

BACKGROUND

1. The City filed the DIP Motion on November 5, 2013. The Motion provides, in relevant part, that the Quality of Life Bonds (as defined in the Motion) and Swap Termination Bonds (as defined in the Motion) will be secured, on a *pari passu*, super-priority basis with the Asset Proceeds Collateral (as defined in the Motion). See Motion at 30–31. “Asset Proceeds Collateral” in turn, is defined as “all net proceeds derived from a transaction or series of related transactions involving the voluntary disposition or monetization of any City owned asset which generates net cash proceeds from such transaction or series of transactions exceeding \$10,000,000. . . .” See Motion at 29. The City also seeks to use the Asset Proceeds Collateral to redeem the Quality of Life Bonds and Swap Termination Bonds. See Motion at 29.

2. The City’s proposed order similarly grants a super-priority status to liens securing the Quality of Life Bonds and Swap Termination Bonds and pledges the Asset Proceeds Collateral on a *pari passu* basis to the Quality of Life Bonds and Swap Termination Bonds. See Motion, Ex. 1 at 10–11).

LIMITED OBJECTION AND RESERVATION OF RIGHTS

3. The City’s Water Supply System and its Sewage Disposal System (the “Systems”) are City-owned assets.

4. The Water/Sewer Bonds are secured by the Pledged Assets,¹ which are defined in the Indentures as:

¹ The Water Bonds were issued pursuant to Ordinance No. 30-02, as amended and restated by Ordinance No. 01-05 (the “Water Ordinance”) and that certain Trust Indenture, dated as of February 1, 2013 (the “Water Indenture”). The Sewer Bonds were issued pursuant to Ordinance No. 18-01 (the “Sewer Ordinance” and with the Water Ordinance, the “Ordinances”) and that certain Trust Indenture, dated as of June 1, 2013 (the “Sewer Indenture,” and with the Water Indenture, the “Indentures”). Capitalized terms used but not defined herein have the meanings ascribed to them in the Indentures, unless otherwise set forth herein.

- (i) Net Revenues of the Systems;
- (ii) the funds and accounts established by or pursuant to the Ordinances governing the Water/Sewer Bonds except for the Operation and Maintenance Funds and the Construction Funds established under the Ordinances and Indentures;
- (iii) investments of amounts credited to any fund, account or subaccount that is a Pledged Asset; and
- (iv) any income or gain realized from investments that are Pledged Assets to the extent that such income or gain is not a Net Revenue.

Water Indenture Art. I “Pledged Assets”; Water Ordinance § 1 “Pledged Assets”; Sewer Indenture Art. I “Pledged Assets”; Sewer Ordinance, Part II, § 1 “Pledged Assets”. The Ordinances further provide that “the payment of Secured Obligations is secured by a statutory lien, which is hereby created, upon the whole of the Pledged Assets subject to the use and application thereof in accordance with the Ordinance.” Water Ordinance § 5(A); *see also* Sewer Ordinance § 5(a).

5. The City may attempt to voluntarily dispose of or monetize the Systems, according to public statements made by the City through its Emergency Manager. No actual transaction has been presented to the Court by the City or Emergency Manager, however. Thus, it remains to be seen whether the City can or will ever propose a transaction to monetize the Systems, and the Trustee is unable at this time to determine the likelihood or structure of any potential transaction, and or to evaluate whether any future transaction to monetize the Systems would impair the Water/Sewer Bondholders’ rights in the Pledged Assets. The Trustee, therefore, hereby seeks to reserve its and the Water/Sewer Bondholders’ rights to object to any proposed monetization of the Systems or Pledged Assets, and to the use of the Pledged Assets or the proceeds of any such transaction to secure or repay the Quality of Life Bonds and Swap Termination Bonds to the extent such a transaction would impermissibly impair the Water/Sewer Bondholders’ liens in the Pledged Assets.

WHEREFORE, for the reasons stated herein, and for such other reasons as may be stated at the hearing on the DIP Motion, the Trustee respectfully requests that this Court: (i) sustain the Trustee's limited objection; (ii) provide in any order approving the DIP Motion that such order is without prejudice to, and does not waive, any objections the Trustee or Water/Sewer Bondholders may have regarding monetization or disposition of the Systems or Pledged Assets, to the use of the Pledged Assets to secure or repay the Quality of Life Bonds and Swap Termination Bonds, or to use of the proceeds of any such transaction to secure or repay the Quality of Life Bonds and Swap Termination Bonds to the extent such a transaction would impermissibly impair the Water/Sewer Bondholders' liens in the Pledged Assets; and (iii) provide such other and further relief as is just and equitable.

Respectfully submitted this the 22nd day of November, 2013.

/s/ Courtney M. Rogers

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Indenture Trustee for the Water and Sewer Bonds*

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Reservation of Rights to Debtor's Motion for a Entry of an Order (I) Approving Post-Petition Financing, (II) Granting Liens and Providing Superpriority Claim Status and (III) Modifying Automatic Stay was filed and served via the Court's electronic case filing and noticing system to all parties registered to receive electronic notices in this matter, this 22nd day of November, 2013.

/s/ Courtney M. Rogers _____