UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

In re	)	Chapter 9
CITY OF DETROIT, MICHIGAN,	)	Case No. 13-53846
Debtor.	)	Hon. Steven W. Rhodes

MOTION TO EXCLUDE THE TESTIMONY OF KENNETH A. BUCKFIRE REGARDING CREDITOR RECOVERIES UPON DISMISSAL OF THE BANKRUPTCY CASE

Syncora Capital Assurance Inc. and Syncora Guarantee Inc. ("Syncora") submit this motion (the "Motion to Exclude") to exclude the expert testimony of Kenneth A. Buckfire, which was disclosed on July 8, 2014, in the Expert Report of Kenneth Buckfire In Support of City of Detroit's Plan of Adjustment (the "Buckfire Report" (Ex.6A)) and on July 16, 2014, in Mr. Buckfire's deposition (excerpted in Ex. 6B). In support of their motion, Syncora respectfully states as follows:

INTRODUCTION

1. To support confirmation of its plan, the City intends to call Mr. Buckfire as an expert to opine that the City's plan is in creditors' "best interests" because "[t]he City's creditors will be treated better under the City's plan of adjustment than if the bankruptcy case were dismissed." (Buckfire Report p 2.)

2. Mr. Buckfire's "best interests" opinions should be excluded because they are not based on a reliable methodology and represent the classic sort of "ipse dixit" opinion that Federal courts have rejected time and time again. When it comes to his best interests opinions, Mr. Buckfire's expert report is, to be kind, extremely sparse. The entirety of Mr. Buckfire's opinion is comprised of just three prose paragraphs. There are no work papers included with Mr. Buckfire's report and the report evidences no discernible effort to systematically evaluate what creditors could receive in a scenario where the City's bankruptcy case was dismissed. (*See* Ex. 6A.)

3. Mr. Buckfire's deposition quickly confirmed that he had done virtually no work at all in connection with his best interest opinion. Critically, Mr. Buckfire admitted repeatedly that he had not conducted a dismissal analysis of any kind in order to confirm his assumption that creditor recoveries are higher as a result of the City's plan than they would be upon a dismissal of the City's case. Specifically, Mr. Buckfire admitted the following:

- Mr. Buckfire testified repeatedly that he never performed any analysis of city revenue or creditor recoveries in a dismissal scenario. (Buckfire Dep. Tr. at 276:14–24, 280:11–15, 288: 14–21, 289:11–14.)

- Mr. Buckfire never saw, conducted, or requested any forecast of city revenue or creditor recoveries in a dismissal scenario. (Buckfire Dep Tr. at 236:8–15.)

- Mr. Buckfire testified that his opinion that the City's ability to raise taxes—a foundational and central element of any reliable analysis of creditor recoveries in a dismissal scenario—is not based on his own analysis, but rather on something he claims to have been told by Robert Cline of Ernst & Young. (Buckfire Dep. Tr. at 239:22-240:24.) But Mr. Cline testified unambiguously under oath that he was never asked to perform, did not perform and was not equipped to perform any analysis of the City's ability to increase taxes. **(**Cline Dep. Tr. at 100:23–101:12.)

- Mr. Buckfire admitted that his opinion that a "race to the courthouse" would doom creditor recoveries upon a dismissal is not based on any analysis or relevant expertise, but instead is based purely on his belief that it is "obvious." (Buckfire Dep. Tr. at 179:2–179:17.)

4. Mr. Buckfire is a well-recognized and respected restructuring and finance expert who was perfectly capable of performing a dismissal analysis in order to test the expert opinion he was proposing to render. He inexplicably chose not to do so. Mr. Buckfire's best interests opinion is principally comprised of a collection of assumptions that he never attempted to study or verify, which he then strung together with an overarching opinion about creditor recoveries in a dismissal scenario he never analyzed.

5. Rule 702 and controlling Sixth Circuit and Supreme Court authority prohibit expert testimony that is unsupported by reliable data or analysis and is instead merely the expert's *ipse dixit*. Because Mr. Buckfire's opinion about creditor recoveries is entirely divorced from any reliable data or analysis, it is classic *ipse dixit* and should be excluded in its entirety.

JURISDICTION

6. The Court has jurisdiction over this matter pursuant to 38 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue for this matter is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409.

RELIEF REQUESTED

7. Syncora respectfully moves the Court to exclude testimony or opinions by Mr. Buckfire as to (a) the best interests of creditors test; (b) creditor recoveries upon dismissal of the bankruptcy case; (c) whether increasing taxes would erode revenue for the City of Detroit; (d) comprised or relating to the opinions contained in Part II.B of his expert report, and to enter an order substantially in the form of Exhibit 1, attached hereto..

BASIS FOR RELIEF

I. Rule 702 Requires Expert Testimony Be Based On Facts, Data, and Reliable Analysis.

8. Rule 702 of the Federal Rules of Evidence, made applicable to this proceeding by Rule 1101 of the Federal Rules of Evidence, provides that:

> If scientific, technical, or other specialized knowledge will assist the trier of fact to . . . determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise, if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

Fed. R. Evid. 702.

9. An expert's opinion is unreliable where "[t]here is 'too great an analytical gap between the data and the opinion proffered.'" *Tamraz v. Lincoln Elec. Co.*, 620 F.3d 665, 675–76 (6th Cir. 2010) (quoting *General Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997)). In assessing reliability, "[r]ed flags that caution against certifying an expert include reliance on anecdotal evidence, improper extrapolation, failure to consider other possible causes, lack of testing, and subjectivity." *Newell Rubbermaid, Inc. v. Raymond Corp.*, 676 F.3d 521, 527 (6th Cir. 2012). An opinion prepared solely for litigation should be subjected to heightened scrutiny. *See Lawrence v. Raymond Corp.*, 501 F. App'x 515, 518 (6th Cir. 2012) (citing *Johnson v. Manitowoc Boom Trucks, Inc.*, 484 F.3d 426, 434 (6th Cir.2007)). The party propounding the expert bears the burden of proving the testimony's admissibility. *See Jack Henry & Associates, Inc. v. BSC, Inc.*, 487 F. App'x 246, 255–56 (6th Cir. 2012).

10. Under Rule 702, expert testimony is not admissible if it represents merely the *ipse dixit* of the expert. *See Tamraz*, 620 F.3d at 671 ("The '*ipse dixit* of the expert' alone is not sufficient to permit the admission of an opinion.") (quoting *Joiner*, 522 U.S. at 146). Expert opinions must, therefore, have a reliable basis in data and a sound methodology. *Id.* Further, there must be a "nexus between [an expert's] credentials and the subject matter of his testimony." *In re Worldcom, Inc.*, 371 B.R. 33, 42 (Bankr. S.D.N .Y.2007).

11. An expert may not act as a mouthpiece for another expert who is not testifying on the matter. *Dura Auto. Sys. of Indiana, Inc. v. CTS Corp.*, 285 F.3d 609, 614 (7th Cir. 2002) ("A theoretical economist, however able, would not be allowed to testify to the findings of an econometric study conducted by another economist if he lacked expertise in econometrics and the study raised questions that only an econometrician could answer."); *see also Eberli v. Cirrus Design Corp.*, 615 F. Supp. 2d 1357, 1364 (S.D. Fla. 2009) (an expert "must make some findings and not merely regurgitate another expert's opinion."). An expert may not rely on another expert's opinion without attempting to verify the validity of that opinion. *TK–7 Corp. v. Estate of Barbouti*, 993 F.2d 722, 732–33 (10th Cir.1993) (excluding expert opinion relying on another expert's report because witness failed to demonstrate a basis for concluding report was reliable and showed no familiarity with methods and reasons underlying the hearsay report); *see also In re TMI Litig.*, 193 F.3d 613, 715–16 (3d Cir.1999) (finding unsubstantiated reliance by expert on other expert opinions demonstrates flawed methodology).

