



PRE-MEETING AGENDA

**ADRIAN CITY COMMISSION
AGENDA
PRE-MEETING STUDY SESSION
JULY 18, 2011
5:30 P.M.**

The City Commission will meet for a pre-meeting study session on Monday, July 18, 2011 at 5:30 p.m. in the City Chambers Building, 159 E. Maumee St., to discuss the following:

- I. Closed Session to Discuss the Sale of Real Estate
- I I. Oil & Gas Lease Discussion
- I I I. Other Items as Time Permits



COMMISSION AGENDA

**AGENDA
ADRIAN CITY COMMISSION
JULY 18, 2011
7:00 P.M.**

- I. MOMENT OF SILENCE AND PLEDGE OF ALLEGIANCE TO THE FLAG
- II. ROLL CALL
- III. APPROVAL OF MINUTES OF THE JULY 5, 2011 REGULAR MEETING OF THE ADRIAN CITY COMMISSION
- IV. PRESENTATION OF ACCOUNTS
- V. PUBLIC COMMENTS
- VI. COMMUNICATIONS
 - 1. **C-1. Finance Dept.** – Communication from Finance Director regarding State Revenue Sharing Update
 - 2. **C-1. Finance Dept.** – Communication regarding a rate adjustment for mileage reimbursement effect July 1, 2011.
 - 3. **C-3. Finance Dept.** – Minutes from the Michigan Government Finance Officers Association Legislative Committee Meeting held on July 8, 2011.
- VII. CONSENT AGENDA
 - A. RESOLUTIONS
 - 1. **CR11-032. Administration.** Resolution to appoint delegates to attend the annual Municipal Employees Retirement System’s annual meeting to be held at the Grand Traverse Resort on September 27-29, 2011.
 - 2. **CR11-033. Community Development.** Resolution to set a public hearing date of August 1, 2011 to hear and consider comments to establishment of a Commercial Rehabilitation District for 240 N. Main, 114 E. Front and 124 E. Front.
- VIII. REGULAR AGENDA
 - A. ORDINANCE
 - 1. **Ord. 11-005. Zoning.** Introduction of an Ordinance to amend the Zoning/ Development Regulations by deleting 1505 Inverness Drive from the R-3 Single Family

Residential District and including the same in the ERO Education, Research and Office District.

B. SPECIAL ORDERS

1. **SO-1. Engineering Dept.** – Public Hearing to hear and consider comments to establishment of a Special Assessment District for improvements on Seeley St. from Locust to the dead-end east of Comstock (SAD #384).

C. RESOLUTIONS

1. **R11-080. Engineering Dept.** Resolution to approve the establishment of a Special Assessment District for improvements on Seeley Street from Locust to the dead-end east of Comstock (SAD #384).
2. **R11-081. City Commission.** Resolution authorizing the City Administrator to negotiate a Lease Agreement for oil and gas exploration on City-owned property.
3. **R11-082. Parks & Recreation.** Resolution to award bid for construction of 4 dugouts at Island Park and approval of the resulting budget amendments.

I X. MISCELLANEOUS

1. Departmental Report
2. Fire Department Report
3. D.A.R.T. Passenger Ridership Report

X. PUBLIC COMMENTS

X I. COMMISSION COMMENTS



MINUTES

**MINUTES
ADRIAN CITY COMMISSION
JULY 5, 2011
7:00 P.M.**

Official proceedings of the July 5, 2011 regular meeting of the City Commission, Adrian, Michigan.

The regular meeting was opened with a moment of silence and the Pledge of Allegiance to the Flag.

PRESENT: Mayor McDowell, Commissioners Steele, Warren and Clegg

ABSENT: Commissioners DuMars, Carrico and Osborne

Mayor McDowell in the Chair.

Commissioner Steele moved to excuse Commissioners DuMars, Carrico and Osborne, seconded by Commissioner Clegg, motion carried by a unanimous vote.

Commissioner Steele moved to approve the minutes of the June 20, 2011 regular meeting of the Adrian City Commission, seconded by Commissioner Warren, motion carried by a unanimous vote.

PRESENTATION OF ACCOUNTS

Utility Department Receiving Fund Voucher #3478 through #3486	\$128,079.63
General Fund Vouchers #20517 through #20550	\$411,939.48
Clearing Account Vouchers amounting to	<u>\$251,745.61</u>
TOTAL EXPENDITURES	<u>\$791,764.72</u>
*Add: Berger Chevrolet – 2 Police Vehicles	<u>\$48,922.46</u>
	<u>\$840,687.18</u>

***Administrator Nelson presented an addition to the check register in the amount of \$48,922.46 to Berger Chevrolet for 2 police vehicles that were previously approved by the Commission. There would be an additional fee added if payment were delayed until the next Commission meeting.**

On motion by Commissioner Warren, seconded by Commissioner Steele, this resolution was adopted, with the addition of \$48,922.46, by a unanimous vote.

PUBLIC COMMENTS

1. Kylie Musolf thanked the Commission for the scholarship that she was awarded. She will be attending American University in Washington, D.C. this fall.

2. Allen Kern, 1249 Vine St., questioned Masson's Electric being in the City of Adrian as stated in the June 20th minutes. (Note: Minutes indicate they are located in Adrian, MI, but not within the City of Adrian.)

CONSENT AGENDA

RESOLUTIONS

RESOLUTION CR11-027

RE: DOWNTOWN DEVELOPMENT AUTHORITY (DDA) – Resolution to Reappoint Members to the DDA

WHEREAS, the terms of office of Nelson Douglas and Pi Benio on the Downtown Development Authority have expired; and

WHEREAS, this has created vacancies which must be filled in accordance with the Adrian City Charter; and

WHEREAS, Nelson Douglas and Pi Benio have both expressed a willingness to serve on the DDA for another 4-year term if reappointed; and

WHEREAS, the Adrian City Commission has given careful consideration to the reappointment of the above-named individuals.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission does, hereby, approve the reappointment of Nelson Douglas and Pi Benio to the Downtown Development Authority for 4-year terms, expiring in 2015.

RESOLUTION CR11-028

RE: HISTORIC DISTRICT COMMISSION – Reappoint Member to the Historic District Commission

WHEREAS, the term of office of Dr. William DeMots on the Historic District Commission has expired; and

WHEREAS, this has created a vacancy which must be filled in accordance with the Adrian City Charter; and

WHEREAS, Dr. DeMots has expressed a willingness to serve on the Historic District Commission for another 3-year term if reappointed; and

WHEREAS, the Adrian City Commission has given careful consideration to the reappointment of Dr. DeMots.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission does, hereby, approve the reappointment of Dr. DeMots on the Historic District Commission for a 3-year term, expiring in 2014.

RESOLUTION CR11-029

RE: ENGINEERING DEPARTMENT – Set Public Hearing for Establishment of a Special Assessment District for Seeley St. from Locust to the Dead-end East of Comstock

WHEREAS, the City Administrator has recommended that Seeley Street from Locust to the dead-end east of Comstock Street be improved by the construction of curb and gutter, driveway approaches and other appurtenances on a special assessment basis, has prepared and filed plans and specifications for the proposed construction, and has prepared and filed a report and recommendation relating thereto pursuant to the provisions of Section 1.205 of the Adrian City Code.

NOW, THEREFORE, BE IT RESOLVED:

1. That the City Commission deems and declares its intention to improve Seeley Street from Locust to the dead-end East of Comstock Street.
2. That the estimated cost thereof is \$113,000.
3. That \$23,000 of the said estimated cost shall be defrayed by special assessment and \$90,000 shall be paid by local street funds.
4. That the proposed special assessment district shall include the following land and premises:

Special Assessment Properties

Seeley Street from Locust to the Dead-end East of Comstock Street

5. That special assessments to defray the cost of the proposed improvement shall be levied on the lands and premises within the proposed special assessment district (SAD #384) according to frontage.
6. That the report of the City Administrator be filed with the City Clerk forthwith for public examination.
7. That the City Commission will meet in the City Chambers Building, 159 E. Maumee St., Adrian, MI, at 7:00 p.m. on Monday, July 18, 2011 for the purpose of hearing and considering comments to the proposed improvements or to the inclusion of any property within the proposed special assessment district.
8. That the City Clerk will mail notice of the intent to make the said improvements to all interested parties pursuant to the provisions of Section 1.260 of the Adrian City Code.

RESOLUTION CR11-030

RE: CLERKS OFFICE – Reappointments to Election Commission

WHEREAS, the terms of office of Waneta Raloff, Jane Castle and Margaret Noe on the Election Commission have expired, which has created vacancies on this board; and

WHEREAS, these vacancies must be filled in accordance with the Adrian City Charter;
and

WHEREAS, Waneta Raloff, Jane Castle and Margaret Noe have expressed a willingness to continue serving on the Election Commission, if reappointed; and

WHEREAS, the Adrian City Commission has given careful consideration to the reappointment of the above-named individuals to the Election Commission.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission does hereby approve the reappointment of Waneta Raloff, Jane Castle and Margaret Noe to the Election Commission for one year terms that will expire in 2012.

RESOLUTION CR11-031

RE: FIRE DEPARTMENT –Authorization for Fireworks Display for Christian Family Centre for Community Celebration Day on August 6, 2011

WHEREAS, the Adrian Fire Chief has received and reviewed a Fireworks Display Permit from the Christian Family Centre located at 1800 W. US-223, Adrian, MI for an annual community celebration on Saturday, August 6, 2011; and

WHEREAS, the Fire Chief has identified the location of the firing area to be on City-owned property on Industrial Drive across US-223 from the Centre; and

WHEREAS, the Fire Chief and City Administrator further recommend approval of the requested permit and authorization for the City Clerk to sign said permit, providing the following actions be taken regarding establishment of safe distances for the viewing public in adherence to the National Fire Protection Association guidelines:

1. Industrial Drive be closed to all vehicular and pedestrian traffic;
2. No parking be allowed in Nuestro, Kapnick and Adrian Nazarene Church parking lots; and
3. Provision of appropriate security to ensure spectators do not walk across the field from the Maple Woods development into the fallout area.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission, by this resolution, approves the Fireworks Display Permit for August 6th requested by the Christian Family Centre, with the aforementioned provisions in adherence to the National Fire Protection Association Guidelines, and authorizes the City Clerk to sign said permit.

On motion by Commissioner Clegg, seconded by Commissioner Warren, Consent Resolutions CR11-027 through CR11-031 were adopted by a unanimous vote.

REGULAR AGENDA

ORDINANCES

1. **Ord. 11-003. Planning Commission.** Second reading and adoption of an Ordinance to update the Public Act number that refers to the powers and duties of the Planning Commission; changing from P.A. 285 of 1931 to P.A. 33 of 2008.

On motion by Commissioner Steele, seconded by Commissioner Warren, this Ordinance was adopted by a unanimous vote.

2. **Ord. 11-004. Planning Commission.** Second reading and adoption of an Ordinance to amend Sec. 2-452 of the City Code by adding language to ensure membership on the Planning Commission is representative of important segments of the community and the entire territory of the city to the extent possible.

On motion by Commissioner Steele, seconded by Commissioner Warren, this Ordinance was adopted by a unanimous vote.

RESOLUTIONS

RESOLUTION R11-077

RE: DEPARTMENT OF INFORMATION TECHNOLOGY – BS&A Internet Services

WHEREAS, at a cost of \$4,240 annually, the City of Adrian currently provides (free of charge) online access to assessment records, tax records, special assessments, miscellaneous receivables and utility bills; and

WHEREAS, the site experienced over 83,000 visits in 2010; and

WHEREAS, in view of current economic stringencies, many Michigan counties and municipalities, including Lenawee County and the Village of Blissfield, have switched to a charge-per-visit online site hosted by BS&A, which shares twenty (20%) percent of the revenue with the participating municipality; and

WHEREAS, the system continues to allow taxpayers to look up their own parcel for free, as well as provide a public terminal at City Hall that would access information free of charge, however, a convenience fee would be charged for the convenience of off-site access to the aforementioned records at the following rates:

- Assessing, Tax and Special Assessment Records \$2.00 per record
- Utility Billing and Misc. Receivables \$1.00 per record; and

WHEREAS, the Information Technology Director, Finance Director and City Administrator recommend approval of this resolution and appropriate budget adjustments to recognize the enhanced revenue.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission by this resolution hereby authorizes the contract with BS&A, Bath, MI for implementation of a fee for service internet access to following City records at the specified rates:

- Assessing, Tax and Special Assessment Records \$2.00 per record
- Utility Billing and Misc. Receivables \$1.00 per record.

BE IT, FURTHER, RESOLVED that the FY2011-12 Budget be amended as follows:

General Fund (101)

Revenue:

(101-209.00-639.000)	Assessing Internet Access Convenience Fee	\$10,597
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(101-201.00-639.000)	Finance Internet Access Convenience Fee	<u>4,364</u>
	Total General Fund Revenue	<u>\$14,961</u>
Expenditures:		
(101-990.00-990.000)	General Fund Contingency	<u>14,961</u>
	Total	<u>\$ -0-</u>
Sewer Fund (590)		
Revenue:		
(590-000.00-639.000)	Sewer Utility Internet Access Convenience Fee	\$ 416
Expenses:		
(590-990.00-990.000)	Sewer Fund Contingency Account	<u>416</u>
	Total	<u>\$ -0-</u>
Water Fund (591)		
Revenue:		
(591-000.00-639.000)	Water Utility Internet Access Convenience Fee	\$ 416
Expenses:		
(591-990.00-990.000)	Water Fund Contingency Account	<u>416</u>
	Total	<u>\$ -0-</u>

On motion by Commissioner Warren, seconded by Commissioner Clegg, this resolution was DENIED by a 0-4-0 vote.

AYES: None

NAYS: Mayor McDowell and Commissioners Warren, Steele and Clegg

ABSTAINED: None

Prior to voting on the above resolution (R11-078), Commissioner Steele expressed concern as to why we now wanted to charge for this information. Administrator Nelson mentioned it was a revenue source and that there would be no charge for a resident looking for their personal information and no charge for using the computer at City Hall. The Commission voiced their concerns about charging for this service and felt that they needed more information on the situation.

RESOLUTION R11-078

RE: DEPARTMENT OF PUBLIC WORKS – Beecher Street Construction Project– Treat thru City Limits to Parr Highway

WHEREAS, the Adrian City Commission, by Resolution #R11-054 dated May 2, 2011, authorized the City Administration to enter into a collaborative agreement with the Lenawee County Road Commission to reconstruct Beecher Street from Treat Street through the city Limits to Parr Highway; and

WHEREAS, the Adrian City Commission, by Resolution #R10-055 dated May 2, 2011 approved a contract with the Michigan Department of Transportation (MDOT) to execute the aforementioned Beecher Street Project; and

WHEREAS, the City of Adrian Purchasing Office solicited and received bids for the subject project on Thursday, June 23, 2011 with the following results:

<u>Vendor</u>			<u>Amount</u>
C&D Hughes, Inc.	Part A	City of Adrian	\$448,854.92
Charlotte, MI	Part B	Road Commission	<u>387,514.95</u>
		Total	<u>\$836,369.87</u>
Slusarski Excavating & Paving	Part A	City of Adrian	\$462,410.05
Adrian, MI	Part B	Road Commission	<u>403,335.55</u>
		Total	<u>\$865,745.60</u>
Michigan Paving & Materials Co.	Part A	City of Adrian	\$451,504.07
Jackson, MI	Part B	Road Commission	<u>391,620.95</u>
		Total	<u>\$843,125.02</u>
E.R. Zeiler Excavating, Inc.	Part A	City of Adrian	\$479,953.50
Temperance, MI	Part B	Road Commission	<u>464,932.35</u>
		Total	<u>\$944,885.85</u>
American Asphalt, Inc.	Part A	City of Adrian	\$490,141.90
Adrian, MI 49221	Part B	Road Commission	<u>406,224.22</u>
		Total	<u>\$896,366.12</u>

WHEREAS, the City of Adrian and the LCRC jointly submitted a grant application and have been awarded a Michigan Department of Transportation (MDOT) Transportation Economic Development Fund (TED) grant to partially fund the joint project as follows:

	<u>MDOT Grant</u>	<u>Local Match</u>	<u>Total Cost</u>
City of Adrian (Part A)	\$359,000	\$ 89,855	\$448,855
LCRC (Part B)	<u>300,000</u>	<u>87,515</u>	<u>387,515</u>
Total	<u>\$659,000</u>	<u>\$177,370</u>	<u>\$836,370</u>

WHEREAS, the Finance Director indicates that the funding for the City's local match requirement (\$89,855) is available in the Major Street Fund (Fund 202) and the funding for the Lenawee County road Commission local match requirement (\$87,515) has been committed; and

WHEREAS, the City Engineer and City Administrator recommend the low bidder and selection of C&D Hughes, Inc., Charlotte, MI to engage in the City's Standard Professional Services Contract for amounts detailed as follows:

Part A	City of Adrian	\$448,854.92
Part B	Road Commission	<u>387,514.95</u>
	Total	<u>\$836,369.87</u>

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission, by this resolution, hereby approves the low bidder and selection of C&D Hughes, Inc., Charlotte, MI to engage in the City's Standard Professional Services Contract for reconstruction of Beecher Street from Treat Street thru City Limits to Parr Highway in the amounts detailed as follows:

Part A	City of Adrian	\$448,854.92
Part B	Road Commission	<u>387,514.95</u>
	Total	<u>\$836,369.87</u>

On motion by Commissioner Clegg, seconded by Commissioner Steele, this resolution was adopted by a unanimous vote.

RESOLUTION R11-079

RE: CITY ENGINEER – Authorization for Design of Grant Funded Farmers’ Market

WHEREAS, the Adrian City Commission, by Resolution #R11-032 dated April 4, 2011, accepted a \$280,000 Grant Award for the Farmers’ Market Improvement Project (Project No. MSC 210012-FMK) under the Michigan Community Development Block Grant (CDBG) Farm to Food Grant Program, with a commitment to fund the \$60,000 local matching requirement; and

WHEREAS, the Finance Director indicates that the City of Adrian local match requirement will be met by paving the North Toledo Street Parking Lot, utilizing funds from the Auto Parking Fund Capital Improvement Account (585-546.00-975.000); and

WHEREAS, the City Purchasing Office has solicited and received proposals to design the subject project; and

WHEREAS, Adrian Design Group, PLC has submitted a proposed design where the structure is to be utilized by the Farmers’ Market; and

WHEREAS, the Adrian Design Group, PLC is a City of Adrian vendor; and

WHEREAS, the City Administrator has recommended that the customary bid process be waived for the design of such structure.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission, by this resolution, does hereby waive the normal bid process in this matter and authorizes the selection of the Adrian Design Group, PLC, Adrian, MI, to provide design services pursuant to the City’s Standard Professional Services Contract to design the grant-funded Farmers’ Market Project at a cost not to exceed \$11,000.

On motion by Commissioner Steele, seconded by Commissioner Warren, this resolution was adopted by a unanimous vote.

MISCELLANEOUS

1. Parks & Recreation Quarterly Report (Spring 2011)
2. Parks & Recreation Resident/Non-Resident Comparison (Spring 2011)

PUBLIC COMMENTS

1. Willie Baggett, 1733 W. Gorman Road, asked if the Commission was still planning to close Lake Adrian in September.

COMMISSION COMMENTS

There were none.

The next regular meeting of the Adrian City Commission will be held on Monday, July 18, 2011 at 7:00 p.m. in the City Chambers Building, 159 E. Maumee St., Adrian, MI 49221.

Gary E. McDowell
Mayor

Pat Baker
City Clerk



CHECK REGISTER

July 18, 2011

I have examined the attached vouchers and recommend approval of them for payment.



Dane C. Nelson
City Administrator

DCN:bjw

RESOLVED, that disbursements be and they are hereby authorized for warrants directed to be drawn on the City Treasurer for the following:

Utility Department Vouchers	
Vouchers #3487 through #3493.....	\$ 68,580.63
General Fund	
Vouchers #20551 through #20568	\$365,611.23
Clearing Account Vouchers	
amounting to.....	<u>\$402,936.10</u>
TOTAL EXPENDITURES	<u>\$837,127.96</u>

On motion by Commissioner _____, seconded by
Commissioner _____, this resolution was _____
by a _____ vote.

July 18, 2011

UTILITY DEPARTMENT VOUCHERS

<u>Check Number</u>	<u>To</u>	<u>Description</u>	<u>Amount</u>
3487	City of Adrian: Clearing Acct	June 30 Check Register	\$ 74,818.74
3488	City of Adrian: Clearing Acct	July 5 Check Register	\$ 781.41
3489	Frontier	Wastewater Phone Bill	\$ 39.97
3490	City of Adrian: Payroll	Payroll for July 8	\$ 63,072.25
3491	Citizens Gas Fuel Co	Wastewater Heat Bill	\$ 20.00
3492	Consumers Energy	June Electric Bills	\$ 5,220.56
3493	City of Adrian: Utilities	June Water Bills	\$ 227.85
		Total	\$ 144,180.78
		Less: CK#3487 & 3488	\$ 75,600.15
		TOTAL	\$ 68,580.63

WW = \$ 73,532.84

WAT= \$ 70,647.94

18-Jul-11

GENERAL FUND
CHECK REGISTER

CHECK#	AMOUNT	PAYEE	DESCRIPTION
20551	\$ 144,219.03	City of Adrian: Clearing Account	June 30 Check Register
20552	\$ 1,374.43	US Postmaster	Tax Bill Mailing
20553	\$ 5.00	Bon-Aire Industries	Fire Dept Shipping Chrgs
20554	\$ 14,914.00	City of Adrian: Clearing Account	July 5 Check Register
20555	\$ 4,008.23	Quick Service Transportation	Payroll W/E July 2
20556	\$ 48,922.46	City of Adrian: Clearing Account	Additional July 5 Ck Register
20557	\$ 36,110.44	Avery Oil & Propane	MVP Gas & Diesel Fuel
20558	\$ 358.15	Frontier	Various Phone Bills
20559	\$ 75.00	Dustin Lent	Rec Contracted Services
20560	\$ 259,379.25	City of Adrian: Payroll	Payroll for July 8
20561	\$ 17,806.34	First Federal Bank	Soc Security for July 8
20562	\$ 36.00	Deatra Nieman	Recreation Refund
20563	\$ 3,873.26	Quick Service Transportation	Payroll W/E July 9
20564	\$ 329.63	Frontier	Various Phone Bills
20565	\$ 5,994.96	Citizens Gas Fuel Co	Various June Heat Bills
20566	\$ 15,385.36	Consumers Energy	Various June Electric
20567	\$ 1,509.92	City of Adrian: Utilities	Various June Water Bills
20568	\$ 19,365.26	Consumers Energy	Various June Electric

\$ 573,666.72

\$ (208,055.49) Less: CK#20551, 20554, 20556

\$ 365,611.23

CLAIMANT	AMOUNT CLAIMED	AMOUNT ALLOWED	AMOUNT REJECTED
1. ABSOPURE WATER COMPANY	21.50		
2. ACP OF LENAWEE, INC.	50.00		
3. ADRIAN CHARTER TOWNSHIP	175.50		
4. ADRIAN FABRICARE CENTER INC.	670.00		
5. ADRIAN MECHANICAL SERVICES C	1,644.21		
6. ADRIAN WATER CONDITIONING IN	19.50		
7. ADRIAN-TECUMSEH FENCE CO	33.00		
8. AIRGAS GREAT LAKES	93.49		
9. AMAZON CREDIT PLAN	265.65		
10. AMERICAN ASPHALT INC	71,098.56		
11. AMERICAN LIBRARY ASSOCIATION	499.00		
12. AMERICAN OFFICE SOLUTIONS, I	63.36		
13. AMERICAN PRESSURE SYSTEMS	52.11		
14. APPLE MAT RENTAL	284.60		
15. APPLIED INDUSTRIAL TECHNOLOG	69.05		
16. ASSOCIATED ENGINEERS & SURVE	4,000.00		
17. AUTO ZONE COMMERCIAL	151.95		
18. B & B POOLS & SPAS	2,600.40		
19. BAKER & TAYLOR BOOKS	318.10		
20. BATTERY WHOLESALE	117.48		
21. KRISTIN BAUER	20.00		
22. BEAUBIEN INC.	1,575.00		
23. BEAVER RESEARCH COMPANY	155.14		
24. FREDERICK BEEKEL	30.94		
25. ROBERT BISHOP	236.88		
26. BLACK SWAMP EQUIPMENT	373.66		
27. BOOK OF THE MONTH CLUB	39.42		
28. BRAKES-N-MORE	415.56		
29. BUCK & KNOBBY EQUIP CO INC	2,345.96		
30. BWI	685.01		
31. CHAMBERS CONTROL COMPANY	874.00		
32. CLEAN CARE INC	4,429.00		
33. CLIFT BUICK-GMC	38.95		
34. COAST TO COAST DELI	121.53		
35. COCA-COLA BTLG CO OF MICHIGA	469.70		
36. COIN-OP SPECIALISTS INC.	240.47		
37. COMCAST	84.77		
38. COMMSPEC, INC.	472.25		
39. CONSTRUCTION EQUIPMENT & SUP	794.50		
40. CONTINENTAL CARBONIC PRODUCT	403.00		
41. CUTLER DICKERSON CO	54.26		
42. D&P COMMUNICATIONS, INC.	1,899.87		
43. THE DAILY TELEGRAM	1,775.24		
44. JERRY DAVIS	20.00		
45. ERIN DEWALT	106.59		
46. DEXTER'S INC.	44.74		
47. EASTLUND CONCRETE CONSTRUCTI	110,638.59		
48. STEVE EBERLE	20.00		
49. ENGLEWOOD ELECTRICAL SUPPLY	20.48		
50. FAMILY SERVICE & CHILDREN'S	1,731.60		
51. FASTENAL COMPANY	530.27		
52. FLORIDA MICRO LLC	1,074.00		
53. FYR-FYTER SALES & SERVICE	52.00		
54. GALE	185.21		
55. GALL'S INC	785.55		
56. J.O. GALLOUP COMPANY	319.16		
57. MARK GIGAX	20.00		
58. GOODWILL INDUSTRIES	92.00		
59. GORDON FOOD SERVICE	917.24		
60. GPE CONTROLS	740.54		
61. GPSBAIT.COM ASSET TRACKING	465.00		
62. DENISE GRITZMAKER	20.00		
63. HACH COMPANY	52.25		
64. HADDEN TIRE COMPANY	52.50		
65. HAMILTON COMPANY	248.63		
66. HASSELBRING CLARK CO.	1,560.00		
67. HILLS AUTO & TRUCK REPAIR IN	168.61		
68. HOBBY LOBBY	106.83		
69. HOEKSTRA TRANSPORTATION, INC	61.75		
70. SHANE HORN	20.00		
71. HUBBARD'S AUTO CENTER INC	398.92		
72. HYDRA-SHIELD MANUFACTURING I	134.95		
73. I C M A VANTAGE POINT	5,625.84		
74. ICMA RETIREMENT CORPORATION	158.68		
75. IMAGE GALLERY	761.70		

