the renewable energy and energy optimization surcharges.

Operating expenses increased \$0.6 million. This increase was minimal due to a BWL wide initiative launched in the fall of 2009 to significantly cut costs in response to the declining economic environment.

Nonoperating income (expense) decreased by \$11.3 million, due primarily to the net effect of investment income decreasing by \$2 million and other income decreasing by \$9 million. This is attributable to a \$3.5 million decrease in MPPA payments from the Belle River Project and in fiscal year 2009 other income included a one time recognition of \$3 million net gain on the replacement of the Ottawa Chiller Plant.

Budget - The BWL commissioners approved a \$260 million operating expense budget (excluding depreciation and indirect cost allocations) for fiscal year 2010. Actual expenses (excluding depreciation and indirect cost allocations) were \$237.3 million or 9 percent less than budget. The savings were mainly due to a BWL wide initiative launched in the fall of 2009 to significantly cut costs in response to the declining economic environment. The net capital improvement budget was \$46.8 million for fiscal year 2010; actual net capital expenditures were \$31.8 million or 68 percent of the capital budget.

Financing Activities - During fiscal year 2010 there were no significant financing activities.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Other Significant Items - On January 30, 2008, the BWL entered into a Property Purchase and Development Agreement with Christman Capital Development Company. Under the terms of the agreement, the BWL transferred property, improvements, and structures to Christman Capital Development Company for development purposes as described in the agreement in exchange for \$20 million to be used by the BWL for the construction and installation of the new Chilled Water Facilities and new Steam Facilities. The construction of new facilities has been completed as required under the terms of the agreement.

In July 2010 the BWL announced its plans to build a new combined-cycle cogeneration facility. This facility will produce both steam and electricity, and will do so more efficiently than either a steam plant or electricity plant by itself. This facility will use natural gas as the fuel to generate both electricity and steam. The estimated cost of the project is \$182 million and the scheduled date of operation is in 2013.

Board of Water and Light - City of Lansing, Michigan

Statement of Net Assets

	June 30	
	2010	2009
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 38,547,547	\$ 36,467,382
Cash and cash equivalents (Notes 4 and 11)	42,829,458	42,222,456
Investments (Notes 1 and 11)	25,078,325	24,443,091
Accounts receivable - Net (Note 1)	31,394,564	31,893,837
Estimated unbilled accounts receivable (Note 1)	13,501,303	12,141,099
Inventories (Note 1)	21,330,723	22,471,012
Other	<u>1,587,166</u>	<u>1,848,014</u>
Total current assets	174,269,086	171,486,891
Other Assets		
Deferred energy cost (Note 6)	(5,217,753)	(2,794,432)
Deferred amortization of central utilities complex (Note 6)	3,934,097	4,788,533
Deferred environmental remediation (Note 6)	21,715,072	19,171,659
GM steam service termination fees receivable (Note 6)	-	12,157,037
GM steam service termination fees - Allowance (Note 6)	-	(12,157,037)
Other	<u>952,126</u>	<u>1,372,608</u>
Total other assets	21,383,542	22,538,368
Noncurrent Restricted Assets (Notes 4 and 11)	31,589,605	37,994,924
Utility Plant (Note 1)		
Water	245,140,560	232,205,455
Electric	620,083,406	608,017,630
Steam	44,052,072	42,350,583
Chilled water	32,654,117	28,894,846
Common facilities	64,941,333	66,904,324
Central Utilities Complex	<u>76,079,000</u>	<u>76,079,000</u>
Total	1,082,950,488	1,054,451,838
Less accumulated depreciation	<u>562,820,851</u>	<u>540,637,438</u>
Net	520,129,637	513,814,400
Construction in progress (Note 3)	<u>12,284,075</u>	<u>17,470,143</u>
Total utility plant	<u>532,413,712</u>	<u>531,284,543</u>
Total assets	<u>\$ 759,655,945</u>	<u>\$ 763,304,726</u>

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Statement of Net Assets (Continued)

	June 30	
	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 15,725,701	\$ 18,036,705
Current portion of long-term debt (Note 5)	12,472,372	10,889,150
Accrued payroll and related taxes	2,824,053	2,266,642
Customer deposits	2,219,809	2,051,933
Accrued compensated absences (Note 1)	3,661,189	3,539,040
Accrued interest	<u>3,930,344</u>	<u>4,723,597</u>
Total current liabilities	40,833,468	41,507,077
Compensated Absences - Less current portion (Note 1)	7,244,259	7,292,691
Other Long-term Liabilities		
Workers' compensation	2,300,000	2,000,000
Environmental remediation liability (Note 9)	9,210,361	11,782,746
Deferred revenue (Note 6)	3,304,074	-
Other	<u>2,873,937</u>	<u>2,715,019</u>
Total other long-term liabilities	17,688,372	16,497,765
Long-term Debt - Less current portion (Note 5)	<u>164,663,012</u>	<u>173,708,256</u>
Total liabilities	230,429,111	239,005,779
Net Assets		
Invested in capital assets	373,089,891	371,252,440
Restricted for debt service (Note 4)	39,853,217	39,007,853
Unrestricted	<u>116,283,726</u>	<u>114,038,654</u>
Total net assets	<u>529,226,834</u>	<u>524,298,947</u>
Total liabilities and net assets	<u>\$ 759,655,945</u>	<u>\$ 763,304,726</u>

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2010	2009
Operating Revenues (Note 1)		
Water	\$ 28,843,792	\$ 27,215,900
Electric	231,810,593	220,200,316
Steam	8,445,549	9,640,959
Chilled water	4,773,042	4,670,157
Total operating revenues	273,872,976	261,727,332
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	140,396,919	134,605,416
Maintenance	16,614,892	19,449,795
Transmission and distribution:		
Operating expenses	6,438,471	6,970,410
Maintenance	6,943,539	7,188,826
Administrative and general	60,271,297	50,093,424
Depreciation and impairment (Note 1)	29,664,302	41,437,632
Total operating expenses	260,329,420	259,745,503
Operating Income	13,543,556	1,981,829
Nonoperating Income (Expenses)		
Investment income	1,521,483	3,567,772
Other income	5,196,043	14,292,802
System capacity fee	9,220,856	9,332,685
Bonded debt interest expense	(8,093,536)	(9,174,755)
Amortization - Central Utilities Complex	(5,926,370)	(5,045,000)
Payment in lieu of taxes (Note 7)	(10,523,512)	(10,293,071)
Other interest expense	(10,633)	(55,286)
Total nonoperating income (expenses) - Net	(8,615,669)	2,625,147
Net Income (Changes in Net Assets)	4,927,887	4,606,976
Net Assets - Beginning of year	524,298,947	519,691,971
Net Assets - End of year	\$ 529,226,834	\$ 524,298,947

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows

	Year Ended June 30	
	2010	2009
Cash Flows from Operating Activities		
Cash from customers:		
Water	\$ 29,343,604	\$ 28,482,545
Electric	230,283,020	222,675,732
Steam	9,421,379	10,057,016
Chilled water	5,181,780	3,809,004
Total cash from customers	274,229,783	265,024,297
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(110,316,562)	(111,285,807)
Other suppliers	(66,793,642)	(67,723,027)
Total cash paid to suppliers	(177,110,204)	(179,008,834)
Cash paid to employees	(49,650,177)	(45,954,119)
Payment in lieu of taxes (Note 7)	(10,523,512)	(10,293,071)
Cash from customer deposits	167,876	(769,279)
Interest on customer deposits	(10,633)	(55,286)
Net cash provided by operating activities	37,103,133	28,943,708
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	3,198,779	51,681,965
Planned, bonded, and annual construction	(35,865,405)	(45,840,145)
Principal payments on debt	(10,660,803)	(55,373,340)
System capacity fees	9,220,856	9,332,685
Interest on debt	(8,886,789)	(8,845,323)
Net cash used in capital and related financing activities	(42,993,362)	(49,044,158)
Cash Flows from Noncapital Financing Activities		
Proceeds from the sale of emissions allowances	573,986	-
Proceeds from the Belle River Project and other	711,842	810,787
Net cash provided by noncapital financing activities	1,285,828	810,787
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	108,133,593	30,540,705
Interest received	2,969,844	3,626,187
Purchase of investments	(103,811,869)	(14,014,419)
Net cash provided by investing activities	7,291,568	20,152,473
Net Increase in Cash and Cash Equivalents	2,687,167	862,810
Cash and Cash Equivalents - Beginning of year	78,689,838	77,827,028
Cash and Cash Equivalents - End of year	\$ 81,377,005	\$ 78,689,838

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2010	2009
Balance Sheet Classifications		
Restricted cash and cash equivalents	\$ 38,547,547	\$ 36,467,382
Cash and cash equivalents	42,829,458	42,222,456
Cash and Cash Equivalents - End of year	\$ 81,377,005	\$ 78,689,838
Reconciliation of Operating Income to Net Cash from Operating Activities:		
	Year Ended June 30	
	2010	2009
Operating income	\$ 13,543,556	\$ 1,981,829
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(10,523,512)	(10,293,071)
Depreciation	29,664,302	41,437,632
Sewerage collection fees	865,755	943,553
Interest on customer deposits	(10,633)	(55,286)
(Increase) decrease in assets:		
Accounts receivable (Note 1)	(1,572,066)	(363,323)
Unbilled accounts receivable (Note 1)	(1,360,204)	271,410
Inventories	1,140,287	(2,914,669)
Customer deposits	167,876	(769,279)
Other	3,104,651	3,039,556
Increase in liabilities:		
Accounts payable and other accrued expenses	(1,631,444)	(5,545,085)
Other and deferred costs	3,714,565	1,210,441
 Total adjustments	 23,559,577	 26,961,879
 Net cash provided by operating activities	 \$ 37,103,133	 \$ 28,943,708

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Net Assets

	June 30	
	2010	2009
Assets		
Receivable - Investment interest receivable	\$ 171,353	\$ 101,526
Investments at fair value:		
Money market collective trust fund	6,087,150	9,344,026
U.S. government obligations	11,370,948	15,587,768
Corporate bonds and notes	12,916,628	6,403,781
Mutual funds	136,601,127	128,133,715
Equities	94,183,399	71,672,936
Alternative Investments	868,820	557,589
Self-directed brokerage account	368,278	322,079
Participant loans	3,399,091	3,095,093
 Total investments	 265,795,441	 235,116,987
Net Assets	\$ 265,966,794	\$ 235,218,513

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Changes in Net Assets

	Year Ended June 30	
	2010	2009
Increases		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	\$ 21,841,725	\$ (62,576,996)
Interest and dividend income	4,403,578	7,054,051
Net investment income (loss)	26,245,303	(55,522,945)
Employer contributions	19,286,815	14,917,904
Participant rollover contributions	1,973,464	372,035
Other	220,112	7,356
Total increases (decrease) - Net of depreciation in fair value of investments	47,725,694	(40,225,650)
Decreases		
Benefits paid to participants	16,787,865	15,055,873
Loan defaults	139,718	255,936
Participants' loan and administrative fees	49,830	12,810
Total decreases	16,977,413	15,324,619
Net Change in Assets Held	30,748,281	(55,550,269)
Assets Held in Trust for Pension Benefits		
Beginning of year	235,218,513	290,768,782
End of year	<u>\$ 265,966,794</u>	<u>\$ 235,218,513</u>

See Notes to Financial Statements.

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Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements

June 30, 2010 and 2009

Note I - Significant Accounting Policies

Reporting Entity - The Board of Water and Light (the BWL), a related organization of the City of Lansing, Michigan (the "City"), is an administrative board established by the City Charter. The City Charter grants the BWL full and exclusive management of the electric, water, steam, and chilled water services of the City. The commissioners of the governing board are appointed by the mayor with approval of the City Council. The BWL provides water, steam, chilled water, and electric services to the City and surrounding townships. The governing board (Board of Commissioners) has the exclusive authority to set rates for the services provided. The financial statements include the financial activities of the electric, water, steam, and chilled water operations of the BWL. The financial statements also include the financial activities of the BWL Pension Trust Funds. The BWL is exempt from taxes on income because it is a municipal entity.

Basis of Accounting - The BWL utilizes the accrual basis of accounting. In addition, the BWL follows the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which requires that the effects of the ratemaking process be recorded in the financial statements. With the effective date of SFAS No. 168, *The FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles*, SFAS No. 71 was codified under ASC 980 - *Regulated Operations*. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, the BWL records various regulatory assets and liabilities to reflect the regulator's actions (see Note 6). Management believes that the BWL meets the criteria for continued application of SFAS No. 71/ASC 980, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

On July 1, 1994, the BWL adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Under this statement, the BWL elected to follow all SFAS statements issued after November 30, 1989 that do not conflict with GASB statements.

System of Accounts - The BWL's accounts are maintained substantially in accordance with the Uniform Systems of Accounts of the Federal Energy Regulatory Commission for its electric and steam systems and in accordance with the Uniform Systems of Accounts of the National Association of Regulatory Utility Commissioners for the water and chilled water systems. The chart of accounts dictates how the BWL classifies revenue and expense items in the statement of revenues, expenses, and changes in net assets as operating and nonoperating.

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Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note I - Significant Accounting Policies (Continued)

Cash and Cash Equivalents - The BWL considers demand deposits and current restricted funds, which consist of cash and highly liquid investments with an original maturity of 90 days or less, as cash and cash equivalents for financial statement purposes.

Investments - The BWL has established special purpose funds designated to meet anticipated operating requirements. These funds consist principally of commercial paper and United States government securities and are segregated as follows:

	Carrying Value	
	2010	2009
Designated purpose:		
Coal inventory fluctuation	\$ 4,294,619	\$ 4,284,734
Litigation, environmental, and uninsured losses	17,298,321	16,719,158
Future water facilities	3,485,385	3,439,199
Total	<u>\$ 25,078,325</u>	<u>\$ 24,443,091</u>

Accounts Receivable - Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2010 and 2009 are as follows:

	2010	2009
Customer receivables	\$ 15,330,367	\$ 13,758,301
Sewerage collections	1,875,683	1,732,994
Combined sewer overflow - City of Lansing	1,480,464	1,979,053
MPPA receivable	9,593,285	8,448,231
Miscellaneous	4,314,765	7,175,258
Less allowance for doubtful accounts	<u>(1,200,000)</u>	<u>(1,200,000)</u>
Net	<u>\$ 31,394,564</u>	<u>\$ 31,893,837</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note I - Significant Accounting Policies (Continued)

Inventories - Inventories are stated at weighted average cost and consist of the following at June 30:

	2010	2009
Coal	\$ 10,628,760	\$ 13,585,620
Materials and supplies	<u>10,701,963</u>	<u>8,885,392</u>
Total	<u>\$ 21,330,723</u>	<u>\$ 22,471,012</u>

Utility Plant - The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred.

Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with SFAS No. 71/ASC 980. The resulting provisions for depreciation in 2010 and 2009, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant:	Life (Years)	Average Rate (Percent)	
		2010	2009
Water	4-100	1.9	1.9
Electric	4-50	3.1	3.2
Steam	5-50	2.2	26.8
Chilled water	5-50	3.7	5.4
Common facilities	4-50	5.5	4.4
Central Utilities Complex	15	6.7	6.6

When units of property are retired, their costs are removed from the utility plant and charged to accumulated depreciation.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note I - Significant Accounting Policies (Continued)

Accrued Compensated Absences - The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$10,905,448 and \$10,831,731 as of June 30, 2010 and 2009, respectively.

Capital Contributions - Capital contributions represent nonrefundable amounts received from customers for construction of utility plant. Electric, water, and steam contributions are credited against the related assets and will offset the depreciation of the related assets over the estimated useful lives. This treatment is consistent with the BWL's ratemaking policy and is thus permitted under SFAS No. 71/ASC 980.

Net Assets - Equity is classified as net assets and displayed in three components:

- **Invested in Capital Assets** (net of related debt) - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets
- **Restricted for Debt Service** - Consists of net assets with constraints placed on their use by revenue bond resolution
- **Unrestricted** - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt"

Unbilled Accounts Receivable and Revenue - Unbilled accounts receivable at June 30, 2010 and 2009 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to June 30 will be recognized in the current period.

Interutility Transactions - The water, electric, steam, and chilled water operations of the BWL bill each other for services provided and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated \$5,099,341 and \$4,854,942 in 2010 and 2009, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note I - Significant Accounting Policies (Continued)

Emissions Allowance - The Environmental Protection Agency has granted emission allowances to the BWL related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The BWL estimates the allowances needed for future years. As appropriate, the BWL may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type are accounted for separately and are not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

The BWL recognized a gain of \$573,986 and \$19,211 as of June 30, 2010 and 2009, respectively, from the sale of allowances and has recorded an intangible asset of approximately \$714,031 and \$1,681,365 as of June 30, 2010 and 2009, respectively, for purchased allowances related to future periods.

