

**SECOND AMENDMENT TO
WATER AND SANITARY SEWER SERVICE AGREEMENT**

between the

**CITY OF GRAND RAPIDS
(the "City")**

and

**ADA TOWNSHIP and
CITY OF EAST GRAND RAPIDS
(individually a "Customer Community" and
collectively the "Customer Communities")**

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**SECOND AMENDMENT TO WATER AND
SANITARY SEWER SERVICE AGREEMENT**

THIS SECOND AMENDMENT TO WATER AND SANITARY SEWER SERVICE AGREEMENT made and executed as of this 1st day of July 2002 (hereinafter referred to as the "Second Amendment"), by and between the **CITY OF GRAND RAPIDS**, Kent County, Michigan, a Michigan municipal corporation (hereinafter referred to as the "City"), and **ADA TOWNSHIP**, Kent County, Michigan, a Michigan general law township, and the **CITY OF EAST GRAND RAPIDS**, Kent County, Michigan, a Michigan municipal corporation (hereinafter referred individually as a "Customer Community" and collectively as the "Customer Communities").

RECITALS

A. The City and the Customer Communities have entered into a Water and Sanitary Sewer Service Agreement dated as of January 1, 1999 (the "Agreement"), for the provision of public water and/or sanitary sewer service to Users within certain designated service areas on a wholesale basis.

B. The City and the Customer Communities who have executed this Second Amendment have determined to (a) amend (i) Section 6.B of the Agreement related to the application of integrated connection fees, (ii) Exhibit C to the Agreement related to the calculation of square footage of parcels for purposes of determining integrated connection fees, and (iii) Section 7 of the Agreement related to the determination and application of integrated system costs and (b) replace in its entirety Exhibit D to the Agreement referenced in said Section 7.

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NOW, THEREFORE, in consideration of the respective representations and agreements contained herein, the parties hereto agree as follows:

Section 1. Amendment to Section 6.B of Agreement. Subsection B of Section 6 of the Agreement is amended in its entirety to read as follows:

B. Integrated Connection Fees. Persons in the Utility Services District in each of the Customer Communities connecting to the local retail water system and/or sewer system of the Customer Community shall pay integrated connection fees established and determined by the Customer Community in accordance with either Option A or Option B as set forth in Exhibit C attached hereto and incorporated herein.

Integrated connection fees collected and forwarded to the City under Option A of Exhibit C and amounts included in the revenue requirements of a Customer Community in lieu of integrated connection fees under Option B of Exhibit C shall be applied to integrated system costs of the Water System and Sewer System, respectively, so as to reduce such costs in connection with the preparation of the applicable annual Rate Study. Provided, however, in no event will the amounts collected from integrated connection fees be assigned to the operation, maintenance and replacement cost components of the integrated system revenue requirements in the annual Rate Study.

Section 2. Amendment to Exhibit C to Agreement. The narrative portion of Exhibit C "Option A Integrated Connection Fees" to the Agreement is amended in its entirety to read as follows:

Except as otherwise provided in the immediately succeeding paragraph, the integrated water service and sanitary sewer service connection fee for single-family and multi-family residential dwelling units shall be determined as follows: A single-family residential dwelling unit located on a parcel containing 30,000 square feet in calendar year 2000; 28,000 square feet in calendar year 2001; 26,000 square feet in calendar year 2002; 24,000 square feet in calendar year 2003; 22,000 square feet in calendar year 2004; and 20,000 square feet in calendar year 2005 and each year thereafter shall pay the applicable integrated connection fee in accordance with the above schedule. When determining the square footage of a residential parcel for purposes of determining the appropriate integrated connection fee, parcel size may be adjusted downward to take into consideration such things as wetlands, lakes, streams and other unusual characteristics of the parcel in accordance with policies approved from time to time by the Utility Advisory Board. To the extent the size of a parcel, as adjusted, is greater than or less than the applicable square footage, one-half the applicable

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integrated connection fee will increase or decrease by the same percentage increase or decrease in the size of the parcel, as adjusted, above or below the applicable square footage. In the case of multi-family residential dwellings, in order to determine the size of the parcel assigned to each dwelling unit for purposes of calculating the integrated connection fee to be paid by each multi-family residential dwelling unit, the total square footage of the parcel, as adjusted, on which the multi-family residential dwelling unit is located shall be divided by the total number of residential units. Notwithstanding any other provision of this Option A, the integrated connection fee for a single-family residential dwelling unit or multi-family residential dwelling unit shall not exceed four and one-half times the applicable base integrated connection fee set forth in the above schedule.