CLAIMANT	AMOUNT CLAIMED	AMOUNT ALLOWED	AMOUNT REJECTED
76. ITT WATER & WASTEWATER	22,949.07		
77. CITY OF JACKSON	1,050.45		
78. JACKSON PRINTING AND MAILING	399.23		
79. JOHNS HOPKINS WHITE PAGES LI	189.90		
80. TIM JUDKINS	147.11		
81. KAPNICK INSURANCE GROUP	1,231.00		
82. KELLER THOMA, P.C.	437.10		
83. KEY GOVERNMENT FINANCE, INC.	25,845.33		
84. ADOLPH KIEFER & ASSOCIATES	37.30		
85. DAVE KNAPP FORD LINCOLN	1,066.44		
86. KONICA MINOLTA BUSINESS SOLU	154.63		
87. BRENT KUBALEK	221.42		
88. KUHLMAN CORP.	1,750.00		
89. LANSING SANITARY SUPPLY INC	154.67		
90. LEGACY PRINTING	325.51		
91. LENAWEE COUNTY EQUALIZATION	7,000.00		
92. LENAWEE COUNTY PRINTER	262.63		
93. LENAWEE TIRE & SUPPLY CO, IN	497.61		
94. LEXIS NEXIS RM INC	150.00		
95. LOWE'S CREDIT SERVICES	5,839.90		
96. LUBRICATION ENGINEERS, INC	795.60		
97. M B ELECTRIC LLC	90.00		
98. MAGLOCLEN	400.00		
99. MANPOWER OF LANSING MI INC.	1,053.00		
100. MAPLE CITY GLASS INC.	40.00		
101. MASSON'S ELECTRIC, INC	1,868.84		
102. MAYVILLE DISTRICT PUBLIC LIB	13.98		
103. GARY MCDOWELL	20.00		
104. MCGOWAN ELECTRIC SUPPLY INC	1,717.10		
105. MCMASTER- CARR SUPPLY CO.	105.31		
106. MGFOA	259.00		
107. MICHIGAN AMATEUR SOFTBALL	985.00		
108. MICHIGAN ECONOMIC DEVELOPERS	15.00		
109. MICHIGAN METER TECHNOLOGY GR	9,386.00		
110. MICHIGAN OFFICE SOLUTIONS	105.41		
111. STATE OF MICHIGAN	1,301.88		
112. MICROMARKETING LLC	22.00		
113. MIDWEST COLLABORATIVE FOR	184.59		
114. MIDWEST TAPE	101.36		
115. MUGS N' MORE IMAGING	565.50		
116. MULCH WHOLESALERS INC	940.00		
117. NEXTEL COMMUNICATIONS	982.08		
118. OMNIGRAPHICS INC.	163.70		
119. ORIENTAL TRADING CO. INC.	179.44		
120. MIKE OSBORN	20.00		
121. PARAGON LABORATORIES INC	60.00		
122. DAVID PATE	98.54		
123. LYNN PEAVEY CO	26.50		
124. PEERLESS SUPPLY INC	12.52		
125. PEST PATROL	42.00		
126. HENRY PRATT CO	828.25		
127. GLENN PRESTON	20.00		
128. PRO-MED UNIFORM	620.70		
129. PROMEDICA PHYSICIANS GROUP	306.00		
130. QUICK SERVICE TRANSPORTATION	504.73		
131. QUILL CORPORATION	451.37		
132. R.S. TECHNICAL SERVICES INC	539.91		
133. RECORDED BOOKS LLC.	82.20		
134. TIM RITCHIE	20.00		
135. ROBERTSON, EATON & OWEN, PC	7,860.00		
136. ROWE PROFESSIONAL SERVICES C	11,790.75		
137. SIGN LANGUAGE SIGNS, INC.	60.00		
138. SIGNAL 88 SECURITY, INC	2,509.50		
139. SLUSARSKI EXCAVATING & PAVIN	11,832.50		
140. STAPLES CREDIT PLAN	64.97		
141. STEVENS DISPOSAL	580.00		
142. STEVENSON LUMBER, INC.	151.02		
143. SUMMIT SUPPLY CORP OF COLOR	1,026.00		
144. TDS SECURITY, INC	399.00		
145. TETRA TECH INC	3,000.00		
146. THOMSON WEST	782.44		
147. TRACTOR SUPPLY COMPANY	79.99		
148. PAUL TRINKA	20.00		
149. TTB CLEANING LLC	3,240.00		
150. TURNER, DAN	32.34		

CLAIMANT	AMOUNT CLAIMED	AMOUNT ALLOWED	AMOUNT REJECTED
151. ULOTH FARMS & GREENHOUSE	512.00		
152. TIM OR BRENDA UNDERWOOD & SC	10,476.00		
153. VAN BRUNT TRANSPORT INC	18,811.43		
154. WASHOVIA SERVICES INC	2,735.39		
155. WESTFALL SEALCOATING	5,041.00		
156. RYAN WHITE	20.00		
157. CURT WHITING	28.76		
158. WOLF CREEK GOLF CLUB	350.00		
TOTAL ALL CLAIMS	402,936.10		



COMMUNICATIONS

C-1

MEMO

To: Hon. Gary McDowell, Mayor
 City Commission
 Dane Nelson, City Administrator

From: Jeffrey C. Pardee, Finance Director



Re: State Revenue Sharing - Update

Date: July 5, 2011

Actual Revenue Sharing payments for August, October, December, February, April and June have been received and recorded. A comparison between estimated and actual, categorized by Constitutional and Statutory, is provided as follows:

<u>August</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$236,159	\$240,888	\$ 4,729	2.0 %
Statutory	133,106	133,301	195	0.1 %
Total	<u>\$369,265</u>	<u>\$374,189</u>	<u>\$ 4,924</u>	1.3 %

<u>October</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$243,447	\$250,529	\$ 7,082	2.9 %
Statutory	130,148	130,148	-0-	0.0 %
Total	<u>\$373,595</u>	<u>\$380,677</u>	<u>\$ 7,082</u>	1.9 %

<u>December</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$229,419	\$229,086	\$ (333)	(0.1) %
Statutory	115,358	115,357	(1)	(0.0)%
Total	<u>\$344,777</u>	<u>\$344,443</u>	<u>\$ (334)</u>	(0.1) %

<u>February</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$250,004	\$264,121	\$ 14,117	5.6 %
Statutory	106,484	79,619	(26,865)	(25.2)%
Total	<u>\$356,488</u>	<u>\$343,740</u>	<u>\$ (12,748)</u>	(3.6) %

<u>April</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$209,863	\$226,279	\$ 16,416	7.8 %
Statutory	47,326	39,810	(7,516)	(15.9)%
Total	<u>\$257,189</u>	<u>\$266,089</u>	<u>\$ 8,900</u>	3.5 %

<u>June</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$242,459	\$190,622	\$(51,837)	(21.4)%
Statutory	<u>59,158</u>	<u>61,077</u>	<u>1,919</u>	3.2%
Total	<u>\$301,617</u>	<u>\$251,699</u>	<u>\$(49,918)</u>	(16.6)%

<u>August thru February</u>	<u>State</u>		<u>Variance</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
Constitutional	\$1,411,351	\$1,401,525	\$ (9,826)	(0.7)%
Statutory	<u>591,580</u>	<u>559,312</u>	<u>(32,268)</u>	(5.5)%
Total	<u>\$2,002,931</u>	<u>\$1,960,837</u>	<u>\$(42,094)</u>	(2.1)%

Adjustments due to Sales Tax revenue impact both Constitutional and Statutory Revenue Sharing payments because they are formula driven. Legislative adjustments affect only Statutory Revenue Sharing payments and are driven by budget considerations. Statutory Revenue Sharing is becoming a smaller percentage of the total. For FY2008-09, Constitutional comprised 64% of Revenue Sharing payments, while Statutory Revenue Sharing made up 36% of the total. For FY2010-11, Constitutional comprises 71% (of Revenue Sharing payments, while Statutory Revenue Sharing makes up only 29% of the total.

Future Considerations

Two considerations need discussing: First is the Governor's FY2011-12 Budget Recommendation; Second is the impact of the 2010 Census on distribution of State Revenue Sharing.

The Governor's FY2011-12 Budget Recommendation, which has been adopted by the State Legislature, reduced Statutory Revenue Sharing from \$300 million to \$200 million statewide; \$560,000 to \$375,000 for the City of Adrian. The remaining \$200 million would not be distributed by "simply writing a check" to local government, but instead would be tied to the implementation of best practices, defined by the Governor as follows:

1. Accountability and Transparency – using dashboards and citizen's guides as is currently being implemented by the State;
2. Being more responsible in dealing with employee compensation matters, especially legacy costs;
3. Showing progress in service sharing and consolidation initiatives, with either neighboring entities or the State.

Details regarding criteria necessary to comply with these best practices will be forthcoming. Nevertheless, successful implementation of each will possibly generate a distribution of \$125,000 in FY2011-12 to the City of Adrian. Due to the uncertainty associated with this stream of income, estimated revenue from the former Statutory Revenue Sharing has been excluded from the FY2011-12 City Budget.

2010 Census

The 2010 Census was conducted on April 1, 2010. The actual population counts were released by the U.S. Census Bureau in late April 2011. Census reports utilized by the Michigan Department of Treasury indicate that the population for the City of Adrian decreased from 22,068 in 2000 to 21,029 in 2010, a decrease of 1,039 or 4.7%. The total FY 2011 Constitutional Revenue Sharing payment each local unit will receive will be based on the actual 2010 Census population count. However: the October 2010 through April 2011 payments were based on the 2000 Census population count; and the June and August 2011 payments will be adjusted so that the total amount each local unit receives for FY 2011 (October 2010 to September 2011) is based on the actual 2010 Census population count. **The Constitutional per capita October through April Census Adjustment amounts to -\$40,756.**

If you have any questions or need for further information, please contact my office.



State Budget Office

Department of Technology, Management & Budget



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Thu Jun 30, 2011



View Payment Details

Review your payment details for the deposit date indicated.

J.V.
June 30, 2011
SF

Payee

Payee number: 2386004654
Payee name: CITY OF ADRIAN
Financial Institution: FIRST FED BANK OF THE MIDWEST
Payment Details Delivery Method: Web

101-990.00 STS.000

Transaction type	Amount	Date	EFT event key	Reason
Deposit	\$251,699.00	06/30/11	V 030 002914273 0001	

Invoice / Adjustment details

Payment Key : 000 060832480
Address : 100 E CHURCH ST ADRIAN MI 492210000 USA
Mail Code: 28F

Seq # / Invoice No.	Date	Amount	Agency	Description
1/08		\$61,077.00	271 REVENUE SHARING (TREASURY) (517)373-2864 TREASORTA@MICHIGAN.GOV	COMBINED STATUTORY SALES TAX Ref #: 271 VZLRR174 001 2011

STATE REVENUE SHARING DISTRIBUTION OF COMBINED STATUTORY SALES TAX
CITY OF ADRIAN YOUR LOCAL UNIT CODE IS 46-2010

FY11 STATUTORY
STATUTORY PAYMENT AMOUNT = \$61,077

CREDIT YOUR ACCOUNT 101-000-574

For additional information call 517/373-2697

2/96		\$190,622.00	271 REVENUE SHARING (TREASURY) (517)373-2864 TREASORTA@MICHIGAN.GOV	CONSTITUTIONAL SALES TAX Ref #: 271 VZLRR174 001 2011
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STATE REVENUE SHARING DISTRIBUTION OF CONSTITUTIONAL SALES TAX
CITY OF ADRIAN YOUR LOCAL UNIT CODE IS 46-2010

CONSTITUTIONAL:
POPULATION X DISTRIBUTION RATE = PMT AMT
21,029 X \$11.0028 = \$231,378

CONSTITUTIONAL PER CAPITA OCT-APR CENSUS ADJUSTMENT = (\$40,756)
October 2010 - April 2011 payments were based on the 2000 Census. The June & August 2011 payments are based on the 2010 Census. There will be adjustment amounts on the June and August payments to adjust the revenue



MEMO

Date: July 12, 2011

To: Dane C. Nelson, City Administrator
Department Heads
City Commission

From: Jeffrey C. Pardee, Finance Director

A handwritten signature in cursive script, reading 'Jeffrey C. Pardee'.

Re: **Mileage Reimbursement Rate Adjustment**

The Adrian City Commission, on May 3, 2004, adopted comprehensive Business Expense Reimbursement policies and regulations that included Mileage Reimbursement pegged at the U.S. Department of Treasury Internal Revenue Service allowable rate. The IRS, on June 23, 2011, issued revised mileage reimbursement rates effective July 1, 2011. The rate will be **\$.555 per mile** for business miles driven beginning July 1, 2011. This new rate compares to a rate of \$.51 per mile for the first six months of 2011.

The IRS normally updates the mileage rates once a year in the fall for the next calendar year. In recognition of recent gasoline price increases, the IRS made this special adjustment for the last six months of 2011.

If you have any questions or need for additional information, please contact my office.

C-3



MEMO

Date: July 12, 2011

To: Dane C. Nelson, City Administrator
Department Heads
City Commission

From: Jeffrey C. Pardee, Finance Director

Re: **Michigan Government Finance Officers Association (MGFOA)
Legislative Committee Meeting Minutes**

Representing the City of Adrian Finance Department, I have the privilege of serving as the Secretary of the MGFOA Legislative Committee. In that capacity I have a front-row seat in terms of the latest legislative initiatives occurring in Lansing. Under Governor Snyder's leadership, the State Senate and House of Representatives have been prolific in their output of legislation affecting local governmental units.

I have attached for your perusal the July 8, 2011 Legislative Committee Meeting Minutes, which provides a recap of legislative activity through June 30, a well as pending legislation expected to be enacted soon. I trust this information will help to place in context the challenges and opportunities that face all of us that are responsible for the future of the City of Adrian.

If you have any questions or need for additional information, please contact my office.

**MICHIGAN GOVERNMENT FINANCE OFFICERS ASSOCIATION
LEGISLATIVE COMMITTEE**

**Meeting Minutes
July 8, 2011**

Chair McClary called the meeting to order at 9:36 am in the offices of Plante & Moran, 1111 Michigan Avenue, East Lansing, Michigan

Members Present:

Nickie N. Bateson, Student
Paul T. Borle, Finance Director/Treasurer, City of Alma
Laura Branchick, Vice President, Comerica Bank
Jeffrey W. Budd, City Manager, City of Coldwater
Colleen Coogan, MGFOA, Executive Director
Michael Gormely, Managing Director, Mesirow Financial, Inc.
Denise Hammond, Retired Treasurer, West Bloomfield Twp. (Conference Call)
Kerry Helmick, Finance Director, City of Albion
Janet L. Lazar, President, Benefit, Evaluation & Retirement Services, Inc.
Eric Lupher, Director of Local Affairs, Citizens Research Council of Michigan
Deborah A. Maciejewski, Senior Vice President, Charter One Bank
Catherine McClary, C.P.F.O., Treasurer, Washtenaw County
Katherine McDonald, Vice President, JPMorgan Asset Management
Suzanne Moreno, Senior Financial Manager, City of Novi
John H. Ogden, Finance Director, City of Port Huron
Jeffrey C. Pardee, C.P.F.O., Finance Director, City of Adrian
Joel L. Piel, Senior Counsel, Miller Canfield, Paddock & Stone, PLC
Laurie VanPelt, C.P.F.O., Director of Management & Budget, Oakland County

Excused Absences:

Brian S. Baker, Finance Director, City of Sterling Heights
Patsy K. Cantrell, Administrator, Retirement Systems
Marina Houghton, President, Wolinski & Company, CPA, PC
Luke Huelskamp, Chief Finance Officer, MERS
Mark Hurst, Partner, Plante & Moran, PLLC
Michael P. McGee, Principal, Miller, Canfield, Paddock & Stone, PLC
Anthony J. Minghine, Associate Executive Director, Michigan Municipal League
James O'Connor, Director of Finance, City of Dearborn
Marcel Pultorak, Retired
Owen Roberts, C.P.F.O., Finance Director, City of Cadillac
Suzanne Schafer, State of Michigan
Eric Schertzing, Treasurer, Ingham County
Timothy Smith, Finance Director, Wyoming, MI

Approval of Agenda for July 8, 2011

Nickie Bateson requested that HB4152 (PA54) be added to the agenda. Chairperson McClary approved agenda, with addition of HB4152 (PA54 of 2011).

Approval of Minutes for June 10, 2011

Motion by Lazar, supported by McDonald, to approve Meeting Minutes for June 10, 2011. Motion Carried Unanimously.

OLD BUSINESS:

Chairperson McClary distributed a communication from the Governmental Accounting Standards Board (GASB) regarding current discussions on possible new pension reporting requirements. Of primary concern are the proposed changes relating to how pension funds calculate investment returns. The new rules would flatten the effects of boom-and-bust cycles by smoothing investment gains and losses over a standard five-year period. In addition, governments would no longer be able to use historical rates of return to determine their long-term liabilities if they haven't set aside enough money to pay retirees. Instead, they'll have to use a combination of historical rate of return and a lower rate pegged to the municipal bond market – which will make their long-term liabilities appear larger. If GASB approves the new standards, they will be released for public comment in early July and are likely to be implemented within a year or two.

Chairperson McClary also apprised the committee of a pending GASB Exposure Draft expected in the second quarter of 2012 regarding financial guarantees by one governmental unit on behalf of another. Pledging of full faith and credit prompted a lengthy discussion revolving around Downtown Development Authority (DDA) Bonds and potential defaults. Laurie VanPelt suggested that a future agenda item be devoted to this topic and that Suzanne Schafer, from the State of Michigan, be invited to provide the latest information available regarding this subject.

Assessment of Commercial Property – HB4602 of 2011

House Bill 4602 (copy attached) addresses an issue stemming from the Michigan Supreme Court's 2002 decision in *WPW Acquisition v. City of Troy* concerning the role of "occupancy additions" in determining the taxable value of commercial rental property. Generally speaking, as a result of the court decision, under current law the taxable value of commercial rental property can be reduced because of a decrease in occupancy rate but cannot increase when the occupancy rate subsequently increases.

House Bill 4602 would amend the General Property Tax Act (MCL211.34d) to eliminate the use of occupancy additions and occupancy losses in determining a property's taxable value. Referred to Committee on Tax Policy on May 3.

Motion by Hammond, supported by VanPelt, to recommend to the MGFOA Board support for House Bill 4602. Motion carried unanimously.

Pensions – HB4146 of 2011

Because some pension board trustees spend hundreds of thousands of dollars in pension fund related overseas travel that some have questioned, observers have suggested that much greater transparency should be required by the law. House Bill 4156 (copy attached) would amend the Public Employee Retirement System Investment Act (MCL 38.1133) to require that a pension system established by a political subdivision of the state publish, and make available to the public on a website, its annual report, the system budget, and a listing of all expenditures. Publication and availability of the listing of expenditures would be on a quarterly basis, except for the annual report and salary information, which could be published and made available on an annual basis. The pension system would have to leave the information under this section posted on its website for six years from the date of publication. Referred May 19 to Committee on Reforms, Restructuring and Reinventing. MTA supports; MERS and MAPERS neutral. This item is for information only.

Charge-Backs of Advanced Taxes to Local Units – HB4150 OF 2011

Under the General Property Tax Act, a county board of commissioners may create a delinquent tax revolving fund. Upon the establishment of the fund, all delinquent taxes, except taxes on personal property, due and payable to the taxing units in the county, except those that collect their own delinquent taxes after March 1, are due and payable to the county. The local taxing units are obligated to pay to the county the amount of taxes and the interest on them, and the State is obligated to pay the State Education Tax to the county. If the county does not receive the delinquent taxes for any reason, the county has full right of recourse against the taxing unit or the State, as applicable, to recover the amount of the taxes and interest at the rate of 1% each month or fraction of a month until paid. If the county borrows to provide funds for those payments, however, the interest rate may not exceed the highest interest rate paid on the borrowing. House Bill 4150 would refer to the "current monthly interest rate", rather than 1%. Beginning on the bill's effective date and continuing through December 31, 2016, the current monthly interest rate would be 0.5%. Beginning on January 1, 2017, the current monthly interest rate would return to 1%. Passed the House 109-0. Referred June 28 to Senate Committee on Local Government and Elections.

Personnel Related Legislation – Bateson Report (copy attached)

1) Minimum Staffing: Senate Bills 485-492 as passed by the Senate 6-22-11. The six bills would amend various laws to prohibit a local unit of government from adopting minimum staffing requirements for local unit employees in a charter, ordinance or resolution. The bills specify that any such provision in a charter, ordinance or resolution adopted on or after the effective date of this legislation would be void and unenforceable. Each bill would apply to a different form of local government. The bills specify that these provisions would not apply to the adoption of a resolution involving a collective bargaining agreement. Passed Senate June 22 on a 26 to 12 vote. Passed House on June 30 on a 62 to 46 vote and given immediate effect.

2) Health Benefits of Public Employees and Officers: SJRC of 2011 proposes to amend the State Constitution of 1963 by adding Section 9 to Article XI, which would authorize the Michigan Legislature to provide, by law, for cost allocation requirements for health benefit plans for public employees and officers and elected and appointed officials. The proposal would require any health benefits offered to State employees, local government employees, and employees of public universities to conform to the cost allocation requirements established by State law. Last Action June 30: postponed temporarily.

3) Arbitration Award Factors: House Bill 4522 of 2011 (copy attached)

The bill would amend Public Act 312 of 1969 (MCL 423.232), which provides for arbitration of labor disputes involving municipal police, fire, and emergency medical service personnel, to do the following:

- Require an arbitration panel to give priority to the financial ability of the unit of government to pay.
- Allow an arbitration panel to compare wages, hours, and conditions of employment of employees of a unit of government outside of the bargaining unit in question.
- Include authorities created by local units among the entities covered by the Act, but exempt an employee of an authority in existence on June 1, 2011, except as otherwise provided.
- Set limits on the extension of deadlines during the arbitration process.
- Require the Employment Relations Commission to establish qualifications for individuals to chair an arbitration panel.
- Shift the State share of arbitration costs to the parties.

MGFOA Legislative Committee previously endorsed. Passed House on June 23 with a 107 1 vote. Passed Senate on June 29 with a 27 to 10 vote and given immediate effect. Presented to Governor on July 6.

4) Transfers of Municipal Emergency Service Employees – House Bills 4309-4312 and HB 4534

The bills would amend various acts that pertain to the consolidation of municipal services, to eliminate provisions that require labor agreements to be recognized, require employees to have the same seniority and benefits, or require members and beneficiaries of pension systems or other benefits to have the same rights and benefits, following a transfer of personnel. House Bills 4309 (S-1), 4311 (S-1), and 4312 (S-2) also would add language regarding prohibited and permissive subjects of collective bargaining.

House Bill 4309 (S-1) (MCL 124.610) would amend Public Act 57 of 1988, which allows municipalities to incorporate emergency services authorities. House Bill 4310 (MCL 124.413) would amend the Metropolitan Transportation Authorities Act. House Bill 4311 (S-1) (MCL 124.534) would amend Public Act 8 of 1967 (Extra Session), which allows intergovernmental transfers of functions and responsibilities. House Bill 4312 (S-2) (MCL 124.505) would amend the Urban Cooperation Act. House Bill 4534 (MCL 124.26) would amend Public Act 425 of 1984, which allows the conditional transfer of property for an economic development project.

House Bills 4309 (S-1), 4311 (S-1), and 4312 (S-2) specify that the public entities (municipalities, political subdivisions, or public agencies) that were parties to an authority or contract entered into under the applicable Act would have the responsibility, authority, and right to manage and direct the services or functions performed in connection with the authority or contract.

The bills provide that the following would be prohibited subjects of bargaining:

- A decision as to whether the public entity would enter into an authority or contract under the Act.
- The procedures for creating an authority or obtaining a contract.
- The identities of the other parties to the authority or contract.

The content or language of a contract or articles of incorporation would be a permissive subject of collective bargaining. If a public entity and a bargaining representative of its employees engaged in collective bargaining before the approval of a contract or articles of incorporation, however, and the parties reached an agreement on issues that would obligate the public entity that would function as an employer in the joint exercise of power or the authority, then the contract or articles would have to include those obligations.

Each of the substitute bills also states that nothing in the Act would create an employment relationship between the existing employers of a public entity and the proposed joint system or authority, or relieve a public entity of the duty to engage in collective bargaining over the effect of the contract or authority on its employees, to the extent such a duty existed.

In addition, House Bill 4311 (S-1) would require a contract for the intergovernmental transfer of functions and responsibilities to include the political subdivision that would function as the employer of personnel and staff needed for the transfer. House Bill 4312 (S-2) would permit an inter-local agreement to specify the public agency that would function as the employer of personnel and staff needed for the joint exercise of power.

House passed March 24 on a 63 to 47 vote. Senate passed June 30 on a 24 to 14 vote. Last action: Retransmitted June 30, 2011.

5) Consolidation – Senate Bill 0493 of 2011

Senate Bill 493 would amend the Public Employment Relations Act (MCL 423.215) to do the following:

- Make a public employer's decision to consolidate public employers or services, and to renegotiate existing bargaining agreements upon a consolidation, a prohibited subject of collective bargaining.
- Require a new collective bargaining agreement to allow the public employer to renegotiate an existing agreement concerning affected employees upon a consolidation.

Specifically, a public employer's decision to consolidate public employers or public services through a merger or inter-local agreement as permitted by law, and a public employer's decision to renegotiate an existing, applicable bargaining agreement upon a consolidation, would be solely at the discretion of the public employer and would be a prohibited subject of bargaining under the act. In addition, each collective bargaining agreement entered into between a public employer and public employees under the act after the bill's effective date would have to permit the employer to renegotiate an existing bargaining agreement as to affected public employees upon consolidation of public employers or services through merger or inter-local agreement.

Passed Senate June 22 on a 24 to 14 vote. Passed House June 30 on a 60 to 48 vote. Last action: Returned to Senate on June 30.

6a) Dual Positions – House Bill 4232 of 2011

House Bill 4232 would amend Public Act 566 of 1978 (MCL 15.183), which prohibits a public officer or public employee from holding two or more incompatible offices at the same time, to specify that the prohibition would not prohibit an intermediate school district (ISD) superintendent from serving simultaneously as superintendent of a local school district, or prohibit an ISD from contracting with another person to serve as superintendent of a local school district, even if the local district were a constituent district of the ISD. Last Action: Bill ordered enrolled June 30, 2011, with immediate effect.

6b) Dual Positions – House Bill 4458 of 2011

House Bill 4458 would amend Public Act 566 of 1978 (MCL 15.183), which prescribes standards of conduct for public officers and employees, to permit a public officer or employee to also serve as a fire chief in municipalities having a population of 3,000 or fewer people. Current law prohibits the holding of incompatible public offices in order to avoid conflicts of interest, but specifies several exceptions. House Bill 4458 would add an exemption so as to include fire chiefs in small jurisdictions. Specifically, the act would not prohibit a public officer or public employee of a city, village, township, or county with a population of less than 3,000 from serving, with or without compensation, as a fire chief in that city, village, township or county. Last Action: June 30, 2011 placed on third reading.

7) Mandated Employee Contributions to Employer-Provided Health Care – Senate Bill 0007 of 2011

The bill would create the "Publicly Funded Health Insurance Contribution Act" to require that all public employees pay a certain percentage of the overall cost of purchasing health insurance. Beginning January 1, 2012, the bill would require that public employers who offer medical benefit plans to their employees or elected officials pay not more than 80.0% of the total annual costs of all the medical benefit plans they offer to employees and elected officials. In addition, any collective bargaining agreement or contract settled on or after the effective date of the proposed Act, if that date were after July 1, 2011, would have to comply with the requirements of the Act; however, the employer's required payments under the Act would not become operative until January 1, 2012. Elected officials who participate in a medical benefit plan offered by a public employer would be required to pay 20.0% or more of the annual cost of that plan. The public employer would be allowed to allocate the employee share of medical benefit plan costs among its employees as it saw fit. Last Action: Returned to Senate on June 30, 2011.

Motion by VanPelt, supported by Lazar, to recommend to the MGFOA Board support for Senate Bill 7 of 2011, with the following amendments in order to promote uniform, fair and consistent public policy:

- a) **Tie-Bar Senate Bill 7 of 2011 with Senate Joint Resolution C, which amends the State Constitution of 1963;**
- b) **To avoid discrimination based on family status, caps should be structured consistent with the most current Blue Cross-Blue Shield Illustrative Rates.**

Motion carried unanimously.

8) Municipal Partnership – Senate Bills 8, 9 and 10, all of which are tie-barred

Senate Bill 8 (S-3) would create the "Municipal Partnership Act" to authorize two or more local governments, or one or more local governments and a public agency, to enter into a contract to form a joint endeavor that could exercise the functions of the local governments or public agency. ("Local government" would mean a county, city, village, or township. "Public agency" is defined below.) The bill also would:

- Describe provisions that the contract could contain, including the entity that would function as the employer of personnel needed for the joint endeavor, and provisions for an authority.
- Allow a joint endeavor to levy up to five mills with voter approval.
- Allow a party to the contract to use tax revenue dedicated to a function or service, to pay for the exercise or performance of that function or service under the contract.
- Identify prohibited subjects of collective bargaining between a local government and a bargaining representative of its employees.
- Specify that the proposed Act would control over any conflicting statute, rule, charter, or ordinance.
- Specify that nothing in the Act would create an employment relationship between the existing employees of a local government or public agency and a proposed joint endeavor.
- Specify that the contract would not be subject to referendum under any local charter or ordinance, and could not be the basis for the recall of any elected official.