Significant Customers - The BWL has one customer which accounts for approximately 7 percent of the BWL's total revenue for the years ended June 30, 2010 and 2009.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Rate Matters

Rates charged to customers are established solely by the governing board. The BWL has agreed to set rates sufficient to meet certain requirements of the bond resolutions for the outstanding revenue bonds.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Construction in Progress

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete these projects is approximately \$30,078,000 and \$25,552,000 at June 30, 2010 and 2009, respectively, including commitments on existing construction contracts approximating \$4,765,000 and \$4,681,000 at June 30, 2010 and 2009, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets.

Note 4 - Restricted Assets

Restricted assets are required under the 1999A, 1999B, 2002A, 2002B, 2003A, 2005A, 2008A, and 2009A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, certificates of deposit, commercial paper, and United States government securities, are segregated into the following funds:

	Required at June 30, 2010	Carrying Value	
		2010	2009
Current:			
Operations and Maintenance Fund	\$ 23,049,000	\$ 65,832,750	\$ 63,788,236
Bond and Interest Redemption Fund	15,498,547	15,544,255	14,901,602
Total current	38,547,547	81,377,005	78,689,838
Noncurrent:			
2001A and 2008A Construction Fund	17,811,563	17,811,563	24,565,303
Bond Reserve Fund	12,894,941	13,778,042	13,429,621
Total noncurrent	30,706,504	31,589,605	37,994,924
Total	\$ 69,254,051	\$ 112,966,610	\$ 116,684,762

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 4 - Restricted Assets (Continued)

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents for the year ended June 30, 2010.

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** - By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** - Restricted for payment of the current portion of bond principal and interest and the remaining capitalized interest on the 1999A, 2002A, 2002B, 2003A, 2005A, 2008A, and 2009A Revenue Bonds.
- **2001A and 2008A Construction Fund** - Restricted for payment of costs of the bonded projects and costs of issuance of the bonds.
- **Bond Reserve Fund** - Shall include sufficient funds to cover the maximum annual principal and interest requirements for the outstanding 1999A, and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, and 2008A Revenue Bonds. The Nonarbitrage and Tax Compliance Certification stipulates that the amount in the fund shall be valued at amortized cost to meet this requirement.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 5 - Long-term Debt

Long-term debt as of June 30 consists of the following:

	2010	2009
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2009A, due in annual principal installments beginning July 1, 2010 through July 1, 2016, plus interest at a rate of 5.34%	\$ 46,255,000	\$ 46,255,000
Water Supply Utility System Revenue Bonds, Series 2008A, due serially beginning July 1, 2012 and continuing through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%	40,000,000	40,000,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2005A, due serially beginning July 1, 2011 and continuing through July 1, 2014, plus interest at rates ranging from 4.00% to 5.00%	12,325,000	12,325,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2003A, due serially through July 1, 2026, plus interest at rates ranging from 3.75% to 5.00%	27,490,000	27,890,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2002A, due serially through July 1, 2018, plus interest at rates ranging from 3.50% to 5.00%	21,685,000	22,050,000
Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.40% to 3.75%	9,055,000	11,095,000

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 5 - Long-term Debt (Continued)

	2010	2009
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999B, due serially through July 1, 2016, plus interest at 7.40%	\$ -	\$ 5,045,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999A, due serially through July 1, 2011, plus interest at rates ranging from 5.00% to 5.10%	3,435,000	5,720,000
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at 2.50%	13,416,178	12,311,989
Promissory note, due in monthly installments of \$25,177.37 including interest at 4.85%, with final payment on December 31, 2013	970,770	1,219,240
Township contract water service obligation with interest due semiannually at 6.00% and portions of principal due annually, with final payment in May 2015	175,000	205,000

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 5 - Long-term Debt (Continued)

	2010	2009
Delta Township Drain Assessment due serially through January 15, 2025, plus interest at 5.25%	\$ 1,275,972	\$ 1,361,037
Granger III Corporation for ash hauling services due in monthly installments ranging from \$100,000 to \$250,000	<u>1,703,976</u>	<u>-</u>
Total	177,786,896	185,477,266
Less current portion	(12,472,372)	(10,889,150)
Less current portion of premium deferred amount of refunding on bonds	(228,347)	(101,062)
Plus unamortized premium	1,143,141	1,341,421
Deferred loss on refunding of bonds	<u>(1,566,306)</u>	<u>(2,120,219)</u>
Total long-term portion	<u>\$ 164,663,012</u>	<u>\$ 173,708,256</u>

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be \$193,197,998 and \$198,282,734 at June 30, 2010 and 2009, respectively.

The unamortized premium and deferral on refunded bonds is being amortized over the life of the bonds, using the effective-interest method.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 5 - Long-term Debt (Continued)

Aggregate principal payments applicable to long-term debt are as follows:

	Principal	Interest	Total
2011	\$ 12,472,372	\$ 7,866,587	\$ 20,338,959
2012	14,433,372	7,271,679	21,705,051
2013	14,331,753	6,642,876	20,974,629
2014	14,325,446	5,974,750	20,300,196
2015	15,012,355	5,263,176	20,275,531
2016-2020	50,812,667	17,650,943	68,463,610
2021-2025	25,720,468	9,912,397	35,632,865
2026-2030	21,166,851	4,210,556	25,377,407
2031-2033	<u>9,511,612</u>	<u>720,500</u>	<u>10,232,112</u>
Total	<u>\$ 177,786,896</u>	<u>\$ 65,513,464</u>	<u>\$ 243,300,360</u>

Resolutions of the 1999A bonds and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, and 2008A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2010, the balance of this reserve account was \$13,778,042 (see Note 4). The reserve requirements for the 1999B bonds and a portion of the 2002B bonds are satisfied by the purchase of a debt service reserve fund surety bond. The 2009A bonds were a private placement issue and have no reserve requirement.

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL. Except for the Series 2009A Subordinate Lien Revenue Refunding Bond, all bonds were issued on a parity basis and are payable solely from the net revenue of combined water, electric, chilled water, and steam operations of the BWL.

During the fiscal year ended June 30, 2009 the BWL issued a \$46,255,000 Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bond Series 2009A with an interest rate of 5.34 percent; the proceeds were used to refund \$45,364,000 of Series 1999B Water Supply, Steam, and Electric Utility System Revenue Bonds with an average rate of 7.68 percent. The deferred loss on refunding is the difference between the reacquisition price of \$46,255,000 and the net carrying amount of the refunded bonds of \$45,364,000. The deferred amount of refunding of \$891,000 is being amortized using the effective-interest method over the life of the refunded bonds. The proceeds of the new bonds were placed in an escrow deposit fund to provide for early redemption of the refunded bonds maturing on or after July 1, 2010. During the fiscal year ended June 30, 2009 there was an economic gain of \$2,798,926 to the BWL as a result of the refunding.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 5 - Long-term Debt (Continued)

The Series 2009A bond is payable in annual installments in the years 2010 to 2016, inclusive, and shall not be subject to optional redemption prior to maturity.

The BWL has defeased several bond issues in prior years. The proceeds of the new bonds were placed in an escrow deposit fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow deposit fund assets and the liability for the defeased bonds are not included in the financial statements. The outstanding balance of all defeased liabilities is \$68,514,000 and \$75,714,000 at June 30, 2010 and 2009, respectively.

The Series 2008A Bonds maturing in the years 2012 to 2028, inclusive, shall not be subject to optional redemption prior to maturity. The bonds, or portions of bonds in multiples of \$5,000 maturing in the years 2019 to 2032, inclusive, shall be subject to redemption at the option of the Board in such order of maturity as the Board shall determine and within a single maturity by lot on any date on or after July 1, 2018 at par plus accrued interest to the date fixed for redemption.

The BWL may redeem certain outstanding Water Supply and Electric Utility System Revenue Bonds prior to maturity. The Series 2005A Bonds maturing in the years 2011 to 2014, inclusive, shall not be subject to redemption prior to maturity.

The Series 2003A Bonds maturing in the years 2004 to 2013, inclusive, shall not be subject to redemption prior to maturity. Series 2003A Bonds due on or after July 1, 2014 to 2026, inclusive, shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2013, at par plus accrued interest to the date fixed for redemption.

The Series 2002A Bonds maturing in the years 2003 to 2012, inclusive, and the Series 2002B Bonds shall not be subject to redemption prior to maturity. Series 2002A Bonds due on or after July 1, 2013 shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2012, at par plus accrued interest to the date fixed for redemption.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 5 - Long-term Debt (Continued)

The Series 1999B Bonds maturing in the years 2002 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999B Bonds due on or after July 1, 2010 shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption. In addition, there was a special optional redemption on January 1, 2003 for all series 1999B Bonds from unexpended series 1999B Bond proceeds on hand as of November 1, 2002, if any, at a price of 101 percent of their par value plus accrued interest, if any, to the date of redemption. During the year ended June 30, 2009, series 1999B Bonds in the amount of \$45,364,000 were defeased and this portion of the bond payable was removed from the BWL's financial statements.

The Series 1999A Bonds maturing in the years 2001 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999A Bonds due on or after July 1, 2010 shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption.

The long-term debt activity for the year ended June 30, 2010 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 169,500,803	\$ 15,096,604	\$ 184,597,407
Additions	-	3,198,780	3,198,780
Reductions	(9,906,653)	(754,150)	(10,660,803)
Ending balance	<u>\$ 159,594,150</u>	<u>\$ 17,541,234</u>	<u>\$ 177,135,384</u>
Due within one year	\$ 11,570,000	\$ 902,372	\$ 12,472,372

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds is \$223,909,479. During the current year, net revenues of the BWL were \$42,696,358 compared to the annual debt requirements of \$18,228,536.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 6 - Deferred Costs/Credits Recoverable in Future Years

Central Utilities Complex

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under SFAS No. 71/ASC 980. The BWL has recorded deferred amortization of \$3,934,097 and \$4,788,533 at June 30, 2010 and 2009, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC will be reimbursed through payments to be received from this customer through 2017. The deferred amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year-end.

Environmental Remediation

During the year ended June 30, 2004, SFAS No. 71/ASC 980 was used in accounting for expenses to be incurred and the estimated liability for environmental remediation of a landfill site operated by the BWL. As of June 30, 2010 and 2009 \$12,123,000 in total costs have been deferred as a regulatory asset. As of June 30, 2010 and 2009 the amounts remaining to be recovered in rates were \$7,094,878 and \$8,671,659, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

During the year ended June 30, 2006, an additional SFAS No. 71/ASC 980 amount was approved by the Board of Commissioners to defer an additional \$8,400,000 for the estimated liability of an environmental remediation for a second landfill. An increase in the asset and liability was made during the year ended June 30, 2009 of \$2,100,000. The balance of the regulatory asset at June 30, 2010 and 2009 was \$10,500,000. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009 SFAS No. 71/ASC 980 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2010 that was added for additional sites was \$2,481,102.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 6 - Deferred Costs/Credits Recoverable in Future Years (Continued)

Deferred Cost Adjustments

During the year ended June 30, 2005, the Board of Commissioners approved the use of SFAS No. 71/ASC 980 in accounting for the BWL's energy cost adjustment (ECA), power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electricity, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in deferred costs of \$(5,217,753) and \$(2,794,432) at June 30, 2010 and 2009, respectively. This amount represents costs to be returned to customers in future years because actual costs of providing utilities were lower than the costs incorporated into BWL's rates.

Renewable Energy Plan (REP) and Energy Optimization (EO)

During the year ended June 30, 2010 the Board of Commissioners approved the implementation of SFAS No. 71/ASC 980 to account for Public Act 295 of 2008 (PA. 295). PA. 295 set forth requirements for all Michigan utilities to meet the new renewable energy standards and undertake energy optimization programs. As a municipally-owned electric utility the BWL was required to file a proposed energy plan with the Michigan Public Service Commission (MPSC) and this plan was approved on July 1, 2009. These charges will affect the amount to be billed to electric customers. This resulted in deferred costs of \$1,639,092 as of June 30, 2010.

Chiller Plant

During the year ended June 30, 2010 the BWL chose to use SFAS No. 71/ASC 980 to recognize the contribution in aid of construction (CIAC) from Christman Capital Development Company for the development of a new Chilled Water Plant. This resulted in a deferred revenue of \$3,304,074 as of June 30, 2010. The BWL will recognize this as revenue monthly over the life of the new Chilled Water Plant to offset depreciation expense.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 6 - Deferred Costs/Credits Recoverable in Future Years (Continued)

GM Steam Termination Fees and Related Impairment

During the year ended June 30, 2006, the Board of Commissioners approved the use of SFAS No. 71/ASC 980 in accounting to defer certain General Motors Corporation (GM) termination fees and related steam asset impairment. During the year ended June 30, 2008, the BWL entered into a settlement agreement with GM on the fees that were billed due to the termination. The termination fees resulted in a receivable being recorded. The receivable balance was \$12,157,037 at June 30, 2010 and 2009. As a consequence of GM issuing a termination notice and no longer taking steam service at several plants, the BWL had an impaired asset. This impaired asset resulted in a \$12,157,037 reduction to fixed assets.

In June 2009 GM filed for Chapter 11 bankruptcy. As a component of this proceeding GM reorganized such that their profitable assets were assumed into a new corporate entity (New GM). As such, the New GM emerged from bankruptcy and continues to receive BWL services. However, certain assets and other non-executory contracts remain to be dealt with by the bankruptcy court. The Steam Termination fees are still to be resolved by the bankruptcy court. The receivable was due on September 2009 and no settlement amount has been discussed. As of the year ending June 30, 2009 the deferred revenue under FAS 71/ASC 980 had been reclassified as allowance for doubtful accounts to offset the receivable. As of the year ending June 30, 2010 the account has been written off as bad debt. The impaired asset was removed in June of 2009 as it was determined this amount would not be included in future steam rates.

Note 7 - Transactions with the City of Lansing, Michigan

Operations - The BWL recognized revenue of \$10,439,492 and \$9,541,677 in 2010 and 2009, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$522,469 and \$515,150 in 2010 and 2009, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$935,138 and \$945,137 in 2010 and 2009, respectively, included in other income.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 7 - Transactions with the City of Lansing, Michigan (Continued)

Payment in Lieu of Taxes - Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002 and ending June 30, 2012, the formula to calculate the amount owed to the City for payment in lieu of taxes will also include wholesale revenue generated from the BWL's electric, water, steam, and chilled water utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City \$10,523,512 in 2010 and \$10,293,071 in 2009 of operational cash flow in excess of debt service requirements.

Note 8 - Retirement Plans

The BWL has three retirement plans. The BWL administers a tax-qualified, single-employer, noncontributory, defined benefit public employee retirement pension plan (the "Defined Benefit Plan"), and the BWL has a tax-qualified, single-employer, noncontributory, defined contribution public employee retirement pension plan (the "Defined Contribution Plan"). The BWL also has a tax-qualified, single-employer, defined benefit plan to administer and fund retiree healthcare benefits ("Retiree Benefit Plan and Trust").

Defined Benefit Plan

The Defined Benefit Plan was established by the BWL in 1939 under Section 5-203 of the City Charter and has been revised several times, with the latest revision taking effect on November 19, 2002.

The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a Defined Contribution Plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in the Defined Benefit Plan were required to make an irrevocable choice to either remain in the Defined Benefit Plan or move to the newly established Defined Contribution Plan. Those participants who elected to move to the Defined Contribution Plan received lump-sum distributions from the Defined Benefit Plan, which were rolled into their accounts in the new Defined Contribution Plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established Defined Contribution Plan.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

A participant's interest is fully vested when the participant has been credited with seven years of vesting service. The Defined Benefit Plan provides for an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.8 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2010 and 2009.

Basis of Accounting - The Defined Benefit Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Benefits are recognized when due and payable in accordance with the terms of the Defined Benefit Plan.