There shall be no upward adjustment in the water service and sanitary sewer service integrated connection fees payable for a single-family residential dwelling unit connecting to the Water System or Sewer System if (a) each of the following conditions are met (i) a building permit shall have been obtained, (ii) the dwelling unit shall have been constructed, and (iii) a certificate of occupancy shall have been issued prior to January 1, 2000, or (b) the local building permit fees had been paid to the local governmental unit prior to January 1, 2000, for a single-family residential dwelling unit to be constructed on or after January 1, 2000. When making a connection for public water service or sanitary sewer service, Users living in or owning such single-family residential dwelling units shall pay the applicable base integrated connection fee set forth in the above schedule adjusted downward, if applicable, in accordance with the immediately preceding paragraph.

The Customer Community shall collect the full amount of such integrated connection fees from Users within the Customer Community before permitting connection to the public water system or sanitary sewer system, as applicable, in the Customer Community and promptly pay over such amounts collected to the Water System and/or Sewer System, as applicable.

Section 3. Amendment to Section 7 of Agreement. Section 7 of the Agreement is amended in its entirety to read as follows:

Section 7. Integrated System Revenue Requirements. The Rate Setting Methodology is modified to provide that integrated system revenue requirements of the Sewer System shall be allocated among Customer Communities in proportion to the amount of annual plant flow assigned to Users in each Customer Community, Users in other customer communities receiving retail sanitary sewer service and Users in the City, which collectively shall constitute total annual plant flow of the Sewer System and shall be allocated as described, set forth and demonstrated in the attached Exhibit D. A Customer Community's share of annual plant flow shall be equal to its annual billed flow.

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Other customer communities' receiving retail sanitary sewer service and the City's respective share shall be equal to its annual billed flow plus an additional 42.8% of such total annual billed flow (or such other appropriate percent as determined by a study conducted from time to time by an independent engineering firm approved by the Utility Advisory Board) to account for inflow, infiltration and other unassigned flow in such customer community's or the City's local collector sanitary sewer system.

The Rate Setting Methodology shall be further modified to provide that beginning with the Rate Study applicable to rates effective beginning in 2003 and thereafter, each Customer Community's share of the integrated system revenue requirements of the Water System (excluding those integrated system revenue requirements allocated to Ottawa County pursuant to a Water Supply Agreement between the City and Ottawa County dated November 1, 1989, so long as such Agreement remains in effect) and the Sewer System (excluding those integrated system revenue requirements allocated to the North Kent Sewage District pursuant to a Sewage Disposal Agreement between the City and Kent County dated January 10, 1968, and to Gaines Charter Township pursuant to a Sanitary Sewer Service Agreement between the City and Gaines Charter Township dated June 7, 1988, respectively, so long as such Agreements, respectively, remain in effect), shall, for purposes of the annual Rate Study, be determined (a) in part, (i) in the case of the Water System by its share of annual billed flow and (ii) in the case of the Sewer System by its share of plant flow (determined in accordance with the preceding paragraph) and (b) in part, by its share of total land area within the applicable Utility Service District within such Customer Community as a percentage of total land area of Utility Service Districts of all Customer Communities, service areas of other customer communities within the boundaries of the City (excluding, in the case of the Water System, those areas served with water service pursuant to a Water Supply Agreement between the City and Ottawa County dated November 1, 1989, and excluding in the case of the Sewer System, those areas served with sanitary sewer service pursuant to a Sewage Disposal Agreement between the City and Kent County dated January 10, 1968, and a Sanitary Sewer Service Agreement between the City and Gaines Charter Township dated June 7, 1988) as set forth and demonstrated in the attached Exhibit D. Provided, however, in no event shall the total amount of integrated system revenue requirements allocated to (x) Users of Customer Communities, (y) Users of other customer communities receiving retail sanitary sewer service, and (z) Users within the City based on relative land area in an annual Rate Study exceed the total of the integrated system revenue requirements for depreciation and return on investment.

The Rate Setting Methodology shall also be modified to provide that costs of any non-integrated system improvements incurred after the date of this Agreement to the Water System or Sewer System that (a) result in an increase in the capacity of the integrated system of the Water System or Sewer System or (b) defers or delays an expansion of the integrated system of the Water System or

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Sewer System may be included as an integrated system cost of the Water System or Sewer System to the extent of the benefit to all Users of the Water System or Sewer System from such improvements. Nothing in this section or this Agreement shall be construed to permit the inclusion of the cost of storm sewers or the cost of eliminating storm water from the Sewer System (y) within the City in any costs allocated to Customer Communities under the Rate Setting Methodology or (z) within a Customer Community in any costs allocated to any other Customer Community or the City under the Rate Setting Methodology.