The following would be prohibited subjects of collective bargaining: a decision as to whether a local government would enter into a contract for a joint endeavor for or in connection with one or more functions or services; the procedures for obtaining the contract; and the identities of the other parties to the contract.

The contents or language of a contract for a joint endeavor would be a permissive subject of collective bargaining. If a local government and a bargaining representative engaged in collective bargaining before the contract for a joint endeavor was approved, and the parties reached an agreement on issues that would obligate an entity that would function as an employer in the joint endeavor, then the contract for the joint endeavor would have to include those obligations.

The bill would define "public agency" as the State, any department or agency of the State, a single-purpose or multipurpose public body corporate formed under a law other than the proposed Act, or an Indian tribe recognized by the Federal government before 2000 that exercises governmental authority over land within the State.

Senate Bill 9 would amend the public employment relations Act to state that the provisions of the Act would be subject to the Municipal Partnership Act.

Senate Bill 10 would amend Chapter 36 (Recall) of the Michigan Election Law to state that the provisions of that chapter would be subject to the Municipal Partnership Act.

NEW BUSINESS:

Evaluation of the MGFOA Executive Director Position

Due to the fast-approaching expiration of the two-year agreement with the current Part-Time Executive Director, who has been the first person to be appointed to such a position, President Leslie Reinhart, Controller, City of Sterling Heights has invited Committee Chairs to submit an evaluation of the position to help determine its future. Members of the Committee who were personally involved with its creation, including Jeff Budd, Mike Gormely, Jeff Pardee and Jan Lazar provided background and viewpoints regarding the Executive Director Position. Originally recommended by the Strategic Planning Committee, Chaired by Tim Soave, the intent was to enhance MGFOA's identity as the premier Government Finance Organization in the State, promote expanded membership,

and provide additional training opportunities for experienced and inexperienced members alike. **Chairperson McClary prepared a consensus Evaluation Form, responding with a ranking of 5, out of a possible 5, on every question, recommending continuation of the position on a full-time basis if funding is available, and ranking the priorities of the continued position as follows:**

- 1) MGFOA awareness as an organization**
- 2) Increasing membership of MGFOA**
- 3) Improve educational opportunities through the MGFOA**
- 4) Improve website and communication**
- 5) Provide a cohesive link between the Board of Directors and Committees**
- 6) Lobbying and legislation.**

To help maintain continuity, it was further suggested that the term of office be three (3) years, so as to overlap traditional terms of the Board Members and Committee Chairs. Furthermore, the Job Description should be reviewed and revised in light of the experience gained to date.

Collective Bargaining Agreement Expiration: Wage/Benefit Freeze H.B. 4152

The bill would amend the Public Employment Relations Act (PERA – Public Act 336 of 1947 - MCL 423.201 – 423.217) by adding Section 15b to do the following:

- * Cap wages and benefits at the level in effect when a collective bargaining agreement (CBA) expired until a new CBA took effect.
- * Require employees to pay increased costs of maintaining benefits after a CBA expired.
- * Prohibit CBAs from retroactively increasing wages or benefits.

Specifically, the bill would require a public employer, after the expiration date of a collective bargaining agreement and until a successor CBA was in effect, to pay wages and provide benefits at levels and amounts that were not greater than those in effect on the expiration date, except as otherwise provided in the bill. This provision would include increases that would result from wage step increases. (The bill would define "expiration date" as the expiration date set forth in a collective bargaining agreement without regard to any agreement of the parties to extend or honor the CBA during pending negotiations for a successor collective bargaining agreement.)

Employees who received health, dental, vision, prescription, or other insurance benefits under a CBA would have to bear any increased cost of maintaining those benefits that occurred after the expiration date. The public employer would be authorized to make payroll deductions necessary to pay the increased cost of maintaining benefits. The bill would prohibit the parties to a collective bargaining agreement from agreeing to, and an arbitration panel from ordering, any retroactive wage or benefit levels or amounts that were greater than those in effect on the expiration date of the CBA, except as provided below.

For a CBA that expired before the bill's effective date, the proposed requirements would apply to limit wages and benefits to the levels and amounts in effect on that date. **The Bill has been approved and signed by the Governor on June 8 as Public Act 54 of 2011, with immediate effect.**

Supplemental Revenue Sharing – Senate Bill 138 of 2011 (attached)

The bill would provide supplemental appropriations for fiscal year (FY) 2010-11 for seven State departments, and State revenue sharing adjustments pursuant to the Consensus Revenue Estimating Conference of May 6 and revised census data. Pursuant to the May 2011 CREC, which increased the estimate for sales tax revenue, and to updated 2010 U.S. Census population numbers, an appropriation adjustment of \$18.8 million for constitutional revenue sharing and \$14.3 million for statutory revenue sharing, is required to ensure that FY 2010-11 payments to local units are equal to those of FY 2009-10. **Last Action Taken; Enrolled on June 30 and presented to the Governor on July 6, 2011.**

One-Time Tax Collection Bill – Senates Bills 322 (MCL 211.44a) and 323 (MCL 211.34d) of 2011 (Copies Attached) -Tie Barred

Senate Bill 322 (S-1) would amend the General Property Tax Act to allow the accelerated collection of millage levied by any taxing authority within a local taxing unit that had been previously billed and collected as part of a winter tax levy. The millage could be accelerated and collected earlier in the year as a summer property tax levy if the aggregate amount of revenue from the levy and collection of all individual millages that would be levied and collected in the winter tax bill totaled \$100 or less per individual tax bill, excluding any property tax administration fee. A millage could be accelerated only for those tax bills that totaled \$100 or less for all individual millages, and the millage could be levied and collected as a winter property tax levy for all other tax bills totaling more than \$100 for all individual millages.

Any additional millage approved to be levied by any taxing authority after collection of the summer levy would have to be collected as part of a winter property tax levy. A resolution authorizing the accelerated collection of millage in the summer would have to be approved by the county board of commissioners; the legislative body of the local tax collecting unit; and the county tax allocation board, if any.

If such a resolution were approved, the treasurer that collected the summer tax levy would have to establish a restricted fund known as "the other levies reserve fund" for the deposit of any millage collected on an accelerated basis. The treasurer would have to distribute the revenue credited to the fund to the local taxing authorities. If the accelerated millage were less than that millage would have been if levied as part of the following winter tax levy, the treasurer could issue a supplemental winter tax bill for the deficiency or, if approved by the legislative body of the local unit that collected the summer levy, the treasurer could pay any deficiency from the local unit's general fund.

Senate Bill 323 (S-1) would amend the General Property Tax Act to provide for authorization of a tax levy, and the apportionment of taxes and indebtedness to the State, by July 1 for a county or local tax collecting unit that approved the accelerated collection of millage previously billed as part of a winter tax levy.

Passed Senate on June 22 by a vote of 35 to 3; Referred to House Committee on Tax Policy.

Medical Claims Tax – Senate Bills 347 and 348 of 2011 (Copies Attached) – Tie Barred

Federal law permits the use of "broad-based" provider taxes to support Medicaid services. Until 2006 these taxes were capped at 6.0%, but the cap was reduced in 2006 to 5.5%. These taxes apply to an entire provider group. The State retains some of the money, then uses the rest of the money, along with Federal Medicaid match, to increase Medicaid payment rates to the provider group. In FY 2002-03, the State instituted a quality assurance assessment program (QAAP) provider tax for Medicaid managed care organizations (Medicaid health maintenance organizations or HMOs).

The Federal law authorizing State provider taxes had a major loophole. When listing the services that could be taxed, instead of stating "managed care organizations", the law stated "Medicaid managed care organizations". Because of this, the HMO QAAP was limited just to Medicaid HMOs, and HMOs that did not participate in Medicaid were not subject to the tax. This meant that each

Medicaid HMO got back more from the rate increase than it paid in taxes. The State instituted a QAAP for Medicaid mental health services, provided by the prepaid inpatient health plans (PIHPs), in FY 2004-05. As was the case with the HMO QAAP, the PIHP QAAP was limited to just Medicaid mental health providers due to the loophole. So, again, there were no losers at the State or local PIHP level; only the Federal government saw a net cost.

As part of the Deficit Reduction Act of 2005, the "Medicaid managed care" loophole was phased out, and the State of Michigan was forced to end its Medicaid managed care QAAPs during 2009. Removing the QAAPs without a replacement would have increased State GF/GP spending by well over \$200.0 million, so the State came up with an alternative tax as a replacement.

Because Medicaid HMOs and Medicaid PIHPs are defined in statute, the State made those two entities subject to the State's 6.0% Use Tax. This was, technically, not a provider assessment, simply an expansion of the Use Tax base. The proposal received approval from the Centers for Medicare and Medicaid Services (CMS).

Since 2005 the Federal government has required states to pay "actuarially sound" capitation rates to Medicaid managed care organizations, such as the Medicaid HMOs and PIHPs. Capitation rates are the rates paid to managed care organizations, based on age, eligibility group, and other demographic factors, to provide coverage to their clients. The managed care organization then takes on full financial risk for the medical services provided to that population. Michigan has had to certify that the Medicaid capitation rates paid to Medicaid HMOs and PIHPs are actuarially sound. In most years this has meant an inflationary increase in the rates paid to these entities.

One aspect of the actuarial soundness process is that one of the costs faced by the Medicaid HMOs and PIHPs is the Use Tax they pay. In other words, the State effectively reimburses the Medicaid HMOs and PIHPs for the cost of the Use Tax they pay the State. However, this cost is a Medicaid payment, with Federal Medicaid match involved. With a Medicaid match rate that is 66.14% in FY 2011-12, the \$388.4 million in taxes paid by the Medicaid HMOs and PIHPs would effectively cost roughly \$131.5 million GF/GP and \$256.9 million Federal Medicaid match. So while the Use Tax brings in \$388.4 million in revenue, its net benefit to the State's financial situation is \$256.9 million: \$388.4 million from the tax less \$131.5 million GF/GP needed to reimburse the Medicaid HMOs and PIHPs for the tax. The CMS is again looking at the Use Tax and the Snyder Administration states that new rules will likely soon be issued barring the State from using this sort of approach, which has put the State in the position of considering new ways to support its Medicaid programming.

Proposed Elimination of the HMO/PIHP Use Tax

In order to head off Federal action, Governor Snyder's proposed FY 2011-12 Department of Community Health (DCH) budget assumed elimination of the HMO/PIHP Use Tax as of October 1, 2011, and its replacement on that date with a 1.0% paid health claims assessment. The enacted DCH budget reflects concurrence with the Governor's proposal.

Implementing Legislation

Senate Bills 347 and 348 (S-3) would, respectively, eliminate the HMO/PIHP Use Tax and create a 1.0% paid health claims assessment.

Senate Bill 347

Senate Bill 347 would amend the Use Tax Act to terminate the HMO/PIHP Use Tax 90 days after the effective date of the 1.0% paid health claims assessment legislation. The effective date for the 1.0% paid health claims assessment in Senate Bill 348 (S-3) would be January 1, 2012, so, if both bills were enacted as written, the HMO/PIHP Use Tax would expire on March 31, 2012. This would lead to an overlap of three months in which the State was collecting both the paid health claims assessment and the HMO/PIHP Use Tax.

Senate Bill 348 (S-3)

Senate Bill 348 (S-3) would create the "Health Insurance Claims Assessment Act" to implement, effective January 1, 2012, a 1.0% assessment on eligible paid health claims. The assessment would be paid to the State by the entity paying the health claim, in most cases the insurer, HMO, or third party administrator.

Last Action Taken: Senate passed June 30 on a 26 to 9 vote; Referred to House Appropriations Committee.

Other Business:

Chairperson McClary indicated that the following items should be placed on future agenda for discussion:

- Personal Property Tax
- Other Own-Source Revenue
- PA51 – Consolidation of Major and Local Street Funds
- General Property Tax Act (Prop A and Headlee)
- Health Reform
- SB 7 - Publicly Funded Health Insurance Contribution Act
- Statewide Income Tax with distribution to local units
- Full Faith & Credit Pledges: DDA- Suzanne Schafer, State of Michigan

NEXT MEETING:

Next meeting will be held at the present location: Plante & Moran East Lansing, 1111 Michigan Avenue, East Lansing, MI 484423 at 9:30 am on the following dates:

Friday, Sept. 9, 2011

Friday, Oct. 14, 2011

Chairperson McClary informed the Committee that Eric Scorsone is in the process of performing a world-wide review of Governmental Personnel Practices and will be scheduled to make a presentation at the Oct. 14 meeting.

REMINDER:

MGFOA Fall Conference- September 18-21

Ypsilanti Marriot at Eagle Crest

1275 South Huron St

Ypsilanti, MI 48197

Meeting Adjourned at 12:54 pm

Respectfully Submitted:

Jeffrey C. Pardee, Notetaker



CONSENT AGENDA

CR

MEMORANDUM

July 12, 2011

TO: Mayor and City Commission

FROM: Dane C. Nelson, City Administrator

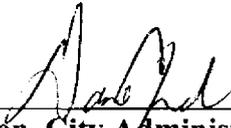
**SUBJECT: Municipal Employees' Retirement System
Of Michigan Annual Meeting**

Each year the pension system of which the City is a member has an annual meeting to which each member municipality is urged to send official delegates. Each municipality is entitled to one municipal representative and one employee representative.

We have completed the balloting for the employee's representative and the results of the election are as follows:

Cindy Prue – Finance –	33 votes
Josh North – APD –	28 votes
Tammie Bristoll – DPW –	9 votes
Pat Baker – Admin –	2 votes
Dan Wright – Utilities –	1 vote

Based on the results of the voting, I would recommend that Cindy Prue be named employee representative with Josh North as the employee alternate. I further recommend that Jeff Pardee be named the City's Representative this year with Pat Baker as his alternate. Attached hereto, you will find the necessary resolution drawn in accord with the above recommendations.



Dane Nelson, City Administrator

DCN/pmb

R11-082

July 12, 2011

RE: ADMINISTRATION – Appointment of Delegates to the Annual Municipal Employees Retirement System (MERS) Meeting

RESOLUTION

WHEREAS, the Michigan Employees Retirement System (MERS) is having its annual meeting of participating municipalities; and

WHEREAS, it is necessary that one officer and one employee of the City of Adrian be designated by each municipality, with respective alternates; and

WHEREAS, there has been an election held by employees of the City of Adrian.

NOW, THEREFORE, BE IT RESOLVED, that Cindy Prue be designated as the employee representative and Josh North as the alternate employee delegate; and be it

FURTHER, RESOLVED that Jeff Pardee be designated as the City officer delegate and that Pat Baker be designated as the alternate officer delegate to attend the meeting at the Grand Traverse Resort in Traverse City, MI on September 27–29, 2011 in accordance with the provisions of the Municipal Employees Retirement Act No. 135, Public Act of 1945, as amended.

On motion by Commissioner _____, seconded by Commissioner _____, this resolution was _____ by a _____ vote.

CR-2



MEMO

135 E. Maumee, Adrian, MI 49221-2703

DATE: July 14, 2011

TO: Hon. Gary McDowell, Mayor
City Commission
Dane Nelson, City Administrator

FROM: Chris Miller
DDA & Economic Development Coordinator

SUBJECT: Set Public Hearing for establishment of Commercial Rehabilitation District

On July 12th, the Governor signed into law legislation that expands the ability of local units of government to define areas in the community as Commercial Rehabilitation Districts. This designation can allow the use of property tax reduction as an incentive for certain projects that meet specific criteria, notably maintenance or increase in employment.

I respectfully request a public hearing be set at the August 1, 2011 Adrian City Commission meeting for the establishment of a Commercial Rehabilitation District to include 240 N. Main, 114 E. Front, and 124 E. Front.

A handwritten signature in black ink, appearing to read 'Chris Miller', is written over a horizontal line.

Chris Miller
DDA & Economic Development Coordinator

RE: COMMUNITY DEVELOPMENT - Establish a Commercial Rehabilitation District at 240 N. Main St., 114 E Front St. and 124 E Front St.

RESOLUTION

WHEREAS, the State of Michigan has adopted the Commercial Rehabilitation Act, Public Act 210 of 2005, as amended (Act 81 of 2011, Act 82 of 2011); and

WHEREAS, Act 210 provides for creation of Commercial Rehabilitation Districts, and for review and approval of exemption request certificates; and

WHEREAS, the City of Adrian has certain properties that could utilize the economic development tools in PA210, PA81, and PA82 to spur investment and development of projects; and

WHEREAS, city staff has identified three parcels, 240 N. Main, 114 E. Front and 124 E. Front, as likely development sites; and

WHEREAS, the legal description of these parcels is as follows:

240 N Main St:

N 102 FT LOT 98 & W 1/2 LOT 99 ORIGINAL PLAT

114 E Front St:

E 1/2 LOT 99 ORIGINAL PLAT

124 E Front St:

LOT 100 EX S 69.5 FT AND LOT 101 EX S 69.5 FT OF W 1/2 & EX S 21 FT OF E 1/2 AND LOT 102 EX S 21 FT AND LOT 103 & W 47.5 FT LOT 104 ORIGINAL PLAT. ALSO THE W 24FT OF LOT 107 ORIGINAL PLAT.

WHEREAS, Act 210 requires the legislative body shall give written notice by certified mail to the county in which the property is located and to the owners of real property within the proposed rehabilitation district and shall afford an opportunity for a hearing on the establishment of the commercial rehabilitation district at which any of those owners or any other resident or taxpayer of the qualified local governmental unit may appear and be heard.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission hereby authorizes the scheduling of a public hearing on Monday, August 1, 2011 at 7:00p.m. in the City Chambers Building, 159 E. Maumee Street, Adrian, MI to receive comments on the creation of a Commercial Rehabilitation District for 240 N. Main, 114 E. Front and 124 E. Front Street, and directs the City Clerk to provide notice to the appropriate real property owners and the public as required by Act 210.

On motion by Commissioner _____, seconded by Commissioner _____, this resolution was _____ by a _____ vote.



REGULAR AGENDA

0-1

ORDINANCE 11-005

AN ORDINANCE TO AMEND THE CITY OF ADRIAN ZONING/DEVELOPMENT REGULATIONS.

The City of Adrian Ordains:

- 1. That Section 3.1 of Article III of the City of Adrian Zoning/Development Regulations, and the Zoning Map to which reference is therein made, is amended to the extent of deleting the following property hereinafter described from the R-3 Single Family Residential District and including the same in the ERO Education, Research and Office District.
- 2. Parcel described as follows:
 LOT 76 WESTRIDGE SUB 1
- 3. More commonly known as: 1505 Inverness Drive

INTRODUCTIONJuly 18, 2011

SUMMARY PUBLISHED.....

ADOPTION

COMPLETED PUBLICATION.....

EFFECTIVE DATE.....

On motion by Commissioner _____,

seconded by Commissioner _____,

this Ordinance was adopted by a _____ vote.

July 13, 2011

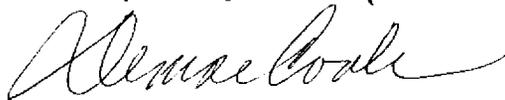
Honorable Mayor
and City Commission:

At the July 12, 2011, meeting the Adrian City Planning Commission voted unanimously to recommend to the City Commission the approval of rezoning 1505 Inverness Drive from R-3 Single Family Residential to ERO Education, Research and Office.

There were no comments from the audience during the public hearing, nor were any telephone calls or written communications received concerning this rezoning application. The Planning Commission reviewed the criteria as mentioned in Section 28.06 and found it in the affirmative and made the following findings:

1. The Commission considered the property landlocked, an isolated piece of property adjacent to the ERO District on both the west and south sides and at the corner of two dead-end streets on the north and east sides.
2. The Commission felt this was a squaring up of the boundary lines for Adrian College.
3. The small size of the lot limits the potential use.
4. The Commission could find no perceived precedents from the approval of this request.
5. There are no known impacts on City services or facilities.
6. The Commission could see no impact on surrounding property values.
7. This will not create spot zoning as it is adjacent to the ERO District.
8. The Commission felt it does have economic value as a house; however, it doesn't seem to be a significant reason to deny the request.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Denise Cook".

Denise Cook, Secretary



STAFF ANALYSIS
ADRIAN CITY PLANNING COMMISSION

DATE: July 5, 2011

CASE: 11-014

APPLICANT: Lavina B. Pratt
1505 Inverness Drive
Adrian, MI 49221

REQUEST: Rezone Subject Parcel from R-3 Single Family Residential to ERO Education,
Research and Office

SUBJECT PARCEL: XA0-810-0076-00
1505 Inverness Drive

DESCRIPTION OF REQUEST

Applicant requests the rezoning of her property from R-3 Single Family Residential to ERO Education Research and Office. This is a single-family residence. The property is located on the southwest corner of Inverness Drive and Renfrew Avenue. The lot size is irregular with an average of 90' x 127' equaling 11,430 square feet.

EXISTING LAND USE/ZONING:

The last known land use of the subject parcel was as a single-family residence.

Existing zoning for the subject property is R-3 Single Family Residential. The zoning designations for the surrounding properties are as follows:

North: R-3 Single Family Residential
South: ERO Education Research and Office
West: ERO Education Research and Office
East: R-3 Single Family Residential

FUTURE LAND USE/ZONING

According to the City of Adrian Comprehensive Plan, future land use designation for the subject parcel is Single/Two Family Residential.

DEPARTMENT REVIEWS

The standards for rezoning requests as found in Section 28.06 of the City of Adrian Zoning Regulations and listed below for reference:

1. What identifiable conditions related to the application have changed which justify the proposed amendment?

The owner wishes to sell the property to Adrian College to use as student housing and to reduce the financial burden of owning two properties. This property abuts Adrian College property on both the south and west side property lines.

2. What are the precedents and the possible effects of such precedent which might result from the approval or denial of the petition?

The ERO District allows most uses in the OS-1 Office Service District, plus uses associated with college campuses. Possible effects could be an increase in traffic and the eroding of an established residential neighborhood. Any access to this property would be through a residential neighborhood. Approval of the rezoning would not be consistent with the City of Adrian Comprehensive Plan.

3. What is the impact on the ability of the City and other governmental agencies to provide adequate public services and facilities, and/or programs that might reasonably be required in the future if the proposed amendment is adopted?

No known impact on municipal public services or facilities would result from favorable action on this request.

4. Does the petitioned district change adversely affect environmental conditions or the value of the surrounding properties?

Depending on how the property is used now and in the future, there may be negative impacts on values of surrounding parcels that would result from the proposed action. The proposed change would not be harmonious with the surrounding residential properties and land uses.

5. What is the ability of the property in question to be put to a reasonable economic use in the zoning district in which it is presently located?

The use of the parcel under the current zoning designation is economically feasible. This property is located in a single family neighborhood with most houses and lots of similar size and design. These are local streets with not a lot of traffic.

RESOLUTION

WHEREAS, Ms. Lavina B. Pratt has submitted a request for rezoning of 1505 Inverness Drive, a single parcel identified in the Case File 11-014, from R-3 Single Family Residential to ERO Education, Research and Office; and

WHEREAS, the former use of the parcel was single-family residential; and

WHEREAS, the City of Adrian Comprehensive Plan Future Land Use Map calls for designation of such parcel as Single/Two Family Residential; and

WHEREAS, the Community Development Department has conducted a review of the applicant's request in accordance with the review standards found in the Zoning/Development Regulations, Article XXVIII - Amendments pertaining to Official Zoning Map Amendments;

NOW THEREFORE BE IT RESOLVED that the Adrian City Planning Commission accepts the review and analysis conducted by the Community Development Department to deny this request; and

BE IT FURTHER RESOLVED that this request would not be in compliance with the City of Adrian Comprehensive Plan Future Land Use Map; and

BE IT FURTHER RESOLVED that this rezoning could have a potential negative impact on the surrounding residential neighborhood; and

BE IT FURTHER RESOLVED that there is a reasonable economic use in keeping this property single-family residential; and

BE IT FURTHER RESOLVED that the Adrian City Planning Commission finds that the application is not in compliance with the standards for Official Zoning Map Amendments; and

BE IT FURTHER RESOLVED that the Adrian City Planning Commission deny the application for rezoning Parcel XAO-810-0076-00; and

BE IT FURTHER RESOLVED that the Adrian City Planning Commission recommends that the Adrian City Commission deny an ordinance to amend the City of Adrian Official Zoning Map in accordance with said findings.

On motion by Planning Commission Member _____, seconded by

Planning Commission Member _____, this resolution was adopted

by a _____ vote.



Dave Pate, Building Official

APPLICATION FOR REZONING

I (We), the undersigned, do hereby respectfully make application and petition to the Adrian City Planning Commission to amend the Zoning/Development Regulations and change the zoning map as hereinafter requested, and in support of this application, the following facts are shown:

1. It is desired and requested that the foregoing described property be rezoned from
RESIDENTIAL to FRD
2. It is proposed that the property will be put to the following use:
USED BY COLLEGE FOR LIVING USE OF STUDENTS
3. It is proposed that the following building(s) will be constructed:
NONE THAT I KNOW
4. The property sought to be rezoned is located at 1505 INVERNESS DR
between RENFREW Street and INVERNESS Street on the CORNER side of the street.
It has a frontage of 90 feet, and a depth of 127 feet.
LOT 76 WESTRIDGE SUB 1
5. The legal description of the property is as follows: (may attach a separate sheet)
TRI-LEVEL HOUSE & DETACHED 1 1/2 CAR GARAGE SURROUNDED BY
TENNIS COURTS ON SOUTH & WEST & DEAD END STREETS NORTH & EAST
LOT 76 WESTRIDGE SUB 1
6. The property sought to be rezoned is owned by:
LAVINA B. PRATT
Name
1505 INVERNESS DR. ADRIAN
Address
7. We attach a statement hereto indicating why, in our opinion; the change requested is necessary for the preservation and enjoyment of substantial property rights, and why such change will not be detrimental to the public welfare, nor the property of other persons located in the vicinity.
8. Attached hereto are 12 prints of a plot plan showing the lot or parcel in question, and the intended layout. These prints are made a part of this petition and are drawn to scale.