II. Mr. Buckfire's Best Interests Opinion Is Inadmissible Because It Is Totally Divorced From Any Reliable Data or Analysis.

12. To satisfy the best interests of creditors test, the debtor must show that the creditor would fare better under the Plan than outside of the Plan. *See In re Cnty. of Orange*, 191 B.R. 1005, 1020 (Bankr. C.D. Cal. 1996) (quoting 4 *Collier*

on Bankruptcy ¶ 943.03(7)(a) (16th rev. ed. 1995) ("The courts must . . . apply the [best interests] test to require a reasonable effort by the municipal debtor that is a better alternative to its creditors than dismissal of the case.") The best interests test thus requires a comparison of creditor recoveries under the proposed plan against estimated creditor recoveries if the bankruptcy were instead dismissed. *In re Mount Carbon Metro. Dist.*, 242 B.R. 18, 34 (Bankr. D. Colo. 1999) ("The "best interest" requirement of § 943(b)(7) is generally regarded as requiring that a proposed plan provide a better alternative for creditors than what they already have.").

13. Unlike the best interests test in Chapter 11, which requires a straightforward analysis of creditor recoveries in a liquidation of the debtor's assets in comparison to a plan of reorganization, the best interests test in Chapter 9 requires an expert to analyze a host of complex issues and questions that would inform the dismissal scenario, including:

- What is the City's forecast of revenues in a dismissal scenario?
- What remedies are available to the City's creditors in a dismissal scenario?
- Which creditors' claims have accelerated and which have not?
- What agreements struck during the bankruptcy case would survive dismissal of the bankruptcy petition?
- Which of the City's liabilities are in default and which are not?

- Would general unsecured creditors recover on a *pari passu* basis upon dismissal?

- What impact would raising taxes pursuant to the Revised Judicature Act have on creditor recoveries?

- What amount of revenue will the City have available to distribute to unsecured creditors?

14. It is impossible to estimate creditor recoveries in a dismissal scenario without conducting a dismissal analysis that accounts for the issues listed above. Offering a best interests opinion without conducting a dismissal analysis is a contradiction in terms.

15. Mr. Buckfire's expert report is an effort to achieve that contradiction. He opines that, "The City's creditors will be treated better under the City's plan of adjustment than if the bankruptcy case were dismissed," (Buckfire Report p 2), but repeatedly testified that he performed no dismissal analysis or forecast of any kind:

> Q. Now, isn't it true that in coming to your opinion that creditors do better under the plan than they would do in a dismissal scenario you did not construct a forecast of the City's revenues and costs in a dismissal scenario, correct?
>
> A. Correct.
>
> Q. And no one else has either, correct?
>
> A. Correct.

(Buckfire Dep. Tr. at 236:8–15.)

> Q. And I take it you've never sat down with a piece of paper and tried to work this out, right, in terms of what the total claim size would be, correct?

A. Correct, we've not done a dismissal analysis.

(Buckfire Dep. Tr. at 276:19–22.)

Q. And so I take -- so you have never personally evaluated the extent to which the City would undertake the restructuring reinvestment initiatives in the dismissal scenario, correct?

A. Correct.

(Buckfire Dep. Tr. at 277:24–278:4.)

Q. Okay. But you haven't actually done the analysis, though, to see who would get any surplus revenue that exists above operating expenditures and secured debt correct?

A. You've already asked me this, we have not done a dismissal analysis.

(Buckfire Dep. Tr. at 280:11–16.)

Q. And have you -- I take it then you haven't evaluated the impact such a sale would have on creditor recoveries, correct?

A. We have not done a dismissal analysis.

(Buckfire Dep. Tr. at 288:18–21.)

Q. Have you evaluated the extent to which [the Grand Bargain] might be reconstituted in a dismissal?

A. That's speculation and I've already testified we haven't done a dismissal analysis.

(Buckfire Dep. Tr. at 289:11–14.)

Q. Okay, and I take it you have not tried to factor in the privatization of DDOT to what creditor recovery should be in a dismissal scenario because you did not do a dismissal analysis, correct?

A. Yes.

(Buckfire Dep. Tr. at 295:10–14.)

16. Without making any effort to forecast or analyze the City's revenue position in a dismissal scenario, or the total creditor claims in a dismissal scenario, it is impossible for Mr. Buckfire to reliably opine on whether creditor recoveries would be higher or lower in a dismissal scenario versus the plan. Mr. Buckfire's best interests opinion is nothing more than his gut feeling or say-so, which is inadmissible under Sixth Circuit law. *See Tamraz v. Lincoln Elec. Co.*, 620 F.3d 665, 675–76 (6th Cir. 2010) (excluding expert testimony that contained mere statements of the opinion of an expert that conducted no actual analysis relevant to the opinion's subject matter).

17. Mr. Buckfire's wholesale failure to perform any dismissal analysis renders his opinion unreliable and inadmissible, especially in view of ample evidence (none of which he considered) showing his opinion is simply wrong. Mr. Buckfire admitted that creditors' remedies in a dismissal scenario would be *pari passu*, (Buckfire Dep. Tr. at 278:19-23), and that creditor recoveries in a dismissal would depend on the City's ability to satisfy judgments either from excess operating revenues or from the imposition of additional taxes, (Buckfire Dep. Tr. at 279:7-280:10; 238:2-239:12.) The City's own forecasts show operating surpluses totaling hundreds of millions of dollars annually. (Fourth Amended Disclosure Statement, Ex. 2 to Ex. J.) And if the City were to outperform its current forecasts,

the creditors in a dismissal scenario could obtain these excess amounts and increase their recovery. Under the plan, revenue from over-performance is simply a windfall for the City and will not affect creditor recoveries. But Mr. Buckfire never considered any of this. (Buckfire Dep. Tr. at 280:11–16.)

18. Moreover, Mr. Buckfire's opinion rests heavily on a number of critical assumptions he made. (*See* Ex. 6A at ¶ 17.) But in his deposition, he admitted that he had never analyzed his assumptions and could not say whether his assumptions were correct or incorrect. (Buckfire Dep. Tr. at 251:10-13; 280:11–16; 282:4–16; 310:8–23.)

19. <u>No Analysis Of City's Potential Revenue In Dismissal Scenario.</u> One of the two central factors in a dismissal analysis is the extent to which the City would be able to generate revenue to satisfy creditors (the other is size of creditor claims). The Buckfire Report assumes that "in a dismissal scenario, the City would be unable and it would be impractical for the City to raise taxes without further eroding revenue." (Buckfire Report ¶ 17.) That assumption rests on two premises: that the City would be "unable" to raise taxes because it is at or near statutory tax limits, and it would be "impractical" to do so because the tax burden is already such that increasing tax rates would have a negative effect on revenue because it would cause delinquencies and mass exodus from the City. (Buckfire Report at ¶ 7, ¶16.)

20. But Mr. Buckfire admitted at his deposition that statutory caps do not necessarily prevent the City from raising taxes to satisfy creditor judgments. (Buckfire Dep. Tr. at 238:2–20.) Thus, his assumption that the City would be "unable" to raise property taxes in a dismissal scenario is wrong by his own admission.

21. As for whether increased tax rates would generate negative or positive revenue, Mr. Buckfire admitted he never analyzed the issue, lacks the expertise to do so, and relied entirely on an analysis he asked Mr. Cline (of Ernst & Young) to perform:

> Q. Now, is forecasting future revenues of a municipality something that falls within your area of expertise as an expert?
>
> A. No.

(Buckfire Dep. Tr. at 244:12–15.)