Section 4. Replacement of Exhibit D. Exhibit D to the Agreement is replaced in its entirety with Exhibit D attached hereto.

Section 5. Definitions. All terms not specifically defined in this Second Amendment shall have those meanings as defined in the Agreement.

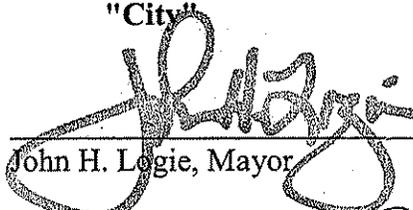
Section 6. Ratification of Agreement. Except as amended by this Second Amendment and a First Amendment to Water and Sanitary Sewer Service Agreement dated as of March 28, 2000, between the City and the Customer Communities, the Agreement is in all other respects hereby ratified and confirmed.

Section 7. Effective Date. This Second Amendment shall be effective as of the date set forth in the first paragraph above.

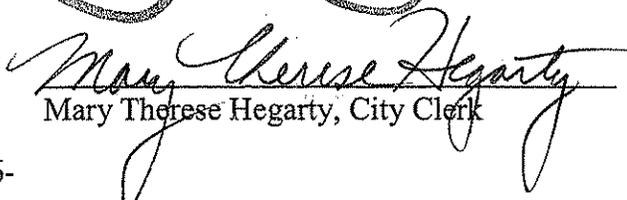
IN WITNESS WHEREOF, the City and the Customer Communities have caused these presents to be signed by their respective duly authorized officers all as of the day and year first written above.

Executed: Aug. 27, 2002

CITY OF GRAND RAPIDS
"City"



John H. Logie, Mayor



Mary Therese Hegarty, City Clerk

AFFIX

Mayor's Signature

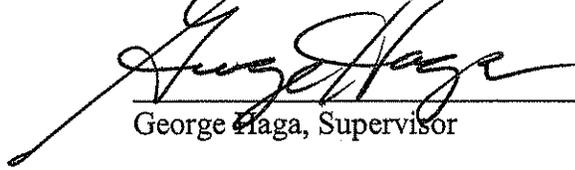
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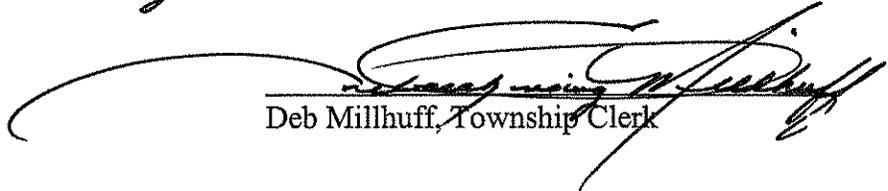
Dept. of Law
GRAND RAPIDS 60855-106 125484

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Executed: January 17, 2002³

ADA TOWNSHIP
"Customer Community"


George Haga, Supervisor


Deb Millhuff, Township Clerk

CITY OF EAST GRAND RAPIDS
"Customer Community"

Executed: December 12, 2002


Judy Frey, Mayor


Karen Brower, City Clerk

EXHIBIT D- (Page 1 of 2)

**ALLOCATION OF INTEGRATED SYSTEM IN
RATE SETTING METHODOLOGY**

WATER SUPPLY SYSTEM

Integrated System Revenue Requirements (Including Operation & Maintenance, Depreciation and Return on System Investment)	\$ 19,656,899 (1)
Less Integrated Connection Fee Credit	<u>(1,688,655) (1)</u>
Total Integrated System Allocation	<u>\$ 17,968,244 (1)</u>

RATE STUDY YEAR	RATES EFFECTIVE ON OR AFTER	ALLOCATION FACTORS	
		BILLED FLOW	LAND AREA
2001	1/1/02	98%	2%
2002	1/1/03	96%	4%
2003	1/1/04	94%	6%
2004	1/1/05	92%	8%
2005	1/1/06	90%	10%
2006-2015	1/1/07-16	(1%) ea. yr.	+1% ea. yr.
2016 & subsequent studies		80%	20%

PRO FORMA 2016 RATE STUDY (1)