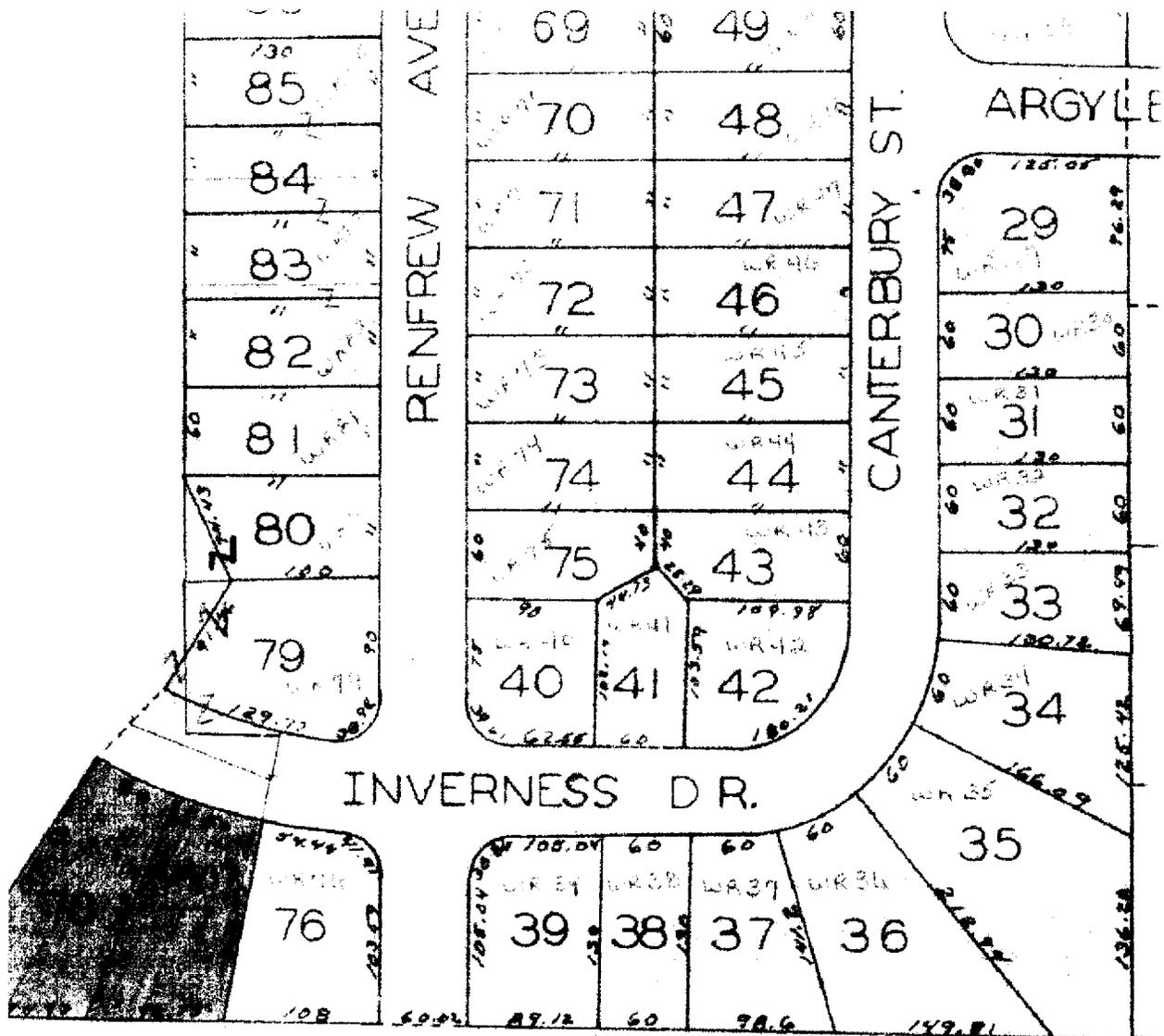
NOTICE TO PETITIONER: Petitioner or their representative must be present for the public hearing before the Planning Commission, and also for the City Commission, or it will not be considered.

Lavina B. Pratt
Signature of Applicant

1505 INVERNESS DR. ADRIAN, MI. 49221 517-265-7272
Address and Phone Number and E-Mail Address - May also include fax number

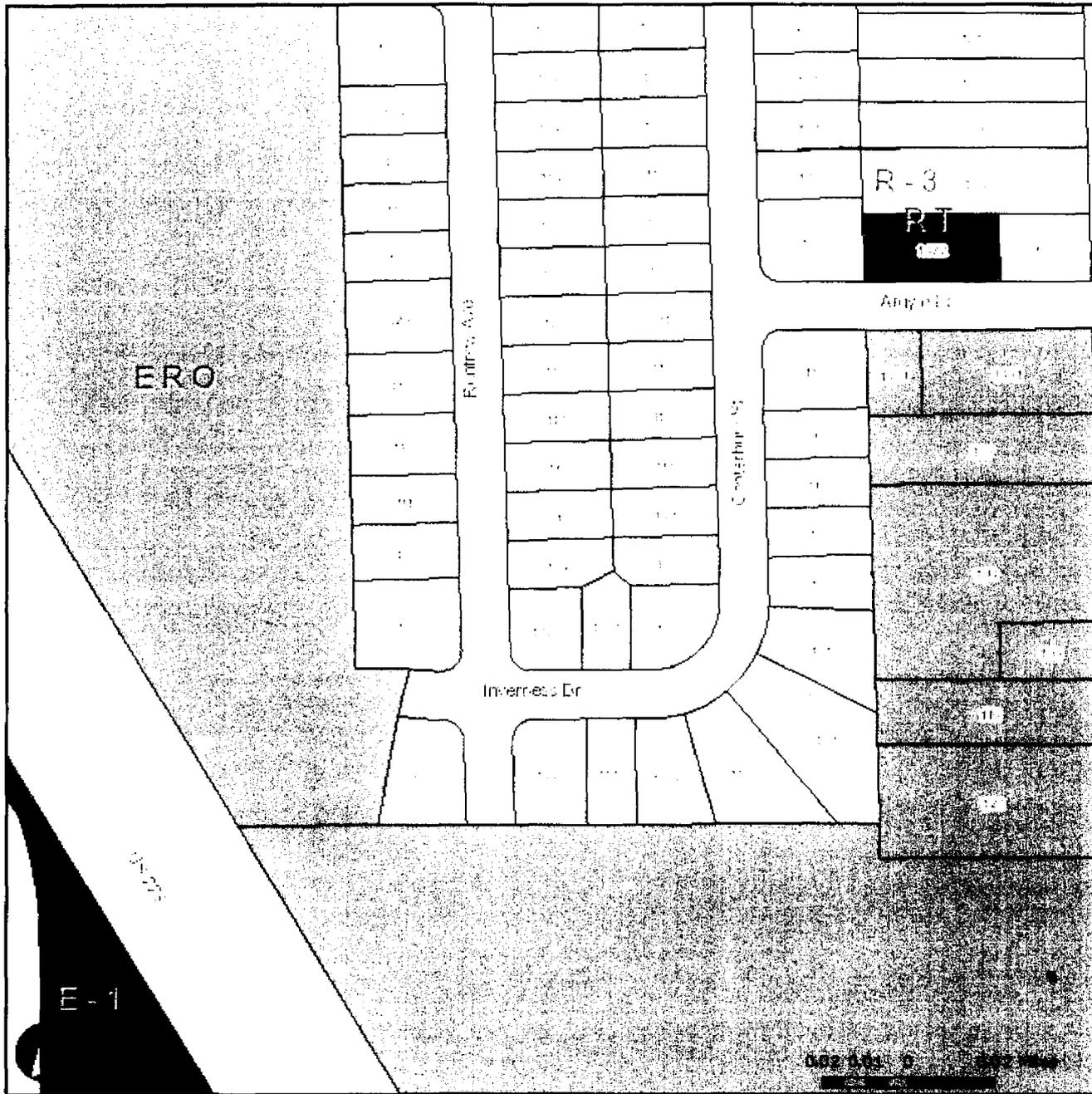
Lavina B. Pratt
Signature of Owner

517-265-7272
Owner's Telephone Number and E-Mail Address



1505 Inverness Drive - Lot 76 of Westridge Subdivision No. 1

Map



Dynamic Street Names (City Wide)

TaxParcel



Public Parks



Multiple Zoning

- R-1 SINGLE FAMILY RESIDENTIAL
- R-2 SINGLE FAMILY RESIDENTIAL

Multiple Zoning (continued)

- B-3 CENTRAL BUSINESS
- ERO EDUCATION, RESEARCH AND OFFICE
- E-1 EXCLUSIVE INDUSTRIAL
- PUD PLANNED UNIT DEVELOPMENT

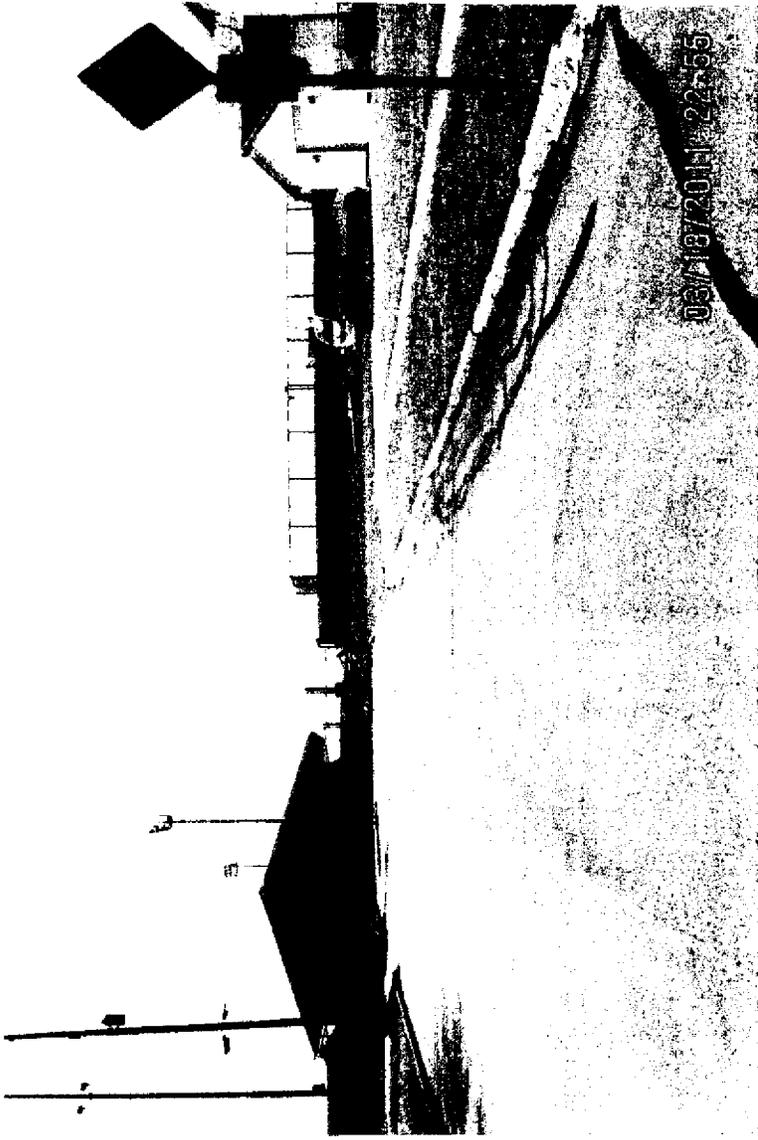
Zoning

- R-1 SINGLE FAMILY RESIDENTIAL

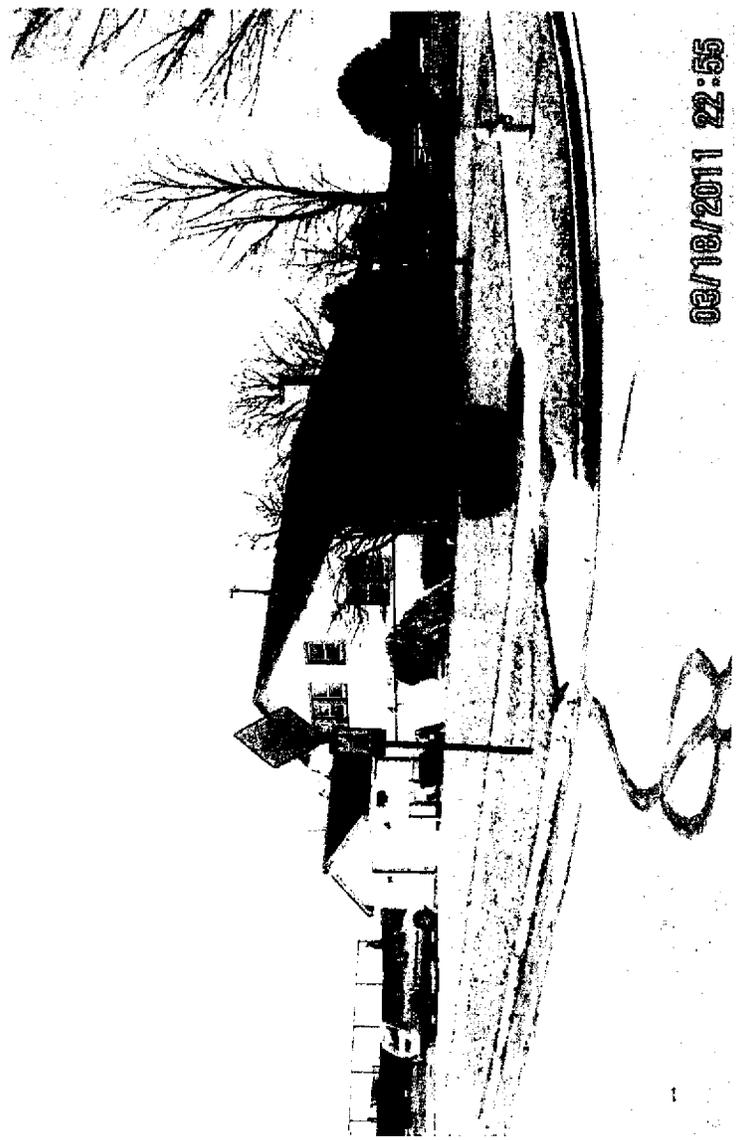
Zoning (continued)

- R-O RESIDENTIAL OFFICE DISTRICT
- OS-1 OFFICE SERVICE
- B-1 LOCAL BUSINESS
- B-2 COMMUNITY BUSINESS
- B-3 CENTRAL BUSINESS
- B-4 SHOPPING CENTER
- ERO EDUCATION, RESEARCH AND

LOOKING SOUTH ON RENFREW
ON EAST SIDE OF HOUSE. TENNIS
COURTS & BUILDING IN BACK-
GROUND IS COLLEGE BATH ROOMS
& STADIUM TO THE LEFT

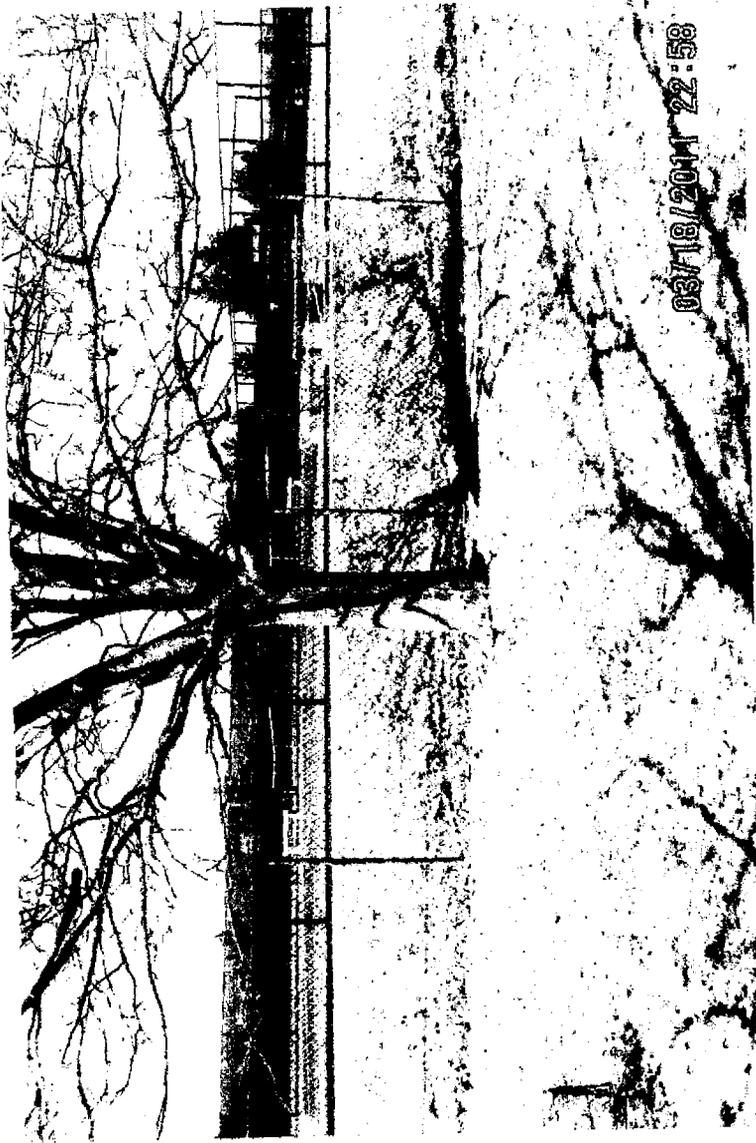


1505 INVERNESS DR.
VIEW IS FROM CENTER OF
STREET OF RENFREW &
INVERNESS



03/18/2011 22:55

YARD ON WEST SIDE
OF HOUSE & TENNIS
COURTS

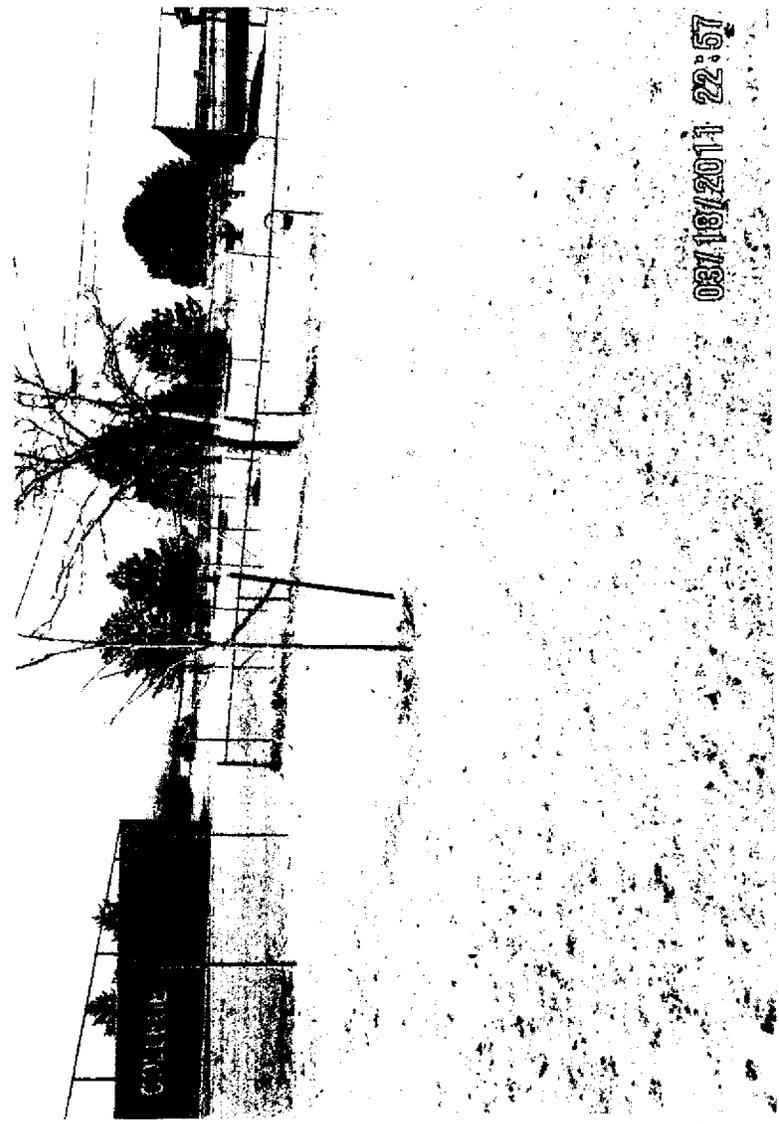


03/18/2011 22:58

EAST SIDE OF HOUSE
LOOKING DOWN RENNREW
INVERNESS STREET IN FRONT
VACANT HOUSE IN FOREGROUND

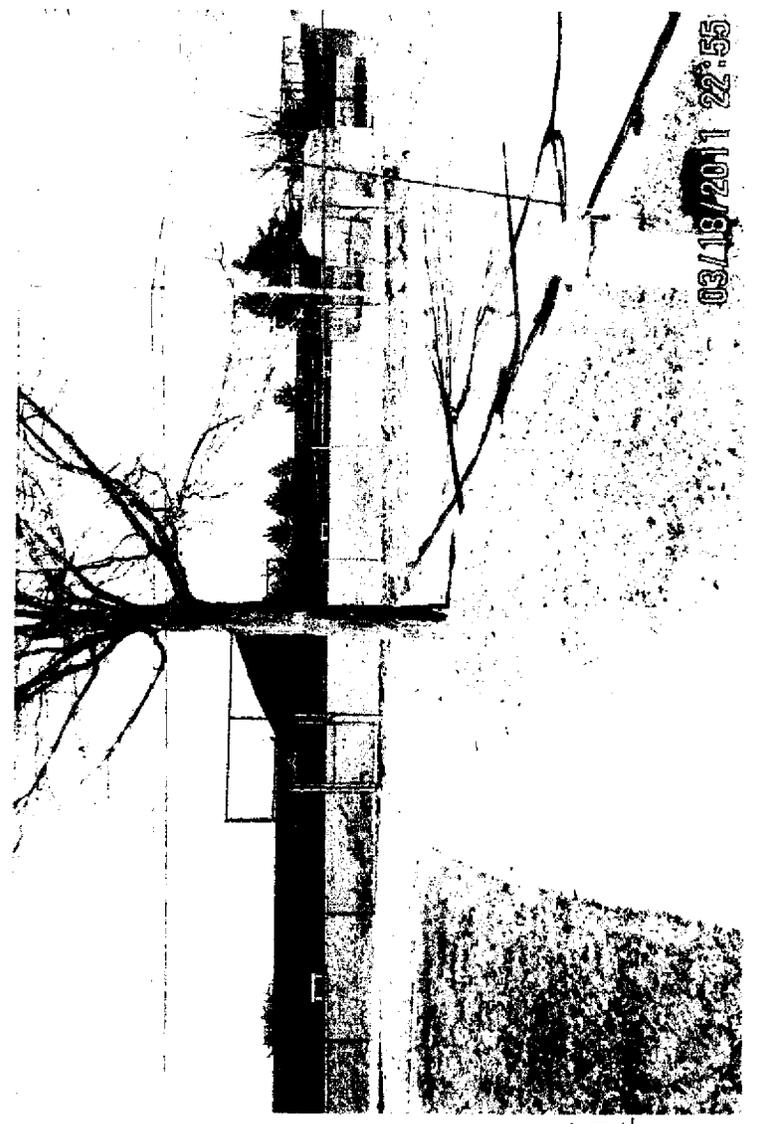


03/18/2011 22:57



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EAST SIDE OF BACK YARD LOOKING WEST AT TENNIS COURTS



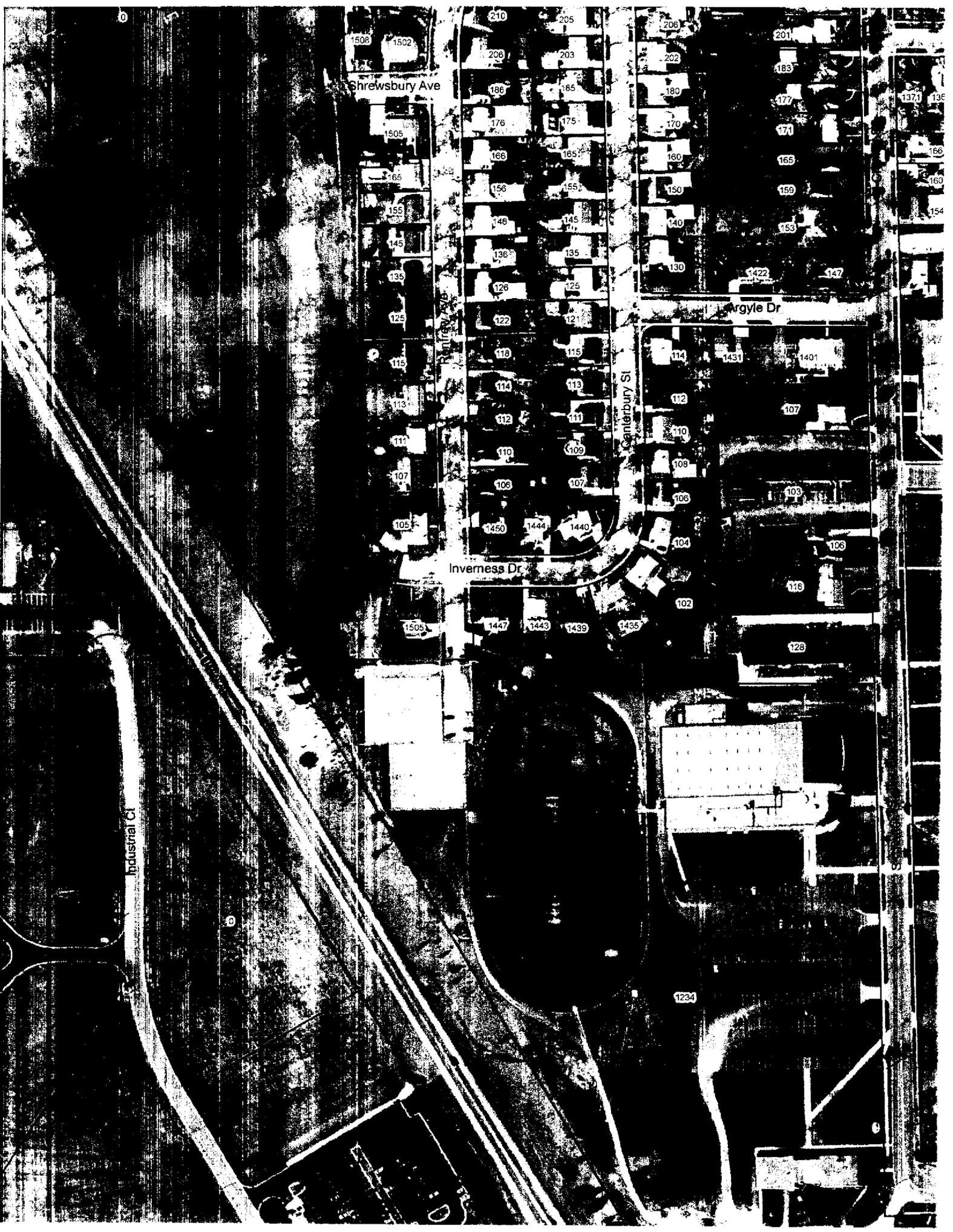
03/18/2011 22:55

FRONT OF HOUSE LOOKING NORTH SHOWING TENNIS COURT ALL THE WAY DOWN RENFREW



FRONT VIEW OF HOUSE LOOKING NORTH - TENNIS COURTS IN BACK-GROUND

03/18/2011 22:55



Shrewsbury Ave

Argyle Dr

Inverness Dr

Industrial Ct

Canterbury St

210 205 208 201 1508 1502 206 203 202 183 1371 135 186 185 180 177 171 1505 176 175 170 166 165 160 165 159 160 156 155 150 154 146 145 140 1422 147 135 136 135 125 125 122 121 115 115 114 1431 1401 112 107 110 108 108 103 107 106 107 106 104 105 1450 1444 1440 103 106 102 1505 1447 1443 1439 1435 128 1234

SO-1, R-1

July 18, 2011

SPECIAL ORDER

The Mayor called for the hearing and consideration of comments to establishment of a Special Assessment District (SAD #384) for improvements on Seeley Street from Locust to the dead-end east of Comstock.

Discussion

When the Mayor call for final objections _____

and he declared the hearing closed.

R-1

R11-080

July 18, 2011

RE: ENGINEERING DEPT. – Approve Establishment of Special Assessment District for Improvements on Seeley St. from Locust to Dead-end East of Comstock.

RESOLUTION

WHEREAS, the Adrian City Commission, by Resolution CR11-029 duly adopted at its July 5, 2011 regular meeting, deemed it necessary and declared its intention to construct improvements, including curb and gutter and other appurtenances, on Seeley Street from Locust Street to the dead-end east of Comstock and did provide a public hearing as provided by Chapter 70, Section 70-6 of the Adrian City Code; and

WHEREAS, said notice has been given and a hearing held.

NOW, THEREFORE, BE IT RESOLVED:

1. That said public improvements be made and the City Administrator be directed to proceed with the same.
2. That the plans, specifications and detailed estimates relating to said improvements, as filed with the City Clerk, be and are hereby approved and adopted and the City Administrator is directed to take action necessary to accomplish the said improvements.
3. That the estimated total cost of said improvements is determined to be \$113,000.
4. That \$23,000 of the said estimated cost shall be defrayed by special assessment and \$90,000 shall be paid by local street funds.
5. That the said special assessment may be paid in ten installments. The first installment shall be due and payable on or before sixty days from the date said special assessment is confirmed, and one installment shall be due annually thereafter. Interest shall be charged at the rate of six (6%) percent per annum on all unpaid installments.
6. That the premiums upon which special assessments shall be levied, and which shall be hereafter known and designated as Special Assessment District #384, are described as follows:

Special Assessment Properties

Seeley Street from Locust to the Dead-End East of Comstock Street

7. That the City Assessor is directed to prepare a Special Assessment Roll in accordance with this resolution.

On motion by Commissioner _____, seconded by
Commissioner _____, this resolution was _____
by a _____ vote.