> Q. You have not conducted, however, any quantitative analysis assessing the relationship between tax rates and population levels over historical time periods in Detroit, correct?
>
> A. Correct.

(Buckfire Dep. Tr. at 253:17–254:2.)

> [Mr. Buckfire:] I believe the income tax rate, itself, is already quite high relative to neighboring communities.
>
> . . . .
>
> Q. Okay. You have not undertaken a comprehensive study of what surrounding municipalities levy when it comes to property taxes, correct?

> A. Correct.
>
> Q. Are you currently of the view that there is no surrounding municipality that has higher property taxes than the City of Detroit?
>
> A. No.
>
> Q. You're not of that view?
>
> A. I don't know.

(Buckfire Dep. Tr. 237:10–11, 253:1–254:2.)

> [Q.] . . . I take it you did not undertake an analysis of the amount of tax increase that could be imposed via a creditor judgment against the City to determine whether it would yield additional revenue?
>
> A. Not directly, but we did ask the tax experts at E&Y to do an analysis of the City's revenues and take into account the sensitivity of revenues to tax rates.
>
> Q. So you asked Mr. [Cline] at E&Y?
>
> A. I did.
>
> . . . .
>
> Q. And what did he tell you?
>
> A. You know, I've reviewed his expert report and I've talked to him over months about these issues. His conclusion was that because the City already has very high tax rates, any further increase in rates would certainly lead to a decline of revenue . . . .

(Buckfire Dep. Tr. at 239:22–240:24.)

22. As noted above, one expert cannot blindly rely on another expert's work in generating an opinion. *See Eberli v. Cirrus Design Corp.*, 615 F. Supp. 2d 1357, 1364 (S.D. Fla. 2009). He must undertake to confirm the reliability of the

other expert's work before he incorporates it into his own. *See TK–7 Corp. v. Estate of Barbouti*, 993 F.2d 722, 732–33 (10th Cir.1993).

23. In this situation, the Court can know for certain that Mr. Buckfire did not test the reliability of Mr. Cline's opinions on changes to tax rates for one simple reason: Mr. Cline has not rendered any opinions regarding the effect of potential tax increases and did not undertake any of the work necessary to forming such opinions. Contrary to Mr. Buckfire's testimony, Mr. Cline's report contains no analysis of whether increased tax rates would generate positive or negative revenue, and at his deposition Mr. Cline testified unambiguously that he had not undertaken any such analysis:

> Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues?
>
> THE WITNESS: We did not run alternatives with our model at different tax rates.

(Cline Dep Tr. at 100:13–18.)

> Q. Okay. But is it technically feasible for you to do an analysis like that?
>
> A. We would have to do additional work compared to what we have done to this point, because as I mentioned, it's not just changing the rate, it's also understanding the behavioral response of the base in response to the change in the rate. ***We are not set up to do that*** in our current runs.
>
> Q. And you also haven't done the work that would allow you to testify that Detroit couldn't significantly increase revenues by adding new taxes, correct?

A. We have not analyzed the addition of new revenue sources for Detroit.

(Cline Dep. Tr. at 100:23–101:12) (emphasis added).

Q. Okay. So, you haven't done any work that will allow you to testify that raising tax rates would be unreasonable or inappropriate, correct?

A. I have not.

Q. And you haven't done any work that says that increasing tax revenues through increased collections would be . . . inappropriate or not feasible, correct?

A. He we have not evaluated tax policy opportunities -- alternatives for Detroit.

Q. And you haven't done any work that would allow you to testify that Detroit couldn't just add new taxes, correct?

A. We have not.

Q. And you haven't done any work that would allow you to testify that Detroit couldn't generate significant additional revenue by either adding new taxes or increasing tax rates?

. . .

THE WITNESS: We were not asked to look at policy options for the City of Detroit.

(Cline Dep. Tr. at 95:13–96:13.)

24. Thus, the entire basis for Mr. Buckfire's views regarding the practicality of raising taxes is based on reliance on an analysis that Mr. Cline never performed and was not equipped to perform. Mr. Buckfire's "opinion" regarding

the impracticality of raising taxes in Detroit is an emperor that is not wearing any clothing.

25. Throughout Mr. Buckfire's testimony he displayed a striking lack of analysis or knowledge regarding basic aspects of tax collection and delinquency in Detroit. For example, Mr. Buckfire did not know whether the income tax in the City had gone up or down in the last 15 years, (Buckfire Dep. Tr. at 248:18-23), what the millage rate on residential and non-residential properties is (Buckfire Dep. Tr. at 252:21-253:4), or how the City's operational improvements in the assessor's office and treasury might affect tax collection and delinquency rates. (Buckfire Dep Tr. at 257:1-258:13.) The same is true for Mr. Buckfire's understanding of the relationship between tax rates and delinquency rates, for which he states he relied entirely on anecdotal accounts and performed no independent analysis:

> Q. Are you aware of any data showing that increasing taxes will increase delinquency rates in the City of Detroit?
>
> A. Only by inspection of the City's historical record as tax rates went up, my understanding from City officers, including Jack Martin with whom I discussed this issue, was the delinquency rate went up, as well.
>
> Q. Ah, so you're -- you're under the impression that there's historical evidence in the City of Detroit that shows a connection between increasing tax rates and increasing delinquency rates.
>
> A. It was anecdotal at the time he told me that.

> Q. So you were told that by Mr. Martin. Did you ever attempt to confirm that?
>
> A. No."

(Buckfire Dep Tr. at 248:3-17.)

26. No Analysis Of Creditor "Race to the Courthouse". Mr. Buckfire opines in his report that creditors in a dismissal scenario undoubtedly would "race to the courthouse" to exercise their legal rights against the City, which would result in "chaos and inefficiency" that makes the City's Plan preferable. (Buckfire Report ¶ 7.) But Mr. Buckfire engaged in no analysis whatsoever regarding the claims or sources of claims that would result in a "race to the courthouse" or the consequences of such a race for creditor recoveries:

> Q: . . . [D]id you do any analysis of well here's what we think would happen, here's the creditors we think would have a certain type of priority, here's the creditors we think would have a different type of priority here's how we think we testified yesterday the race to the courthouse might come out, did you do any analysis like that?
>
> A. No.

(Buckfire Dep. Tr. at 179:2–179:9.) In short, Mr. Buckfire's view regarding a race to the courthouse (like the rest of his best interests opinion) is unmoored from any reliable data or analysis. Moreover, a race to the courthouse by various creditors is not tantamount to a finding that those creditors would do worse. It is the outcome of the assertion of creditor rights in the dismissal scenario that must be compared to the City's plan. But this is precisely the analysis Mr. Buckfire admits he did not do.

27. No Analysis Of Service Delivery Insolvency. One of the assumptions underlying Mr. Buckfire's best interests opinion is that the City is "service delivery insolvent." (Buckfire Report ¶ 17.) But when asked for an understanding of whether the City has achieved service delivery insolvency in some or all areas as a result of the last year's worth of restructuring efforts, Mr. Buckfire admitted he had not even studied the question:

> Q . . . So do you have an opinion as you sit here today of what areas where the City is service delivery insolvent or close to it at least in your view? . . .
>
> A. I'm not really not current on that.
>
> Q. So you don't know?
>
> A. It's July, I haven't looked at this issue in a number of months so I am not current.
>
> Q. So you haven't studied the question?
>
> A. That's correct.

(Buckfire Dep. Tr. at 288:3–13.)