CITY/CUSTOMER COMMUNITY	REVISED 2001 ALLOCATIONS (Based On)				TOTAL (1)	ORIGINAL 2001 INTEGRATED REQUIREMENT
	BILLED FLOW (80%)	LAND AREA (20%)	ADD INTEGRATED REV REQUIREMENTS	LESS INTEGRATED CONNECTION FEES		
Grand Rapids	68.153%	31.833%	\$ 11,467,070	\$ (1,028,206)	\$ 10,438,864	\$ 11,559,677
Walker	7.151%	17.869%	1,750,429	(156,954)	1,593,475	1,262,723
Kentwood	9.982%	9.838%	1,874,462	(168,075)	1,706,387	1,710,830
Cascade Township	4.824%	18.094%	1,408,312	(126,278)	1,282,034	872,531
Grand Rapids Township	3.243%	9.528%	847,474	(75,989)	771,485	577,533
Tallmadge	0.101%	5.446%	220,342	(19,757)	200,585	35,643
East Grand Rapids	3.812%	2.368%	663,516	(59,494)	604,022	648,582
Ada	2.734%	5.024%	601,141	(53,902)	547,239	476,572
Ottawa (2)	NA	NA	824,153	-	824,153	824,153
	<u>100.000%</u>	<u>100.000%</u>	<u>\$ 19,656,899</u>	<u>\$ (1,688,655)</u>	<u>17,968,244</u>	<u>17,968,244</u>

(1) Pro forma 2016 allocation of integrated system revenue requirements, based on 2001 Final Water-Sewer Rate Study.

(2) Excluding any cost allocation of Integrated System-Coldbrook Pumping to Ottawa Co. (See Water Section of 2001 Final Water-Sewer Rate Study, pg W-47)

EXHIBIT D- (Page 2 of 2)

ALLOCATION OF INTEGRATED SYSTEM IN RATE SETTING METHODOLOGY

SEWAGE DISPOSAL SYSTEM

Integrated System Revenue Requirements (Including Operation & Maintenance, Depreciation and Return on System Investment)	\$ 16,326,627 (1)
Less Integrated Connection Fee Credit	<u>(529,512) (1)</u>
Total Integrated System Allocation	<u>\$ 15,797,115 (1)</u>

RATE STUDY YEAR	RATES EFFECTIVE ON OR AFTER	ALLOCATION FACTORS	
		PLANT FLOW (2)	LAND AREA
		2001	1/1/02
2002	1/1/03	96%	4%
2003	1/1/04	94%	6%
2004	1/1/05	92%	8%
2005	1/1/06	90%	10%
2006-2015	1/1/07-16	(1%) ea. yr.	+1% ea. yr.
2016 & subsequent studies		80%	20%

PRO FORMA 2016 RATE STUDY (1)

CITY/CUSTOMER COMMUNITY	REVISED 2001 ALLOCATIONS (Based On)				TOTAL (1)	ORIGINAL 2001 INTEGRATED REQUIREMENT
	PLANT FLOW (80%)	LAND AREA (20%)	ADD INTEGRATED REV REQUIREMENTS	LESS INTEGRATED CONNECTION FEES		
Grand Rapids	69.267%	33.398%	\$ 9,285,620	\$ (328,791)	\$ 8,956,829	\$ 10,031,764
Walker	6.939%	14.199%	1,254,818	(44,431)	1,210,387	1,036,530
Kentwood	10.828%	10.321%	1,604,091	(56,798)	1,547,293	1,582,991
Cascade Township	3.446%	18.984%	980,047	(34,702)	945,345	549,434
Grand Rapids Township	2.839%	8.972%	607,983	(21,528)	586,455	433,241
Tallmadge	0.085%	5.714%	181,067	(6,411)	174,656	28,847
Wright Township (3)	1.438%	0.656%	191,655	(6,787)	184,868	-
East Grand Rapids	3.234%	2.485%	461,221	(16,332)	444,889	470,872
North Kent (4)	NA	NA	1,300,041	-	1,300,041	1,300,041
Ada	1.924%	5.271%	387,825	(13,732)	374,093	291,136
Gaines	NA	NA	72,259	-	72,259	72,259
	<u>100.000%</u>	<u>100.000%</u>	<u>\$ 16,326,627</u>	<u>\$ (529,512)</u>	<u>\$ 15,797,115</u>	<u>\$ 15,797,115</u>

(1) Pro forma 2016 allocation of integrated system revenue requirements, based on 2001 Final Water-Sewer Rate Study.

(2) Plant flow assignment to wholesale customer communities is equal to billed volume. Plant flow for the City and retail customer communities reflects billed volume, increased by a factor of 1.428, to account for inflow and infiltration and other flow from their local collector systems.

(3) Wright Township: See Final Consideration Section of the 2001 Final Water-Sewer Rate Study, pages 75 & 78, for basis on billed flow & USD land area. (2016 flow @ 20 Year Projection)

(4) For comparative and illustrative purposes only, integrated system allocation to NKSD unchanged.