Investment Valuation and Income Recognition - The Defined Benefit Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Funding Policy and Annual Pension Cost - The BWL's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the years ended June 30, 2010, 2009, and 2008 were determined using an attained age projected unit credit actuarial funding method. No transition adjustments were required upon implementation of Governmental Accounting Standards Board No. 27, *Accounting for Pensions by State and Local Government Employers*. Overfunded actuarial accrued liabilities were amortized as a level dollar reduction of contributions over a period of 15 years in 2010, 2009, and 2008.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

Regulatory Status - The Defined Benefit Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

The annual pension cost was determined as part of an actuarial valuation of the Defined Benefit Plan as of February 28, 2010, 2009, and 2008. Significant actuarial assumptions used in determining the annual pension cost include (a) rate of return on the investment of present and future assets of 7.5 percent in 2010, 2009, and 2008, compounded annually, (b) projected salary increases ranging from 5.0 to 11.0 percent in 2010, 2009, and 2008, compounded annually, depending on age, attributable to inflation, and (c) the assumption that benefits will not increase after retirement.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the cost of living adjustments. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The pension cost for the three most recent years is as follows:

	2010	2009	2008
Annual pension cost	\$ 2,109,167	\$ -	\$ -
Percentage of APC contributed	100%	-	-
Net pension obligation	-	-	-

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

Employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the Defined Benefit Plan and consisted of the following:

	2010	2009	2008
Normal cost	\$ 411,434	\$ 420,077	\$ 457,679
Amortization of the (overfunded)/ underfunded actuarial accrued liability	1,550,582	(3,324,485)	(4,513,575)
Total target contribution	\$ 1,962,016	\$(2,904,408)	\$(4,055,896)
Interest Factor	1.0750	1.0625	1.0625
Annual Required Contribution	\$ 2,109,167	\$ -	\$ -

Based on the overfunded status of the Defined Benefit Plan through June 30, 2009, no employer contributions were required for the years ended June 30, 2009 and 2008.

Three-year Trend Information - Assets available at market, actuarial accrued liability - projected unit cost method (AAL), unfunded actuarial accrued liability (UAAL), and negative UAAL indicates a funding excess.

Schedule of Funding Progress (Unaudited - Required Information) (in thousands)

Valuation Date	Actuarial Asset		Funded		UAAL as a Percentage of Covered Payroll	
	Values	AAL	Ratio	Covered Payroll	of Covered Payroll	
2/28/2008	\$ 113,969	\$ 82,423	\$ (31,546)	138.27%	\$ 3,162	(997.7)
2/28/2009	64,844	79,558	14,714	81.51%	3,089	476.3
2/28/2010	78,244	75,577	(2,667)	103.53%	2,660	(100.3)

AAL - Actuarial Accrued Liability (Projected Unit Credit Accrued Liability)

UAAL - Unfunded Actuarial Accrued Liability, negative UAAL indicates a funding excess

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

Defined Contribution Plan

The Defined Contribution Plan was established by the BWL in 1997 under Section 5-203 of the City Charter. The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997.

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Contribution Plan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time.

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees.

During the years ended June 30, 2010 and 2009, the BWL contributed \$5,540,966 and \$5,383,532, respectively. The BWL's contributions are recognized in the period that the contributions are due.

Basis of Accounting - The Defined Contribution Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

Valuation of Investments and Income Recognition - The Defined Contribution Plan investments are stated at market value based on closing sales prices reported on recognized securities exchanges on the last business day of the year, or for listed securities having no sales reported and for unlisted securities, upon the last reported bid prices on that date. The mutual funds are valued at quoted market prices, which represent the net asset values of shares held by the Defined Contribution Plan at year end.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded on the ex-dividend date.

Regulatory Status - The Defined Contribution Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

Retiree Benefit Plan and Trust

The Retiree Benefit Plan and Trust (the "Plan") is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 675 participants eligible to receive benefits at June 30, 2010 and 683 participants eligible at June 30, 2009.

In October 1999, the BWL formed a Voluntary Employee Benefit Administration (VEBA) trust for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years. During the years ended June 30, 2010 and 2009, the cost to BWL of maintaining the Retiree Benefit Plan was \$21,318,267 and \$17,866,429, respectively, of which \$11,636,652 and \$9,534,372, respectively, was contributed to the VEBA trust and \$9,681,615 and \$8,332,057, respectively, was incurred as direct costs of benefits.

The Retiree Benefit Plan and Trust of the Board of Water and Light - City of Lansing, Michigan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

Basis of Accounting - The plan statements are prepared using the accrual basis of accounting.

Investment Valuation and Income Recognition - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Purchases and sales of investments are recorded on a trade-date basis. Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

Funding Policy - The board adopted a process for funding the retiree benefits using both a VEBA trust and, to the extent permitted by law, excess pension assets in the Defined Benefit Pension Plan. Additional contributions to the VEBA trust from BWL operating funds to supplement Section 420 transfers will not exceed the recommended annual contribution amount required to cover current service of active participants and amortize the unfunded accrued liability over 30 years. The required contribution is based on a projected pay-as-you-go financing requirement with an additional amount to prefund benefits.

The Plan's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Actuarial Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

The plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used are approximately 6.61 percent and 6.26 percent for the years ended June 30, 2010 and 2009, respectively.

Contribution trend information is as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB	
			Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 14,797	\$ 14,797	100%	\$ (164)
6/30/2009	18,132	17,866	99%	387
6/30/2010	21,291	21,318	100%	(27)

Funded Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected salary increases ranging from 5.0 percent to 11.0 percent, depending on age, and (c) amortization method level dollar over a 30-year period.

Funding status and funding progress trend information is as follows (dollar amounts in thousands):

Valuation Date	Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a
						Percentage of Covered Payroll
2/28/2008	\$ 57,246	\$ 236,102	\$ 178,856	24.25%	\$44,660	400.5
2/28/2009	45,320	256,888	211,568	17.64%	48,784	433.7
2/28/2010	76,117	252,143	176,026	30.19%	50,769	346.7

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 8 - Retirement Plans (Continued)

Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, which is administered by a trustee, the ICMA Retirement Corporation. The BWL makes contributions of \$1,000 annually for the employees as of January 1 of each year, during the month of January. The BWL also will match employee contributions after employees contribute \$1,000 at a rate of 75 percent until they reach the maximum of an additional \$500 in contributions.

Note 9 - Commitments and Contingencies

At June 30, 2010 and 2009, the BWL has unused letters of credit in the amounts of \$1,000,000 and \$817,220, respectively, issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL is currently in the process of applying for approval from the State of Michigan to remediate the sites. The BWL has estimated the total cost for remediation of the landfills and has recorded the liability of \$9,166,467 and \$11,782,746 for the years ended June 30, 2010 and 2009, respectively. In accordance with SFAS No. 71/ASC 980 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6). Certain remediation activities have commenced and are in progress.

The BWL previously announced a program to upgrade existing lead pipes throughout the BWL service area. The program is scheduled to be complete in six years at an estimated remaining cost of \$16,500,000.

The BWL is subject to various laws and regulations with respect to environmental matters such as air and water quality, soil contamination, solid waste disposal, handling of hazardous materials, and other similar matters. Compliance with these various laws and regulations could result in substantial expenditures. The BWL has established a Designated Purpose Fund (see Note 1), of which one of the purposes of the fund is to meet extraordinary expenditures resulting from responsibilities under environmental laws and regulations. Management believes that all known or expected responsibilities to these various laws and regulations by the BWL will be sufficiently covered by the Designated Purpose Fund and the environmental remediation liability.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 9 - Commitments and Contingencies (Continued)

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2010 and 2009 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling approximately \$41,311,000 through December 31, 2012. In addition, the BWL has entered into contracts for the rail services related to shipping the coal. Commitments for future rail services to be purchased are approximately \$11,661,000 through December 2010.

The BWL has entered into agreements for other operating activities totaling \$970,770 through December 31, 2013.

During the year ended June 30, 2008, the BWL entered into an agreement with the City of Lansing and Christman Capital Development Company (CCDC) to relocate the chilled water facilities and steam facilities from the site of the BWL's decommissioned Ottawa Plant located on the Grand River. The total costs to relocate the chilled water facilities and steam facilities will be reimbursed to the BWL not to exceed \$20,000,000. The agreement also allows for the City, through the BWL, to sell the Ottawa Plant and the property to CCDC. The construction of the new facilities has been completed as required under the terms of the agreement. During the year ended June 30, 2009, \$16,000,000 was reimbursed to the BWL from CCDC and was recognized in other income with an offsetting loss of \$13,000,000 for the existing assets. During the year ended June 30, 2010 the remaining \$4,000,000 was reimbursed to the BWL from CCDC and has been deferred using SFAS No. 71/ASC 980.

Note 10 - Power Supply Purchase

In 1983, the BWL entered into 35-year power supply and project support contracts with the Michigan Public Power Agency (MPPA), of which the BWL is a member. Under the agreement, the BWL has the ability to purchase power from MPPA, will sell power to MPPA at an agreed-upon rate, and will purchase 64.29 percent of the energy generated by MPPA's 37.22 percent ownership in Detroit Edison's Belle River Unit #1 (Belle River), which became operational in August 1984.

Under the terms of its contract, the BWL must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Belle River. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and a 3.0 percent annual inflation of fixed operating costs, which include expected major maintenance projects.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 10 - Power Supply Purchase (Continued)

Year	Debt	Estimated	Total
	Service	Fixed Operating	Required
2011	\$ 17,675,483	\$ 9,441,849	\$ 27,117,332
2012	17,677,532	9,725,104	27,402,636
2013	17,675,780	10,016,858	27,692,638
2014	17,674,968	10,317,363	27,992,331
2015	17,676,286	10,626,884	28,303,170
2016	17,677,540	10,945,691	28,623,231
Total	<u>\$ 106,057,589</u>	<u>\$ 61,073,749</u>	<u>\$ 167,131,338</u>

In addition to the above required payments, the BWL must pay for fuel, other operating costs, and transmission costs related to any kilowatt hours (KWHs) purchased under these contracts.

The BWL recognized expenses for 2010 and 2009 of \$44,502,670 and \$43,490,432, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

In connection with the Belle River purchase, in December 2002, MPPA issued \$280,180,000, principal amount, of its Belle River Project Refunding Revenue Bonds, 2002 Series A, with rates ranging from 2.125 percent to 5.25 percent to advance refund \$330,850,000 of outstanding 1993A and B bonds.

During the year ended June 30, 2005, the BWL submitted a five-year termination notice of its participation in the MPPA Power Pool Project, terminating, as of December 31, 2010, the BWL's contractual obligation to buy and sell power within the Pool. The termination notice does not extinguish the BWL's membership in MPPA and causes no change in BWL's contractual obligations to MPPA related to Belle River.

The BWL has entered into agreements with Granger Electric Company to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028. The minimum power to be purchased in the contract is 3.2 megawatts with the option to purchase up to 12 megawatts depending on capacity. The price of the electricity is based on the BWL's cost of electricity generation. The total amount of electricity expected to be purchased from these contracts are estimated at \$120,000,000.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 11 - Cash, Investments, and Fair Value Disclosure

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of an eligible financial institution; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The operating cash investment policy adopted by the BWL in accordance with Public Act 20, as amended, and the Lansing City Charter has authorized investment in bonds and securities of the United States government, certificates of deposit, time deposits, and bankers' acceptances of qualified financial institutions, commercial paper rated A1 by Standard and Poor's and P1 by Moody's, repurchase agreements using bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, and liquid asset accounts managed by a qualified financial institution using any of these securities. The BWL's deposits and investment policies are in accordance with statutory authority.

The BWL's cash and investments are subject to several types of risk, which are examined in more detail below:

Risks at June 30, 2010

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At year-end, the BWL had \$14,452,294 of bank deposits that were uninsured and uncollateralized. The BWL believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year-end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$ 46,707,219	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments to a maximum maturity of five years unless matched to a specific cash flow. At year-end, the average maturities of investments are as follows:

	Fair Value	Less than		
		1 Year	1-5 Years	6-10 Years
Pooled investment funds (if not 2a-7)	\$64,892,238	\$64,892,238	\$ -	\$ -
U.S. government or agency bond or note	51,550,434	24,132,568	27,417,866	-
Commercial paper	8,547,111	8,547,111	-	-

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 11,370,948	14.72
Money Market Trust Funds	5,567,295	Less than 1 year
Corporate bonds	12,916,628	19.80

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year-end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$64,892,328	AAA	S&P
Commercial paper	5,552,419	A1/P1	S&P
	2,994,692	A2/P2	S&P

Concentration of Credit Risk - As of year-end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$136,601,127	Not Rated	Not Rated
Government or agency bond	11,370,948	Not Rated	Not Rated
Corporate bonds	529,476	Not Rated	Not Rated
Corporate bonds	1,333,355	AAA	S&P
Corporate bonds	514,747	AA+	S&P
Corporate bonds	468,739	AA	S&P
Corporate bonds	667,781	AA-	S&P
Corporate bonds	1,396,161	A+	S&P
Corporate bonds	1,231,380	A	S&P
Corporate bonds	535,818	A-	S&P
Corporate bonds	313,172	BBB+	S&P
Corporate bonds	1,402,500	BBB	S&P
Corporate bonds	845,936	BBB-	S&P
Corporate bonds	475,689	BB+	S&P
Corporate bonds	532,769	BB	S&P
Corporate bonds	260,000	BB-	S&P
Corporate bonds	331,313	B+	S&P
Corporate bonds	249,817	B	S&P
Corporate bonds	803,511	B-	S&P
Corporate bonds	48,599	CCC+	S&P
Corporate bonds	944,566	CCC	S&P
Corporate bonds	31,299	CC	S&P

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Foreign Currency Risk - The BWL holds no investments in foreign entities, currency, or debt.

Risks at June 30, 2009

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. As a result of increases in FDIC insurance coverage on non-interest bearing accounts, all bank deposits are insured as of June 30, 2009. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year-end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 58,222,604	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments other than U.S. Treasuries to a maximum maturity of three years. At year-end, the average maturities of investments are as follows:

	Fair Value	Less than		
		1 Year	1-5 Years	6-10 Years
Pooled investment funds (if not 2a-7)	\$54,078,752	\$54,078,752	\$ -	\$ -
U.S. government or agency bond or note	59,703,987	25,353,062	28,120,411	6,230,514
Commercial paper	17,015,015	17,015,015	-	-

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 15,587,768	6.93
Money Market Trust Funds	5,379,448	Less than 1 year
Corporate bonds	6,403,781	14.47

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The BWL investment policy further limits its investment in commercial paper to prime quality by both Standard and Poor's and Moody's (A1/P1). As of year-end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$54,078,752	AAA	S&P
	8,652,878	Not rated	Not rated
Commercial paper	8,132,761	A1+	S&P
	8,880,402	A1	S&P

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2010 and 2009

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$128,133,715	Not Rated	Not Rated
Government or agency bond	15,587,768	Not Rated	Not Rated
Corporate bonds	784,849	Not Rated	Not Rated
Corporate bonds	1,577,622	AA-	S&P
Corporate bonds	375,481	A+	S&P
Corporate bonds	646,991	A+	S&P
Corporate bonds	1,036,678	A	S&P
Corporate bonds	111,597	A-	S&P
Corporate bonds	676,305	BBB	S&P
Corporate bonds	181,653	BBB-	S&P
Corporate bonds	108,350	BB+	S&P
Corporate bonds	118,558	B+	S&P
Corporate bonds	401,656	B	S&P
Corporate bonds	64,095	CCC	S&P
Commercial paper	319,946	AA	S&P

Concentration of Credit Risk - The BWL's investment policy allows no more than 30 percent of the total portfolio to be invested in obligations of any particular issuer except the U.S. Treasury. As of year-end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

Foreign Currency Risk - The BWL policy requires that all investments be in U.S. dollars. The BWL holds no investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 12 - Estimated Liability for Excess Earning on Water Supply and Electric Utility System Revenue Bonds

In accordance with Section 148(f)(2) of the IRC of 1986, as amended, the BWL is required on each anniversary date (July 1) of the Water Supply, Electric Utility, and Steam Utility System Revenue Bonds, Series 1999A, Series 2002A and B, 2003A, 2005A, and 2008A to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

The estimated liability for excess earnings was \$0 at June 30, 2010 and 2009. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

Note 13 - Risk Management and Insurance

The BWL is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The BWL has purchased commercial insurance for certain general liability, business auto, excess liability, property and boiler and machinery, public officials and employee liability claims, specific excess health insurance claims, and specific excess workers' compensation claims, subject to policy terms, limits, limitations, and deductibles. The BWL is self-insured for most workers' compensation and health insurance claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2010 and 2009

Note 14 - Subsequent Event

In July 2010 the BWL announced its plans to build a new combined-cycle cogeneration facility. This facility will produce both steam and electricity, and will do so more efficiently than either a steam plant or electricity plant by itself. This facility will use natural gas as the fuel to generate both electricity and steam. The estimated cost of the project is \$182 million and the scheduled date of operation is in 2013.