28. No Analysis Of DWSD Contribution to COPs Obligation. Though Mr. Buckfire stated he believed the COPs may get "zero" in a dismissal scenario, (Buckfire Dep. Tr. at 180:15-16), Mr. Orr admitted that in a dismissal scenario the COPs holders could rely on the DWSD to fund its proportionate share of expenses

related to COPs principal and interest. (7/22/2014 Orr Dep. Tr. at 373:22-374:7.) This contribution would total approximately 15% of the amounts due, which substantially exceeds the COPs' paltry recoveries under the City's plan. (Orr Dep. Tr. at 371:13-17) (testifying that DWSD funds are approximately 11% of the COPs). Nevertheless, Mr. Buckfire engaged in no analysis regarding the impact of the DSWD (or any DWSD transaction or contribution) on creditor recoveries. (*See* Buckfire Dep. Tr. at 297:22-298:8.) ("Q. But like the other assets of the City, it's not one that you've studied to determine its impact on creditor recoveries correct? A. In a dismissal scenario, that's correct.").

29. <u>No Analysis Of Grand Bargain Revenue In A Dismissal Scenario.</u> Mr. Buckfire's assumes the City would not have the benefit of "hundreds of millions of dollars" from the Grand Bargain in a dismissal scenario, (Buckfire Report ¶ 8), but he never evaluated whether the City would be able to solicit funding from the Grand Bargain participants in a dismissal scenario:

> Q. Have you evaluated the extent to which [the Grand Bargain] might be reconstituted in a dismissal?
>
> A. That's speculation and I've already testified we haven't done a dismissal analysis.

(Buckfire Dep. Tr. at 289:11–14.) Moreover, the utility of the Grand Bargain to COPs holders is entirely unclear, given that all of the proceeds resulting from the disposition of the DIA Art Collection are going to Classes 10 and 11. When asked in his deposition if he could think of a way the Grand Bargain benefitted COPs holders, Mr. Orr was unable to do so. (Orr Dep. Tr. at 341:8–10.) Thus, the fact that the Grand Bargain might evaporate in the dismissal scenario says little about the impact on COPs holder recoveries from dismissal of the case.

30. No Analysis Of Reinvestment Initiatives In Dismissal Scenario. Mr. Buckfire assumes in his report that the reinvestment initiatives proposed under the City's Plan are "necessary to provide adequate levels of municipal services," and in their absence the City will "further deplete the City's tax base." (Buckfire Report ¶17.) But Mr. Buckfire never evaluated the extent to which the City would engage in these initiatives in a dismissal scenario. (Buckfire Dep. Tr. at 277:24–278:4) ("Q. And so I take -- so you have never personally evaluated the extent to which the City would undertake the restructuring reinvestment initiatives in the dismissal scenario, correct? A. Correct.) Mr. Buckfire's opinion that the reinvestment initiatives could not be undertaken is not supported by the available evidence in light of Mr. Charles Moore's testimony that he saw no reason the City could not pursue these initiatives if the case were dismissed. (Moore Dep Tr. at 92:7–19.)

31. The foregoing definitively shows that Mr. Buckfire's best interests opinion is unsupported by any reliable data, analysis, or relevant expertise. Labeling a witness an "expert" is not a license to spitball theories. Reliable expert

opinions require real work—applying sound analytical methods to reliable data—which is what Mr. Buckfire admittedly failed to do. Accordingly, the opinions Mr. Buckfire expresses in paragraphs 7–9 and 17 of his Report should be excluded for failure to meet the requirements of Rule 702. *See* Fed. R. Evid. 702 (allowing expert testimony only if it is based on reliable data and analysis); *Tamraz*, 620 F.3d at 671 ("The '*ipse dixit* of the expert' alone is not sufficient to permit the admission of an opinion.") (quoting *Joiner*, 522 U.S. at 146); *Newell Rubbermaid, Inc. v. Raymond Corp.*, 676 F.3d 521, 527 (6th Cir. 2012) (same).

CONCLUSION

32. For the foregoing reasons, Syncora respectfully requests that Mr. Buckfire's expert testimony regarding creditor recoveries in a dismissal scenario be excluded.

Dated: August 18, 2014

Respectfully submitted,

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<u>Exhibit 1</u>

Proposed Order

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

In re	)	Chapter 9
CITY OF DETROIT, MICHIGAN,	)	Case No. 13-53846
Debtor.	)	Hon. Steven W. Rhodes

ORDER GRANTING SYNCORA'S MOTION TO EXCLUDE THE TESTIMONY OF KENNETH A. BUCKFIRE REGARDING CREDITOR RECOVERIES UPON DISMISSAL OF THE BANKRUPTCY CASE

This matter having come before the Court on the motion of Syncora Guarantee Inc. and Syncora Capital Assurance Inc. ("Syncora") for the entry of an order excluding the testimony of Kenneth A. Buckfire regarding creditor recoveries upon dismissal of the bankruptcy case, the Court having reviewed the Syncora's motion; and the Court having determined that the legal and factual bases set forth in the motion establish just cause for the relief granted herein;

IT IS HEREBY ORDERED THAT:

1. Syncora's Motion to Exclude the Testimony of Kenneth A. Buckfire Regarding Creditor Recoveries Upon Dismissal of the Bankruptcy Case is GRANTED.

2. The Debtor, the City of Detroit (the "City"), is precluded from introducing testimony or opinions from Mr. Buckfire (a) regarding the best interests of creditors test; (b) regarding creditor recoveries upon dismissal of the bankruptcy case; (c) regarding whether increasing taxes would erode revenue for the City of Detroit; (d) comprised or relating to the opinions contained in Part II.B of his expert report.

3. Syncora is authorized to take all actions necessary to effectuate the relief granted pursuant to this Order in accordance with the motion.

4. The terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

5. The Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Exhibit 2

Notice of Motion and Opportunity to Object

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

In re	)	Chapter 9
CITY OF DETROIT, MICHIGAN,	)	Case No. 13-53846
Debtor.	)	Hon. Steven W. Rhodes

NOTICE OF MOTION TO EXCLUDE THE TESTIMONY OF KENNETH A. BUCKFIRE REGARDING CREDITOR RECOVERIES UPON DISMISSAL OF THE BANKRUPTCY CASE

PLEASE TAKE NOTICE that on August 18, 2014, Syncora Guarantee Inc. and Syncora Capital Assurance Inc. filed the *Motion to Exclude the Testimony of Kenneth A. Buckfire Regarding Creditor Recoveries upon Dismissal of the Bankruptcy Case* (the "Motion") in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") seeking entry of an order to exclude testimony by Mr. Kenneth A. Buckfire as to creditor recoveries upon dismissal of the bankruptcy case.

PLEASE TAKE FURTHER NOTICE that your rights may be affected by the relief sought in the Motion. You should read these papers carefully and discuss them with your attorney, if you have one. If you do not have an attorney, you may wish to consult one.

PLEASE TAKE FURTHER NOTICE that if you do not want the Bankruptcy Court to grant the Motion or you want the Bankruptcy Court to consider your views on the Motion, by **September 1, 2014,** you or your attorney must:

File with the Bankruptcy Court a written response to the Motion, explaining your position, electronically through the Bankruptcy Court's electronic case filing system in accordance with the Local Rules of the Bankruptcy Court or by mailing any objection or response to:[1]

[1] A response must comply with F. R. Civ. P. 8(b), (c) and (e).

United States Bankruptcy Court
Theodore Levin Courthouse
231 West Lafayette Street
Detroit, MI 48226

You must also serve a copy of any objection or response upon:

James H.M. Sprayregen, P.C.
Ryan Blaine Bennett
Stephen C. Hackney
KIRKLAND & ELLIS LLP
300 North LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

- and -

Stephen M. Gross
David A. Agay
Joshua Gadharf
MCDONALD HOPKINS PLC
39533 Woodward Avenue
Bloomfield Hills, MI 48304
Telephone: (248) 646-5070
Facsimile: (248) 646-5075

If an objection or response is timely filed and served, the clerk will schedule a hearing on the Motion and you will be served with a notice of the date, time and location of the hearing.