R-2

MEMO



DATE: July 8, 2011
TO: Honorable Mayor and City Commissioner
FROM: Dane C. Nelson, City Administrator
SUBJECT: Oil & Gas Leases for City-Owned Properties

Responses were received regarding a Request for Proposal (RFP) I prepared for the possible lease of remaining City-owned properties. For purposes of this report, I am using an estimate of 500 additional acres that could be made subject to an oil and gas lease. Regarding the proposals, I had prepared 12 questions for each respondent. Responses were received from two companies, being Master Key Energy and Savoy Energy. I will summarize them in this memo and follow with my recommendation. While I have summarized the responses, I have also included the full responses to the RFP by each company so you can review each of them in further depth if you so choose.

1. **Documentation to do business in the State of Michigan.**

Both companies submitted appropriate documentation to meet this criterion. Savoy has been in business longer than Master Key, as Master Key is a relatively new organization within the State of Michigan, although the principals in this entity have significant experience in this industry.

2. **What parcels would be leased?**

Both companies want to lease all parcels available in the City of Adrian. For purposes of this report, I will use 500 acres.

3. **Submit biographies of the principals in the oil and gas business.**

- Master Key appears to have been formed in August of 2010 and is formed by a number of individuals with significant experience in this field. Richard Freuhauf currently operates 70 wells in the State of Michigan.
- Savoy's principals, primarily Thomas Pangborn and William Sperry, both have been in this field since the 1970's, much of that being in the State of Michigan. Mr. Pangborn is an engineer and Mr. Speery is an attorney.

4. **What current wells are being operated by your entity in the State of Michigan?**

- Since Master Key is a newly formed entity, it appears that it has no operating wells in Michigan at this time. The managing principals, however, have operated over 1,500

Michigan wells. Mr. Freuhauf and the Maverick Company are each operating over 100 wells in Michigan.

- Savoy operates 44 wells in Michigan, with 14 in Adrian Township. Six are in Hillsdale County. They operate one well in a recreation area owned by the City of Traverse City.

5. **Will they submit a performance bond?**

- The State of Michigan requires a \$250,000 performance bond. Savoy has a bond on file with the State. Master Key would file one when wells are drilled. Both would consider an additional bond for the City if necessary.

6. **Proposed lease payment.**

- Master Key would pay \$611 per net mineral acre, subject to title confirmation. At 500 acres, estimated subject to lease, this would net \$305,500.
- Savoy would pay \$325 per acre, which for 500 acres would equal \$162,500. In addition, Savoy has proposed to rewrite the terms of its existing lease with the City to increase that lease sum from \$150 per acre to \$325 per acre. This would add another \$128,170.50. In total, the base rental increase would be \$290,670.

7. **Proposed royalty payment, including “shut-in” terms.**

- Master Key would pay 19% as a royalty, which would increase to 23% after three calendar years from the date of first production of a well on each barrel produced in excess of 50 barrels a day.
- Savoy would pay 20% royalty for a producing well. In addition, Savoy would agree to rewrite the terms of the existing lease and would also agree to a 20% royalty for all properties under the existing lease.
- “Shut-In” terms for both companies, although being somewhat different, are both acceptable.

8. **Submit a sample lease form.**

- Both companies provided sample leases and some proposed additional language. As to the large issue of “fracking” (hydraulic fracturing), Master Key would agree to not use this practice without the written consent of the City, although this consent may not be “unreasonably” withheld by the City. Savoy would agree to not use this practice at all.

9. **Please submit any bonus or extra consideration.**

- Master Key would pay \$25,000 for each drilling rig set up on a development parcel.
- As previously noted, Savoy would amend the original lease to increase the lease amount up to \$325 per acre, plus increase the royalty from 16% to 20%. Also, Savoy would pay \$18,000 per year for upkeep on the Adrian Training School as long as this property is under lease and it is not included in a producing unit.
- Savoy will also do a 3-D seismic survey within six months, to be included with the Adrian School property that it has leased.

- Savoy would also agree to drill a well on City property on the Trenton-Black River formation within 4 months of receipt of the results of the 3-D survey.

10. **Surface damages.**

- Master Key would have a separate agreement for this issue.
- Savoy would have a separate exhibit to address this matter that would be attached to the original lease.
- Both of these approaches are satisfactory.

11. **Addition of “Pugh” clause (technical, but basically a clause to address severance of a lease, if necessary).**

- Both firms are agreeable to this type of clause being included in the lease agreement.

12. **List any prior State violations and resolution.**

- Master Key reports none as an entity, but note that it has drilled no wells.
- Savoy has had 5 incidents in the past 15 years. All were resolved to the satisfaction of DNR/DEQ. Included in these violations is a recent spill from an Adrian Township well, which was remediated the same day.

SUMMARY

From a qualification standpoint, both firms have the expertise and experience necessary to perform. Master Key is a newly formed entity, but its members have significant experience and expertise in the oil and gas industry. From a financial standpoint, the proposals result in very similar outcomes. If we assume a new lease for 500 acres, the Master Key offer would bring about \$305,500 in an up-front lease payment. As to Savoy, by rewriting its current lease and executing a new lease, its payment would be \$290,670.

From a royalty standpoint, the Savoy proposal offers 20%, while Master Key has offered 19% (although it can be raised up to 23% on certain wells if some conditions are met).

Extra considerations are that Savoy has offered up to \$18,000 a year for Adrian Training School maintenance. It has also offered to have the City consent to the location of any wells; to 3-D seismic testing within 6 months and drilling of a well on City property within 4 months after the test results. Master Key has offered to pay \$25,000 to the City when it brings in a drilling rig on City property.

RECOMMENDATION

It is my recommendation to proceed with negotiations with Savoy Energy to lease additional City land. While the financial offers are similar, a couple of items stand out to support the proposal of Savoy. In particular, the offer of \$18,000 per year for maintenance of the Adrian Training School property is compelling. Also, it appears that the “preferred” area for oil is the area north of the City. Savoy has offered to increase its royalty up to 20% for the property that has already been leased, which could result in a larger return for the City. Also, the base royalty offered by Savoy of 20% is 1% higher than the Master Key proposal.

Another issue is the experience in the Lenawee County area. Savoy has successfully completed 14 wells and is paying royalties. While Master Key has acquired much land under lease, it has not drilled a well here yet, although a recent communication has indicated that they were asking for two drilling permits in Adrian Township.

While the upfront payments are significant, the real money is in the royalty area. As such, the higher royalty offered by Savoy and its agreement to do 3-D testing and drilling on City property is also a significant difference in the proposals that have been made. By having a firm agreement to actually drill a well on City-owned property offers the City the potential for more returns than the Master Key offer.

Lastly, from an environmental standpoint, the Master Key proposal indicates that it would not perform "fracking" in its drilling procedures, although it indicates that the City must consent to this and the consent of the City must not be "unreasonably withheld". This allows it to be a judgment call, which could be litigated to determine whether or not the City would have unreasonably denied the use of this procedure. In fact, I do not think it is prudent to allow this procedure under any circumstances, so I do not believe this provision should be included in any lease. On the other hand, Savoy simply indicated that they would not perform this procedure on any wells on any City property. This proposal is also superior, therefore, to the proposal of Master Key.

For these reasons, I recommend that I be provided with authority to negotiate a lease with Savoy Energy to be submitted to the City Commission for ultimate approval. In the event terms of a lease with Savoy Energy are not agreed to and approved by the Commission, negotiations for a lease with Master Key would begin.

Respectfully submitted,



Dane C. Nelson
City Administrator

DCN:bjw

attachment

WORMAN, DIXON & MANIS, P.L.C.

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of counsel
Robert G. Tector²
of counsel
Scott A. Mertens*
of counsel
Thomas P. Clement*
of counsel

June 27, 2011

Dane Nelson
City Attorney
City of Adrian
100 E. Church Street
Adrian, MI 49221

via hand delivery

Re: City Oil and Gas Lease

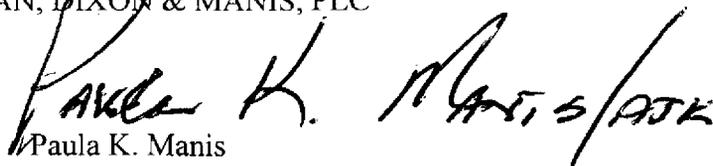
Dear Mr. Nelson,

We represent Master Key Energy, LLC ("Master Key"). Attached is Master Key's Reply to the City of Adrian's Request for Proposal for an Oil and Gas Lease. While Master Key has set forth in its Reply provisions directly addressing the questions and issues set forth in the City's Request for Proposal, Master Key is willing to discuss and consider modifications of these provisions and/or the insertion of additional provisions, at the City's request.

The enclosed Reply and the Oil and Gas Lease attached thereto is for the approximate 520 acres depicted on your map. However, based on the very limited title review conducted to date by Master Key, it appears that the City claims or may claim an interest in the oil and gas underlying the submerged lands of Lake Adrian. If the City, in fact, claims an interest in the submerged lands, subject to verification of title, Master Key would also be interested in leasing such interest.

Thank you for affording Master Key the opportunity to submit a proposal to lease the City's acreage. If you have any questions regarding the proposal, please contact me at 517-485-0400 or contact Alan Kostrzewa at 231-947-4546

Very truly yours,
WORMAN, DIXON & MANIS, PLC


Paula K. Manis

PKM/mlr
Enclosure

**Master Key Energy, LLC's ("MKE")
Reply to City of Adrian request for proposal for an Oil and Gas Lease
("Reply")**

1. Provide documentation to show the legal right to do business in the State of MI

REPLY: MKE filed with the State of Michigan their Articles of Organization on April 8, 2010; and their Certificate of Assumed Name on August 16, 2010, copies of which are attached hereto as Exhibit "A".

2. Please indicate what parcel(s) should be excluded from a proposed lease, or in the alternative, any specific parcels that should be included.

REPLY: MKE would like to lease ALL parcels depicted in Mr. Nelson's map, totaling approximately 520 acres, the majority of which will be non-development. A copy of the map is attached hereto as Exhibit "B", with development parcels noted by cross-hatching.

3. Provide biographies of your organization, including experiences in the oil and gas business.

REPLY: Please see the biographies below as to the main managing members of MKE.

H. Richard Fruehauf, Jr. - H. Richard Fruehauf, Jr. was part of the family team that built the Fruehauf Trailer Company to a worldwide renowned company and has also been actively involved in the oil and gas business since the early 1960s, when he joined with his father in the family's exploration and production business. He has extensive experience in Michigan with Antrim and Niagaran wells in Northern Michigan, and has also participated in drilling of deeper projects in Michigan and other states. He has participated in joint ventures with major oil companies such as Shell, Amoco, Marathon and Chevron. H. Richard Fruehauf, Jr. currently owns working interests in oil and gas projects individually and through various entities. H. Richard Fruehauf, Jr. also currently owns and manages the following business entities, all of which are conducting oil and gas business in Michigan:

<u>Name</u>	<u>Business Activity</u>
Antrim Investment Company, LLC	Gas program investments
Crystal River Energy, Inc.	Natural gas operations/investments
Duchess Real Estate Holdings, LLC	Owns real estate where wells are located
HRF Antrim Limited Partnership	Gas program investments and Operator for oil and gas wells
IG Investment Company, LLC	Owns oil and gas working interest
Otsego Energy, LLC	Owns oil and gas working interest

Rifle River, Inc.

Owns mineral and royalty interests

Viscount Gas Facility, LLC

Owns and operates a gas processing plant

He is also the manager of Friday Ventures, LLC, a fund that is managing investments in natural gas wells in Alcona County, Michigan. He currently operates 70 wells in Michigan.

Martin G. Lagina – Mr. Lagina is a certified professional engineer (PE license #6201054217), manager and owner of Rock Oil Company, L.L.C. (“Rock”), which he co-founded in 1995. Mr. Lagina has a BSME from Michigan Technological University and a Juris Doctor from the University of Michigan. He is a member, in good standing, of the State Bar of Michigan. He has been involved in the Michigan oil and gas industry for 35 years, previously serving as Chairman of the Michigan Oil and Gas Association. Rock has most recently been actively involved in the Trenton/Black River play with its partner, West Bay Exploration. Together, they have drilled and completed over 40 successful wells in the Trenton/Black River play, and they have many more prospects that they plan to drill in the immediate future. Mr. Lagina oversees all fundamental aspects of Rock's oil and gas business. In 1984, Mr. Lagina formed Terra Energy, which was a pioneer in the exploration and development of the Antrim shale natural gas resources of Michigan. Terra Energy successfully developed in excess of 1 billion of oil and natural gas resources. Mr. Lagina sold his interest in Terra Energy before he founded Rock. Mr. Lagina is also a founder and owner of Heritage Sustainable Energy (“Heritage”), a wind energy company that was founded in 2006. Heritage currently operates a 40 Megawatt wind farm in Michigan with plans to install an additional 60 Megawatts within the next 2 years.

Craig Tester – Mr. Tester has a BSME from Michigan Technological University, and completed Amoco Production Company's petrophysical program. Mr. Tester is also a manager of Rock, which he co-founded with Mr. Lagina in 1995. As a manager of Rock, Mr. Tester is responsible for analyzing and developing oil and gas prospects and overseeing the technical evaluation of prospects in the Trenton/Black River play. Mr. Tester was a cofounder of Terra Energy, and is also a co-founder of Heritage.

Dwight Gookin – Mr. Gookin is an engineering consultant/operator for MKE. Mr. Gookin is the sole shareholder in Maverick Exploration & Production, Inc. Mr. Gookin began his career in 1972 as a petroleum engineering student. With scholarships and summer jobs in the oil patch, he obtained his B.S. degree in 1976, and then took an engineering position with Shell Oil Company in Traverse City. He had also held positions of increasing responsibility with Total Petroleum, a large independent exploration and production company, and The Finder's Company, a small family-owned independent exploration and production company. In 1986, another long time Michigan professional and Mr. Gookin formed Lithos Exploration, also a small independent company which he still owns. Lithos and Maverick have been successful where other companies have failed. Several of Maverick's successes have resulted from the application of horizontal drilling technology. Mr. Gookin first used this technology over 22 years ago, and the resulting successful well was among the first

horizontal wells in Michigan. Maverick/Lithos have been state approved operators of record since 1987.

Alan J. Kostrzewa—Mr. Kostrzewa is a CPL (Certified Petroleum Landman) and has worked over 30 years in the oil and gas business in Michigan. Mr. Kostrzewa oversees the leasing efforts for MKE. He worked for a number of years with Mr. Lagina and Mr. Tester at Terra Energy and continued working with Mr. Lagina and Mr. Tester at Rock and Heritage. In 2006, Kosco Energy Group LLC, which is owned by Mr. Lagina, Mr. Tester and Mr. Kostrzewa, was formed for the continued acquisition and development of oil and gas throughout the State of MI. Mr. Kostrzewa has a BBA from Northwood Institute and is a member of the MAPL (Michigan Association of Petroleum Landmen) and the AAPL (American Association of Petroleum Landmen).

4. Provide examples of current operating wells in the State of MI under the control of your organization.

REPLY: The managing principals of MKE, as listed in No. 3 above, have operated over 1,500 wells in Michigan, drilling to depths as deep as 10,000 feet. H. Richard Fruehauf, Jr.'s companies and Maverick, independently of each other, are currently operating over 100 wells in Michigan. The managing principals of MKE are non-operators of hundreds of Michigan wells, including Trenton Black River wells. See attached Exhibit "C" listing the oil and/or gas wells currently being operated by H. Richard Fruehauf Jr.'s companies or by Maverick.

MKE has leased over 20,000 acres in Lenawee County for Trenton/Black River development. For over 30 years, it has been the practice of each main managing member of MKE, and it is the policy of MKE, to always conduct its operations to minimize the impact of its operations on the surface of leasehold lands and the surrounding lands. Additionally, MKE has various developmental leases on private parcels that adjoin City lands in which MKE can locate a well(s) on and locate a well under non-developmental City parcels.

5. Is your organization willing to provide a performance bond to cover costs of a contractual breach and for cleanup for a closure of a site (similar to the bond required by the State of MI)?

REPLY: We feel that the required State of Michigan bond is sufficient to address any concerns the City may have, but are willing to consider an additional bond if the City requires it.

6. Please provide a proposed lease payment which should be reflected as either a lump sum, per acre or other method.

REPLY: MKE will pay the City six hundred eleven dollars and no/100 (\$611.00) per net mineral acre within 60 days of execution of a Lease, subject to title confirmation.

7. Please provide proposed royalty payment for operating wells, including any "shut-in" terms. Please include a list of costs that would be deducted from royalty payments and the method for calculation of royalty payments.

REPLY:

- A. MKE would pay the City a royalty equal to 19% with no deduction for post-production costs. The royalty would increase to 23% after 3 calendar years from the date of first production of a well, on a well by well basis, on each barrel of oil produced in excess of 50 barrels of oil per day per well. The only cost that would be deducted from the oil and gas royalty is the State of Michigan's severance tax and use fee.

Royalty for oil production would be calculated by multiplying the number of barrels produced and sold per month times price paid times the lease royalty rate times a fraction, the numerator of which would be the number of net acres of the City's leased premises included in the producing well unit divided by the total number of net acres in the producing well unit.

Calculation of gas production would be calculated by multiplying the total Mcf per month produced and sold times price per Mcf paid times the lease royalty rate times a fraction, the numerator of which would be the number of net acres of the City's leased premises included in the producing well unit divided by the total number of net acres in the producing well unit.

- B. The shut-in terms will be as follows:
1. If a commercially producible oil and/or gas well completed on the leased premises, or on acreage pooled or unitized with all or a portion of the leased premises into a development unit for the drilling or operation of such well, but only to the extent that the leased premises are included in said development unit, is at any time shut-in, or operations are suspended due to action taken by the Supervisor of Wells, and no oil and/or gas therefrom is sold (or gas is used for the manufacture of gasoline or other products), such shut-in well or well suspended from operation shall be deemed to be a well on the leased premises producing oil and/or gas in paying quantities.
 2. If an oil and/or gas well has been shut-in, or operations have been suspended by the Supervisor of Wells, and shall remain shut-in or suspended for a period of one hundred eighty (180) calendar days, the Lessee shall notify the Lessor in writing stating the conditions or circumstances for the shut-in or suspended status and expected date of resumption of production
 3. The Lessee shall at all times use reasonable diligence to produce and market oil and/or gas capable of being produced from such shut-in well, but Lessee shall not be required to market oil and/or gas under terms, conditions or circumstances which in Lessee's judgment are uneconomic.
 4. If all wells on the leased premises, or on lands pooled or unitized with all or part of said land, are shut in, then within 60 days after expiration of each period of one year in length (annual period) during which all such wells are shut in, Lessee shall be obligated to pay or tender, to Lessor, ten dollars and no/100 (\$10.00) per net acre covered by the Lease, the sum multiplied by the number of acres subject to the Lease, provided, however, that if production from a well or wells located on said land or on lands pooled or unitized therewith is sold or used off the premises before the end of

any such period or if at the end of any such annual period the Lease is being maintained in force and effect other than solely by reason of the shut-in well(s), Lessee shall not be obligated to pay or tender said sum of money for the annual period.

8. Please submit a copy of the proposed lease. If not included in the proposed lease, please explain:

- A. Right to drill and location of wells (i.e., is mutual consent needed; non developmental areas, etc)
- B. Payment for surface damages
- C. Restoration of site after lease terms or well closure
- D. Environmental terms and conditions (include means to address water issues, noise and smells, at a minimum)
- E. Drilling process limitations; i.e., "fracking"

REPLY: A copy of the proposed Lease is attached as Exhibit "D". Notwithstanding the provisions of the form Lease, additional clauses will be added to Addendum "B" to the Lease to address A, B, C, D and E above, as follows:

A. Provisions will be added as follows regarding drilling:

1. It is agreed that the location(s) of any drilling operations, roads, pipelines, tanks, production installations and other equipment upon a development parcel shall be agreed to by the mutual consent of the Lessor and Lessee, said consent shall not be unreasonably withheld by Lessor. The agreed upon well location(s) on a development parcel shall be set forth in a written development plan. Lessee shall construct a fence around all well and production facilities located on a development parcel at its sole cost. Any road easements or pipeline right-of-ways granted by Lessor to Lessee shall be written to terminate upon the termination of this Lease. Lessee shall timely prepare and execute the necessary documents to effect such terminations. Water from any well drilled on a development parcel shall be used for drilling operations only, and not for secondary recovery operations.
 2. The Lessee shall route all pipelines from a well site on a development parcel to follow existing well roads or utility corridors and shall bury all pipelines a minimum of thirty-six (36) inches below the surface, unless the Lessor authorizes an exception in writing. Pipelines shall be dug using the "double ditch" method, and the surface shall be restored with topsoil. All tile or other drainage system components on a development parcel that are cut, damaged or disturbed by Lessee's exercise of any right granted herein shall be repaired and restored to their previous operable condition by Lessee at its sole cost, in a good and workmanlike manner.
- B. Lessee shall use its best efforts to prevent damage to the leased premises and shall be liable for all damages to the leased premises caused by, resulting from, or in connection with its operations. Without limiting the generality of the foregoing, it is agreed that for

purposes hereof the phrase "all damages" shall include, without limitation, damage to Lessor's timber, trees, crops, machinery, equipment, houses, garages, sheds and all other buildings or other structures, all springs and streams, dams, drainage systems, water wells and impoundments, fences, gates, bridges, roads, trails, lakes, ponds and other waters caused by Lessee as a direct result of Lessee's operations on a development parcel. A surface damage payment will be made to the Lessor upon the commencement of Lessee's operations for the drilling of a well on a development parcel based on fair market value of what is damaged with the understanding that the surface damage payment will not be less than \$5,000 for a wellsite and roadway to a wellsite.

- C. The Lessee, when surrendering the Lease, or portion thereof, or when plugging any well, shall restore a development parcel as required by applicable law and according to the terms and conditions of this Lease and the terms of any prior written permission from the Lessor, and in a safe and orderly condition. All debris and materials, such as timbers, boards, sheeting, tanks, pipe tubing, and any other equipment used in operating this Lease or a well, shall be removed from a development parcel within ninety (90) days of the completion of Lessee's operations on a development parcel, weather permitting. The land surface shall be restored by use of topsoil and will be graded to blend with adjacent lands and Lessee shall generally restore the surface of the development parcel to as near as reasonably practical as the condition of the lands prior to Lessee's operations. The reserve pit, if any, shall be properly restored as required by applicable law and filled in. The Lessee may not escape any prior obligation of the Lease by surrendering this Lease, or any portion thereof.

D. Environmental Terms:

1. Notwithstanding anything to the contrary contained or implied herein, Lessee shall conform with, observe and satisfy in the following practices, procedures, duties, obligations and limitations in the conduct of its operations.
 - a. It is understood and agreed that on that portion of the leased premises designated as nondevelopment parcels, unless agreed to in writing by Lessor, Lessee shall not have the right to construct, install, place or operate any wells, roadways, gathering lines, flowlines, pipelines, power lines, telephone lines, tank batteries, disposal wells and/or production facilities or other improvements of any kind on the surface of a nondevelopment parcel for the production of servicing, gathering, storing, transporting, or for the producing, processing, producing or handling of any hydrocarbons produced from the leased premises or lands pooled or unitized therewith. If the location of any roadway, gathering line, flowline, pipeline, power line, telephone line, tank batteries, and/or production treatment or processing facilities (including a disposal well) on a nondevelopment parcel is approved by Lessor and constructed hereon, it may be used, operated and maintained as long as, but only as long as, Lessee utilizes the same for the production, handling, treatment, processing, transportation or disposal of oil or gas or other substances produced from the leased premises or from lands pooled or unitized therewith. Notwithstanding the provisions of this Paragraph to the

contrary, it is understood and agreed that Lessee may conduct seismic operations on the surface of nondevelopment parcels without obtaining further consent from the Lessor. Additionally, notwithstanding the provisions of this Paragraph to the contrary, Lessee shall have the right to construct, install, maintain and replace flowlines and/or pipelines on nondevelopment parcels to transport oil and/or gas produced from a well(s) located on the leased premises or on lands pooled or unitized therewith with the understanding that the pipelines will be buried to a depth of at least 36 inches and upon additional written consent of Lessor, said consent not to be unreasonable withheld.

- b. Lessee shall use reasonable efforts to prevent, and hereby assumes all liability for, all contamination, pollution or other environmental hazards of or to the leased premises resulting directly from Lessee's operations conducted on the development parcels.
- c. Lessee agrees to use reasonable efforts to prevent, and shall dispose of and remove from any development parcel, all unnecessary accumulations of oil, fluids or other substances or materials relating to Lessee's operations reasonably deemed to be a safety or environmental hazard.
- d. Lessee agrees to clean up around all wells and production installations on a development parcel and maintain them in a neat, orderly and efficient operating condition. Lessee shall take measures regarding the appearance, maintenance and/or camouflaging of all wells, pumps, machinery and other facilities on a development parcel according to the rules and regulations of the Michigan Department of Environmental Quality.
- e. Lessee shall use reasonable efforts to minimize sounds and noises resulting from its operations on a development parcel.
- f. To prevent all unauthorized access to any well(s) located on a development parcel, Lessee shall install a fence(s) and/or locked gate(s) (clearly marked with "Keep out" signs). Lessee agrees to close and lock all access gates to a well(s) on a development parcel.
- g. A flare guard would be placed over any flare located on a development parcel.
- h. Any well(s) on a development parcel that penetrates fresh water zones will be drilled with fresh water and will contain bioside.
- i. Lessee shall make reasonable efforts to reduce any noxious odor that is produced from a well or equipment located on a development parcel.

E. Drilling Process Limitations:

1. No hydraulic fracturing shall be conducted by Lessee on a well located on a development parcel without the prior written consent of Lessor, said consent not to be unreasonably withheld.

9. Provide any "bonus" proposals or offers as part of the consideration for the lease in addition to lease payments or royalties proposed.

REPLY: An additional payment to Lessor in the amount of \$25,000 will be made to the Lessor by the Lessee upon the move in of a drilling rig for each well located on a development parcel.

10. Do you have a separate proposed "surface use and damages" agreement or is this included in the standard lease form?

REPLY: A "Surface Use Agreement" will be completed, with provisions consistent with the terms and provisions of this Reply, by the Lessor and Lessee prior to the location of a wellsite on a nondevelopment parcel.

11. Are you willing to accept "Pugh" clause regarding severance of a lease into separate tracks?

REPLY: The primary term of the Lease will be three (3) years. A "Pugh clause" will be added that states that in the event the Lease is being held by operations at the end of the primary term of the Lease, then any of the leasehold lands that are not included in a pooled or unitized area within one calendar year from the end of the primary term of the Lease will be released from the Lease.

However, if at any time within the primary term of the Lease and while the same remains in force and effect, Lessor receives any bona fide offer, acceptable to Lessor, to grant an additional lease ("top lease") covering all or part of the leased premises, Lessee shall have the continuing option, by meeting any such offer, to acquire such top lease. Any offer must be in writing, and must set forth the proposed Lessee's name, bonus consideration and royalty consideration to be paid for such lease, and include a copy of the lease form to be utilized, which form should reflect all pertinent and relevant terms and conditions of the top lease. Lessee shall have thirty (30) days after receipt from Lessor of a complete copy of any such offer, to advise Lessor in writing of its election to enter into an oil and gas lease with Lessor on equivalent terms and conditions. Upon receipt of such notice, Lessor shall execute and deliver such new lease to Lessee and Lessee shall pay the bonus due upon receipt of such new lease. If Lessee fails to notify Lessor within the aforesaid thirty (30) day period of its election to meet any such bona fide offer, Lessor shall have the right to accept said offer for a top lease.

12. Has your organization ever been cited for any violation by the State of MI? If so, please provide details and resolution of such violation or violations.

REPLY: No violations have ever been issued by the State of Michigan or other governmental entity to the Lessee.

**Master Key Energy, LLC's ("MKE")
Reply to City of Adrian request for proposal for an Oil and Gas lease**

Exhibit "A"

Please see the attached documents

Michigan Department of Energy, Labor & Economic Growth

Filing Endorsement

This is to Certify that the CERTIFICATE OF ASSUMED NAME

for

MASTER KEY ENERGY, LLC

ID NUMBER: D4185V

to transact business under the assumed name of

MASTERKEY ENERGY, LLC

received by facsimile transmission on August 16, 2010 is hereby endorsed

Filed on August 17, 2010 by the Administrator.