SELECTED FINANCIAL INFORMATION

This Appendix contains excerpts from the Board's annual financial reports for the fiscal years ended June 30, 2008, 2009 and 2010. The information contained in this Appendix does not include all of the financial information and disclosures required for a fair presentation of the Board's financial position or the Board's financial position in conformity with generally accepted accounting principles. The complete audited reports of the Board for the same fiscal years are available www.michigan.gov/treasury. Select Local Government Services and then Local Unit Audit Reports.

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City of Lansing Board of Water and Light
Statement of Net Assets
Fiscal Years Ended June 30, 2008, 2009 and 2010

Assets	June 30		
	2008	2009	2010
<i>Current Assets:</i>			
Restricted cash and cash equivalents	\$ 35,100,621	\$ 36,467,382	\$ 38,547,547
Cash and cash equivalents	42,726,407	42,222,456	42,829,458
Investments	25,341,766	24,443,091	25,078,325
Accounts receivable	25,321,906	31,893,837	31,394,564
Estimated unbilled accounts receivable	12,412,509	12,141,099	13,501,303
Inventories	19,556,343	22,471,012	21,330,723
Other	<u>1,085,989</u>	<u>1,848,014</u>	<u>1,587,166</u>
Total Current Assets	161,545,541	171,486,891	174,269,086
<i>Other assets:</i>			
Long-term receivable	0	0	0
Deferred energy cost	(349,108)	(2,794,432)	(5,217,753)
Deferred amortization of Central Utilities Complex	4,761,600	4,788,533	3,934,097
Deferred environmental remediation	15,711,800	19,171,659	21,715,072
Deferred asset impairment	12,157,037	0	0
GM steam service termination fees	12,157,037	12,157,037	0
GM steam service termination fees - Allowance	0	(12,157,037)	0
Other	<u>3,248,865</u>	<u>1,372,608</u>	<u>952,126</u>
Total Other Assets	47,687,231	22,538,368	21,383,542
<i>Noncurrent restricted assets</i>	53,680,950	37,994,924	31,589,605
<i>Utility Plant:</i>			
Water	213,799,616	232,205,455	245,140,560
Electric	592,813,733	608,017,630	620,083,406
Steam	55,744,957	42,350,583	44,052,072
Chilled Water	36,285,006	28,894,846	32,654,117
Common facilities	62,885,529	66,904,324	64,941,333
Central Utilities Complex	<u>76,079,000</u>	<u>76,079,000</u>	<u>76,079,000</u>
Total	1,037,607,841	1,054,451,838	1,082,950,488
Less accumulated depreciation	<u>545,072,378</u>	<u>540,637,483</u>	<u>562,820,851</u>
Total	492,535,463	513,814,400	520,129,637
Construction in progress	<u>27,261,463</u>	<u>17,470,143</u>	<u>12,284,075</u>
Total utility plant	519,796,926	531,284,543	532,413,712
Total assets	<u>\$782,710,648</u>	<u>\$763,304,726</u>	<u>\$759,655,945</u>

Source: Lansing Board of Water and Light

**City of Lansing Board of Water and Light
Statement of Net Assets (Cont.)
Fiscal Years Ended June 30, 2008, 2009 and 2010**

<u>Liabilities and Net Assets</u>	<u>June 30</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
<i>Current Liabilities:</i>			
Accounts payable.....	\$ 23,745,550	\$ 18,036,705	\$ 15,725,701
Current portion of long-term debt.....	10,022,070	10,889,150	12,472,372
Accrued payroll and related taxes.....	2,298,066	2,266,642	2,824,053
Customer deposits.....	2,821,212	2,051,933	2,219,809
Accrued compensated absences.....	3,343,856	3,539,040	3,661,189
Accrued interest.....	4,394,165	4,723,597	3,930,344
Total Current Liabilities.....	46,624,919	41,507,067	40,833,468
 <i>Compensated absences—Less current portion.....</i>	 7,192,732	 7,292,691	 7,244,259
 <i>Other Long-term liabilities:</i>			
Workers' compensation.....	1,066,119	2,000,000	2,300,000
Environmental remediation liabilities.....	14,652,740	11,782,749	9,210,361
Deferred steam service termination fees.....	12,677,037	0	0
Arbitrage rebate requirements.....	136,666	0	0
Deferred revenue.....	0	0	3,304,074
Other.....	2,538,419	2,715,019	2,873,937
Total Other Long-term Liabilities.....	31,070,981	16,497,765	17,688,372
 <i>Long-term Debt—Less current portion.....</i>	 <u>178,130,045</u>	 <u>173,708,256</u>	 <u>164,663,012</u>
Total Liabilities.....	263,018,677	239,005,779	230,429,111
 <i>Net Assets</i>			
Invested in capital assets.....	372,527,509	371,252,440	373,089,891
Restricted for debt service.....	37,740,137	39,007,853	39,853,217
Unrestricted.....	109,424,325	114,038,654	116,283,726
Total Net Assets.....	519,691,971	524,298,947	529,226,834
Total Liabilities and Net Assets.....	\$ 782,710,648	\$763,304,726	\$759,655,945

Source: Lansing Board of Water and Light

City of Lansing Board of Water and Light
Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Years Ended June 30, 2008, 2009 and 2010

	June 30		
	2008	2009	2010
Operating Revenues			
Water	\$ 26,730,394	\$ 27,215,900	\$ 28,843,792
Electric	235,579,866	220,200,316	231,810,593
Steam	8,696,792	9,640,959	8,445,549
Chilled Water	<u>4,720,885</u>	<u>4,670,157</u>	<u>4,773,042</u>
Total Operating Revenues	<u>275,727,937</u>	<u>261,727,332</u>	<u>273,872,976</u>
Operating Expenses			
Production:			
Fuel, purchased power and other operating expenses .	139,215,552	134,605,416	140,396,919
Maintenance	22,969,955	19,449,795	16,614,892
Transmission and distribution:			
Operating expenses	7,896,861	6,970,410	6,438,471
Maintenance	8,422,127	7,188,826	6,943,539
Administrative and general	48,204,627	50,093,424	60,271,297
Depreciation and impairment	<u>29,160,354</u>	<u>41,437,632</u>	<u>29,664,302</u>
Total Operating Expenses	<u>255,869,476</u>	<u>259,745,503</u>	<u>260,329,420</u>
Operating Income (Loss).....	19,858,461	1,981,829	13,543,556
Nonoperating Income (Expenses)			
Investment income	\$ 6,160,524	\$ 3,567,772	\$ 1,521,483
Other income	2,402,122	14,292,802	5,196,043
System capacity fee	9,325,252	9,332,685	9,220,856
Bonded debt interest expense.....	(8,401,608)	(9,174,755)	(8,093,536)
Amortization—Central Utilities Complex	(4,700,000)	(5,045,000)	(5,926,370)
Payment in lieu of taxes	(10,747,503)	(10,293,071)	(10,523,512)
Other interest expense	<u>(154,288)</u>	<u>(55,286)</u>	<u>(10,633)</u>
Total Nonoperating (expenses) income	<u>(6,115,501)</u>	<u>2,625,147</u>	<u>(8,615,669)</u>
Net Income (Changes in Net Assets)	13,742,960	4,606,976	4,927,887
Net Assets—Beginning of year.....	<u>505,949,011</u>	<u>519,691,971</u>	<u>524,298,947</u>
Net Assets—End of year	<u>\$519,691,971</u>	<u>\$524,298,947</u>	<u>\$529,226,834</u>

Source: Lansing Board of Water and Light

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**AMENDED AND RESTATED BOND RESOLUTION
CONSOLIDATED VERSION**

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APPENDIX D
AMENDED AND RESTATED BOND RESOLUTION
CONSOLIDATED VERSION

The Bonds are being issued by the Lansing Board of Water and Light under the provisions of an Amended and Restated Bond Resolution adopted by the Board on October 24, 1989 which has been supplemented and amended from time to time.

The Amended and Restated Bond Resolution has been supplemented or amended by the:

First Supplemental Revenue Bond Resolution adopted on October 26, 1993,
Second Supplemental Revenue Bond Resolution adopted on January 11, 1994,
Third Supplemental Revenue Bond Resolution adopted on September 2, 1999,
Fourth Supplemental Revenue Bond Resolution adopted on October 26, 1999
as amended on August 12, 2008 and June 9, 2009,
Fifth Supplemental Revenue Bond Resolution adopted on April 24, 2001,
Sixth and Seventh Supplemental Revenue Bond Resolutions adopted on July 23, 2002,
Eighth Supplemental Revenue Bond Resolution adopted on August 12, 2003,
Ninth Supplemental Revenue Bond Resolution adopted by the Board on July 26, 2005,
Tenth Supplemental Revenue Bond Resolution adopted by the Board on January 29, 2008, and
Eleventh Supplemental Revenue Bond Resolution adopted by the Board on May 10, 2011.

Copies of the Amended and Restated Bond Resolution and any supplements or amendments may be obtained from the Chief Financial Officer of the Board.

The 1989 Amended and Restated Bond Resolution is presented in this Appendix D in consolidated form by noting (*in italic font*) any sections or subsections which have been amended and inserting the amended text after the original text. Language regarding 1989 bond and project details has been omitted unless it is brief. *Notes on amended language and 1989 bond details which have been omitted appear in italic font.*

LANSING BOARD OF WATER AND LIGHT
AMENDED AND RESTATED BOND RESOLUTION

A RESOLUTION TO AUTHORIZE AND PROVIDE FOR THE ISSUANCE OF WATER SUPPLY AND ELECTRIC UTILITY SYSTEM REVENUE BONDS TO PAY PART OF THE COST OF REMODELING, UPDATING AND EXTENDING THE LIFE OF THE WATER SUPPLY AND ELECTRIC UTILITY SYSTEM OF THE CITY OF LANSING; TO PROVIDE FOR THE RETIREMENT AND SECURITY OF THE BONDS; AND TO PROVIDE FOR OTHER MATTERS RELATIVE TO THE IMPROVEMENTS AND BONDS.

Section 1. Definitions. Whenever used in this Bond Resolution, except when otherwise indicated by the context, the following terms shall have the following meanings:

- (a) "Accreted Amount" [*1989 Bond Details omitted*]
- (b) "Act 94" means Act 94, Public Acts of Michigan 1933, as amended.
- (c) "Additional Bonds" means any additional bonds of equal standing with the Series 1989A Bonds and the Series 1989B Bonds issued pursuant to Section 18 of this Bond Resolution.
- (d) "Aggregate Debt Service" for any period means, as of any date of calculation by the Board, the sum of the amounts of the debt service for such period with respect to all Outstanding Bonds. In the event that any of the Outstanding Bonds bear interest at a variable rate, such Bonds shall, for purposes of calculating Aggregate Debt Service, be assumed by the Board to bear interest at a fixed rate of interest equal to the greater of (i) 10.00% or (ii) the rate published by The Bond Buyer or any successor publication as its "Index of 25 Revenue Bonds" applicable on a date not more than 20 days prior to the date of initial issuance of any such variable interest rate Bonds.
- (e) "Aggregate Debt Service Requirement" means for any period, and as of any date of calculation, Aggregate Debt Service for such period, less any capitalized interest to be paid from the proceeds of the Bonds.
- (f) "Award Resolution" means the resolution(s) of the Board authorizing the sale of the Bonds.
- (g) "Board" means the Board of Water and Light established pursuant to Section 5-201 of Chapter 2 of the City Charter of the City.
- (h) "Bond Reserve Account" means the Bond Reserve Account established pursuant to Section 11(B) of this Bond Resolution.

(i) "Bond Resolution" means this Amended and Restated Bond Resolution and any other resolution amendatory to or supplemental to this Amended and Restated Bond Resolution and shall include any resolution authorizing the sale of a series of Bonds.

(j) "Bonds" means the Series 1989A Bonds, the Series 1989B Bonds and, when issued and delivered, any Additional Bonds authorized and issued in accordance with Section 18 of this Bond Resolution.

(k) "Capital Appreciation Bonds" means the Series 1989B Bonds which mature on July 1, 2004.

(l) "City" means the City of Lansing, Ingham, Eaton and Clinton Counties, Michigan.

(m) "Code" means the Internal Revenue Code of 1986, as amended.

(n) "Consulting Engineer" means the engineer or engineering firm or firms appointed from time to time, and having a favorable reputation for skill and experience in the design and operation of municipal utility systems, at the time retained by the Board to perform the acts and carry out the duties provided for such Consulting Engineer in the Bond Resolution.

(o) "Current Interest Bonds" means (a) the Series 1989A Bonds and (b) the Series 1989B Bonds which mature in the years 1994 and 1999.

(p) "Depository" means First of America Bank-Central, or such other bank as shall be designated to act as depository pursuant to this Bond Resolution by resolution of the Board organized under the laws of any State of the United States of America or any national banking association having a combined capital stock and surplus of at least \$50,000,000.

(q) "Event of Default" means an Event of Default specified in Section 19 of this Bond Resolution.

(r) "Government Obligations" means direct obligations of (including obligations issued or held in book entry form on the books of) the United States of America;

(s) "Investment Obligations" means, to the extent authorized by law, (i) United States government obligations; (ii) obligations the principal and interest on which is fully guaranteed by the United States; (iii) repurchase agreements that are secured by United States government obligations or obligations fully guaranteed by the United States and that are held by an independent third party; (iv) certificates of deposit or other accounts of, or bankers acceptances of, 1 or more of the following: (a) banks that are members of the federal deposit insurance corporation; (b) savings and loan associations that are members of the federal savings and loan insurance corporation; (c) credit unions whose accounts are insured by the national credit union share insurance fund; (v) commercial paper that is rated in the highest category by a nationally recognized rating agency; (vi) obligations of a state of the United States or of a political subdivision of a state of the United States that are rated in 1 of the 3 highest categories by a nationally recognized rating agency; (vii) a collective investment fund that invests solely in 1 or more of the securities described above; and (viii) Government Obligations.

(t) "Junior Lien Bonds" means bonds or other obligations which may be issued or incurred by the Board to provide funds for any lawful purpose of the System which are of junior standing and priority of lien with respect to the Net Revenues to the claim of the Bonds.

(u) "Mandatory Redemption Requirement" refers to the requirement, if any, to redeem the Bonds prior to maturity as set forth in the Award Resolution.

(v) "Municipal Obligation" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call on the date specified in the notice, and (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this definition of Municipal Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this definition of Municipal Obligation, as appropriate, and (iv) which are rated, based on the escrow, in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service, Inc. or any successors thereto;

(w) "Net Revenues" means the Revenues remaining after deducting the reasonable expenses of administration, operation, and maintenance of the System.

(x) "Operation and Maintenance Fund" means the Operation and Maintenance Fund established pursuant to Section 11(A) of this Bond Resolution.

(y) "Outstanding Bonds" means Bonds issued under this Bond Resolution except:

(i) Bonds cancelled by the Transfer Agent at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys or Government Obligations, equal to the principal amount or redemption price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under this Bond Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in this Bond Resolution or provision satisfactory to the Transfer Agent shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered hereunder; and

(iv) Bonds no longer deemed to be Outstanding Bonds as provided in Section 5 of this Bond Resolution.

(z) "Project" means *[description of project financed with 1989 Bonds omitted]*

(aa) "Rating Agency" means Moody's Investors Service and/or Standard and Poor's Corporation, or any successor to either thereof or similar national rating agency if the foregoing do not exist.

(bb) "Rebate Fund" means the Rebate Fund established pursuant to Section 12 of this Bond Resolution.

(cc) "Receiving Fund" means the Receiving Fund established pursuant to Section 11 of this Bond Resolution.

(dd) "Redemption Fund" means the Bond and Interest Redemption Fund established pursuant to Section 11(B) of this Bond Resolution.

(ee) "Registered Owner" means the owner of a Bond as shown by the registration records kept by the Transfer Agent.

Section 1 Subsection (ff) was amended by Section 11 of the Tenth Supplemental Revenue Bond Resolution (adopted January 29, 2008).

Section 1 Subsection (ff) as it appeared in 1989:

(ff) "Reserve Requirement" means the lesser of (a) the maximum Aggregate Debt Service Requirement for the then current and any subsequent operating year and (b) ten percent (10%) of the aggregate proceeds of all Additional Bonds plus the maximum Aggregate Debt Service Requirement on the Series 1989A Bonds and the Series 1989B Bonds for the then current and any subsequent operating year.