PLEASE TAKE FURTHER NOTICE that if you or your attorney do not take these steps, the court may decide that you do not oppose the relief sought in the Motion and may enter an order granting such relief.

Dated: August 18, 2014

/s/ *Stephen C. Hackney*

James H.M. Sprayregen, P.C.
Ryan Blaine Bennett
Stephen C. Hackney
KIRKLAND & ELLIS LLP
300 North LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
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Facsimile: (248) 646-5075

Attorneys for Syncora Guarantee Inc. and Syncora Capital Assurance Inc.

<u>Exhibit 3</u>

None [Brief Not Required]

Exhibit 4

Certificate of Service [To be filed separately]

Exhibit 5

Affidavits
[Not Applicable]

<u>Exhibit 6A</u>

Expert Report of Kenneth Buckfire In Support of City of Detroit's Plan of Adjustment

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re	:	Chapter 9
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
Debtor.	:	Hon. Steven W. Rhodes

EXPERT REPORT OF KENNETH BUCKFIRE
IN SUPPORT OF CITY OF DETROIT'S PLAN OF ADJUSTMENT

Pursuant to F.R.Civ.P. 26(a)(2)(B), made applicable to this proceeding by Bank. R. 7026, debtor the City of Detroit submits this report with respect to the expected expert testimony of Kenneth Buckfire.

Introduction

Kenneth Buckfire is President, Managing Director and Co-Founder of the firm Miller Buckfire & Co. ("Miller Buckfire"). It is the City's intention to call Mr. Buckfire to testify about the City's access to the capital markets (including potential exit financing) and creditor recoveries under the City's proposed plan of adjustment, including recoveries relating to the Detroit Water & Sewerage Department ("DWSD"), a comparison of plan recoveries versus the alternative of dismissal of the case, and the discount rate utilized by the plan of adjustment with respect to Classes 7, 9, 12, 13 and 14.

I. <u>Opinions</u>

Mr. Buckfire will offer the following opinions:

A. ***Access to the Capital Markets.*** The City will likely obtain access to the capital markets, including exit financing, in the near future on reasonable terms.

B. ***Plan Treatment Compared To Treatment Upon Dismissal.*** The City's creditors will be treated better under the City's plan of adjustment than if the bankruptcy case were dismissed.

C. ***DSWD Existence Of An Efficient Market.*** An efficient market exists for debt similar to the debt at issue with respect to the impaired issues of Class 1A of the plan of adjustment.

D. ***DWSD Market Rate Interest.*** The City's proposed interest rates set forth in Exhibit I.A.168 for impaired issues of Class 1A of the plan of adjustment provides holders with payments of a present value equal to the allowed amount of their claims.

E. ***Appropriate Plan Discount Rate***. The discount rate used to estimate recoveries for Classes 7, 9, 12, 13 and 14 is reasonable and appropriate.

II. Basis and Reasons for Opinions

A. *Access to the Capital Markets*

1. Mr. Buckfire believes that the City will be able to obtain exit financing and continued access to the capital markets in the near term on reasonable terms. He basis this belief on (a) the preliminary discussions with potential underwriters of the City's exit financing process, (b) the anticipated quantitative and qualitative characteristics of the City on a post-emergence basis, which in Mr. Buckfire's view, will make the City a much more attractive credit to potential lenders than before the bankruptcy, and (c) the City's ability to incur, and the favorable market response to, the City's post-petition financing.

2. The City, through its advisors, has recently commenced a process for soliciting exit financing. As of the date of this report, this process is still underway. Based on the information available to date, Mr. Buckfire believes that the exit financing process is likely to be successful and that the City will have continued access to the capital markets.

3. Upon consummation of the City's plan of adjustment, the City will have addressed and eliminated significant liabilities. This, in turn, will facilitate the City's ability to access the capital markets. In addition to other obligations, the City will have addressed and brought greater certainty and predictability with respect to its pension benefit and OPEB obligations. Because of the significance

of these obligations, and the fact that such obligations are driven by actuarial analyses and assumptions, such obligations have traditionally served as a significant obstacle in the City's financial planning efforts. The elimination and treatment of the City's significant prepetition liabilities will in Mr. Buckfire's opinion improve the City's attractiveness as a borrower on a post-emergence basis.

4. Mr. Buckfire believes that the City's revitalization plan will also contribute to its ability to access the capital markets going forward. The revitalization efforts are assumed to attract a new tax base for the City. In addition, the City's revitalization efforts are relatively flexible with respect to timing. Because of the flexible nature of much of the revitalization efforts, the City has increased control of its financial future and has flexibility to meet its reduced debt service obligations going forward. This differs markedly from the City's ability to manage its mandatory fixed legal obligations and other debt service prior to bankruptcy and serves as another significant consideration in Mr. Buckfire's analysis.

5. The City and the State of Michigan have also taken steps to remedy governance concerns. Due to recent state legislation, there will be State oversight of the City upon emergence that will make sure that the City will be able to meet its debt obligations on a post-emergence basis. All of these factors, in Mr.

Buckfire's view, suggest that the City will be able to access the capital markets on reasonable terms in the near future.

6. Mr. Buckfire also believes that the City's ability to access the capital markets, including with respect to exit financing, is further confirmed by the market's response to the City's post-petition financing facility. The City's post-petition financing facility was fully syndicated without any need for "market-flex." Further, Mr. Buckfire believes that the significant number of traditional municipal market institutional investors that participated in the City's exit financing further confirms that the investing community is and will be available to the City on a post-emergence basis.

B. Plan Treatment Compared To Treatment Upon Dismissal

7. The City's creditors will in Mr. Buckfire's view be treated better under the City's plan of adjustment than if the bankruptcy case were dismissed. It has already been determined that the City does not have sufficient funds to satisfy its obligations and that the City is service delivery insolvent. Nor, in Mr. Buckfire's opinion, will the City be able to access the capital markets in a dismissal scenario in order to timely meet creditor obligations. Given the lack of ability to meet creditor obligations, in a dismissal scenario, the City's various creditors will undoubtedly each seek to exercise their legal rights against the City, thereby creating a "race to the courthouse." Mr. Buckfire understands that, in this

scenario, creditors are unable to compel the City to sell assets or to take a lien on public property. Mr. Buckfire also understands that the City is at or near statutory maximums with respect to many of its taxes, the tax rate for Detroiters is objectively very high as compared to the region and similar cities, and attempts to materially increase taxes will likely increase delinquency rates and cause residents to leave the City. Accordingly, it is Mr. Buckfire's opinion that creditor recoveries upon dismissal will be *de minimis*.

8. Mr. Buckfire also believes that confirmation of the plan of adjustment offers several advantages over dismissal of the case. In his view, creditor distributions under the plan of adjustment benefit from the compromises reached by the City during the chapter 9 case, including significantly the "Grand Bargain" that infuses hundreds of millions of dollars into the City from state contributions, charitable foundations and the Detroit Institute of Arts. If the plan of adjustment were not confirmed and the City's case were dismissed, hundreds of millions of dollars would be unavailable to creditors. In addition, Mr. Buckfire believes that the order brought by and the protections of the Bankruptcy Code eliminate the chaos and inefficiency associated with a creditor "race to the courthouse."

9. Based on the above, and the assumptions set forth below, Mr. Buckfire believes that creditors will do better under the proposed plan of adjustment—with the accompanying settlements and compromises—than in a

dismissal scenario that does not benefit from such compromises or the bankruptcy stay. His opinion extends to all of the City's creditors, including DWSD-creditors, which rely on ratepayers to fund the DWSD system in amounts sufficient to meet capital expenditure requirements and bond obligations. If the City's bankruptcy case is dismissed, in Mr. Buckfire's opinion the DWSD and its creditors will not be insulated from the City's financial chaos and ruin.