The document is effective on the date filed, unless a subsequent effective date within 90 days after received date is stated in the document.

Expiration Date: December 31, 2015



In testimony whereof, I have hereunto set my hand and affixed the Seal of the Department, in the City of Lansing, this 17TH day of August, 2010.

Director

Bureau of Commercial Services

**MICHIGAN DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
BUREAU OF COMMERCIAL SERVICES**

Date Received	(FOR BUREAU USE ONLY)
	This document is effective on the date filed, unless a subsequent effective date within 90 days after received date is stated in the document.
IRIS K LINDER	
FRASER TREBILCOCK DAVIS & DUNLAP, PC	
124 W ALLEGAN STE 1000	
LANSING MI 48933	EFFECTIVE DATE:

Document will be returned to name and address indicated above if left blank document will be mailed to the registered office.

ARTICLES OF ORGANIZATION
For use by Domestic Limited Liability Companies
(Please read information and instructions on last page)

Pursuant to the provisions of Act 23, Public Acts of 1993, the undersigned execute the following Articles:

ARTICLE I

The name of the limited liability company is: Master Key Energy, LLC

ARTICLE II

The purpose or purposes for which the limited liability company is formed is to engage in any activity within the purposes for which a limited liability company may be formed under the Limited Liability Company Act of Michigan.

ARTICLE III

The duration of the limited liability company is perpetual.

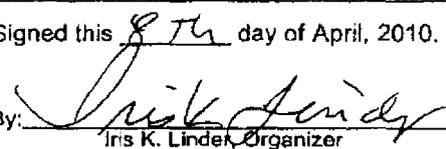
ARTICLE IV

- The street address of the location of the registered office is:
131 Kercheval Ave, Suite 311, Grosse Pointe Farms, MI 48236
- The mailing address of the registered office if different than above: n/a
- The name of the resident agent at the registered office is: H. Richard Fruehauf, Jr.

ARTICLE V

The business of the limited liability company shall be managed by a manager, consistent with the requirements of the Operating Agreement.

Signed this 8th day of April, 2010.

By: 
Iris K. Linder, Organizer

04/08/2010 3:45PM

MICHIGAN DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH BUREAU OF COMMERCIAL SERVICES	
Date Received	(FOR BUREAU USE ONLY)
	This document is effective on the date filed, unless a subsequent effective date within 90 days after received date is stated in the document.
IRIS K LINDER	
FRASER TREBILCOCK DAVIS & DUNLAP, PC	
124 W ALLEGAN STE 1000	
LANSING MI 48933	
EXPIRATION DATE: December 31, _____	

2. Document will be returned to name and address indicated above.
 If left blank document will be mailed to the registered office.

CERTIFICATE OF ASSUMED NAME

For use by Corporations, Limited Partnerships and Limited Liability Companies
 (Please read information and instructions on reverse side)

Pursuant to the provisions of Act 284, Public Acts of 1972 (profit corporations), Act 162, Public Acts of 1982 (nonprofit corporations), Act 213, Public Acts of 1982 (limited partnerships), or Act 23, Public Acts of 1993 (limited liability companies), the corporation, limited partnership, or limited liability company in Item one executes the following Certificate:

1. The name of the corporation, limited partnership, or limited liability company is: Master Key Energy, LLC
2. The identification number assigned by the Bureau is: D4185V
3. The assumed name under which business is to be transacted is: MasterKey Energy, LLC
4. This document is hereby signed as required by the Act.

COMPLETE ITEM 5 ON LAST PAGE IF THIS NAME IS ASSUMED BY MORE THAN ONE ENTITY.

Signed this 16th day of August, 2010.

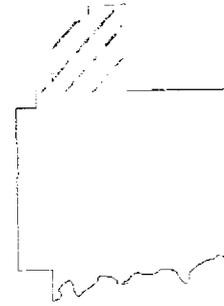
By Iris K. Linder
 Iris K. Linder, Organizer



1 inch = 1,000 feet

Master Key Energy LLC's ("MKE")
Reply to City of Adrian request for proposal for an Oil and Gas Lease

EXHIBIT "B"



INDEX



Developmental Parcels



Non-Developmental Parcels

Master Key Energy, LLC's ("MKE")
Reply to City of Adrian request for proposal for an Oil and Gas Lease

Exhibit "C"
Wells

DEQ#	WELL NAME	WELL#	APINo	SEC	TWP	RANGE	LOCATION	TWP NAME	COUNTY
20519	Ausable	8-28	21-137-20519-00-00	28	30N	3W	C OF NE/4	Bagley	Otsego
20520	Ausable	9-34	21-137-20520-00-00	34	30N	3W	SW NE NW	Bagley	Otsego
26537	Baywood - St Ausable	11-27	21-137-26537-00-00	27	30N	3W	SE NW SW	Bagley	Otsego
26606	Baywood & Johnson	12	21-137-26606-01-00	22	30N	3W	SE NW NW	Bagley	Otsego
31401	Swift	1-28	21-137-31401-00-00	28	30N	3W	NW NE SE	Bagley	Otsego
34218	Swift	1-28SWD	21-137-34218-00-00	28	30N	3W	SE NE SE	Bagley	Otsego
38337	State Bagley	1-27	21-137-38337-00-00	27	30N	3W	C NE NW	Bagley	Otsego
38602	Styles	3-3	21-137-38602-00-00	3	29N	3W	SW SE NE	Bagley	Otsego
40721	State Bagley	2-27	21-137-40721-00-00	27	30N	3W	SW SW NE	Bagley	Otsego
40872	Miller	1-9	21-137-40872-01-00	9	29N	3W	NW SE SW	Bagley	Otsego
40919	Revord	2-9	21-137-40919-01-00	9	29N	3W	NE SE NW	Bagley	Otsego
41532	Rowe	3-9	21-137-41532-00-00	9	29N	3W	SW SE SE	Bagley	Otsego
41670	State Bagley	1-22	21-137-41670-01-00	22	30N	3W	SW NE SE	Bagley	Otsego
41802	St Otsego Lake	1-4	21-137-41802-00-00	4	29N	3W	SW SW SW	Lake	Otsego
41812	St Otsego Lake	1-3	21-137-41812-00-00	3	29N	3W	SW SW NW	Bagley	Otsego
41813	St Otsego Lake	2-3	21-137-41813-00-00	3	29N	3W	NW SW SW	Bagley	Otsego
41831	HRF SWD	1-10SWD	21-137-41831-00-00	10	29N	3W	NE NE NW	Lake	Otsego
42099	St Otsego Lake	1-10	21-137-42099-00-00	10	29N	3W	NE NE NW	Bagley	Otsego
42182	St Otsego Lake	2-10	21-137-38236-01-00	10	29N	3W	SW NW NW	Bagley	Otsego
42512	Geraldine	1-36	21-137-42512-00-00	36	30N	3W	SW NE SW	Bagley	Otsego
42513	Geraldine	8-35	21-137-42513-00-00	35	30N	3W	SW NE SE	Bagley	Otsego
42514	Geraldine	6-35	21-137-42514-00-00	35	30N	3W	NW NW NW	Bagley	Otsego
42515	Geraldine	5-35	21-137-42515-00-00	35	30N	3W	NW SW NE	Bagley	Otsego
42516	Geraldine	4-26	21-137-42516-00-00	26	30N	3W	SW NW NE	Bagley	Otsego
42517	Geraldine	6-26	21-137-42517-00-00	26	30N	3W	NE NW SW	Bagley	Otsego
42518	Geraldine	5-26	21-137-42518-00-00	26	30N	3W	SW NW NW	Bagley	Otsego
42519	Geraldine	2-26A	21-137-38647-01-00	26	30N	3W	NW SE SE	Bagley	Otsego
42575	Styles	3-10	21-137-42575-00-00	10	29N	3W	NW SE NE	Bagley	Otsego
42719	St Otsego Lake	2-11	21-137-42719-00-00	11	29N	3W	NE SW NW	Bagley	Otsego
42720	State Styles	4-3	21-137-42720-00-00	3	29N	3W	NW SW SE	Bagley	Otsego
42877	Styles	1-33	21-137-42877-00-00	33	30N	3W	NE NW NE	Bagley	Otsego
43102	Lucas Trust	1-21D	21-137-43102-00-00	21	30N	3W	NE NE SE	Bagley	Otsego
43215	Geraldine	1-25	21-137-43215-00-00	25	30N	3W	NW SE SW	Bagley	Otsego
43235	Geraldine	2-36	21-137-43235-00-00	36	30N	3W	NE NW SE	Bagley	Otsego
43362	St Bagley & Bortels	3-27	21-137-43362-00-00	27	30N	3W	NE NE SE	Bagley	Otsego
43415	St Bagley	3-36	21-137-43415-00-00	36	30N	3W	NW NE NE	Bagley	Otsego
43461	Styles	4-34	21-137-43461-00-00	34	30N	3W	SW SE SW	Bagley	Otsego
43467	St Bagley & Styles	3-34	21-137-43467-00-00-00-00	34	30N	3W	NE SE SE	Bagley	Otsego
43525	Geraldine	7-35	21-137-43525-00-00	35	30N	3W	NE SW SW	Bagley	Otsego
43815	Handwork	2-14	21-137-43815-00-00	14	29N	3W	NW SW NE	Bagley	Otsego
43970	Avery	2-4	21-137-43970-00-00	4	29N	3W	NW SE NW	Bagley	Otsego
43972	St Bagley	4-36	21-137-43972-00-00	36	30N	3W	SW NW NW	Bagley	Otsego
43973	Roye	2-21	21-137-43973-00-00	21	30N	3W	SE NE SW	Bagley	Otsego
43975	Baywood Associates et al	2-33	21-137-43975-00-00	33	30N	3W	SE SE SE	Bagley	Otsego
43976	Geraldine	3-33	21-137-43976-00-00	33	30N	3W	SE NE NW	Bagley	Otsego

Master Key Energy, LLC's ("MKE")
 Reply to City of Adrian request for proposal for an Oil and Gas Lease

Exhibit "C"									
Wells									
44087	Ziobron	3-4	21-137-44087-00-00	4	29N	3W	NW SW NE	Bagley	Otsego
44088	Wilson	4-4	21-137-44088-00-00	4	29N	3W	SE SW SW	Bagley	Otsego
45433	Geraldine	2-25	21-137-45433-00-00	25	30N	3W	NW NW NW	Bagley	Otsego
45621	St Otsego Lake	4-9	21-137-45621-00-00	9	29N	3W	SW NE NE	Bagley	Otsego
45627	Famar	3-25	21-137-45627-00-00	25	30N	3W	NE SW SE	Bagley	Otsego
46663	Cybullia	5-36	21-137-46663-00-00	36	30N	3W	NE SE SE	Bagley	Otsego
47417	Wolf	4-33	21-137-47417-00-00	33	30N	3W	SW SE SW	Bagley	Otsego
48108	St Otsego Lk & McKim	1-8	21-137-48108-00-00	8	29N	3W	SE NE SE	Bagley	Otsego
56138	State Otsego Lake	6-10	21-137-56138-00-00	10	29N	3W	SE SW NW	Otsego LK	Otsego
56235	St Bagley & Geraldine	6-33	21-137-56235-00-00	33	30N	3W	NE NE NW	Bagley	Otsego
56265	Williams	A1-9	21-137-56265-00-00	9	29N	3W	SW NW NW	Lake	Otsego
56301	Geraldine	C2-22	21-137-56301-00-00	22	30N	3W	NW NE SW	Bagley	Otsego
56750	Rifle River	3-21	21-137-56750-00-00	21	30N	3W	SE SW SE	Bagley	Otsego
56802	State Otsego Lake St. Bagley & Cooper	D3-5	21-137-56802-00-00	5	29N	3W	NE SW SE	Lake	Otsego
57271	Standard	D1-21	21-137-57271-00-00	21	30N	3W	NW SW SE	Bagley	Otsego
57290	Rifle River	D3-21	21-137-57290-00-00	21	30N	3W	NW SW SE	Bagley	Otsego
58165	Lappan State Bagle, Hlywa &	B1-28	21-137-58165-00-00	28	30N	3W	SW NE NW	Bagley	Otsego
58166	Lappan State Bagle, Hlywa &	A2-28	21-137-58166-00-00	28	30N	3W	SW NE NW	Bagley	Otsego

Master Key Energy, LLC's ("MKE")
 Response to City of Adrian request for proposal for an Oil and Gas Lease

Exhibit "C"

MAVERICK EXPLORATION & PRODUCTION, INC. / LITHOS EXPLORATION, INC.

CONTROL OF WELL INSURANCE

WELL LISTING @ INCEPTION: 07/16/11 - 7/16/12 POLICY PERIOD

	COVERED WI (%)	WELL NAME	DATE DRILLED	TOTAL DEPTH (FT)	NET FTG (FT)	LOCATION	
						COUNTY	STATE
1	100	ST. CLEON #8-24	5/92	6130	6130	MANISTEE	MI
2	100	ST. FREDERIC #3-12A	11/93	7200	7200	CRAWFORD	MI
3	100	SVEC #1	* 9/86	5681	5681	GRAND TRAVERSE	MI
4	100	J. R. SMITH #1A-21	6/77	4222	4222	EATON	MI
5	100	EATON RAPIDS SWD SYSTEM #1	* 8/78	2810	2810	EATON	MI
6	100	TULLER #1-28	8/79	6470	6470	GRAND TRAVERSE	MI
7	100	CUNNINGHAM -ST. PARADISE #1-27	7/79	6584	6584	GRAND TRAVERSE	MI
8	100	RYESON #3-27B HD1	4/84	7196	7196	GRAND TRAVERSE	MI
9	100	KERR 3-4	2/77	7325	7325	CRAWFORD	MI

* These wells do not sell gas therefore do not connect into a pipeline.

Master Key Energy, LLC's ("MKE")

Reply to City of Adrian request for proposal for an Oil and Gas Lease

Exhibit "D"

**OIL AND GAS LEASE
(PAID UP)**

THIS AGREEMENT is made as of the ____ day of _____, 2011, by City of Adrian, a Michigan Municipal Corporation, of 100 E. Front Street, Adrian, MI 49221 hereinafter called Lessor (whether one or more), and Master Key Energy, L.L.C., of P.O. Box 2104, Traverse City, Michigan 49685-2104 hereinafter called Lessee.

1. Lessor, for and in consideration of \$10.00 & O.V.C., the receipt of which is hereby acknowledged, and the covenants and agreements of the Lessee hereinafter contained, does hereby grant, lease and let unto Lessee the land described below, including all interests therein Lessor may acquire by operation of law, reversion or otherwise, (herein called "said land"), exclusively, for the purposes of exploring by geophysical and other methods, drilling, mining, operating for and producing oil and/or gas, together with all rights, privileges and easements useful or convenient in connection with the foregoing and in connection with treating, storing, caring for, transporting and removing oil and/or gas produced from said land or any other land adjacent thereto, including but not limited to rights to lay pipelines, build roads, drill, establish and utilize wells and facilities for disposition of water, brine or other fluids, and for enhanced production and recovery operations, and construct tanks, power and communication lines, pump and power stations, and other structures and facilities. Said land is in the County of Lenawee State of Michigan, and is described as follows:

See Addendum "A" attached hereto and made a part hereof for the legal descriptions.

See Addendum "B" attached hereto and made a part hereof for additional clauses.
In the event of a conflict between the main body of the Oil and Gas Lease and Addendum "B", Addendum "B" shall control and prevail.

Containing 520 gross acres, more or less, and all lands and interests therein contiguous or appurtenant to the land specifically described above that are owned or claimed by Lessor, or to which Lessor has a preference right of acquisition, including but not limited to all lands underlying all alleys, streets, roads or highways and all riparian or submerged lands along and/or underlying any rivers, lakes or other bodies of water. The term "oil" when used in this lease shall mean crude oil and other hydrocarbons, regardless of gravity, produced at the well in liquid form by ordinary production methods, including condensate separated from gas at the well. The term "gas" when used in this lease shall mean hydrocarbons produced in a gaseous state at the well (not including condensate separated from gas at the well), helium, nitrogen, carbon dioxide and other gases.

2. It is agreed that this lease shall remain in force for a primary term of three (3) years from the date of this lease, and as long thereafter as operations are conducted upon said land or on lands pooled or unitized therewith with no cessation for more than 90 consecutive days; provided, however, that in no event shall this lease terminate unless production of oil and/or gas from all wells located on said land, or on lands pooled or unitized therewith, has permanently ceased. If operations commenced during the primary term are discontinued less than 90 days before the end of the term, this lease shall not terminate at the end of the primary term if operations are again conducted within 90 days after the discontinuance. Whenever used in this lease the word "operations" shall refer to any of the following and any activities related thereto: preparing location for drilling, drilling, testing, completing, equipping, reworking, recompleting, deepening,

3. Lessee covenants and agrees to pay the following royalties: (a) To deliver to the credit of Lessor into tank reservoirs or into the pipeline to which Lessee may connect its wells, one-eighth of the oil produced and saved from said land, Lessor's interest to bear one-eighth of the cost of treating oil to render it marketable pipeline oil, or from time to time, at the option of Lessee, Lessee may sell the oil produced and saved from said land and pay Lessor one-eighth of the net amount realized by Lessee, computed at the wellhead; (b) To pay Lessor on gas produced from said land (1) when sold by Lessee, one-eighth of the net amount realized by Lessee, computed at the wellhead, or (2) when used by Lessee for purposes other than those specified in Paragraph numbered 7 of this lease, one-eighth of the net market value at the wellhead of the gas so used. As used in this lease, the term "net amount realized by Lessee, computed at the wellhead" shall mean the gross proceeds received by Lessee from the sale of oil and gas minus post-production costs incurred by Lessee between the wellhead and the point of sale, and the term "net market value at the wellhead shall mean the current market value (at the time of production) of the gas at a market point where gas produced in the general area is commonly purchased and sold, minus the post-production costs that would be incurred by Lessee between the wellhead and such market point in order to realize that market value. As used in this lease, the term "post-production costs shall mean all cost and expense of (a) treating and processing oil and/or gas to separate and remove non-hydrocarbons including but not limited to water, carbon dioxide, hydrogen sulfide and nitrogen, and (b) separating liquid hydrocarbons from gas, other than condensate separated at the well, and (c) transporting oil and/or gas, including but not limited to transportation between the wellhead and any production or treating facilities, and transportation to the point of sale, and (d) compressing gas for transportation and delivery purposes, and (e) metering oil and/or gas to determine the amount sold and/or the amount used by Lessee for purposes other than those specified in Paragraph numbered 7 of this lease, and (f) sales charges, commissions and fees paid to third parties (whether or not affiliated) in connection with the sale of the gas, and (g) any and all other costs and expenses of any kind or nature incurred in regard to the gas, or the handling thereof, between the wellhead and the point of sale. Lessee may use its own pipelines and equipment to provide such treating, processing, separating, transportation, compression and metering services, or it may engage others to provide such services; and if Lessee uses its own pipelines and/or equipment, post-production costs shall include reasonable depreciation and amortization expenses relating to such facilities, together with Lessee's cost of capital and a reasonable return on its investment in such facilities. Prior to payment of royalty, Lessor shall execute a Division Order certifying Lessor's interest in production. Lessee may pay all taxes and fees levied upon the oil and gas produced, including, without limitation, severance taxes and privilege and surveillance fees, and deduct a proportionate share of the amount so paid from any monies payable to Lessor hereunder.

4. If any well, capable of producing oil and/or gas, whether or not in paying quantities, located on said land or on lands pooled or unitized with all or part of said land, is at any time shut in and production therefrom is not sold or used off the premises, nevertheless such shut-in well shall be considered a well producing oil and/or gas and this lease will continue in force while such well is shut in, notwithstanding expiration of the primary term. In lieu of any implied covenant to market, Lessee expressly agrees to market oil and/or gas produced from Lessee's wells located on said land or on land pooled or unitized therewith, but Lessee does not covenant or agree to reinject or recycle gas, to market such oil and/or gas under terms, conditions or circumstances which in Lessee's judgment are uneconomic or otherwise unsatisfactory or to bear more than Lessee's revenue interest share of the cost and expense incurred to make the production marketable. If all wells on said land, or on lands pooled or unitized with all or part of said land, are shut in, then within 60 days after expiration of each period of one year in length (annual period) during which all such wells are shut in, Lessee shall be obligated to pay or tender, as royalty, to Lessor, or to Lessor's credit in the directly to Lessor Bank, at above address, or its successors, as Lessor's agent, which shall continue as the depository regardless of changes in ownership of royalties, shut-in royalties or other money, the sum of \$1.00 multiplied by the number of acres subject to this lease, provided, however that if production from a well or wells located on said land or on lands pooled or unitized therewith is sold or used off the premises before the end of any such period or if at the end of any such annual period this lease is being maintained in force and effect other than solely by reason of the shut-in well(s), Lessee shall not be obligated to pay or tender said sum of money for that annual period. This shut-in royalty payment may be made in currency, draft or check, at the option of Lessee, and the depositing of such payment in any post office, with sufficient postage and properly addressed to Lessor, or said bank, within 60 days of the expiration of the annual period shall be deemed sufficient payment as herein provided.

5. If Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall give written notice to Lessee specifically describing Lessee's non-compliance. Lessee shall have 90 days from receipt of such notice to commence, and shall thereafter pursue with reasonable diligence, such action as may be necessary or proper to satisfy such obligation of Lessee, if any, with respect to Lessor's notice. Neither the service of said notice nor the doing of any acts by Lessee in response thereto shall be deemed an admission or create a presumption that Lessee has failed to perform all its obligations hereunder. No judicial action may be commenced by Lessor for forfeiture of this lease or for damages until after said 90 day period. Lessee shall be given a reasonable opportunity after a final court determination to prevent forfeiture by discharging its express or implied obligation as established by the court. If this lease is canceled for any cause, it shall, nevertheless remain in force and effect as to (a) sufficient acreage around each well as to which there are operations, so as to constitute a drilling or maximum allowable unit under applicable governmental regulations, such acreage to be designated by Lessee in such shape as then existing spacing rules permit and (b) any part of said land included in a pooled or unitized unit on which there are operations. Lessee shall also have such easements on said land as are necessary or convenient for operations on the acreage so retained.

6. If this lease covers less than the entire undivided interest in the oil and gas in said land (whether Lessor's interest is herein specified or not), then the royalties, shut-in royalties and any extension payment pursuant to Paragraph numbered 17 below shall be paid to Lessor only in the proportion which the interest in oil and gas covered by this lease bears to the entire undivided interest therein.

7. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operations hereunder, except water from the wells of Lessor. When requested by Lessor, Lessee shall bury Lessee's pipelines below plow depth. No well shall be drilled nearer than 200 feet from the house or barn now on said land without written consent of Lessor. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing and any other downhole equipment and fixtures.

8. Lessee is hereby granted the rights to pool or unitize said land, or any part of said land, with other lands, as to any or all minerals or horizons, to establish units containing not more than approximately 160 acres; provided, however, such units may be established so as to contain not more than approximately 640 acres as to any or all of the following: (a) gas, (b) oil produced from formations below the top of the Glenwood Member of the Black River Group and (c) oil produced

from wells classified as gas wells by the regulatory agency having jurisdiction. If units larger than those permitted above, either at the time established or thereafter, are required or permitted under any governmental rule or order to drill or operate a well at a regular location, to obtain the maximum allowable from any well or for any other reason, then the maximum unit size authorized hereby shall conform to the size required or permitted by such governmental rule or order. Lessee may enlarge the unit to the maximum area permitted herein and may reform said unit to include after-acquired leases within the unit area. Lessee may create, enlarge or reform the unit or units as above provided at any time, and from time to time during the continuance of this lease, either before or after production is obtained. A unit established hereunder shall be effective for all purposes of this lease, whether or not all interests in the lands in the unit are effectively pooled or unitized. Lessee may, but shall not be required to, drill more than one well in each unit. Lessee may reduce or terminate such unit or units at any time prior to the discovery of oil or gas on the pooled or unitized lands, or at any time after discovery subsequent to the cessation of production. Lessee may create, enlarge, reform, reduce, or terminate each unit by recording a written declaration to that effect in the office of the Register of Deeds in the county or counties in which such unit is located. Any operations conducted on any part of the lands pooled or unitized shall be deemed to be on the lands leased herein within the meaning of all provisions of this lease. Production of oil and/or gas from the unit shall be allocated to the lands described herein which are included in the unit in the same proportion as the number of surface acres in the lands described herein which are included in the unit bears to the total number of surface acres in the unit.

9. In addition to the rights to pool or unitize granted to the Lessee in Paragraph numbered 8 above, for the purpose of promoting the development of hydrocarbon production from shallow formations, as hereinafter defined, Lessee is granted the right to pool or unitize the shallow formations in said land, or any part of said land with other lands, to establish a unit or units of any size and shape for the drilling and operation of multiple wells. The unit shall consist of any number of contiguous tracts or parcels of land. The exercise of this right shall be effective only if the required well density (at least one well drilled into the pooled or unitized shallow formation for each 240 acres of the unit) is attained no later than two (2) years after recording of the written declaration of the unit. As used herein, the term "shallow formations" shall mean formations between the surface of the earth and the top of the Traverse Limestone Formation. All provisions of Paragraph numbered 8, including those regarding Lessee's identification of a unit, the effect of operations conducted thereon and the allocation of production from wells thereon, shall apply in the same manner to a unit formed pursuant to this paragraph for production from shallow formations, except to the extent inconsistent with this paragraph. Lessee may expand the unit to include additional lands, provided that the required well density (one well drilled for every 240 acres) is maintained, or is attained by the drilling of an additional well or wells within one (1) year after each such expansion.

10. This lease is subject to laws and to rules, regulations and orders of any governmental agency having jurisdiction, from time to time in effect, pertaining to well spacing, pooling, unitization, drilling or production units, or use of material and equipment.

11. If, after the date hereof, the leased premises shall be conveyed in severalty or in separate tracts, the premises shall, nevertheless, be developed and operated as one lease, except that royalties as to any producing well shall be payable to the owner or owners of only those tracts located within the drilling unit designated by the state regulatory agency for such well and apportioned among said tracts on a surface acreage basis; provided, however, if a portion of the leased premises is pooled or unitized with other lands for the purpose of operating the pooled unit as one lease, this paragraph shall be inoperative as to the portion so pooled or unitized.

12. If Lessee is prevented from, or delayed in commencing, continuing, or resuming operations, or complying with its express or implied obligations hereunder by circumstances not reasonably within Lessee's control, this lease shall not terminate and Lessee shall not be liable in damages so long as said circumstances continue (the "period of suspension"). These circumstances include, but are not limited to the following: conflict with federal, state or local laws, rules, regulations and executive orders; acts of God; strikes; lockouts; riots; wars; improper refusal or undue delay by any governmental agency in issuing a necessary approval, license or permit applied for by Lessee; equipment failures; and inability to obtain materials in the open market or to transport said materials. If the period of suspension commences more than 90 days prior to the end of the primary term of this lease, then that period of suspension shall be added to the primary term. If the period of suspension commences less than 90 days prior to the end of the primary term or at any time after the primary term, then this lease shall not terminate if Lessee shall commence or resume operations within 90 days after the end of the period of suspension.

13. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants and provisions of this lease shall extend to such party's heirs, devisees, legal representatives, successors or assigns. Notwithstanding any other actual or constructive knowledge of Lessee, no change in the ownership of land or assignment of royalties or other monies, or any part thereof, shall be binding on Lessee until 45 days after Lessee has received, by certified mail, written notice of such change and the originals or certified copies of those instruments that have been properly filed for record and that shall be necessary in the opinion of Lessee to establish the validity of such change of ownership or division of interest. No change or division in the ownership of said land, royalties or other monies, or any part thereof, however accomplished, shall increase the obligations or diminish the rights of Lessee, including, but not limited to, rights and obligations relating to the location and drilling of wells and the measurement of production. Upon assignment by Lessee, its successors or assigns, the assignor shall be released from, and the assignee shall assume, the responsibility to fulfill the conditions and to perform the covenants of this lease, express or implied, with regard to the interest assigned. Breach of any covenant or failure to fulfill any condition by an owner of any part of the leasehold interest created by this lease shall not defeat or affect the rights of the owner(s) of any other part.

14. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee may at any time pay all or part of any land contract, mortgage, taxes, or other liens or charges with respect to said land, either before or after maturity and be subrogated to the rights of the holder thereof, and that Lessee shall be entitled to reimbursement out of any royalty or other monies payable to Lessor hereunder. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as Lessor.

15. Lessee may at any time surrender this lease as to all or any part of said land, or as to any depths or formations therein, by delivering or mailing a release to Lessor if the lease is not recorded or by placing a release of record in the proper county if the lease is recorded. If this lease is surrendered only as to part of said land, any shut-in royalties which may thereafter be payable hereunder shall be reduced proportionately.

16. All written notices permitted or required by this lease to be given Lessor and Lessee herein shall be at their respective addresses listed hereinabove, shall be by certified United States mail, and shall identify this lease by date,

parties, description and recording data; provided that either party may change such notice address by giving written notice to the other party specifying the new address.

17. This lease may, at Lessee's option, be extended as to all or part of the lands covered hereby for an additional primary term 0 year(s) commencing on the date that the lease would have expired but for the extension. Lessee may exercise its option by paying or tendering to Lessor an extension payment of \$0.00 per acre for the land then covered by the extended lease, said bonus to be paid or tendered to Lessor in the same manner as provided in Paragraph numbered 4 hereof with regard to the payment of shut-in royalties. If Lessee exercises this option, the primary term of this lease shall be considered to be continuous, commencing on the date of the lease and continuing from that date to the end of the extended primary term. Lessee's option shall expire on the first to occur of the following: (a) the termination or expiration of this lease or (b) the second anniversary of the expiration of the primary term stated in Paragraph numbered 2 above.

18. It is understood and agreed that Lessee hereunder may utilize injection fluids such as (without limitation), water, carbon dioxide, nitrogen, and other gases for the purpose of enhanced hydrocarbon recovery. Lessor agrees that said fluids may be left in the reservoir or reservoirs after recovery is terminated.

Executed as of the day and year first above written.

LESSOR: CITY OF ADRIAN

By:
Its:

STATE OF MICHIGAN)
) ss. (Corporate Acknowledgment)
COUNTY OF LENAWEЕ)

The foregoing instrument was acknowledged before me this ____ day of ____, 2011, by _____ as _____ of City of Adrian, a Michigan Municipal Corporation, on behalf of said company.

My Commission Expires: _____
_____, Notary Public
Notary in Lenawee County, Michigan
Acting in Lenawee County, Michigan

Agreed and Accepted this ____ day of _____ 2011.

MASTER KEY ENERGY, LLC

By:
Its:

STATE OF MICHIGAN)
) ss. (Corporate Acknowledgment)
COUNTY OF LENAWEЕ)

The foregoing instrument was acknowledged before me this ____ day of ____, 2011, by _____ as _____ of Master Key Energy, LLC, on behalf of said company.

My Commission Expires: _____
_____, Notary Public
Notary in _____ County, Michigan
Acting in _____ County, Michigan

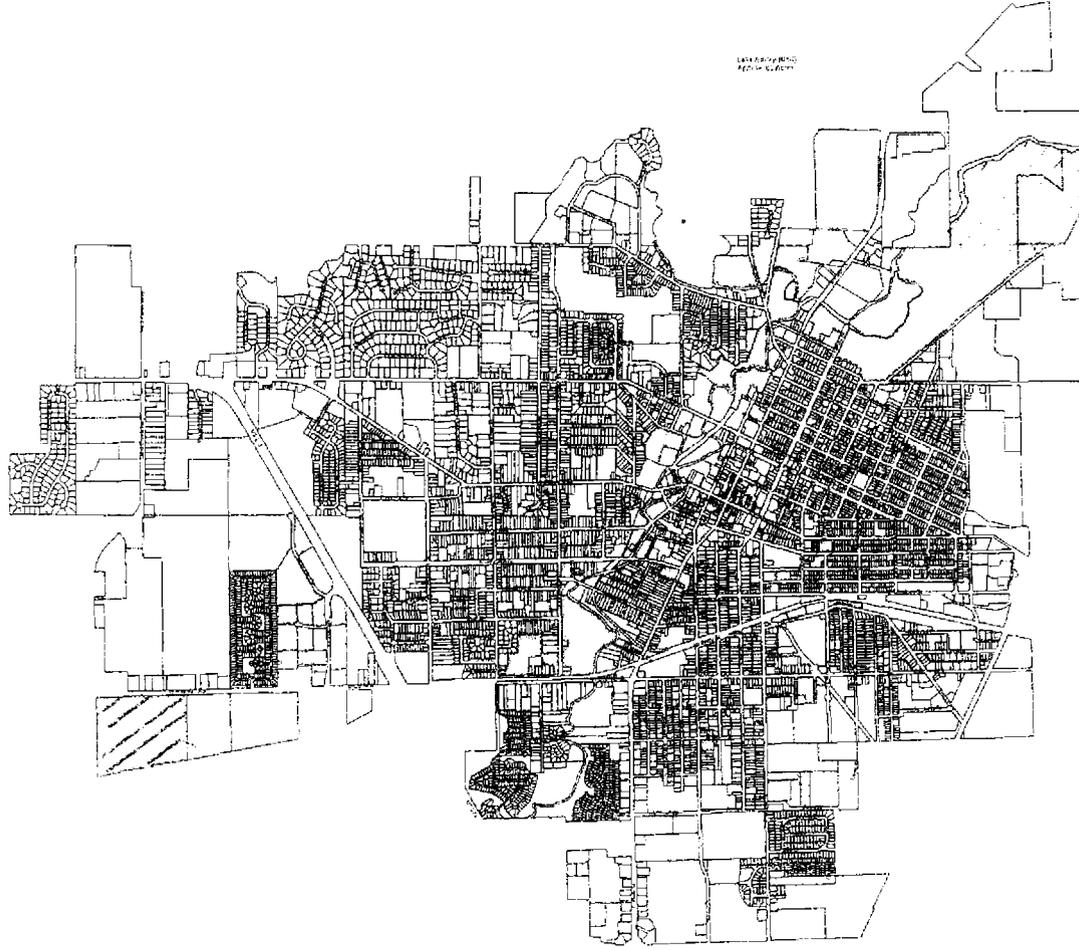
TEMPORARY ADDENDUM "A"



1 inch = 1,000 feet

Attached to and made a part of an Oil & Gas Lease between the City of Adrian, as Lessor and Master Key Energy LLC, as Lessee dated _____, 2011.

The purpose of this Temporary Addendum "A" is to set forth the City parcels to be leased. Upon the execution of the Oil & Gas Lease, this Temporary Addendum "A" will be replaced with another Addendum "A" setting forth the legal descriptions.



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Developmental Parcels



Non-Developmental Parcels

ADDENDUM "A"

Attached to and made a part of an Oil & Gas Lease dated the ____ day of _____, 2011 between the City of Adrian, as Lessor and Master Key Energy LLC, as Lessee.

(This Addendum "A" will set forth the legal descriptions of all of the lands covered by this Oil & Gas Lease)

ADDENDUM "B"

Attached to and made a part of an Oil & Gas Lease dated the ____ day of _____, 2011 between the City of Adrian, as Lessor and Master Key Energy LLC, as Lessee.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE MAIN BODY OF THE OIL & GAS LEASE, THIS ADDENDUM "B" SHALL CONTROL AND PREVAIL IN THE EVENT OF A CONFLICT BETWEEN THE MAIN BODY OF THE OIL AND GAS LEASE AND THIS ADDENDUM "B".

SAVOY ENERGY®, L.P.

920 HASTINGS, SUITE A
P.O. Box 1560
TRAVERSE CITY, MI 49685
(231) 941-9552 Ph
(231) 941-9885 Fax

Tulsa, OK
(918) 281-6398 Ph
(918) 281-6399 Fax
bill@savoyexp.com

June 24, 2011

Adrian City Commission
Purchasing Office
Adrian City Hall
135 E. Maumee Street
Adrian, MI 49221

Re: Request for Proposals for Oil and Gas Lease dated June 14, 2011

To The Adrian City Commission:

This letter, together with the enclosures included with this letter, comprise the Response of Savoy Energy, L.P. ("Savoy") to the City of Adrian, Michigan's Request for Proposals for Oil and Gas Lease dated June 14, 2011. Savoy welcomes the opportunity to respond and looks forward to reaching an additional leasing agreement with the City of Adrian ("City"). As further set out below, Savoy is also proposing that the existing lease (dated December 3, 2010) be amended to conform as to lease bonus and royalty with the new lease reached pursuant to the City's June 14th Request for Proposals. Such an arrangement will allow Savoy to combine additional City acreage with the leasehold acreage that Savoy has previously acquired from the City, together with Savoy's other leasehold acreage in the immediate area, including the City of Adrian Schools Lease as part of a 3-D seismic exploration and exploratory drilling effort to the mutual benefit of the City and Savoy.

The following will address the twelve points raised by the Request for Proposals:

- 1) See attached documentation. Additionally, Savoy Energy, L.P. is a Limited Partnership with Savoy Exploration, Inc., acting as its sole General Partner. Savoy Exploration, Inc. is governed by a Board of Directors comprised of Thomas C. Pangborn, Chief Executive Officer and Chairman of the Board; John R. Edman, former Chairman of General Motors Acceptance Corporation (GMAC); Harry C. Calcutt III, President and Chief Executive Officer for Northwestern Bank in Traverse

City, Michigan; and William T. Sperry, President and General Counsel for Savoy Exploration, Inc.

Savoy Energy, L.P. is controlled by an Executive Board comprised of Thomas C. Pangborn, Chief Executive Officer and Chairman of the Board; William T. Sperry, President and General Counsel; and Victor P. Stabio, Chief Executive Officer for Hallador Energy Company in Denver, Colorado. Hallador is a limited partner with a minority interest.

- 2) Savoy desires to lease all remaining City property which is available for lease.
- 3) The biographies of the principal people in Savoy's organization are covered in the company profile, a copy of which is enclosed herewith. This profile was printed between three and four years ago, but still summarizes our company, its history and the important people who have not changed. In particular, I would recommend reading pages 5 through 10 on the key people. The only person no longer with Savoy is Michael Flynn.
- 4) Savoy currently operates 44 wells in the State of Michigan; and operates no wells outside of the State of Michigan. Of these operated wells, 14 are in Adrian Township. The wells in Adrian Township are complete with production and marketing facilities, as are 6 Savoy operated wells in Hillsdale County to the west. Savoy would gladly provide a fieldtrip and tour of any of these facilities to show the various stages of development from drilling through production. Regarding Savoy's wells in Hillsdale County, they were drilled earlier and have more history to examine. Savoy would gladly allow representatives of the City to talk with any of the landowners on which Savoy operates one or more wells. The Freedom Farms Church in particular in Pittsford Township of Hillsdale County has two Savoy operated oil wells on the 80 acre church property. Additionally, the principals of Savoy were instrumental in drilling on highly sensitive, environmentally challenging recreational property owned by the City of Traverse City starting in 1984. Those wells are still in operation and have been the source of substantial benefit to the City of Traverse City and its taxpayers, with no concomitant negative impacts to the best of Savoy's knowledge. This is by way of example that Savoy's management and personnel in the field are experienced in operating in highly sensitive areas within the State of Michigan.
- 5) Savoy has a \$250,000.00 Performance Bond on file with the State of Michigan, and Savoy is willing to post an additional Performance Bond which would be additive to the \$250,000.00 Bond already in place to secure the performance of Savoy's obligations regarding operations conducted on the City property. Savoy has a high credit rating and has a zero debt capital structure. Banking and financial materials and references will be produced if covered by a mutually agreeable confidentiality agreement.

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June 24, 2011
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- 6) Savoy proposes a lease bonus of \$325.00 per acre to be paid at the time of execution of the lease.
- 7) Savoy proposes a royalty rate of 20% with no deductions from the royalty except the State of Michigan severance taxes. Savoy is willing to include “shut-in” provisions to pay \$25 per acre, per year for any well shut-in for longer than one year. The acreage included in each case would be the acreage within the drilling unit for the shut-in well.
- 8) See Lease Form included with this letter, together with an Exhibit “A”. This letter adds several provisions and representations of Savoy which will need to be agreed to as to final form and added to the Exhibit “A” for the final Oil and Gas Lease Agreement. Any provisions of this letter not contained that need to be added to the final lease will be added.

Exhibit “A” contains a covenant not to “frac” additionally none of the 20 producing wells in Hillsdale and Lenawee County have been fracked.

The right to drill on particular locations will be by mutual agreement with consent of the City to not be unreasonably withheld (see Exhibit “A” to Lease Form).

With regard to restoration of the drilling or production sites and with respect to environmental terms and conditions these matters are covered extensively by the State of Michigan rules and practices. However, Savoy is willing to enter into additional terms and provisions and assume additional obligations, which the City believes are necessary for its protection. As stated above, Savoy is willing to post an additional bond. Additionally, we use remote production facilities to the extent possible and have made use of this method of production in our previously drilled Adrian Township wells. This allows us to keep tank batteries, oil separation equipment and natural gas handling equipment farther removed from populated areas than would otherwise be the case. We will commit to follow the same practice with regard to any wells drilled on City property. As offered above, we would strongly recommend that the decision makers for City government take a tour of our drilling and production facilities to be able to see what goes on in this rather substantial industrial operation.

Further, Savoy will provide appropriate visual screening where necessary to achieve minimal visual impact on City Property and for the benefit of surrounding residents and owners.

- 9) As additional consideration for the granting of a lease, Savoy is willing to amend the existing lease between Savoy and the City dated December 3, 2010, to include the more favorable lease bonus and royalty rate terms included in the lease pursuant to the Request for Proposals. Additional bonus payments to bring the bonus payment on the previous lease up to \$325.00 per acre, and restart that lease as a three year lease commencing with the same date as the new lease, pursuant to this Request for Proposals. This would result in an additional payment to the City in the amount of \$128,170.50 plus an increase in royalty from 1/6 to 20%.

As a further additional consideration, Savoy will commit to provide up to \$18,000.00 per year for upkeep and maintenance of the parcel of land recently acquired by the City from the State of Michigan, located immediately south and west of the corner of Highway 52 and Curtis Road. As long as that parcel is under lease with Savoy and not included in a producing unit.

As a further additional consideration, Savoy will commit to commence acquisition of a 3-D seismic survey covering as much of the leased City property as is practicable within six months of execution of the new lease, subject to force majeure and the simultaneous seismic survey of the Adrian School property. (We need to make sure this coincides with an acceptable time for School property availability).

The results of such a seismic survey should provide Savoy a good three dimensional geologic and geophysical picture to add to the proprietary 30+ square mile picture of the Adrian Township area Savoy already owns. This seismic picture, available to no other company, has been extremely instrumental in Savoy successfully drilling thirteen consecutive producing wells in Adrian Township.

As a further additional consideration, Savoy will commit to commence and pursue drilling a well to test the Trenton-Black River formation on a unit containing leased City property or, subsequent to a successful well, pooled City property, within four months of Savoy's receipt of the processed 3-D seismic survey mentioned above, subject to force majeure.

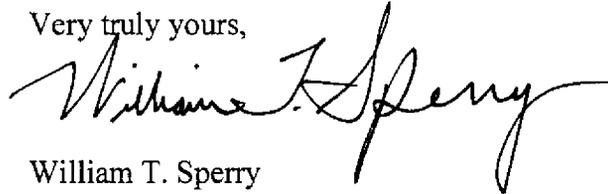
- 10) No, Savoy would propose to use an Exhibit "A" to the lease to provide any surface use or damage agreements. In that regard, Savoy would compensate the City by paying \$1,000.00 for each drilling location for the drilling and completion of the well only. If a well is productive and a portion of the land is taken out of other use for a substantial period of time, Savoy would then pay \$5,000.00 per acre for the longer term use of such land. At the end of production, subsequent to restoration of the surface, Savoy would tender the land back to the City.
- 11) Yes, Savoy is willing to negotiate a Pugh Clause as part of the Oil and Gas Lease. Such a Pugh Clause would include a continuous drilling provision.

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12) Yes, in the past fifteen years we have had five incidents that reached the level of the Compliance Section of the Michigan DNR-DEQ, all of which were resolved to the satisfaction of the DNR-DEQ. The details of all these incidents from 1996 to present are in the files and records of the appropriate state agency. Most recently, Savoy experienced an oil spill on the Warner #1-21 Well due to an equipment failure or a human error in installation which was immediately remediated on the same day it occurred. Savoy strives to minimize any such occurrences and is committed to immediately resolving such situations to the satisfaction of the state, regulatory authorities and the surface owners involved. In regard to financial coverage for such issue or problem, enclosed is a Certificate of Liability Insurance naming the City of Adrian as an additional insured party, showing the insurance coverage carried by our company. This coverage is far in excess of any regulatory requirements for any onshore operation; and is far more than is required by the State of Michigan.

If you have any questions or comments regarding the above, please feel free to contact the undersigned.

Very truly yours,



William T. Sperry
President and General Counsel

WTS/sb
Enclosures

**OIL AND GAS LEASE
(PAID UP)**

THIS AGREEMENT is made as of the _____ day of _____, 2011, by _____ of

hereinafter called Lessor (whether one or more), and Savoy Energy, L.P., P.O. Box 1560, Traverse City, MI 49685-1560, hereinafter called Lessee.

1. Lessor, for and in consideration of \$10.00 and other valuable consideration, the receipt of which is hereby acknowledged, and the covenants and agreements of the Lessee hereinafter contained, does hereby grant, lease and let unto Lessee the land described below, including all interests therein Lessor may acquire by operation of law, reversion or otherwise, (herein called "said land"), exclusively, for the purposes of exploring by geophysical and other methods, drilling, mining, operating for and producing oil and/or gas, together with all rights, privileges and easements useful or convenient in connection with the foregoing and in connection with treating, storing, caring for, transporting and removing oil and/or gas produced from said land or any other land adjacent thereto, including but not limited to rights to lay pipelines, build roads, drill, establish and utilize wells and facilities for disposition of water, brine or other fluids, and for enhanced production and recovery operations, and construct tanks, power and communication lines, pump and power stations, and other structures and facilities. Said Land is in the County of _____, State of Michigan, and is described as follows:

Containing _____ acres, more or less, and all lands and interests therein contiguous or appurtenant to the land specifically described above that are owned or claimed by Lessor, or to which Lessor has a preference right of acquisition, including but not limited to all lands underlying all alleys, streets, roads or highways and all riparian or submerged lands along and/or underlying any rivers, lakes or other bodies of water. The term "oil" when used in this lease shall mean crude oil and other hydrocarbons, regardless of gravity, produced at the well in liquid form by ordinary production methods, including condensate separated from gas at the well. The term "gas" when used in this lease shall mean hydrocarbons produced in a gaseous state at the well (not including condensate separated from gas at the well), helium, nitrogen, carbon dioxide and other commercial gases.

2. It is agreed that this lease shall remain in force for a primary term of _____ from the date of this lease, and as long thereafter as operations are conducted upon said land or on lands pooled or unitized therewith with no cessation for more than 90 consecutive days; provided, however, that in no event shall this lease terminate unless production of oil and/or gas from all wells located on said land, or on lands pooled or unitized therewith, has permanently ceased. If operations commenced during the primary term are discontinued less than 90 days before the end of the term, this lease shall not terminate at the end of the primary term if operations are again conducted within 90 days after the discontinuance. Whenever used in this lease the word "operations" shall refer to any of the following and any activities related thereto: preparing location for drilling, drilling, testing, completing, equipping, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil and/or gas, and production of oil and/or gas whether or not in paying quantities.

3. Lessee covenants and agrees to pay the following royalties: (a) To deliver to the credit of the Lessor into tank reservoirs or into the pipeline to which Lessee may connect its wells, one-eighth of the oil produced and saved from said land, Lessor's interest to bear one-eighth of the cost of treating oil to render it marketable pipeline oil, or from time to time, at the option of Lessee. Lessee may sell the oil produced and saved from said land and pay Lessor one-eighth of the net amount realized by Lessee computed at the wellhead, whether the point of sale is on or off said land. (2) To pay Lessor on gas produced from said land (1) when sold by Lessee, whether the point of sale is on or off said land, one eighth of the net amount realized by Lessee computed at the wellhead, or (2) when used by Lessee, for purposes other than those specified in Paragraph numbered 7 of this lease, the market value, at the wellhead, of one-eighth of said gas. Prior to payment of royalty, Lessor shall execute a Division Order setting forth his interest in production. Lessee may pay all taxes and fees levied upon the oil and gas produced, including, without limitation, severance taxes and privilege and surveillance fees, and deducts a proportionate share of the amount so paid from any monies' payable to Lessor hereunder.

4. If any well, capable of producing oil and/or gas, whether or not in paying quantities, located on said land or on lands pooled or unitized with all or part of said land, is at any time shut in and production there from is not sold or used off the premises, nevertheless such shut-in well shall be considered a well producing oil and/or gas and this lease will continue in force while such well is shut in, notwithstanding expiration of the primary term. In lieu of any implied covenant to market, Lessee expressly agrees to market oil and/or gas produced from Lessee's wells located on said land or on land pooled or unitized therewith, but Lessee does not covenant or agree to re-inject or recycle gas, to market such oil and/or gas under terms, conditions or circumstances which in Lessee's judgment are uneconomic or otherwise unsatisfactory or to bear more than Lessee's revenue interest share of the cost and expense incurred to make the production marketable. If all wells on said land, or on lands pooled or unitized with all or part of said land, are shut in, then within 60 days after expiration of each period of one year in length (annual period) during which all such wells are shut in, Lessee shall be obligated to pay or tender, as royalty, to Lessor at the address hereinabove written, shut-in royalties or other money, the sum of \$1.00 multiplied by the number of acres subject to this lease, provided, however that if production from a well or wells located on said land or on lands pooled or unitized therewith is sold or used off the premises before the end of any such period or if at the end of any such annual period this lease is being maintained in force and effect other than solely by reason of the shut-in well(s), Lessee shall not be obligated to pay or tender said sum of money for that annual period. This shut-in royalty payment may be made in currency, draft or check, at the option of Lessee, and the depositing of such payment in any post office, with sufficient postage and properly addressed to Lessor within 60 days expiration of the annual period shall be deemed sufficient payment as herein provided.

5. If Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall give written notice to Lessee specifically describing Lessee's non-compliance. Lessee shall have 90 days from receipt of such notice to commence, and shall thereafter pursue with reasonable diligence, such action as may be necessary or proper to satisfy such obligation of Lessee, if any, with respect to Lessor's notice. Neither the service of said notice nor the doing of any act by Lessee in response thereto shall be deemed an admission or create a presumption that Lessee has failed to perform all its obligations hereunder. No judicial action may be commenced by Lessor for forfeiture of this lease or for damages until after said 90-day period. Lessee shall be given a reasonable opportunity after a final court determination to prevent forfeiture by discharging its express or implied obligation as established by the court. If this lease is canceled for any cause, it shall, nevertheless remain in force and effect as to (a) sufficient acreage around each well as to which there are operations, so as to constitute a drilling or maximum allowable unit under applicable governmental regulations, such acreage to be designated by Lessee in such shape as then existing spacing rules permit and (b) any part of said land included in a pooled or unitized unit on which there are operations, Lessee shall also have such easements on said land as are necessary or convenient for operations on the acreage so retained.

6. If this lease covers less than the entire undivided interest in the oil and gas in said land (whether Lessor's interest is herein specified or not), then the royalties, shut-in royalties and any extension payment pursuant to Paragraph numbered 17 below shall be paid to Lessor only in the proportion which the interest in oil and gas covered by this lease bears to the entire undivided interest therein.

7. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operations hereunder, except water from the wells of Lessor. When requested by Lessor, Lessee shall bury Lessee's pipelines below plow depth. No well shall be drilled nearer than 200 feet from the house or barn now on said land without written consent of Lessor. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing and any other downhole equipment and fixtures.

8. Lessee is hereby granted the rights to pool or unitize said land, or any part of said land, with other lands, as to any or all minerals or horizons, to establish units containing not more than approximately 640 acres as to gas and oil, or separately for the production of either. If units larger than those permitted above, either at the time established or thereafter, are required or permitted under any governmental rule or order to drill or operate a well at a regular location, to obtain the maximum allowable from any well or for any other reason, then the maximum unit size authorized hereby shall conform to the size required or permitted by such governmental rule or order. Lessee may enlarge the unit to the maximum area permitted herein and may reform said unit to include after acquired leases within the unit area. Lessee may create, enlarge or reform the unit or units as above provided at any time, and from time to time during the continuance of this lease, either before or after production is obtained. A unit established hereunder shall be effective for all purposes of this lease, whether or not all interests in the lands in the unit are effectively pooled or unitized. Lessee may, but shall not be required to, drill more than one well in each unit. Lessee may reduce or terminate such unit or units at any time prior to the discovery of oil or gas on the pooled or unitized lands, or at any time after discovery subsequent to the cessation of production. Lessee may create, enlarge, reform, reduce, or terminate each unit by recording a written declaration to that effect in the office of the Register of Deeds in the county or counties in which such unit is located. Any operations conducted on any part of the lands pooled or unitized shall be deemed to be on the lands leased herein within the meaning of all provisions of this lease. Production of oil and/or gas from the unit shall be allocated to the lands described herein which are included in the unit in the same proportion as the number of surface acres in the lands described herein which are included in the unit bears to the total number of surface acres in the unit.

9. In addition to the rights to pool or unitize granted to the Lessee in Paragraph numbered 8 above, for the purpose of promoting the development of hydrocarbon production from shallow formations, as hereinafter defined, Lessee is granted the right to pool or unitize the shallow formations in said land, or any part of said land with other lands, to establish a unit or units of any size and shape for the drilling and operation of multiple wells. The unit shall consist of any number of contiguous tracts or parcels of land. The exercise of this right shall be effective only if the required well density (at least one well drilled into the pooled or unitized shallow formation for each 240 acres of the unit) is attained no later than two (2) years after recording of the written declaration of the unit. As used herein, the term "shallow formation" shall mean formations between the surface of the earth and the top of the Traverse Limestone Formation. All provisions of Paragraph numbered 8, including those regarding Lessee's identification of a unit, the effect of operations conducted thereon and the allocation of production from wells thereon, shall apply in the same manner to a unit formed pursuant to this paragraph for production from shallow formations, except to the extent inconsistent with this paragraph. Lessee may expand the unit to include additional lands, provided that the required well density (one well drilled for every 240 acres) is maintained, or is attained by the drilling of an additional well or wells within one (1) year after each such expansion.

10. This lease is subject to laws and to rules, regulations and orders of any governmental agency having jurisdiction, from time to time in effect, pertaining to well spacing, pooling, unitization, drilling or production units, or use of material and equipment.

11. If, after the date hereof, the leased premises shall be conveyed in severalty or in separate tracts, the premises shall, nevertheless, be developed and operated as one lease, except that royalties as to any producing well shall be payable to the owner or owners of only those tracts located within the drilling unit designated by the state regulatory agency for such well and apportioned among said tracts on a surface acreage basis; provided, however, if a portion of the leased premises is pooled or unitized with other lands for the purpose of operating the pooled unit as one lease, this paragraph shall be inoperative as to the portion so pooled or unitized.

12. If Lessee is prevented from, or delayed in commencing, continuing, or resuming, operations, or complying with its express or implied obligations hereunder by circumstances not reasonably within Lessee's control, this lease shall not terminate and Lessee shall not be liable in damages so long as said circumstances continue (the "period of suspension"). These circumstances include, but are not limited to the following: conflict with federal, state or local laws, rules, regulations and executive orders; acts of God; strikes; lockouts; riots; wars; improper refusal or undue delay by any governmental agency in issuing a necessary approval, license or permit applied for by Lessee; equipment failures; and inability to obtain materials in the open market or to transport said materials. If the period of suspension commences more than 90 days prior to the end of the primary term of this lease, then that period of suspension shall be added to the primary term. If the period of suspension commences less than 90 days prior to the end of the primary term or at any time after the primary term, then this lease shall not terminate if Lessee shall commence or resume operations within 90 days after the end of the period of suspension.

13. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants and provisions of this lease shall extend to such party's heirs, devisees, legal representative, successors or assigns. Notwithstanding any other actual or constructive knowledge of Lessee, no change in the ownership of land or assignment of royalties or other monies, or any part thereof, shall be binding on Lessee until 45 days after Lessee has received, by certified mail, written notice of such change and the originals or certified copies of those instruments that have been properly filed for record and that shall be necessary in the opinion of Lessee to establish the validity of such change of ownership or division of interest. No change or division in the ownership of said land, royalties or other monies, or any part thereof, however accomplished, shall increase the obligation or diminish the rights of Lessee, including, but not limited to, rights and obligations relating to the location and drilling of wells and the measurement of production. Upon assignment by Lessee, its successors or assigns, the assignor shall be released from, and the assignee shall assume, the responsibility to fulfill the conditions and to perform the covenants of this lease, express or implied, with regard to the interest assigned. Breach of any covenant or failure to fulfill any condition by an owner of any part of the leasehold interest created by this lease shall not defeat or affect the rights of the owner(s) of any other part.

14. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee may at any time pay all or part of any land contract, mortgage, taxes, or other liens or charges with respect to said land, either before or after maturity and be subrogated to the rights of the holder thereof, and that Lessee shall be entitled to reimbursement out of any royalty or other monies payable to Lessor hereunder. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as Lessor.

15. Lessee may at any time surrender this lease as to all or part of said land, or as to any depths or formations therein, by delivering or mailing a release to Lessor if the lease is not recorded or by placing a release of record in the proper county if the lease is recorded. If this lease is surrendered only as to part of said land, any shut-in royalties which may thereafter be payable hereunder shall be reduced proportionately.

16. All written notices permitted or required by this lease to be given Lessor and Lessee herein shall be at their respective addresses listed hereinabove, shall be by certified United States mail, and shall identify this lease by dated, parties, description and recording data; provided that either party may change such notice address by giving written notice to the other party specifying the new address.

17. This lease may, at Lessee's option, be extended as to all or part of the lands covered hereby for an additional primary term of _____ years commencing on the date that the lease would have expired but for the extension. Lessee may exercise its option by paying or tendering to Lessor an extension payment of \$_____ per acre for the land then covered by the extended lease, said bonus to be paid or tendered to Lessor in the same manner as provided in Paragraph number 4 hereof with regard to the payment of shut-in royalties. If Lessee exercises this option, the primary term of this lease shall be considered to be continuous, commencing on the date of the lease and continuing from that date to the end of the extended primary term. Lessee's option shall expire on the first to occur of the following: (a) the termination or expiration of this lease or (b) the second anniversary of the expiration of the primary term stated in Paragraph numbered 2 above.

LESSOR:

STATE OF Michigan)
) ss
COUNTY OF Hillsdale)

(Individual Acknowledgement)

The foregoing instrument was acknowledged before me this _____ day of _____, 2011, by _____.

My commission expires

Notary Public
County, State of _____
Acting in County

Prepared by: Stephen C. Dupuie, P.O. Box 325, Almont, MI 48003
When recorded return to: Lessee
Producers "88" Revised 1997 MMBJ (Michigan Paid-Up Form)

Through Savoy Oil & Gas, Savoy Exploration and Savoy Energy, this management team has compiled an unrivaled, uninterrupted 19-year record of exploration and exploitation drilling success (1989-2008), resulting in a 201+ percent annualized return on investment to the respective oil and gas investors.



Leadership

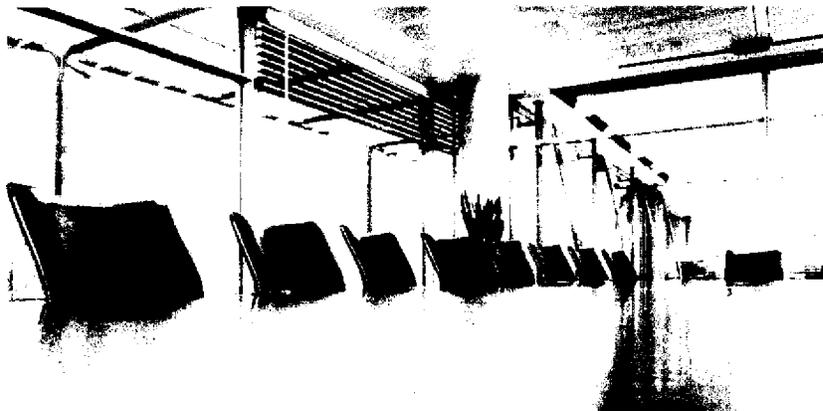
Savoy Energy and Savoy Exploration are managed by Thomas C. Pangborn (CEO and Chairman) and William T. Sperry (President and General Counsel). With careers born out of the industry boom of the 1970s and with Shell Oil Co. training and experience, both Pangborn and Sperry have managed exploration and production companies since 1980. The management team, including Cheryl DeYoung (Treasurer), has worked together almost continuously since 1982. Key additions to management have been Jack Rokos, who manages Operations and Mike Flynn, Land Manager. These five professionals constitute Savoy Energy's management and they represent more than 110 years of industry experience.

Pangborn and Sperry's careers began to overlap in 1980, when Pangborn secured financing for his exploration and development activities in Michigan from a Houston area family-owned energy enterprise managed by Sperry. By this time, both men had gained significant industry experience through working with Shell Oil Co., with independent companies and through various professional associations.

The mutually-beneficial Pangborn-Sperry working relationship from 1980 through 1988 led, not coincidentally, to the two men founding Savoy Oil & Gas in 1989, establishing the genesis of the management team that continues today.

When Savoy Oil & Gas was sold in 1995, its management immediately established Savoy Exploration and Savoy Energy as follow-on companies.

For Savoy changes in industry economic circumstances, and a leading to opportunisticly identify the high quality business opportunities. A hallmark of the success of Tom Pangborn and his company.



Management Profiles

THOMAS C. PANGBORN
Chairman of the Board and Chief Executive Officer
Traverse City, Michigan

THOMAS PANGBORN'S NUMEROUS MANAGEMENT SKILLS CENTER ON A PROVEN ABILITY TO IDENTIFY ECONOMIC RESERVES WHERE OTHERS HAVE FAILED, ENHANCED BY A FIERCE TENACITY IN PURSUIT OF BUSINESS OPPORTUNITIES.

Thomas C. Pangborn, a highly-respected executive and geological engineer, is primarily responsible for Savoy Energy's business plan development and execution. He has provided superior leadership both for Savoy Energy, its predecessor companies and for the industry in Michigan.

His responsibilities include specific project and prospect generation and evaluation and serving as liaison with Savoy Energy's Board and partners. In conjunction with Sperry, he remains active in business development.

Co-founding Savoy Oil & Gas in 1989, Pangborn, 55, served as its Chairman and Chief Executive Officer until its sale in December 1995, after which he co-founded Savoy Exploration and continued serving in the same capacities.

During the successful five-and-a-half years (1989-1995), culminating with its merger into Hawkins Oil & Gas, Inc., Pangborn and the management team turned initial shareholder capitalization of \$5.5 million into a shareholder return of \$25.7 million.

As with each enterprise with which Thomas Pangborn has been affiliated during his three decades in the oil and gas industry, Savoy Energy is drilling oriented.

Savoy Energy's drilling efforts are both exploratory and exploitation/developmental and encompass all main Michigan plays, including both conventional reservoir and unconventional resources, from the shallow Devonian Antrim Shale of northern Michigan to the Prairie du Chien formation producing area in the central Michigan basin to the oil-prone southern Michigan Trenton Black River.

As Savoy Energy's activities center so markedly on prospects and drilling, Pangborn is constantly involved in direct oversight of the critical and fluid maturation process, from exploration and exploitation ideas to leasing, drilling and completion.

Most significantly, Pangborn's farsighted initiative enables Savoy Energy to drill its prospects in a timely manner, maintaining its own control.

The December 1995 Hawkins merger for \$28.98 million followed a sale of producing properties to Belden & Blake for \$10.0 million in September 1995. These results represent a 26 percent annualized return and a 3.9 to 1 cash on cash return to investors in this the first of two significant Savoy monetizations.

Immediately prior to the Hawkins merger, Savoy Oil & Gas transferred all undeveloped properties, exploration assets, tubular goods and production equipment, and other assets, worth approximately \$4.2 million to newly-formed Savoy Exploration.

In 1996, management led Savoy Exploration through a \$7.5 million private equity capital raise. The second Savoy monetization followed in 2003 through a \$30 million asset sale. From proceeds of the sale, Savoy returned \$22 million to its investors.

From 1980 until co-founding Savoy Oil and Gas in 1989, Pangborn was a principal in two Michigan-based exploration and production ventures (Schmude & Pangborn and Pangborn Exploration), both of which were financed by the Houston area-based family-owned company managed by Sperry until late 1988.

Niagaran Reef Expertise

Though a difficult economic period in the industry, both Schmude & Pangborn and Pangborn Exploration were dramatically successful, primarily exploring for and developing Niagaran Reef reserves in both the northern and southern Michigan trends. With a continuous string of exploration and development drilling successes, Pangborn's ventures deployed \$37 million in capital and drilled 150 Niagaran Reef wells. These accomplishments were achieved while many companies in the industry were sidelined. Properties developed during this period were part of a \$34 million sale to Apache Corporation in 1984, which, with previous distributions provided his equity investors an annualized 26 percent rate of return.

A Michigan native and a 1975 geological engineering graduate from Michigan Technological University, Pangborn started that year with Shell Oil Co. exploring the Michigan Niagaran Reef Play. The Reef Trend was Shell's hottest onshore domestic area: 13 rigs drilling for Shell in the Play meant the drilling on average of one well per day. Shell's intense training that resulted in technical and economic models for exploration, drilling, completion and production, provided Pangborn the foundation for this current extraordinary Michigan expertise.

Leaving Shell in 1977 for the entrepreneurial world, Pangborn has successfully applied and honed his expertise by prospecting and drilling exploration and exploitation wells profitably developing Michigan reserves throughout his career.

A recognized industry leader, Pangborn is a longtime member of the Board of Directors of the Michigan Oil and Gas Association and a member of the American Association of Petroleum Geologists and the Society of Petroleum Engineers.

WILLIAM T. SPERRY
President and General Counsel
Tulsa, Oklahoma

AN EXECUTIVE CHARACTERIZED BY STRATEGIC CRITICAL THINKING, TACTICAL FLEXIBILITY, DECISIVENESS AND OPERATIONAL ACUITY, SPERRY WAS EDUCATED AND TRAINED AS A CORPORATE ATTORNEY WITH BROAD GENERAL-COUNSEL SKILLS.

William T. Sperry is primarily responsible for, and has oversight of, the ongoing business organization of the Company, including land, legal, contract negotiation, financial and accounting responsibilities and acquisitions.

As a member of the Company's Board of Directors, Sperry shares with Pangborn the role of liaison with the Company's investors, and heads business development. While Pangborn focuses on the prospecting and drilling revenue generating engine of Savoy, Sperry focuses on the business and organizational support to facilitate the operation of the main engine.

During his more than 14 years serving in his current capacities for Savoy Oil & Gas and Savoy Exploration (before and after a three-year sabbatical to pursue a second graduate school degree), Sperry was chiefly responsible for negotiating, confecting and closing several significant business transactions, facilitating Savoy's growth and success.

Among these were the initial formation of, and the raising of capital for Savoy Oil and Gas, several advantageous property acquisitions, innovative business and financial arrangements and regulatory achievements, the sale to Belden & Blake, the Hawkins merger, and the Dillon Reade & Co., private equity financing.

From an exploration/exploitation and production standpoint, the most significant of these transactions was an agreement with Shell Oil Co. which started in 1991, as negotiations for the purchase by Savoy of 65 substantially-depleted Shell-operated Niagaran Reef wells. This initial contract negotiation transitioned into a far more lucrative 1993 agreement encompassing a substantial production purchase, a seven-year Farmout Agreement covering 150,000 HBP Shell leasehold acres, and a license to use Shell's 18,000 miles of 2-D Reef Trend seismic data covering approximately 2 million northern Michigan acres.

Savoy's most dramatic exploration success to date, the West Albert 22 Field discovery in 1998, flowed out of the assets available due to the Shell agreement.

Sperry's business and legal acumen and strong leadership dovetail with Pangborn's superior executive, exploration, and exploitation capabilities to produce historical success.

With a federal and state energy regulatory background, dating from his employment with Shell Oil Co., Sperry, 60, has successfully managed Savoy's administrative law and regulatory affairs. Savoy has prevailed in more than 95 percent of the administrative cases, including contested cases, filed by Savoy before the Michigan Public Service Commission and the Michigan Department of Environmental Quality.

From 1980 to 1988, Sperry managed a Houston area-based family-owned conglomerate enterprise whose principal assets were oil and gas. In this role, he counseled the three owners regarding investments and financial affairs and maintained day-to-day responsibility for the principal exploration and production operations. This company grew ten-fold and prospered in the midst of an oil industry depression.

Sperry provided start-up guidance and private equity oversight for several entities owned and financed by the enterprise. These entities included six start-up exploration and production companies operating in five states. Among these six were the two companies in which Pangborn was a principal.

Sperry received his undergraduate degree from Oklahoma State University College of Business and a law degree from the University of Tulsa College of Law. He earned a Master of Arts degree in Theological Studies from Asbury Theological Seminary in 2006. Prior to the long association with Pangborn, Sperry worked for both Shell Oil Co. and The Superior Oil Company head office legal departments and practiced with the Hall Estill Law firm in Tulsa, Oklahoma.

He is a member of the state bar associations of Texas, Michigan and Oklahoma, as well as the American Bar Association.

Cheryl DeYoung
Corporate Secretary and Treasurer
Manager of Accounting

A Certified Public Accountant, Cheryl DeYoung has worked closely with both Pangborn and Sperry since 1982. After seven years in public accounting, she moved to the oil and gas industry in 1982.

DeYoung, 55, joined Savoy Oil and Gas Inc. in 1989 as Corporate Secretary and Treasurer, Manager of Accounting. In 1995, she assumed the same responsibilities for Savoy Exploration, continuing her role as an integral member of the management team.

Jack Rokos
Operations Manager

Jack Rokos, 52, has been working with the management team since 1992.

He began his career in the oil and gas industry as a Dual Drilling Driller in 1975 and three years later he became a Tool Pusher and Production Foreman for Reef Petroleum & Reef Drilling, a position he held until 1985. He then joined Carlson Consulting as a Drilling Consultant, and served in that role for three years.

From 1988 to 1992 he was an independent Drilling Consultant and in 1992 he became Operations Manager for Savoy Oil & Gas. He assumed the same role for Savoy Exploration, Inc. in 1995.

R11-081

July 18, 2011

RE: CITY COMMISSION – Authorizing City Administrator to Negotiate a Lease Agreement for Oil & Gas Exploration on City-Owned Land

RESOLUTION

WHEREAS, proposals were requested from companies to consider the lease of approximately 500 acres of City-owned real estate for oil and gas exploration; and

WHEREAS, proposals were received from two companies, being Master Key Energy and Savoy Energy; and

WHEREAS, the City Administrator and City Commission have reviewed the proposals.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the City Administrator is hereby authorized to negotiate a Lease Agreement with _____ (Master Key Energy or Savoy Energy) and submit a proposed Lease Agreement to the City Commission for ultimate approval.

On motion by Commissioner _____, seconded by
Commissioner _____, this resolution was _____
by a _____ vote.

R-3

MEMO



DATE: July 13, 2011
TO: Honorable Mayor and City Commission
FROM: Dane C. Nelson, City Administrator
SUBJECT: Island Park Dugouts

Bids were received on June 30, 2011 for construction of dugouts at Island Park. The Advisory Board of the Adrian Youth Baseball/Softball Association (formerly Adrian Area Little League) requested that complete dugouts be built, rather than post-supported roofs and concrete floors, as originally planned. AALL is contributing \$5,554 for the construction of the dugouts.

After review of the bids, the Parks and Recreation Director has recommended that All Around Construction of Adrian, MI be awarded the bid for construction of the dugouts and replacement of the existing block with colored split-faced block (to match existing buildings) at a cost of \$8,795.00. Since the bid price is so favorable, he has further recommended that two additional dugouts be constructed for a total cost of \$17,590.00. City crews will handle the demolition and installation of cubbyholes (Alt. #2), and will be utilizing materials that were already purchased for this project.

Funds for this project were budgeted and carried forward in the following accounts: \$9,500 from Parks and Forestry Capital Improvement account, \$2,536 from the Recreation Capital Improvement account and \$5,554 from funds transferred from Adrian Area Little League. I urge your favorable consideration authorizing All Around Construction to construct 4 baseball dugouts at Island Park at a cost of \$17,590.00.

Respectfully submitted,


Dane C. Nelson
City Administrator

DCN:bjw

MEMO

To: Dane C. Nelson, City Administrator
From: Mark K. Gasche, Parks & Recreation Director
Date: July 13, 2011
Re: Bid Recommendation – Island Park Dugouts

Sealed bids were received bids on Thursday, June 30, 2011 for construction of dugouts at Island Park. Sixteen (16) companies were invited to bid with five (5) responding. The bid tabulation is listed below.

EM	All Around Construction Adrian, MI	Schug Construction Adrian, MI	ACP of Lenawee Clayton MI	Slusarski Excavating Adrian, MI	Hanen Construction Blissfield, MI
Cost of Demolition	\$600.00	\$ 560.00	\$ 990.00	\$ 1,900.00	\$ 8,000.00
Cost of Construction	\$6,973.00	\$ 8,220.00	\$ 15,950.00	\$ 15,800.00	\$ 11,750.00
Alternate #1 Colored split faced block	\$1,822.00	\$ 1,220.00	\$ 750.00	\$ 2,000.00	\$ 2,600.00
Alternate #2 12x12x18 cubby holes	\$ 860.00	\$ 1,350.00	\$ 1,090.00	\$ 2,100.00	\$ 1,300.00
TOTAL	\$10,255.00	\$11,350.00	\$18,780.00	\$21,800.00	\$ 23,650.00
Meet schedule	Yes	Yes	Yes	Yes	Yes

We have planned on building dugout roofs with posts and concrete floors at all of the youth baseball fields at Island (3) and Trestle (1) Parks, however the Advisory Board of the Adrian Youth Baseball/Softball Association (formerly Adrian Area Little League) requested that we build complete dugouts including walls. They had funds left when AALL dissolved and came under the direction of the City. The Board decided that dugouts at Island Park were their top priority for use of the remaining funds. We decided to combine capital funds that had been carried forward for this purpose with the funds from AALL in order to build the dugouts. We bid the job so that we could utilize materials that we had already purchased for this project.

Because the bids came in favorably, we would like to have two sets of dugouts built (4 total dugouts). This will include the base bid and alternate # 1 (split faced block) for two sets of dugouts on fields # 2 and # 3 at Island Park. City staff will complete the demolition and alternate # 2 (12x12x18 cubicles). Funds for this project are budgeted and carried forward in the Parks and Forestry Capital Improvement account (\$9,500), Recreation Capital Improvement account (\$2,536) and from the funds transferred from Adrian Area Little League (\$5,554). After review with staff, it is my recommendation that we award the bid to the low bidder, All Around Construction, of Adrian, MI in the amount of \$17,590.00, which will provide for the purchase and installation of two (2) sets of dugouts at Island Park.

R11-082

July 18, 2011

RE: DEPARTMENT OF PARKS & RECREATION – Island Park Baseball Dugouts

RESOLUTION

WHEREAS, the Department of Parks & Recreation, in conjunction with the City of Adrian Purchasing Office, solicited and received bids on Thursday, June 30, 2011 for the construction of baseball dugouts at Island Park; and

WHEREAS, sixteen (16) vendors were invited to bid and five (5) responded with the following results:

EM	All Around Construction Adrian, MI	Schug Construction Adrian, MI	ACP of Lenawee Clayton MI	Slusarski Excavating Adrian, MI	Hanen Construction Blissfield, MI
Cost of Demolition	\$600.00	\$ 560.00	\$ 990.00	\$ 1,900.00	\$ 8,000.00
Cost of Construction	\$6,973.00	\$ 8,220.00	IT \$ 15,950.00	\$ 15,800.00	\$ 11,750.00
Alternate #1 Colored split faced block	\$1,822.00	\$ 1,220.00	\$ 750.00	\$ 2,000.00	\$ 2,600.00
Alternate #2 12x12x18 cubby holes	\$ 860.00	\$ 1,350.00	\$ 1,090.00	\$ 2,100.00	\$ 1,300.00
TOTAL	\$10,255.00	\$11,350.00	\$18,780.00	\$21,800.00	\$ 23,650.00
Meet schedule	Yes	Yes	Yes	Yes	Yes

WHEREAS, due to the direct purchase of certain project materials and the ability of City staff to perform the demolition Alternate #2 (cubby holes), the Parks & Recreation Director recommends that two (2) sets of dugouts be built at a total cost of \$17,590.00, which includes the low bid for cost of construction (\$6,973) and Alternate #1 - colored split faced rock (\$1,822) for each of the two sets of dugouts; and

WHEREAS, the Finance Director indicates that sufficient funds are available for this purpose in the following accounts of the Parks & Recreation Operating Budget for FY2011-12:

(101-697.00-975.000) Parks & Forestry Capital Improvements	\$ 9,500
(101-691.00-975.000) Recreation Capital Improvements	2,536
(101-691.01-975.000) Adrian Area Little League Cap Impvmnts	5,554
Total	<u>\$17,590</u>

WHEREAS, the Parks & Recreation Director and City Administrator recommend acceptance of the low bid and engagement of All Around Construction, Adrian, MI in the

City's Standard Professional Services Contract to construct two (2) sets of baseball dugouts at Island Park at a cost not to exceed \$17,590.

NOW, THEREFORE, BE IT RESOLVED that the Adrian City Commission, by this resolution, hereby accepts the low bid and authorizes engagement of All Around Construction, Adrian, MI in the City's Standard Professional Services Contract to construct two (2) sets of baseball dugouts at Island Park at a cost not to exceed \$17,590.

On motion by Commissioner _____, seconded by
Commissioner _____, this resolution was
_____ by a _____ vote.



MISCELLANEOUS

m-1

DEPARTMENTAL REPORT

JULY 18, 2011

	JUNE 2011	MAY 2011	JUNE 2010	YEAR-TO-DATE 2011	YEAR-TO-DATE 2010
POLICE DEPARTMENT					
Complaints Answered	887	857	934	4,861	4,739
VIOLATIONS					
Moving Citations	63	98	163	910	884
3-6 am Parking Tickets	60	83	105	957	1,166
Non-Moving Citations	9	6	16	82	158
Downtown Parking Tickets	0	0	53	0	299
TOTAL VIOLATIONS	132	187	337	1,949	2,507
ARRESTS	73	115	123	668	708
FIRE DEPARTMENT (See M-4)					
INSPECTION DEPARTMENT					
Building Permits	44	26	35	146	121
Electrical Permits	26	32	25	159	87
Mechanical Permits	35	14	24	144	109
Plumbing Permits	8	7	13	52	35
Sidewalk Permits	0	3	2	4	4
Sign Permits	2	7	2	33	32
TOTAL PERMITS	115	89	101	538	388
Estimated Bldg. Costs			\$909,821		\$2,974,243
PARKING SYSTEM					
Parking Assessment	(\$655)	\$873	\$0	\$33,499	\$21,949
Lot Revenue	\$0	\$0	\$199	\$0	\$1,144
Street Revenue	\$0	\$0	\$0	\$0	\$0
Misc. Revenue	\$8	\$9	\$15	\$48	\$100
Permits	\$0	\$0	\$625	\$225	\$16,163
Fines	\$525	\$0	\$275	\$650	\$1,719
Collection Fees	\$0	\$0	\$425	\$0	\$2,155
Token Sales	\$0	\$0	\$0	\$0	\$0
Contribut-GenFund	<u>\$6,000</u>	<u>\$0</u>	<u>\$6,000</u>	<u>\$16,000</u>	<u>\$6,000</u>
TOTAL REVENUE	\$5,878	\$882	\$7,539	\$50,422	\$49,230
WASTE WATER DEPARTMENT					
M. G. Pumped	151.518	220.923	141.984	1,069.418	910.282
Cost of Plant Operation		\$116,478	\$1,039,503	\$909,367	\$2,216,628
WATER DEPARTMENT					
M. G. Pumped	99	88	83	517	459
Number of Customers	6,248	6,229	6,293		
	Industrial	Commercial	Residential	Other	TOTAL
M. G. Sold Revenue	\$37,370	\$75,805	\$119,472	\$59,993	66,012 \$292,640

*Figure not available

M-2

Adrian Fire Department
Monthly Report
June 2011

Fire	Total	Property Loss	Content Loss
Building fire	1	\$10,000.00	\$5,000.00
Passenger vehicle fire	1	\$1,000.00	
Natural vegetation fire, Other	1		
Dumpster or other outside trash receptacle fire	1		
<hr/>			
	4		
Rescue			
Rescue, EMS incident, other	29		
Medical assist, assist EMS crew	5		
EMS call, excluding vehicle accident with injury	125		
EMS call, refused treatment/transport	11		
Motor vehicle accident with injuries	2		
Vehicle accident with injuries, refused treatment	2		
<hr/>			
	174		
Hazardous Condition			
Hazardous condition, Other	1		
Gas leak (natural gas or LPG)	1		
Power line down	9		
Arcing, shorted electrical equipment	3		
<hr/>			
	14		
Service Call			
Service Call, other	2		
Smoke or odor removal	2		
Smoke Investigation, No action taken	2		
Assist police or other governmental agency	1		
Assist invalid	3		
Unauthorized burning	14		
<hr/>			
	24		
Good Intent Call			
Good intent call, Other	1		
Dispatched & cancelled en route	7		
No Incident found on arrival at dispatch address	1		
Authorized controlled burning	1		
Steam, Other gas mistaken for smoke, Other	1		
Smoke scare, odor of smoke	1		
<hr/>			
	12		
False Alarm			
False alarm or false call, Other	3		
Smoke detector activation, no fire - unintentional	1		
<hr/>			
	4		
<hr/>			
Total	232	\$11,000	\$5,000
<hr/>			
Year to Date	1589	\$537,970	\$371,700
2010 Year to Date	1302	\$132,219	\$68,569

M-3

TO: DANE C NELSON, CITY ADMINISTRATOR
 FROM: MARCIA M. BOHANNON, TRANSPORTATION COORDINATOR

ADRIAN D.A.R.T. PASSENGER RIDERSHIP REPORT FOR JUNE 2011

WEEK END:	JUN 3	JUN 10	JUN 17	JUN 24	JUN 30	TOTAL
MONDAY	0	314	253	292	263	1122
TUESDAY	0	260	255	255	226	996
WEDNESDAY	299	282	257	264	237	1339
THURSDAY	282	294	249	214	219	1258
FRIDAY	290	275	266	221	0	1052
	871	1425	1280	1246	945	5767

SERVICE DAYS	JUN 2011	JUN 2010	+/-	MAY 2011
	(22)	(22)		(21)
SENIORS	889	732	157	954
HDCP SENIORS	747	773	-26	752
HANDICAPPED	2577	2740	-163	2738
WHEELCHAIRS **	285	341	-56	297
GENERAL	1554	1394	160	1595
	5767	5639	128	6039

JULY	2009	6098	2010	5747	-6%
AUGUST	2009	5711	2010	5986	5%
SEPTEMBER	2009	5788	2010	5759	-1%
OCTOBER	2009	6440	2010	5722	-11%
NOVEMBER	2009	5594	2010	5917	6%
DECEMBER	2009	6419	2010	6195	-3%
JANUARY	2010	6532	2011	6594	1%
FEBRUARY	2010	6267	2011	5861	-6%
MARCH	2010	7288	2011	7638	5%
APRIL	2010	6388	2011	6153	-4%
MAY	2010	5598	2011	6039	8%
JUNE	2010	5639	2011	5767	2%
		73762		73378	-1%

** WHEELCHAIR TOTALS ARE INCLUDED IN HANDICAPPED PASSENGER TOTALS