Section 11 of the Tenth Supplemental Revenue Bond Resolution (adopted January 29, 2008):

Reserve Requirement. Until payment or defeasance in full of the Outstanding Senior Lien Bonds (refers to the Outstanding portion of: the Water Supply, Steam and Electric Utility System Revenue Bonds, Series 1999A ("Series 1999A Bonds"), the Water Supply, Steam and Electric Utility System Revenue Bonds, Series 2002A ("Series 2002A Bonds"), the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2002B ("Series 2002B Bonds"), the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2003A ("Series 2003A Bonds"), and the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2005A ("Series 2005A Bonds")), the City must comply with the Reserve Requirement as defined in Section 1 of the Bond Resolution as amended and restated on October 24, 1989, which is the lesser of (a) the maximum Aggregate Debt Service Requirement for the then current and any subsequent operating year and (b) ten percent of the aggregate proceeds of all Outstanding Bonds. After payment or defeasance in full of the Outstanding Senior Lien Bonds, "Reserve Requirement" shall mean the lesser of (i) the maximum annual debt service requirements on the Outstanding Bonds, (ii) 125% of the average annual debt service requirements on the Outstanding Bonds, or (iii) the total of 10% of the original aggregate face amount of each series of the Outstanding Bonds, reduced by the net original issue discount, if any; provided, however, that the Reserve Requirement shall not at any time exceed the amount allowed to be invested at an unrestricted yield pursuant to Treas. Reg. Section 1.148-2(f)(2) or any successor provision thereto as applicable to the Bonds.

(gg) "Revenues" means the income derived from the rates charged for the services, facilities, and commodities furnished by the System, earnings on investment of funds and accounts of the System required to be deposited in the Receiving Fund pursuant to this Bond Resolution and other revenues derived from or pledged to the operation of the System.

(hh) "Series 1989A Bonds" means the Water Supply And Electric Utility System Revenue Bonds, Series 1989A issued pursuant to this Bond Resolution.

(ii) "Series 1989B Bonds" means the Water Supply And Electric Utility System Revenue Bonds, Series 1989B issued pursuant to this Bond Resolution.

(jj) "Sufficient" means with respect to (i) cash or (ii) Government Obligations or (iii) Municipal Obligations, or any combination thereof, not redeemable at the option of the issuer thereof, the principal and interest payments upon which, without reinvestment of the interest, come due at such times and in such amounts, as to be fully sufficient to pay the interest as it comes due on the Bonds or any portion thereof and the principal and redemption premium, if any, on the Bonds or any portion thereof as they come due whether on the stated maturity date or upon earlier redemption. Securities representing such obligations or cash shall be placed in trust with a bank or trust company, and if any of the Bonds are to be called for redemption prior to maturity, irrevocable instructions to call the Bonds for redemption shall be given to the Transfer Agent.

The definition of "System" as it appears in Section 1 Subsection (kk) in 1989:

(kk) "System" means the complete facilities of the City for the supply and distribution of water and the generation and distribution of electricity, steam and heat, including all plants, works, instrumentalities and properties, used or useful in connection with the supply and distribution of water and the generation and distribution of electricity, steam and heat and all additions, extensions and improvements thereto existing or hereafter acquired by the City.

The definition of "System" in Section 1 Subsection (k) of the Eleventh Supplemental Revenue Bond Resolution (adopted May 10, 2011):

(k) "System" means the complete facilities of the Board for the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, including all plants, works, instrumentalities and properties used or useful in connection with the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, and all additions, extensions and improvements thereto existing or hereafter acquired by the Board.

(ll) "Transfer Agent" means the bank or trust company designated by the Board in the Award Resolution or any subsequent resolution to perform the duties of the Transfer Agent pursuant to this Bond Resolution.

Section 2. Necessity, Estimate of Cost and Useful Life. [1989 Project Details omitted]

Section 3. Series 1989A Bonds and Series 1989B Bonds Authorized. [1989 Bond Details omitted]

Section 4. Bond Details. [1989 Bond Details omitted]

Section 5. Payment of Bonds; Defeasance. The Bonds and the interest thereon shall be payable solely from the Net Revenues, and to secure such payment, there is hereby created a statutory lien upon the whole of the Net Revenues. Pursuant to provisions of Act 94, the City, by and through its Board, hereby pledges to the repayment of principal of, redemption premium, if any, and interest on the Bonds, the funds and accounts established by this Bond Resolution, and a statutory lien is hereby created on such funds and accounts. The liens and pledge provided by this Bond Resolution shall continue until payment in full of the principal of and interest on all Bonds payable from Net Revenues, or, until Sufficient cash, Sufficient Government Obligations, Sufficient Municipal Obligations or any combination thereof shall have been deposited in trust for payment in full of the principal of and the interest on all Bonds to be paid to their maturity, or, if called or if irrevocable instructions have been given to call Bonds for redemption, to the date fixed for redemption together with the amount of the redemption premium, if any. Upon deposit of Sufficient cash, Sufficient Government Obligations, Sufficient Municipal Obligations or any combination thereof, the statutory lien created by this Bond Resolution shall be terminated with respect to the Bonds to be paid from the cash, Government Obligations or Municipal Obligations, or combination thereof, the Registered Owners of such Bonds shall have no further rights under this Bond Resolution except for payment from the deposited funds and for the rights of replacement, registration and transfer provided by this Bond Resolution, and such Bonds shall no longer be considered to be Outstanding Bonds under this Bond Resolution.

Section 6. Management. The operation, repair and management of the System shall be under the supervision and control of the Board.

Section 7. Charges. The rates to be charged for service furnished by the System and the methods of collection and enforcement of the collection of the rates shall be those permitted by law and established by the Board and in effect on the date of adoption of this Bond Resolution and thereafter as established by the Board.

Section 8. No Free Service. No free service shall be furnished by the System to any person, firm or corporation public or private, or to any public agency or instrumentality.

Section 9 was amended by Section 5 of the Second Supplemental Revenue Bond Resolution (adopted January 11, 1994) and by Section 12 of the Tenth Supplemental Revenue Bond Resolution (adopted January 29, 2008).

Section 9 as it appeared in 1989:

Section 9. Rate Covenant. The Board will at all times fix, establish, maintain and collect rates, fees and charges for the sale of the output, capacity, use or service of the System which, together with other income, are reasonably expected to yield Net Revenues equal to at least 120% of the Aggregate Debt Service Requirement for the forthcoming twelve (12) month period plus such amount as is necessary to comply with all covenants in this Bond Resolution and to pay all charges and liens whatsoever payable out of Net Revenues in such period.

Section 9 as amended by Section 5 of the Second Supplemental Revenue Bond Resolution (adopted January 11, 1994):

Section 9. Rate Covenant. The Board will at all times fix, establish, maintain and collect rates, fees and charges for the sale of the output, capacity, use or service of the System which, together with other income, are reasonably expected to yield Net Revenues to at least 150% of the Aggregate Debt Service Requirement for the forthcoming twelve (12) month period plus such amount as is necessary to comply with all covenants in this Bond Resolution and to pay all charges and liens whatsoever payable out of Net Revenues in such period.

Section 9 as amended by Section 12 of the Tenth Supplemental Revenue Bond Resolution (adopted January 29, 2008):

Section 9. Rate Covenant. After payment or defeasance in full of the Outstanding Senior Lien Bonds (*refers to the Series 1999A Bonds, Series 2002A Bonds, Series 2002B Bonds, Series 2003A Bonds, and Series 2005A Bonds*), the Board will at all times fix, establish, maintain and collect rates, fees and charges for the sale of the output, capacity, use or service of the System which, together with other income, are reasonably expected to yield Net Revenues equal to at least 125% of the Aggregate Debt Service Requirement for the forthcoming twelve month period plus such amount as is necessary to comply with all covenants in the Bond Resolution and to pay all charges and liens whatsoever payable out of Net Revenues in such period.

Section 10. Operating Year. The System shall continue to be operated on the basis of an operating year commencing on July 1st and ending on the 30th day of the following June. For purposes of determining the annual Aggregate Debt Service Requirement on the Bonds for any operating year, payments of principal and interest due on July 1st shall be considered to be part of the Aggregate Debt Service Requirement for the preceding operating year.

Section 11. Funds and Accounts: Flow of Funds. All Revenues of the System shall be set aside as collected and credited to a fund established with the Depository to be designated WATER SUPPLY AND ELECTRIC UTILITY SYSTEM RECEIVING FUND. The Revenues so credited are pledged for the purpose of the following funds and shall be transferred from the. Receiving Fund periodically in the manner and at the times hereinafter specified:

A. OPERATION AND MAINTENANCE FUND: Periodically, out of the Revenues credited to the Receiving Fund there shall be first set aside in, or credited to, a fund designated OPERATION AND MAINTENANCE FUND, a sum sufficient to provide for the payment during the succeeding period of the next month's expenses of administration and operation of the System, including such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order.

B. BOND AND INTEREST REDEMPTION FUND: There shall be established and maintained a fund designated BOND AND INTEREST REDEMPTION FUND, the moneys on deposit therein from time to time to be used solely, except for required deposits to the Rebate Fund, for the purpose of paying the principal of, redemption premium, if any, and interest on the Bonds. The moneys in the Redemption Fund, including the Reserve Account, shall be kept on deposit with the bank or trust company which is the Transfer Agent.

After provision for the Operation and Maintenance Fund, there shall be set aside on or before the first day of each month, commencing December 1, 1989, in the Redemption Fund a sum proportionately sufficient to provide for the payment when due of the current principal of and interest on the Bonds, less any amount in the Redemption Fund representing accrued interest on the Bonds. Commencing December 1, 1989, the amount set aside each month for interest on the Bonds shall be 1/7 of the interest on the Bonds due July 1, 1990, and commencing July 1, 1990, and thereafter the amount set aside each month for interest on the Bonds shall be 1/6 of the interest on the Bonds next coming due.

The amount set aside each month for principal, commencing December 1, 1989, shall be 1/7 of the amount of principal due on the Bonds on July 1, 1990, and commencing July 1, 1990, and thereafter the amount set aside each month for principal of the Current Interest Bonds shall be 1/12 of the total amount of the principal of the Bonds due on the next July 1 and 1/12 of the maturing amount of Capital Appreciation Bonds due one year or less from the 1st day of such month. If there is any deficiency in the amount previously set aside, that deficiency shall be added to the requirements for the next succeeding month.

There shall be established a separate account in the Redemption Fund to be known as the BOND RESERVE ACCOUNT. On the date of delivery of any Additional Bonds issued pursuant to Section 18(a) or (c) of this Bond Resolution, the Board shall transfer to the Bond Reserve Account from the proceeds of the Additional Bonds or any other available source the lesser of (a) 10% of the proceeds of the Additional Bonds and (b) the maximum Aggregate Debt Service Requirement on the Additional Bonds for the then current and any subsequent operating year and commencing on the 1st day of the month following delivery of the Additional Bonds and on the 1st day of each month thereafter until the amount in the Bond Reserve Account equals the Reserve Requirement, 1/12 of the difference between the amount deposited on the delivery of the Additional Bonds and the Reserve Requirement.

Except as otherwise provided in this Bond Resolution, the moneys credited to the Bond Reserve Account shall be used solely for the payment of the principal of, redemption premium, if any, and interest on Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use moneys credited to the Bond Reserve Account for such payment, then the moneys so used shall be replaced from the Net Revenues first received thereafter which are not required for expenses of administration, operation and maintenance of the system or for current principal and interest requirements on any of the Bonds.

The Board may satisfy the Reserve Requirement by a letter of credit, a surety bond or an insurance policy if the provider or issuer thereof shall be rated Aaa by Moody's Investors Service and AAA by Standard and Poor's Corporation.

If at any time the amount in the Bond Reserve Account exceeds the Reserve Requirement, the excess may be transferred to such fund or account as the Board may direct.

C. JUNIOR LIEN BOND AND INTEREST REDEMPTION FUND: If the Board shall ever issue Junior Lien Bonds, there shall be established and maintained a separable depository fund for the purpose of paying the principal of, redemption premium, if any, and interest on such Junior Lien Bonds as they come due (the "Junior Lien Bond and Interest Redemption Fund"). Revenues remaining in the Receiving Fund, after provision has been made for the requirements of the Operation and Maintenance Fund and of the Redemption Fund, shall be set aside, but not more often than monthly, in a fund for the Junior Lien Bonds in accordance with the resolution authorizing the issuance of the Junior Lien Bonds. A separate account may also be established within such fund as a bond reserve account to be funded on a junior lien basis in accordance with the resolution authorizing the issuance of the Junior Lien Bonds. The detail of the establishment and maintenance of such fund shall be provided in the resolution of the Board authorizing the issuance of such Junior Lien Bonds.

D. SURPLUS MONEYS: Any Revenues in the Receiving Fund after satisfying all requirements of the Operation and Maintenance Fund, the Redemption Fund, the Rebate Fund and the Junior Lien Bond and Interest Redemption Fund shall be deemed to be surplus moneys and may be used for such purposes as the Board deems to be for the best interests of the City.

If there should be any deficit in the Operation and Maintenance Fund, Redemption Fund or the Rebate Fund on account of defaults in setting aside required amounts therein, then transfers shall be made from the moneys remaining in the Receiving Fund at the end of any operating year to those funds in the priority and order specified herein, to the extent of any deficit, before any other disposition is made of the monies in the Receiving Fund at the end of any operating year.

Section 12. **Rebate Fund.** There shall be established and maintained a fund designated the REBATE FUND. Moneys representing investment earnings or profits shall be transferred annually from all funds and accounts established under this Bond Resolution and deposited in the Rebate Fund in an amount sufficient to enable the City to rebate investment earnings to the federal government, if necessary, in accordance with the requirements of the Code. Funds on deposit in the Rebate Fund are not pledged as security for the Bonds. Monies shall be deposited in the Rebate Fund and shall be rebated to the federal government unless the City has received an opinion of nationally recognized bond counsel that failure to take such actions will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Bonds.

The City, by and through its Board, covenants and agrees that to the extent permitted by law, it shall take all actions within its control and that it shall not fail to take any action as may be necessary to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes, including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Bond proceeds and moneys deemed to be Bond proceeds, all as more fully set forth in the Non-Arbitrage and Tax Compliance Certificate to be delivered by the City in connection with the issuance of the Series 1989A Bonds and the Series 1989B Bonds.

Section 13. **Priority of Funds.** In the event the moneys in the Receiving Fund are insufficient to provide for the current requirements of the Operation and Maintenance Fund or the Redemption Fund or the Rebate Fund or the Junior Lien Bond and Interest Redemption Fund, any moneys or securities in other funds of the System, except the proceeds of sale of the Series 1989A Bonds and the Series 1989B Bonds, shall be credited or transferred, first, to the Operation and Maintenance Fund, second, to the Redemption Fund, to the extent of any deficit therein, third, to the Rebate Fund and fourth, to the Junior Lien Bond and Interest Redemption Fund.

Section 14. Investments. Moneys in the funds and account established herein, and moneys derived from the proceeds of sale of the Bonds, may be invested by the Board on behalf of the City in Investment Obligations. Investment of moneys in the Redemption Fund being accumulated for payment of the next maturing principal or interest on the Bonds shall be limited to Government Obligations bearing maturity dates prior to the date of the next maturing principal or interest payment respectively on the Bonds. Investment of moneys in any other funds or account, including moneys derived from the proceeds of sale of the Bonds, shall be limited to obligations bearing maturity dates or subject to redemption, at the option of the holder thereof, not later than the time estimated by the City when the moneys from such investments will be required. Any securities representing investments shall be kept on deposit with the bank or trust company having on deposit the fund or funds or account from which such purchase was made. Earnings or profits on any investment of funds in any fund or account established in this Bond Resolution shall be deposited in or credited to the Rebate Fund to the extent necessary as required by Section 12 of this Bond Resolution and any earnings or profits remaining in the Receiving Fund, Operation and Maintenance Fund and Redemption Fund, shall be deposited in or credited to the Receiving Fund. Investments of moneys in the Bond Reserve Account shall be valued at amortized cost, including any amount paid as accrued interest at the time of purchase until the payment of such interest or the next interest payment date.

Section 15. Applicable Law. The Series 1989A and the Series 1989B Bonds shall be sold and the proceeds applied in accordance with the provisions of Act 94.

Section 16. Bond Proceeds. [1989 Bond Details omitted]

Section 17. Covenants. The City covenants and agrees with the Registered Owners of the Bonds that so long as any of the Bonds remain as Outstanding Bonds and unpaid as to either principal or interest:

(a) The Board will maintain the System in good repair and working order and will operate the same efficiently and will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the State of Michigan and this Bond Resolution.