C. *DWSD Existence Of An Efficient Market*

10. Mr. Buckfire believes that an efficient market exists for debt similar to the debt at issue with respect to the impaired issues of Class 1A of the plan of adjustment. To determine whether an efficient market existed, Mr. Buckfire examined the size and depth of the markets for debt similar to the debt at issue, the size and nature of the municipal debt markets as a whole, general economic factors, feedback from municipal underwriters, and his experience and expertise in the field. As part of his evaluation, Mr. Buckfire also examined trading and issuance levels of similar indebtedness, the availability of willing sellers and purchasers of such debt, and the existence of recent similar issuances.

D. DWSD Market Rate Interest

11. Mr. Buckfire believes that the proposed interest rates set forth in Exhibit I.A.168 of the plan of adjustment for impaired issues of Class 1A of the plan of adjustment provide holders with payments of a present value equal to the

allowed amount of their claims. The plan in his opinion will provide such holders with payments of a present value equal to the allowed amount of the claims because the rates set forth in Exhibit I.A.168 of the plan of adjustment are market interest rates for the applicable debt.

12. To arrive at a market interest rate, Mr. Buckfire (a) considered the nature of the debt at issue, including the nature, priority, type and revenue securing such debt, the degree of the open and well-developed market for municipal debt of this nature, and the principal amount of the debt, (b) reviewed DWSD's pro forma projections, restructured obligations and relevant prospective credit metrics, including leverage, coverage, the size of DWSD and the economic strength of the underlying communities, (c) evaluated comparable situations, such as recent issuances by the cities of Philadelphia and Pittsburgh, (d) reviewed available relevant published market indices and composite yield curves, specifically including the Bloomberg service's revenue-backed yield curve of municipal issuers and the revenue-backed yield curve for utility issuers with various investment grade ratings and (e) had discussions with capital market participants.

13. Based on his experience and expertise in the capital markets, Mr. Buckfire and his team constructed a yield curve for the senior and subordinated indebtedness that, in his opinion, reflects a market yield curve for the applicable

debt. Once established, Mr. Buckfire applied the yield curve to the applicable debt maturities to arrive at market interest rates.

E. Appropriate Plan Discount Rate

14. Based on Mr. Buckfire's experience and expertise, the 5% discount rate used to estimate recoveries for Classes 7, 9, 12, 13 and 14 is reasonable and appropriate under the circumstances. In determining the appropriateness of the discount rate, Mr. Buckfire considered the City's projections, including cash flow projections, the anticipated credit-worthiness of the City upon emergence, and the terms of the New B Notes. He compared these factors against rates that would be applicable to other issuers in the market. Based on these considerations, he concluded that the 5% discount rate utilized for Classes 7, 9, 12, 13 and 14 is reasonable and appropriate under the circumstances.

2. Assumptions

15. Mr. Buckfire has made certain significant assumptions with respect to one or more of the opinions rendered herein. Unless otherwise indicated, Mr. Buckfire's opinions are rendered as of the date hereof, and he has assumed that market conditions (including general economic conditions and conditions in the municipal debt markets) will not materially change prior to the confirmation of the City's plan of adjustment or the relevant event which is the subject of the particular opinion.

A. *Access to the Capital Markets.*

16. In addition to those general assumptions set forth above, in rendering his opinions with respect to the City's access to the capital markets, including access to exit financing, Mr. Buckfire has made the following two significant assumptions: (a) the City's plan of adjustment is confirmed, all conditions precedent to its effectiveness are satisfied, and the plan has or will upon the closing of an exit facility become effective, and (b) there is no material change in the City's projections prior to the incurrence of such financing.

B. *Plan Treatment Compared To Treatment Upon Dismissal.*

17. In addition to those general assumptions set forth above, in rendering his opinions regarding creditor recoveries upon dismissal, Mr. Buckfire has assumed (a) the City's projections, and all material assumptions underlying such projections, are materially correct in relevant respects, (b) the City is service delivery insolvent, (c) reinvestment initiatives are necessary to provide adequate levels of municipal services, (d) the absence of any reinvestment in the City will further deplete the City's tax base, (e) in a dismissal scenario, the City would be unable and it would be impractical for the City to raise taxes without further eroding revenue, and (f) in a dismissal scenario there is no requirement to sell City assets to satisfy creditor claims, whether such assets are characterized as core or non-core.

C. ***DSWD Existence Of An Efficient Market.***

18. In rendering his opinions regarding the existence of an efficient market for the DWSD-related debt, Mr. Buckfire's material assumptions are only those general assumptions set forth above.

D. ***DWSD Market Rate Interest.***

19. In addition to those general assumptions set forth above, Mr. Buckfire has assumed that the City's projections with respect to the DWSD system, and all material assumptions underlying such projections, are materially correct in relevant respects.

E. ***Appropriate Plan Discount Rate***.

20. In addition to those general assumptions set forth above, Mr. Buckfire has assumed that the City's projections, and all material assumptions underlying such projections, are materially correct in relevant respects.

III. <u>Exhibits</u>

21. Attached as Exhibit A is a detail of the materials Mr. Buckfire considered in reaching his opinion and summary materials. Mr. Buckfire also considered discussions he had with his team, City employees and elected officials, as well as the City's third-party consultants and contractors. Mr. Buckfire also had available to him the expertise of, among others, Messrs. Malhotra and Moore.

IV. Qualifications

22. Mr. Buckfire's curriculum vitae is appended as Exhibit B.

V. Prior Expert Testimony

23. Mr. Buckfire has previously testified as an expert in this case with regard to the City's swap settlement and post-petition financing. Mr. Buckfire has previously testified as an expert in other cases, including Calpine Corporation, General Growth Properties and Dow Chemical.

VI. Compensation

24. Mr. Buckfire is not being separately compensated by the City for this Expert Report or his opinions expressed herein. Miller Buckfire receives at this time a $300,000 monthly advisory fee. Miller Buckfire will receive a $28 million restructuring fee, less a credit for certain amounts previously paid to Miller Buckfire, upon a recapitalization or restructuring of the City's debt securities and/or other indebtedness, obligations or liabilities, including a plan of adjustment.

Dated: July 8, 2014

Respectfully submitted,

Kenneth Buckfire

Kenneth Buckfire

Exhibit A

Materials Considered:

- Financial Stability Agreement between the State of Michigan and the City of Detroit (April 2012), available at POA00213650-POA00213708
- Memorandum of Understanding regarding the City of Detroit Reform Program (November 2012), available at POA00232576-POA00232590
- Emergency Manager's Financial and Operating Plan (May 2013), available at POA00649726-POA00649769
- Emergency Manager's Financial and Operating Plan slidedeck (June 2013), available at POA00231448-POA00231468
- City of Detroit's Proposal for Creditors (June 2013), available at POA00215882-POA00216015
- Quarterly Report of the Emergency Manager for the Period April 2013 - June 2013 (July 2013), available at POA00111033- POA00111044
- Emergency Manager's Report (September 2013), available at POA00165156-POA00165283
- Quarterly Report of the Emergency Manager for the Period September 2013 - November 2013 (December 2013), available at POA00297491- POA00297543
- Quarterly Report of the Emergency Manager for the Period October 2013 - December (January 2014), available at POA00109594- POA00109608
- Quarterly Report of the Emergency Manager for the Period December 2013 - February 2014 (March 2014), available at POA00296194- POA00296251
- Fourth Amended Disclosure Statement With Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit (with exhibits) (May 2014), available at (Docket No. 4391)
- Fourth Amended Chapter 9 Plan for the Adjustment of Debts of the City of Detroit (with exhibits) (May 2014), available at (Docket No. 4392)
- Quarterly Report of the Emergency Manager for the Period January 2014 - March 2014 (April 2014), available at POA00700417-POA00700433
- Transcript Syndication of $120,000,000 City of Detroit Financial Recovery Bonds (June 2014), available at POA00706616- POA00706688
- Draft 2013 Comprehensive Annual Financial Report (June 2014), available at POA00531266- POA00531512
- 10-Year Plan of Adjustment Restructuring and Reinvestment Initiatives Bridge (June 2014), available at POA00706448- POA00706448
- 40-Year Plan of Adjustment Financial Projections (July 2014), available at POA 00706603- POA706611
- 10-Year Plan of Adjustment Restructuring and Reinvestment Initiatives (June 2014), available at POA 00706449- POA00706518
- 10-Year Plan of Adjustment Financial Projections (July 2014), available at POA 00706519- POA706600
- 40-Year Plan of Adjustment Financial Projections Bridge (July 2014), available at POA00706601- POA00706602
- EMMA Statistical Data (July 2014), available at POA00706615
- Bloomberg Curve Indices (July 2014), available at POA00706612

- Bloomberg Issuance Data (July 2014), available at POA00706613
- Bloomberg MMA Curve (July 2014), available at POA00706614
- DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement, available at POA00673708- POA00674003
- DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement, available at POA00666470- POA00666795
- City of Detroit CAFR for the Fiscal Year Ended 6/30/2008, available at Dataroom Index No. 8.1.2.6
- City of Detroit CAFR for the Fiscal Year Ended 6/30/2009, available at Dataroom Index No. 8.1.2.6
- City of Detroit CAFR for the Fiscal Year Ended 6/30/2010, available at POA00663851- POA664087
- City of Detroit CAFR for the Fiscal Year Ended 6/30/2011, available at POA00664088- POA00664323
- City of Detroit CAFR for the Fiscal Year Ended 6/30/2012, available at POA00664324- POA00664568
- City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2010, available at POA00245432- POA00245467
- City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2011, available at POA00245468- POA00245503
- City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2012, available at POA00245504- POA00245541
- City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2010, available at POA00245620- POA00245655
- City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2011, available at POA00245656- POA00245692
- City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2012, available at POA00245693- POA00245728

Summary Materials:

- City of Detroit - Pro Forma Capitalization Table (Attachment 1)
- DWSD Financial and Ratings Information (Attachment 2)
- Rate Curve Charts (Attachment 3)

Attachment 1

City of Detroit - Pro Forma Capitalization

$ Millions
July 2, 2014

	Pre-Petition Balance	Reduction of Claim $	Reduction of Claim %	Cash Distributions for Claim	Pro Forma Obligation[1]
Debt Obligations					
COPS Swap	$290 [2]	($205)	71%	($85)	-
COPS	1,473	(1,311)	89%	-	162 [3]
UTGO (2010-A DSA)[4]	100	-	-	-	100
UTGO (Non DSA)	388	(100)	26%	-	288 [5]
LTGO (2010 & 2012-C DSA)[4]	379	-	-	-	379
LTGO (Non DSA)	164	(109)	66%	(55)	-
Notes/Loans Payable	34	(30)	89%	-	4 [3]
Other Unsecured Liabilities	150	(134)	89%	-	17 [3]
Exit Financing	-	-	-	-	300
Total Debt Obligations	**$2,978**	**($1,889)**	**63%**	**($140)**	**$1,249**
Retiree Obligations					
Pension UAAL	$3,129	($1,682)	54%	-	$1,447 [6]
OPEB UAAL	4,303	(3,833)	89%	(20)	450 [3]
Total Retiree Obligations	**$7,432**	**($5,515)**	**74%**	**($20)**	**$1,897**
Total Obligations	**$10,410**	**($7,404)**	**71%**	**($160)**	**$3,146**

Type of Obligation	Pre-Petition Balance	% of Total Obligations	Pro Forma Obligations	% of Total Obligations	% Reduction / (Increase)
UTGO (DSA & Non DSA)	$488	5%	$388	12%	20%
LTGO (DSA, Non DSA & New B Note)	543	5%	1,011	32%	(86%)
Retiree UAAL	7,432	71%	1,447	46%	81%
Other	1,947	19%	300	10%	85%
Total	**$10,410**	**100%**	**$3,146**	**100%**	**70%**

Source: City of Detroit Plan of Adjustment - 40 year projections draft of June 30, 2014. Assumes chapter 9 exit on October 31, 2014.

(1) Funded obligation amounts represent face value of obligations.
(2) Claim amount as of settlement date April 15, 2014.
(3) $632 million pro forma B Note obligation is comprised of COPs ($162 million), Notes/Loans Payable ($4 million), Other Unsecured Liabilities ($17 million) and OPEB ($450 million).
(4) Secured by Distributable State Aid.
(5) Post emergence debt secured by Distributable State Aid.
(6) Pro forma pension UAAL of $1,447 million per Milliman letters for GRS ($847 million) dated April 25, 2014 and PFRS ($553 million) dated April 23, 2014.