(b) The City and the Board will not sell, lease, mortgage or otherwise dispose of any part of the System, except for sales or exchanges of property or facilities (1) which are not useful in the operation of the System, or (2) for which the proceeds received are, or the fair market value of the subject property is, less than 1% of the Revenues for the preceding fiscal year, or (3) which will not impair the ability of the Board to comply with the rate covenant described in Section 9 of this Bond Resolution.

Section 18. Additional Bonds. The right is reserved, in accordance with the provisions of Act 94, to issue additional bonds payable from the Net Revenues of the System which shall be of equal standing and priority of lien on the Net Revenues of the System with the Series 1989A Bonds and the Series 1989B Bonds, but only for the following purposes and under the following terms and conditions:

Section 18(a) was amended by Section 6 of the Second Supplemental Revenue Bond Resolution (adopted January 11, 1994) and by Section 13 of the Tenth Supplemental Revenue Bond Resolution (adopted January 29, 2008).

Section 18(a) as it appeared in 1989:

(a) For repairs, extensions, enlargements and improvements to the System or for the purpose of refunding a part of any Outstanding Bonds (unless such partial refunding is done in compliance with (b) below) and paying costs of issuing such Additional Bonds, including deposits which may be required to be made to a bond reserve account. Bonds for such purposes shall not be issued pursuant to this subparagraph (a) unless the average actual or augmented Net Revenues of the System for the fiscal year of the System ending not more than 15 months prior to the sale of Additional Bonds shall be equal to at least one hundred twenty five (125%) percent of the maximum Aggregate Debt Service Requirement in any current or future fiscal year on the Outstanding Bonds and on the Additional Bonds then being issued. If the Additional Bonds are to be issued in whole or in part for refunding Outstanding Bonds, the maximum Aggregate Debt Service shall be determined by deducting from the principal and interest requirements for each operating year the annual Aggregate Debt Service Requirement of any Bonds to be refunded from the proceeds of the Additional Bonds.

Net Revenues may be augmented as follows for the purposes of this subsection (a):

- (1) If the System rates, fees or charges shall be increased at or prior to the time of authorizing the Additional Bonds, the Net Revenues may be augmented by an amount which in the opinion of the Consulting Engineer will reflect the effect of the increase had the System's billings during such time been at the increased rates.
- (2) The actual Net Revenues may be augmented by the estimated increase in Net Revenues which in the opinion of the Consulting Engineer will accrue as a result of new customers which have not been serviced during the fiscal year described in paragraph (a) above or as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System which have been made during or subsequent to

the fiscal year described in paragraph (a) above or which will be acquired in whole or in part from the proceeds of the Additional Bonds to be issued.

No Additional Bonds of equal standing as to the Net Revenues of the System shall be issued pursuant to the authorization contained in subparagraphs (a) or (c) if the City shall then be in default in making its required payments to the Operation and Maintenance Fund or the Redemption Fund.

Section 18(a) as amended by Section 6 of the Second Supplemental Revenue Bond Resolution (adopted January 11, 1994):

(a) For repairs, extensions, enlargements and improvements to the System or for the purpose of refunding a part of any Outstanding Bonds (unless such partial refunding is done in compliance with (b) below) and paying costs of issuing such Additional Bonds, including deposits which may be required to be made to a bond reserve account. Bonds for such purposes shall not be issued pursuant to this subparagraph (a) unless the average actual or augmented Net Revenues of the System for the fiscal year of the System ending not more than 15 months prior to the sale of Additional Bonds shall be equal to at least one hundred fifty (150%) percent of the maximum Aggregate Debt Service Requirement in any current or future fiscal year on the Outstanding Bonds and on the Additional Bonds then being issued. If the Additional Bonds are to be issued in whole or in part for refunding Outstanding Bonds, the maximum Aggregate Debt Service shall be determined by deducting from the principal and interest requirements for each operating year the annual Aggregate Debt Service Requirement of any Bonds to be refunded from the proceeds of the Additional Bonds.

Net Revenues may be augmented as follows for the purposes of this subsection (a):

- (1) If the System rates, fees or charges shall be increased at or prior to the time of authorizing the Additional Bonds, the Net Revenues may be augmented by an amount which in the opinion of the Consulting Engineer will reflect the effect of the increase had the System's billings during such time been at the increased rates.
- (2) The actual Net Revenues may be augmented by the estimated increase in Net Revenues which in the opinion of the Consulting Engineer will accrue as a result of new customers which have not been served during the fiscal year described in paragraph (a) above or as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System which have been made during or subsequent to the fiscal year described in paragraph (a) above or which will be acquired in whole or in part from the proceeds of the Additional Bonds to be issued.

No Additional Bonds of equal standing as to the Net Revenues of the System shall be issued pursuant to the authorization contained in subparagraphs (a) or (c) if the City shall then be in default in making its required payments to the Operation and Maintenance Fund or the Redemption Fund.

Section 18(a) as amended by Section 13 of the Tenth Supplemental Revenue Bond Resolution (adopted January 29, 2008):

Until payment or defeasance in full of the Outstanding Senior Lien Bonds (*refers to the Series 1999A Bonds, Series 2002A Bonds, Series 2002B Bonds, Series 2003A Bonds, and Series 2005A Bonds*), the City must comply with the additional bonds test imposed by Section 6 of the Second Supplemental Revenue Bond Resolution adopted January 11, 1994. Section 18(a) of the Bond Resolution, as previously amended by Section 6 of the Second Supplemental Revenue Bond Resolution, is amended to provide:

The right is reserved, in accordance with the provisions of Act 94, to issue additional bonds payable from the Net Revenues of the System which shall be of equal standing and priority of lien on the Net Revenues of the System with the Series 2008A Bonds, but only for the following purposes and under the following terms and conditions:

(a) For repairs, extensions, enlargements and improvements to the System or for the purpose of refunding a part of any Outstanding Bonds (unless such partial refunding is done in compliance with (b) below) and paying costs of issuing such Additional Bonds, including deposits which may be required to be made to a bond reserve account. Bonds for such purposes shall not be issued pursuant to this subparagraph (a) unless the actual or augmented Net Revenues of the System for the fiscal year of the System ending not more than 15 months prior to the sale of Additional Bonds shall be equal to at least one hundred twenty-five (125%) percent of the maximum Aggregate Debt Service Requirement in any current or future fiscal year on the Outstanding Bonds and on the Additional Bonds then being issued. If the Additional Bonds are to be issued in whole or in part for refunding Outstanding Bonds, the maximum Aggregate Debt Service shall be determined by deducting from the principal and interest requirements for each operating year the annual Aggregate Debt Service Requirement of any Bonds to be refunded from the proceeds of the Additional Bonds.

Net Revenues may be augmented as follows for the purposes of this subsection (a):

- (1) If the System rates, fees or charges shall be increased at or prior to the time of authorizing the Additional Bonds, the Net Revenues may be augmented by an amount which in the opinion of the Board's financial

advisor will reflect the effect of the increase had the System's billings during such time been at the increased rates.

- (2) The actual Net Revenues may be augmented by the estimated increase in Net Revenues which in the opinion of the Board's financial advisor will accrue as a result of new customers which have not been serviced during the fiscal year described in paragraph (a) above or as a result of the acquisition of the repairs, extensions, enlargements and improvements to the System which have been made during or subsequent to the fiscal year described in paragraph (a) above or which will be acquired in whole or in part from the proceeds of the Additional Bonds to be issued.

No Additional Bonds of equal standing as to the Net Revenues of the System shall be issued pursuant to the authorization contained in subparagraphs (a) or (c) if the City shall then be in default in making its required payments to the Operation and Maintenance Fund or the Redemption Fund.

The remainder of Section 18 has not been modified or amended.

(b) For refunding all of the Outstanding Bonds and paying costs of issuing such Additional Bonds. For refunding a part of the Outstanding Bonds and paying costs of issuing such Additional Bonds, if after giving effect to the refunding the maximum amount of Aggregate Debt Service in each future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding.

(c) Additional Bonds may be issued without meeting any of the conditions and tests set forth in subsection (a) above for any one or more of the following purposes: (1) to pay the cost of acquisition and construction of any repairs, replacements, betterments, improvements, major renewals or corrections of any damage or loss to the System necessary, in the opinion of the Consulting Engineer, to keep the System in good operating condition or to prevent a loss of Revenues therefrom or (ii) to pay the cost of decommissioning, disposal or termination of the System.

Determination by the Board as to existence of conditions permitting the issuance of Additional Bonds shall be conclusive.

Notwithstanding the foregoing requirements of Section 18, the Board reserves the right to issue Junior Lien Bonds payable as provided herein.

Section 19. Events of Default. Each of the following events, with respect to an issue of Bonds, is hereby declared an "Event of Default":

(a) default in the payment of the principal of, or interest, or redemption premium, if any, on any Bond after the same shall become due, whether at maturity or upon call for redemption; or

(b) default by the City or the Board in the performance or observance of any other of the covenants, agreements or conditions on their part in this Bond Resolution, or contained in the Bonds; provided no default shall constitute an Event of Default until written notice thereof shall have been given by the Registered Owners of not less than twenty percent (20%) in principal amount of the Outstanding Bonds to the City and the City shall have had sixty (60) days after receipt of such notice to correct such default or cause the same to be corrected and shall not have corrected such default or caused the same to be corrected within such period; and provided, further, that if the default be such that it cannot be corrected within such period, it shall not constitute an Event of Default if action to correct the same is instituted within such period and diligently pursued until the default is corrected.

Section 20. Appointment of Receiver and Statutory Rights. The Registered Owners of Bonds representing in the aggregate principal amount not less than twenty percent (20%) of all Outstanding Bonds, may protect and enforce the statutory lien and pledge of the funds and accounts and Net Revenues created by Act 94, and enforce and compel the performance of all duties of the officials of the City and the Board, including the fixing of sufficient rates, the collection of Revenues, the proper segregation of Revenues, and the proper application of Revenues. In addition to the rights conferred to Registered Owners by the Resolution, the Registered Owners shall have all the rights conferred by Act 94. The statutory lien upon the Net Revenues, however, shall not be construed to compel the sale of the System or any part thereof.

Section 21. Effect of Waiver and Other Circumstances. No delay or omission of any Registered Owner to exercise any right or power arising upon the happening or an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein and every power and remedy given by this Bond Resolution to the Registered Owners may be exercised from time to time and as often as may be deemed expedient by the Registered Owners.

Section 22. Bond Form. [1989 Bond Forms omitted]

Section 23. Amendments: Consent of Registered Owners.

(a) The City, from time to time and at any time, subject to the conditions and restrictions in this Bond Resolution, may by and through its Board, adopt one or more supplemental or amendatory resolutions which thereafter shall form a part hereof, for any one or more or all of the following purposes:

(i) To issue Additional Bonds or Junior Lien Bonds;

(ii) To add to the covenants and agreements of the City contained in this Bond Resolution, other covenants and agreements thereafter to be observed or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City and the Board (including but not limited to the right to issue Additional Bonds);

(iii) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions contained in this Bond Resolution, or in regard to matters or questions arising under this Bond Resolution, as the City may deem necessary or desirable and not inconsistent with this Bond Resolution and which shall not have a material, adverse effect on the interests of the Registered Owners of the Bonds;

(iv) To increase the size or scope of the System; and

(v) To make such modifications in the provisions hereof as may be deemed necessary by the City to accommodate the issuance of Additional Bonds or Junior Lien Bonds which (a) are "Capital Appreciation Bonds" or "Zero Coupon Bonds" to the extent permitted by law or (b) are variable rate bonds, but only if such modifications, in the written opinion of nationally recognized bond counsel filed with the Board, do not result in materially diminishing the security hereby granted to the Registered Owners of any Outstanding Bonds.

Any amendment or supplemental resolution or resolution authorized by the provisions of this Section 23(a) may be adopted by the City, by and through its Board, without the consent of or notice to the Registered Owners of any of the Outstanding Bonds, notwithstanding any of the provisions of Section 23(b) below.

(b) With the consent of the Registered Owners of not less than fifty one percent (51%) in principal amount of the Bonds then outstanding the City, by and through its Board, may from time to time and at any time adopt a resolution or resolutions supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Bond Resolution or of any supplemental resolution; provided, however, that no such supplemental resolution shall (i) extend the fixed maturity of any Bond, change a Mandatory Redemption Requirement for any series of Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce or extend the time for payment of any premium payable on the redemption thereof, without the consent of the Registered Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Registered Owners of the Bonds required to approve any such supplemental resolution, or (iii) deprive the Registered Owners of the Bonds, except as aforesaid, of the right to payment of the Bonds from the Net Revenues, without the consent of the Registered Owners of all the Outstanding Bonds or, (iv) cause any modification or reduction of the lien on or pledge of the Net Revenues or the funds or accounts established hereunder. No amendment may be made under this Section 23(b) which affects the rights or duties of the insurer of any of the Bonds without its consent.

It shall not be necessary for the consent of the Registered Owners under this Section 23(b) to approve the particular form of any proposed supplemental resolution, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the adoption by the City of any supplemental resolution pursuant to the provisions of this Section 23(b), the City shall cause the Transfer Agent to mail a notice by registered or certified mail to the Registered Owners of all Outstanding Bonds at their addresses shown on the bond register or at such other address as is furnished in writing by such Registered Owner to the Transfer Agent setting forth in general terms the substance of such supplemental resolution.

Section 24. Sale of the Bonds. *[1989 Bond Details and Notice of Sale omitted]*

Adopted and signed on the 24th day of October, 1989.

Phillip E. Hassler
Chairman

Mary E. Sova
Secretary

PROVISIONS OF SUPPLEMENTAL RESOLUTIONS WHICH APPLY TO INSURED BONDS

Series 2002A Bonds insured by Ambac Assurance Corporation

The Sixth Supplemental Revenue Bond Resolution (adopted July 23, 2002) contains the following provisions which apply to the outstanding insured maturities (2016, 2017 and 2018) of the Water Supply, Steam and Electric Utility System Revenue Bonds, Series 2002A.

Section 14. Financial Guaranty Insurance and/or Surety Bond. The provisions of this Section 14 shall apply if Ambac Assurance Corporation provides a Financial Guaranty Insurance Policy or Surety Bond with respect to any Bond issued under the Bond Resolution.

(a) Consent of Ambac Assurance. Any provision of the Bond Resolution expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance hereunder without the prior written consent of Ambac Assurance.

(b) Consent of Ambac Assurance in Addition to Bondholder Consent. Unless otherwise provided in this Section 14, Ambac Assurance's consent shall be required in addition to Bondholders' consent, when required, for the following purposes: (i) execution and delivery of any supplemental or amendatory resolution; (ii) removal of the Transfer Agent and selection and appointment of any successor Transfer Agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

(c) Consent of Ambac Assurance in the Event of Insolvency. Any reorganization or liquidation plan with respect to the City must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Bondholders who hold Ambac Assurance-insured 2002 Series A Bonds absent a default by Ambac Assurance under the applicable Financial Guaranty Insurance Policy insuring such 2002 Series A Bonds.

(d) Consent of Ambac Assurance Upon Default. Anything in the Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders under the Bond Resolution.

(e) Notices to be sent to the attention of the SURVEILLANCE DEPARTMENT: While the Financial Guaranty Insurance Policy or the Surety Bond is in effect, the Board shall furnish to Ambac Assurance (to the attention of the Surveillance Department, unless otherwise indicated):

(i) (as soon as practicable after the filing thereof, a copy of any financial statement of the Board and a copy of any audit and annual report of the Board;

(ii) such additional information it may reasonably request;

(iii) a copy of any notice to be given to the Bondholders of the 2002 Series A Bonds, including, without limitation, notice of any redemption of or defeasance of 2002 Series A Bonds, and any certificate rendered pursuant to the Bond Resolution relating to the security for the 2002 Series A Bonds;

(iv) to the extent that the Board has entered into a continuing disclosure agreement with respect to the 2002 Series A Bonds, Ambac Assurance shall be included as party to be notified.

(f) Notices to be sent to the attention of the GENERAL COUNSEL OFFICE:

(i) the Board shall notify Ambac Assurance of any failure of the Board to provide relevant notices, certificates, etc.

(ii) notwithstanding any other provision of the Bond Resolution, the Board shall immediately, notify Ambac Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default hereunder.

(g) Other Information to be given to Ambac Assurance.

(i) the Board will permit Ambac Assurance to discuss the affairs, finances and accounts of the Board or any information Ambac Assurance may reasonably request regarding the security for the 2002 Series A Bonds with appropriate officers of the Board. The Board will permit Ambac Assurance to have access to the Project and have access to and to make copies of all books and records relating to the 2002 Series A Bonds at any reasonable time.

(ii) Ambac Assurance shall have the right to direct an accounting at the Board's expense, and the Board's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from Ambac Assurance shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently

pursued, but only if such extension would not materially adversely affect the interests of Holder of a 2002 Series A Bond.

(h) Permitted Investments.

(i) Defeasance Investments. For purposes of Sections 5 and 14 of the Bond Resolution, the term “Sufficient Government Obligations” relating to a defeasance, shall be limited to the following:

(a) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

(c) Obligations of Government - Sponsored Agencies that are not backed by the full faith and credit of the U.S. Government:

- Federal Home Loan Mortgage Corp. (FHLMC) Debt obligations
- Farm Credit System (formerly: Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives)
- Federal Home Loan Banks (FHL Banks)
- Federal National Mortgage Association (FNMA) Debt obligations
- Financing Corp. (FICO) Debt obligations
- Resolution Funding Corp. (REFCORP) Debt obligations
- U.S. Agency for International Development (U.S. A.I.D.) Guaranteed notes

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

U.S.A.I.D. securities must mature at least four business days before the appropriate payment date.

(ii) Investment Obligations. For purposes of the Bond Resolution, to the extent permitted by law, the term “Investment Obligations” shall, in addition to the securities described in subsections (i)(a), (b) and (c) above, shall be limited to the following:

a) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in clause (ii) below), or

b) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

c) Senior debt obligations of other Government Sponsored Agencies approved by Ambac.

d) Bonds of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA’s)
- Federal Housing Administration
- Federal Financing Bank;

e) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated “Aaa” by Moody’s and “AAA” by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Bonds of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System

-- Senior debt obligations of other Government Sponsored Agencies approved by Ambac Assurance;

f) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

g) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

h) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

i) Pre-refunded municipal bonds defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a)(ii) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the 2002 Series A Bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

j) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of at least "A2/A" or higher by both Moody's and S&P.

k) Investment agreements approved in writing by Ambac Assurance; and

l) Other forms of investments (including repurchase agreements) approved in writing by Ambac Assurance.

(iii) The value of the above investments shall be determined as follows:

a) For purposes of determining the amount in any fund, all Investment Securities credited to such fund shall be valued at fair market value. The Transfer Agent shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest; and

c) As to any investment not specified above: the value thereof established by prior agreement between the Board and Ambac Assurance.

(i) Payment Procedure Pursuant To The Financial Guaranty Insurance Policy. As long as the Financial Guaranty Insurance Policy shall be in full force and effect, the Board and the Transfer Agent will comply with the following provisions:

(i) At least one (1) day prior to all Interest Payment Dates the Transfer Agent will determine whether there will be sufficient funds in the funds and accounts maintained under the Bond Resolution to pay the principal of or interest on the Insured Bonds on such Interest Payment Date. If the Transfer Agent determines that there will be insufficient funds in such funds and accounts, the Transfer Agent shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Insured Bonds to which such deficiency is applicable and whether such Insured Bonds will be deficient as to principal or interest, or both. If the Transfer Agent has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance will make payments of principal or interest due on the Insured Bonds on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Transfer Agent.

(ii) the Transfer Agent shall, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and, at Ambac Assurance's direction, to The Bank of New York, in New York, New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the City maintained by the Transfer Agent, as depository, and all records relating to the funds and accounts maintained under the Bond Resolution.

(iii) the Transfer Agent shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from Ambac Assurance under the terms of the Financial Guaranty Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Insured Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Insured Bonds surrendered to the Insurance Trustee by the registered owners of Insured Bonds entitled to receive full or partial principal payments from Ambac Assurance.

(iv) the Transfer Agent, shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify Holders of Insured Bonds entitled to receive the payment of principal or interest thereon from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of the Bondholders entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Holders' right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must surrender their Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Transfer Agent, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Bonds for payment thereon first to the Transfer Agent who shall note on such Bonds the portion of the principal paid by the Transfer Agent and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(v) in the event that the Transfer Agent has notice that any payment of principal of or interest on an Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Board has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Transfer Agent shall, at the time Ambac Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Transfer Agent shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Insured Bonds which have been made by the Transfer Agent and subsequently recovered from registered owners and the dates on which such payments were made.

(vi) in addition to those rights granted Ambac Assurance under the Bond Resolution, Ambac Assurance shall, to the extent it makes payment of principal of or interest on Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Transfer Agent shall note Ambac Assurance's rights as subrogee on the registration books of the Board maintained by the Transfer Agent upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Insured Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Transfer Agent shall note Ambac Assurance's rights as subrogee on the registration books of the City maintained by the Transfer Agent upon surrender of the Insured Bonds by the Bondholders thereof together with proof of the payment of principal thereof.

(j) Transfer Agent.

(i) The Transfer Agent may be removed at any time, at the request of Ambac Assurance, for any breach of the provisions of the Bond Resolution.

(ii) Ambac Assurance shall receive prior written notice of any Transfer Agent resignation.

(iii) Any successor Transfer Agent shall not be appointed unless Ambac Assurance approves such successor in writing.

(iv) Notwithstanding any other provision of the Bond Resolution, in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Bond Resolution, the Transfer Agent shall consider the effect on the Bondholders as if there were no Financial Guaranty Insurance Policy.

(v) Notwithstanding any other provision of the Bond Resolution, no removal, resignation or termination of the Transfer Agent shall take effect until a successor, acceptable to Ambac Assurance, shall be appointed.

(k) Ambac Assurance As Third Party Beneficiary. To the extent that the Bond Resolution confers upon or gives or grants to Ambac Assurance any right, remedy or claim under or by reason of the Bond Resolution, Ambac Assurance is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

(l) Parties Interested Herein. Nothing in the Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the City, the Board, Ambac Assurance, the Transfer Agent and the Bondholders of the 2002 Series A Bonds, any right, remedy or claim under or by reason of the Bond Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Bond Resolution contained by and on behalf of the City or the Board shall be for the sole and exclusive benefit of the City, the Board, Ambac Assurance, the Transfer Agent and the Bondholders of the 2002 Series A Bonds.

(m) Defeasance. Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Insured Bonds shall be paid by Ambac Assurance pursuant to the Financial Guaranty Insurance Policy, the Insured Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge and all covenants, agreements and other obligations of the City to the Bondholders shall continue to exist and shall run to the benefit of Ambac Assurance, and Ambac Assurance shall be subrogated to the rights of such Bondholders.

(n) Replenishment. In the event and to the extent that moneys on deposit in the Redemption Fund, plus all amounts on deposit in and credited to the Bond Reserve Account in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the paying agent certifying that payment due under the Bond Resolution has not been made to the Transfer Agent; or (ii) the payment date of the 2002 Series A Bonds as specified in the Demand for Payment presented by the Transfer Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Transfer Agent or its successor, in New York, New York, sufficient for the payment to the Transfer Agent, of amounts which are then due to the Transfer Agent under the Bond Resolution (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Bond Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument, if any, shall be made on a pro rata basis to fund the insufficiency.

(b) the Transfer Agent shall, after submitting to Ambac Assurance the Demand for Payment as provided in (a) above, make available to Ambac Assurance all records relating to the Funds and Accounts maintained under the Bond Resolution.

(c) the Transfer Agent shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Bond Reserve Account to the extent of moneys received pursuant to such Demand.

(d) the Bond Reserve Account shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument, if any shall be paid from first available revenues on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Bond Reserve Account to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available Revenues. The term "available revenues" for purposes of this subsection (d) means all Revenues required to be transferred to the Bond Reserve Account under the Bond Resolution to cure a deficiency in such Bond Reserve Account.

Series 2003A Bonds insured by Financial Security Assurance, Inc.

The Eighth Supplemental Revenue Bond Resolution (adopted August 12, 2003) contains the following provisions which apply to the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2003A which are insured by Financial Security Assurance, Inc.

Section 14. The Insurance Policy. The provisions of this Section 14 shall apply if the Insurer provides an Insurance Policy with respect to any Series 2003A Bond and such Insurance Policy is in full force and effect:

(a) Insurer Consent to Deposit of Bond Reserve Account Guaranty. The prior written consent of the Insurer shall be a condition precedent to the deposit of any Bond Reserve Account Guaranty or other credit instrument provided in lieu of a cash deposit into the Bond Reserve Account. Such consent shall not be required if (i) the Bond Reserve

Account Guaranty is to be provided by an existing insurer of the Board's outstanding Bonds; and (ii) the provision of the Bond Reserve Account Guaranty will not result in a downgrade of the ratings on the Board's outstanding Bonds.

- (b) Insurer as Owner. The Insurer shall be deemed to be the sole holder or Bondholder (Registered Owner) of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Bonds are entitled to take pursuant to the Bond Resolution pertaining to defaults and remedies.
- (c) Insurer as Third-Party Beneficiary. To the extent the Bond Resolution confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Bond Resolution, the Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy, or claim conferred, given or granted hereunder.
- (d) Insurer Consent to Modifications or Amendments. No modification or amendment to the Bond Resolution may become effective except upon obtaining the prior written consent of the Insurer. Copies of any modification or amendment to the Bond Resolution shall be sent to Standard & Poor's Credit Market Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof. The consent requirement contained in this subsection shall not apply to supplemental resolutions adopted by the Board with respect to the issuance of Additional Bonds hereunder.
- (e) Insurer's Contractual Rights. The rights granted to the Insurer under the Bond Resolution to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the holders of the Insured Bonds nor does such action evidence any position of the Insurer, positive or negative, as to whether consent by the holders of the Insured Bonds is required in addition to consent of the Insurer.
- (f) Defeasance. Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively or (5) securities eligible for "AAA" defeasance under then existing criteria of S & P or any combination thereof, shall be authorized to be used to effect defeasance of the Insured Bonds, unless the Insurer otherwise approves.

To accomplish defeasance of the Insured Bonds, the Board shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), and (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Bonds to be defeased are no longer "Outstanding" under the Bond Resolution; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Board, the Transfer Agent and the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

- (g) Insured Bonds Outstanding. Insured Bonds shall be deemed "Outstanding" under the Bond Resolution unless and until they are in fact paid and retired or the above defeasance criteria are met.

Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Bond Resolution and shall remain Outstanding and continue to be due and owing until paid by the Board in accordance with the Bond Resolution. The Bond Resolution shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

- (h) Reimbursement of Insurer. The Board shall pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Bond Resolution; (ii) the pursuit of any remedies under the Bond Resolution or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Bond Resolution whether or not executed or completed, (iv) the violation by the Board of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Bond Resolution or the transactions contemplated thereby, other than amounts resulting from the failure of the Insurer to honor its obligations under the Insurance Policy.
- (i) Payment of Insurer. The Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Board (as such terms are defined in

the Insurance Policy) and any amounts due on the Insured Bonds in accordance with the Bond Resolution, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

- (j) Notice to Insurer. The notice address of the Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director — Surveillance, Re: Policy No. [insert number], Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”
- (k) Information to be Given to Insurer. The Insurer shall be provided with the following information:
 - (i) Annual audited financial statements within 150 days after the end of the Board’s fiscal year (together with a certification of the Board that it is not aware of any default or Event of Default under the Bond Resolution), and the Board’s annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;
 - (ii) Notice of any draw upon the Bond Reserve Account within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of Insured Bonds;
 - (iii) Notice of any default known to the Transfer Agent within five Business Days after knowledge thereof;
 - (iv) Prior notice of the advance refunding or redemption of any of the Insured Bonds, including the principal amount, maturities and CUSIP numbers thereof;
 - (v) Notice of the resignation or removal of the Transfer Agent, Paying Agent and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto;
 - (vi) Notice of the commencement of any proceeding by or against the Board or the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”);
 - (vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Insured Bonds;
 - (viii) A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Bond Resolution; and
 - (ix) All reports, notices and correspondence to be delivered to Registered Owners under the terms of the Bond Resolution.
- (l) Restriction on Additional Bonds. Notwithstanding satisfaction of other conditions to the issuance of Additional Bonds contained in the Bond Resolution, no such issuance may occur (i) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance and (ii) unless the Bond Reserve Account is fully funded at its requirement (including the new issue) upon the issuance of such Additional Bonds, in either case, unless otherwise permitted by the Insurer.
- (m) Transfer Agent Considerations. In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Bond Resolution would adversely affect the security for the Insured Bonds or the rights of the holders of Insured Bonds, the Transfer Agent shall consider the effect of any such amendment, consent, action or inaction as if there were no Insurance Policy.
- (n) Non-Impairment. No contract shall be entered into nor any action taken by which the rights of the Insurer or security for or sources of payment of the Insured Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.
- (o) Refunding Bonds. If the proceeds of the Insured Bonds are used to refund Outstanding Bonds of the Board, there shall be delivered an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto) or a certificate of discharge of the trustee for the Refunded Bonds to the effect that, upon the making of the required deposit to the escrow, the Refunded Bonds will be defeased. If the Insured Bonds are refunded, at least three business days prior to the proposed date for delivery of the Policy with respect to the refunding bonds, the Insurer shall receive (i) a verification letter, of which the Insurer shall be an addressee, by an independent firm of certified public accountants which is either nationally recognized or otherwise acceptable to the Insurer, of the adequacy of the escrow established to provide for the payment of the Insured Bonds in accordance with the terms and provisions of the Escrow Deposit Agreement, and (ii) the form of an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto) to the effect that the Escrow Deposit Agreement is a valid and binding

obligation of the parties thereto enforceable in accordance with its terms (such Escrow Deposit Agreement to provide that it may be amended only with the Insurer's consent). An executed copy of each of such opinion and reliance letter, if applicable, shall be forwarded to the Insurer prior to delivery of the Insured Bonds.

Series 2005A Bonds insured by MBIA Insurance Corporation

The Ninth Supplemental Revenue Bond Resolution (adopted July 26, 2005) contains the following provisions which apply to the outstanding Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2005A which are insured by MBIA Insurance Corporation.

Section 13. The Insurance Policy. This Section 13 shall apply with respect to Insured Bonds in the event an Insurance Policy insures the principal of and interest on all or a portion of the Series 2005A Bonds, but only during such time as the Insurer is not in default under the terms and conditions of the Insurance Policy to be issued by the Insurer at the time of the issuance and delivery of the Insured Bonds, and the Insurance Policy is in full force and effect:

(a) (i) The Insurer shall be deemed to be and recognized as the Registered Owners of the Insured Bonds (A) at all times for the purposes of the adoption of a supplemental resolution amending, changing or modifying the Bond Resolution or this supplemental resolution or the initiation by Registered Owners of any action, or the removal of the Transfer Agent or the appointment of a successor Transfer Agent, which under the Bond Resolution, may require the written approval or consent of the Registered Owners of all or a portion of the Series 2005A Bonds (including the Insured Bonds) at the time Outstanding under the Bond Resolution or can be initiated upon the written request of the Registered Owners of not less than all or a portion of the Series 2005A Bonds (including the Insured Bonds) Outstanding under the Bond Resolution, (B) following an Event of Default for all other purposes, and (C) for the purposes of exercising all other rights and privileges available to a Registered Owner of an Insured Bond.

(ii) In the event a payment can be accelerated, no action by any. Registered Owner of an Insured Bond to accelerate the payment of principal of and interest on the Insured Bonds or to pursue any other remedy with respect to the. Insured Bonds shall be of any effect unless the Registered Owner obtains the written consent of the Insurer to such acceleration or the Insurer shall direct such acceleration or remedy.

(iii) In the event and to the extent that the principal and/or interest due on the Insured Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Insured Bonds shall remain Outstanding for all purposes under the Bond Resolution, not be defeased or otherwise satisfied and not be considered paid by the City and the pledge of the funds and accounts under the Bond Resolution and all covenants, agreements and other obligations of the City to the Registered Owners of the Insured Bonds shall continue to exist.

(iv) The Board shall provide written notice to the Insurer in the event the Transfer Agent resigns or is removed or if a successor is appointed. The Insurer shall have the right to consent to the appointment of any successor Transfer Agent.

(v) The Insurer shall receive from the Board on an annual basis, copies of the Board's audited financial statements and annual budgets.

(vi) The Transfer Agent shall furnish to the Insurer a copy of any notice to be given to any Registered Owner of an Insured Bond or the Transfer Agent under the Bond Resolution. All notices required to be given to the Insurer under the Bond Resolution shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504, Attention: Insured Portfolio Management.

(vii) Notwithstanding any other provision of the Bond Resolution, the right of the Insurer to consent to and to approve certain actions as provided in this Ninth Supplemental Revenue Bond Resolution shall be null and void if the Insurer is in default under the terms and conditions of the Insurance Policy issued by the Insurer or if such Insurance Policy has been cancelled or is not otherwise in effect.

(viii) The Board shall obtain the Insurer's consent prior to adoption of a supplemental resolution or the issuance of additional bonds under the Bond Resolution if the adoption of the supplemental resolution or the issuance of such Additional Bonds is for a purpose other than (i) a refunding to obtain savings; or (ii) the issuance of additional bonds which are in accordance with any additional bonds test or additional bonds requirement contained in the Bond Resolution.

(ix) In connection with the issuance of Additional Bonds, the Board shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such Additional Bonds.

(x) Copies of any amendments made to the resolutions or documents entered into in connection with the issuance of the Insured Bonds which are consented to by the Insurer shall be sent to Standard & Poor's Corporation.

(xi) The Board agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the Insurer in connection with (A) the enforcement by the Insurer of the Board's obligations, or the preservation or defense of any rights of the Insurer, under the Bond Resolution and any other document executed in connection with the issuance of the Insured Bonds, and (B) any consent, amendment, waiver or other action with respect to the Bond Resolution or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Insurer reserves the right to charge a fee in connection with its review of all such consent, amendment or waiver, whether or not granted or approved.

(xii) The Board agrees not to use the Insurer's name in any public document including, without limitation, a press release or presentation announcement or forum without the Insurer's prior consent; provided however, such prohibition on the use of the Insurer's name shall not relate to the use of the Insurer's standard approved form of disclosure in public documents issued in connection with the current Insured Bonds to be issued in accordance with the terms of the Insurer's insurance commitment; and provided further such prohibition shall not apply to the use of the Insurer's name in order to comply with public notice, public meeting or public reporting or disclosure requirements.

(xiii) The Board shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Insured Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Insured Bonds without the prior written consent of the Insurer.

(b) (i) In the event that on the second business day, and again on the business day prior to the payment date of principal or interest on the Insured Bonds, the Transfer Agent has not received sufficient amounts in the funds established in the Bond Resolution to pay all principal and interest coming due on the Insured Bonds on the second following, or following, as the case may be, business day, the Transfer Agent shall immediately notify the Insurer or its designee by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(ii) If the deficiency is made up in whole or in part prior to or on the interest payment date or principal payment date, the Transfer Agent shall so notify the Insurer or its designee.

(iii) In addition, if the Transfer Agent has written notice from any Registered Owner that any of the Registered Owners have been required to disgorge payments of principal or interest on the Insured Bonds to the City or to the trustee in bankruptcy for creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Registered Owners within the meaning of any applicable bankruptcy laws, then the Transfer Agent shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(iv) The Transfer Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Registered Owners of the Insured Bonds as follows:

(A) if and to the extent there is a deficiency in amounts required to pay interest on the Insured Bonds, the Transfer Agent shall (I) execute and deliver to U.S Bank Trust National Association, or its successors under the Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Registered Owners in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (II) receive as designee of the respective Registered Owners (and not as Transfer Agent) in accordance with the tenor of the Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (III) disburse the same to such respective Registered Owners; and

(B) if and to the extent of a deficiency in amounts required to pay principal of the Insured Bonds, the Transfer Agent shall (I) execute and deliver to the Insurance Paying Agent, in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Registered Owner in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Insured Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Transfer Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (II) receive as designee of the respective Registered Owners (and not as Transfer Agent) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent and (III) disburse the same to such Registered Owners.

(v) Payments with respect to claims for interest on and principal of Insured Bonds disbursed by the Transfer Agent from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the City with respect to such Insured Bonds, and the Insurer shall become the owner of such unpaid Insured Bonds and claims for interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(vi) Irrespective of whether any such assignment is executed and delivered, the City through its Board and the Transfer Agent hereby agree for the benefit of the Insurer that:

(A) they recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Transfer Agent), on account of principal of or interest on the Insured Bonds, the Insurer will be subrogated to the rights of such Registered Owners to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in the Bond Resolution and the Insured Bonds; and

(B) they will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Bond Resolution, but only from the sources and in the manner provided herein and in the Bond Resolution for the payment of principal of and interest on the Insured Bonds to Registered Owners, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

(c) (i) In the event the Board refunds all or a portion of the Insured Bonds, the Board shall, unless waived in writing by the Insurer, provide the Insurer: (i) a final debt service schedule within three business days from the sale date of the refunding bonds; (ii) at least 10 days in advance of the closing, drafts of a verification report by an independent certified public accounting firm of the sufficiency of the escrow to timely pay the refunded bonds, an escrow securities purchase agreement or state and local government subscription form or open market securities confirmation, and an escrow deposit agreement; (iii) at least 5 business days prior to the closing, a draft opinion of bond counsel, to the effect that the refunding bonds are being issued in compliance with state law and that interest on the refunding bonds is tax-exempt; (iv) at least 5 business days prior to the closing, a draft opinion of bond counsel to the effect that the refunded bonds have been defeased. The Insurer must give its oral approval of the form of the verification report, escrow securities order and escrow agreement.

(ii) In the event Insured Bonds are defeased in accordance with Section 5 of the Bond Resolution, the Board shall utilize only the following investments or securities to effectuate the defeasance, but only to the extent such investments or securities constitute Sufficient Government Obligations or Sufficient Municipal Obligations as defined in the Bond Resolution:

(A) Cash;

(B) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGs");

(C) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(D) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable;

(E) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition;

(F) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

(1) U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

(2) Farmers Home Administration (FmHA) Certificates of beneficial ownership

(3) Federal Financing Bank

(4) General Services Administration

Participation certificates

(5) U.S. Maritime Administration

Guaranteed Title XI financing

(6) U.S. Department of Housing and Urban Development
(HUD)

Project Notes

Local Authority Bonds

New Communities Debentures — U.S. government guaranteed debentures U.S. Public Housing Notes and Bonds — U.S. government guaranteed public housing notes and bonds

(d) The Insurer shall be provided with an opinion of counsel acceptable to the Insurer that the Insured Bonds have been legally defeased and that the escrow agreement establishing such defeasance operates to legally defease the Insured Bonds within the meaning of the Bond Resolution and this Ninth Supplemental Revenue Bond Resolution relating to the Insured Bonds. In addition, the Insurer will be entitled to receive (i) 15 business days notice of any advance refunding of the Insured Bonds and (ii) an accountant's report with respect to the sufficiency of the amounts deposited in escrow to defease the Insured Bonds.

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FORM OF APPROVING OPINION

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OHIO: Cincinnati

CANADA: Toronto • Windsor

CHINA: Shanghai

MEXICO: Monterrey

POLAND: Gdynia

Warsaw • Wrocław

June 15, 2011

**DRAFT FORM OF
APPROVING OPINION**

Lansing Board of Water and Light
City of Lansing
State of Michigan

We have acted as bond counsel to the City of Lansing, State of Michigan, acting through the governing body of the Lansing Board of Water and Light (the "Board") in connection with the issuance by the Board of bonds in the aggregate principal sum of \$250,000,000, designated UTILITY SYSTEM REVENUE BONDS, SERIES 2011A (the "Bonds"). In such capacity, we have examined such law and the transcript of proceedings relating to the issuance of the Bonds and such other proceedings, certifications and documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Act 94, Public Acts of Michigan, 1933, as amended (the "Act"), and a Bond Resolution adopted by the Board as supplemented and amended from time to time (the "Bond Resolution"). Under the Bond Resolution, the Board has pledged certain revenues for the payment of the principal and interest on the Bonds when due.

The Bonds are in fully-registered form in the denomination of \$5,000 each or multiples thereof, numbered in order of registration, bearing original issue date of June 15, 2011, payable as to principal and interest as provided in the Bonds, and are subject to redemption prior to maturity in the manner, at the times and at the prices specified in the Bonds.

As to questions of fact material to our opinion, we have relied on the representations of the Board contained in the Bond Resolution, and in the certified proceedings and other certifications of public officials and others furnished to us.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds are valid and binding obligations of the City and the Board, according to their tenor, payable solely and only from and secured by a statutory first lien on the revenues of the Board's facilities for the supply and distribution of water and the generation and

distribution of electricity, steam, chilled water, and heat (collectively, the "System"), after payment of the expenses of administration, operation and maintenance thereof (the "Net Revenues"), and are entitled to the benefits of the Bond Resolution and the Act.

2. The Bonds are of equal standing and priority of lien as to the Net Revenues of the System with the Board's outstanding Water Supply, Steam and Electric Utility System Revenue Bonds, Series 1999A, the Water Supply, Steam and Electric Utility System Revenue Bonds, Series 2002A, the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2002B, the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2003A, the Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2005A, and the Water Supply, Steam, Chilled Water and Electric Utility System Revenue Bonds, Series 2008A (together the "Outstanding Senior Lien Bonds"). The Board has reserved the right to issue additional bonds of equal standing with the Bonds and the Outstanding Senior Lien Bonds on conditions stated in the Bond Resolution.

3. The Board is obligated to charge and collect rates from every user of the service supplied by the System sufficient to provide adequate revenues for the payment of the expenses of administration, operation and maintenance of the System and for the payment of the principal of and interest on the Bonds and all other bonds payable from the revenues of the System, and to provide for such other expenditures and funds for the Bonds and the System as are required by the Bond Resolution.

4. The interest on the Bonds (a) is excludable from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), the interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the Board comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. The Board has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

5. The Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Except as stated in paragraphs 4 and 5 above, we express no opinion regarding other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

Lansing Board of Water and Light

-3-

June 15, 2011

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

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

By: _____
William J. Danhof

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FORM OF CONTINUING DISCLOSURE UNDERTAKING

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\$250,000,000
LANSING BOARD OF WATER AND LIGHT
UTILITY SYSTEM REVENUE BONDS, SERIES 2011A

Continuing Disclosure Undertaking

The Lansing Board of Water and Light (the “Board”), an administrative Board of the City of Lansing, Michigan existing under the City’s Charter, hereby executes and delivers this Continuing Disclosure Undertaking (the “Undertaking”) in connection with the issuance by the Board of the Utility System Revenue Bonds, Series 2011A (the “Bonds”). The Board hereby covenants and agrees for the benefit of the Bondholders (as hereinafter defined), as follows:

(a) *Definitions.* The following terms used herein shall have the following meanings:

“Audited Financial Statements” means the annual audited financial statement pertaining to the Board prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

“Bondholders” shall mean the registered owner of any Bond or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any person holding a Bond through a nominee, depository or other intermediary) or (b) treated as the owner of any Bond for federal income tax purposes.

“EMMA” shall mean the MSRB’s Electronic Municipal Market Access System, or such other system, Internet Web site, or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

“MAC” means the Municipal Advisory Council of Michigan.

“MSRB” means the Municipal Securities Rulemaking Board.

“Rule” means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

“SEC” means the United States Securities and Exchange Commission.

“Undertaking” means this Continuing Disclosure Undertaking.

(b) *Continuing Disclosure.* The Board shall, in accordance with the provisions of the Rule, provide or cause to be provided to the MSRB through EMMA, on or before the last day of the sixth month after the end of the fiscal year of the Board, the following annual financial information and operating data, commencing with the fiscal year ended June 30, 2011, in an electronic format as prescribed by the MSRB:

(1) Updates of the numerical financial information and operating data (excluding any pictorial representation) included in the official statement for the Bonds (the “Official Statement”) appearing in the Tables or under the headings as described in Exhibit A.

(2) Audited Financial Statements, or in the event audited financial statements are not available, the Board shall provide unaudited financial statements, and then provide audited financial statements immediately after they become available.

(3) Such additional financial information or operating data as may be determined by the Board and its advisors as desirable or necessary to comply with the Rule.

Such annual financial information and operating data described above are expected to be provided directly by the Board or by specific reference to documents available to the public through EMMA or filed with the SEC.

If the fiscal year of the Board is changed, the Board shall send a notice of such change to the MSRB through EMMA, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) *Notice of Failure to Disclose.* The Board shall provide or cause to be provided, in a timely manner, to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, notice of a failure by the Board to provide the annual financial information with respect to the Board described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) *Occurrence of Events.* The Board shall provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;

- (12) bankruptcy, insolvency, receivership or similar event of the Board, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Board in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board;
- (13) the consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(e) *Materiality Determined Under Federal Securities Laws.* The Board agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

(f) *Identifying Information.* All documents provided to the MSRB through EMMA shall be accompanied by the identifying information prescribed by the MSRB.

(g) *Termination of Reporting Obligation.* The Board reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the Board is no longer an “obligated person” with respect to the Bonds within the meaning of the Rule, including upon legal defeasance of all Bonds.

(h) *Benefit of Bondholders.* The Board agrees that its undertaking pursuant to the Rule set forth in this Undertaking is intended to be for the benefit of the Bondholders and shall be enforceable by any Bondholder; provided that, the right to enforce the provisions of this Undertaking shall be limited to a right to obtain specific enforcement of the Board’s obligations hereunder and any failure by the Board to comply with the provisions of this Undertaking shall not constitute a default or an event of default with respect to the Bonds.

(i) *Amendments to the Undertaking.* Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the Board, provided that the Board agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Board or the type of activities conducted thereby, (b) the undertaking, as amended, would

have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Board (such as independent legal counsel), but such interpretations may be changed in the future. If the accounting principles to be followed by the Board in the preparing of the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the Board to meet its obligations. A notice of the change in accounting principles shall be sent to the MSRB through EMMA.

(j) *Former State Information Depository.* The Board shall also file by electronic or other means any information or notice required to be filed with the MSRB through EMMA pursuant to this Undertaking in a timely manner with the Municipal Advisory Council of Michigan (MAC), provided, however, that the Board reserves the discretion to discontinue filings with the MAC at any time for any reason and the failure to file any such information or notice with the MAC shall not constitute a failure to comply with its obligations under this Undertaking or the Rule or a default or event of default with respect to the Bonds.

IN WITNESS WHEREOF, the Board has caused this Undertaking to be executed by its authorized officer.

LANSING BOARD OF WATER AND LIGHT

By _____

Its: Assistant General Manager
and Chief Financial Officer

Dated: June 15, 2011

EXHIBIT A
CONTINUING DISCLOSURE UNDERTAKING
TABLES IN THE OFFICIAL STATEMENT TO BE UPDATED ANNUALLY

The Lansing Board of Water and Light will update the numerical financial information and operating data included in the following Official Statement Tables for the current year:

THE ELECTRIC UTILITY:

Power Requirements:

Electric Utility – Power Availability, Sales and Losses in MWh;

Customers:

Electric Utility – Average Number and Percent of Customers by Classification;

Ten Largest Customers:

Electric Utility – Ten Largest Customers;

Rates and Charges:

Electric Utility – Total Estimated Monthly Billing;

Electric Sales:

Electric Utility – Amount in MWh and Percent of Sales by Customer Classification; and

Electric Revenues:

Electric Utility – Amount and Percent of Revenues by Customer Classification.

THE WATER UTILITY:

Service Area and Customer Base:

Water Utility - Average Number and Percent of Water Customers by Classification;

Ten Largest Customers:

Water Utility - Ten Largest Water Customers;

Rates and Charges:

Water Utility - Monthly Basic Service Charge by Water Meter Size; and

Water Revenues:

Water Utility - Amount and Percent of Water Sales by Customer Classification.

THE STEAM UTILITY:

Steam Generation:

Steam Utility - Average Number and Percent of Customers by Classification;

Rates and Charges:

Steam Utility - Historic and Existing Rates by Customer Classification;

Steam Revenues:

Steam Utility - Amount and Percent of Steam Revenues as Billed by Customer Classification; and

Ten Largest Customers:

Steam Utility - Ten Largest Steam Customers.

THE CHILLED WATER UTILITY:

Service Area and Customer Base:

Chilled Water Utility - Number of Service Leads and Volume in 1,000 Thrs by Classification;

Rates and Charges:

Chilled Water Utility - Historic and Existing Rates;

Chilled Water Revenues:

Chilled Water Utility - Chilled Water Revenues by Classification; and

Chilled Water Customers by Volume and Revenues:

Chilled Water Utility - Chilled Water Customers by Volume and Revenues.

SYSTEM FINANCIAL INFORMATION:

Historical and Projected Operating Cash Flows and Debt Service Coverage.

\$250,000,000

**LANSING BOARD OF WATER AND LIGHT
CITY OF LANSING, MICHIGAN
UTILITY SYSTEM REVENUE BONDS, SERIES 2011A**

Financial Advisor:

**Robert W. Baird & Co.
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Traverse City, Michigan 49684
(231) 933-8447**