Attachment 2

Expert Report Reference Materials

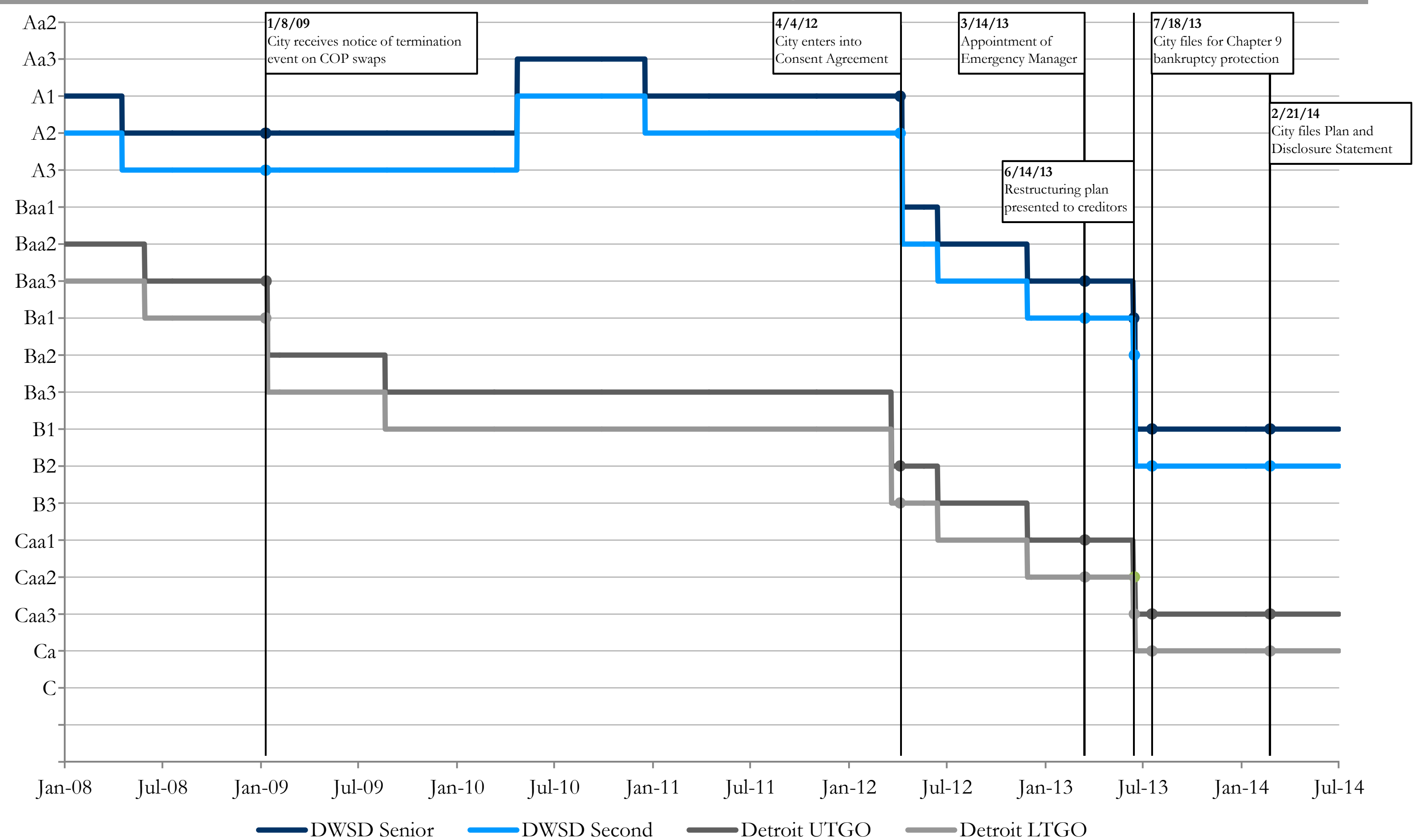
July 1, 2014

HISTORICAL MOODY'S RATINGS

Moody's downgrades of DWSD debt have resulted from concerns over the solvency of the City of Detroit

- Commentary has not addressed the credit fundamentals of DWSD
- DWSD has maintained Moody's investment grade ratings with a significantly weaker credit profile

Historical Moody's Credit Ratings, 2008-Present

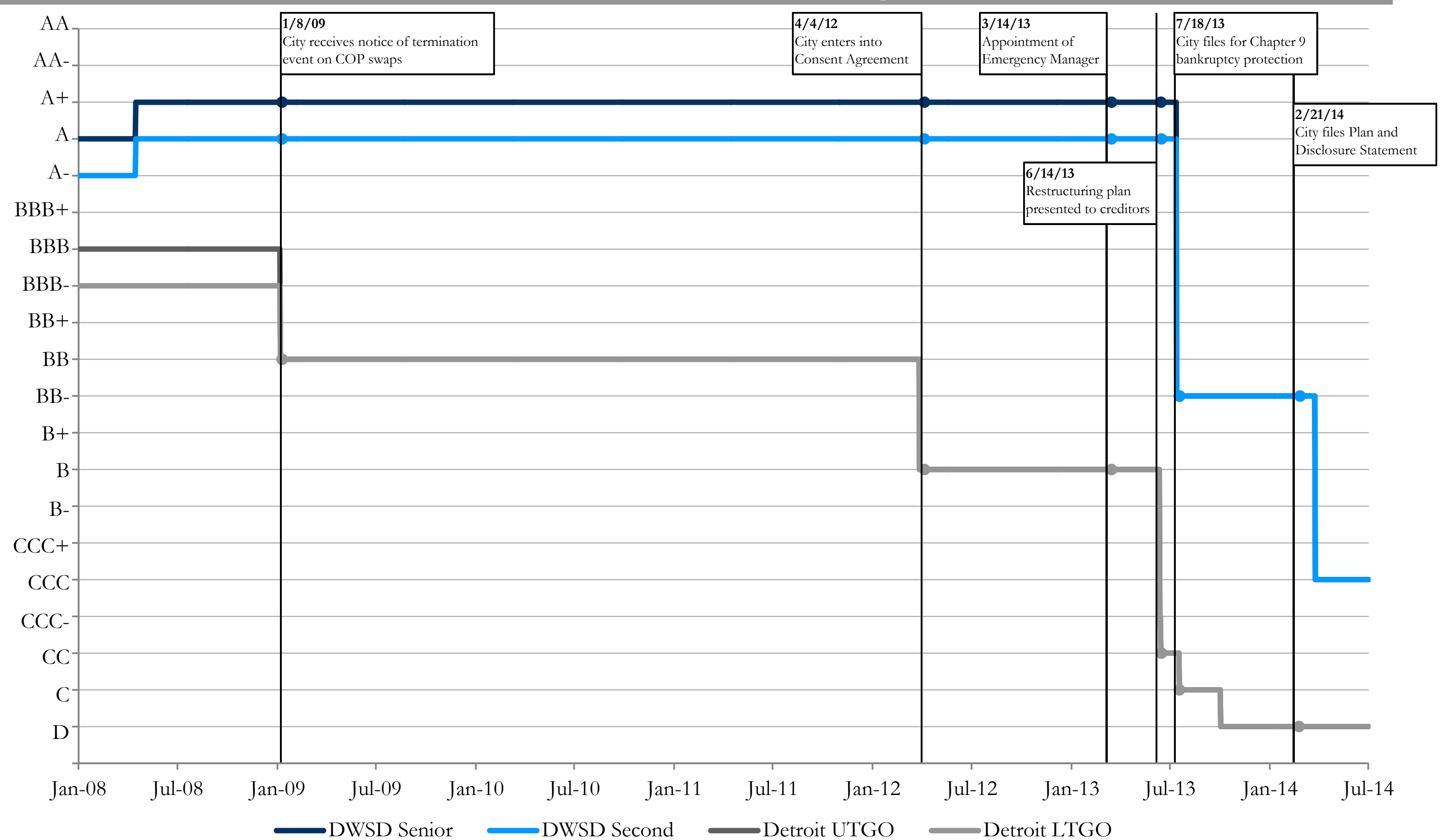


HISTORICAL S&P RATINGS

S&P downgrades of DWSD debt have resulted from the restructuring process of the City of Detroit

- Commentary has not addressed the credit fundamentals of DWSD
- DWSD has maintained S&P investment grade ratings with a significantly weaker credit profile

Historical Standard & Poor's Credit Ratings, 2008-Present



MILLER BUCKFIRE A Stifel Company

Selected Financial Information[1] ($MM)

Post-restructuring, DWSD will have a dramatically improved credit profile

- Debt service coverage ratios are forecasted to improve
- Legacy liabilities will be dramatically decreased and ongoing contributions reduced
- DWSD forecasts suggest the system will achieve rate stability while decreasing leverage

	Historical[1]					Projected[2]								
	2008	**2009**	**2010**	**2011**	**2012**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Coverage[y]														
Water Senior Lien	1.86x	1.25x	1.33x	1.49x	1.67x	1.63x	1.78x	1.73x	1.77x	1.82x	1.99x	2.03x	2.04x	2.05x
Water Second Lien	1.35x	0.89x	0.94x	1.07x	1.27x	1.27x	1.37x	1.35x	1.39x	1.43x	1.50x	1.54x	1.56x	1.59x
Sewer Senior Lien	1.92x	1.75x	1.49x	1.70x	2.32x	2.06x	2.12x	1.98x	1.97x	2.03x	2.09x	2.18x	2.35x	2.21x
Sewer Second Lien	1.35x	1.23x	1.00x	1.11x	1.48x	1.38x	1.45x	1.46x	1.46x	1.52x	1.58x	1.64x	1.67x	1.68x
Legacy Liabilities														
Pension														
DWSD Contribution[x]	13.4	11.6	11.4	19.7	10.9	65.4	45.4	45.4	45.4	45.4	45.4	45.4	45.4	45.4
GRS UAAL	42.7	(31.6)	276.7	481.5	639.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OPEB														
DWSD Contribution	18.0	15.6	16.4	19.1	19.9	3.6	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total OPEB UAAL	4,825.6	4,825.2	4,976.8	4,982.4	5,727.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
COPs/Swaps														
DWSD Contribution	9.2	9.8	10.3	11.1	11.7	4.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total DWSD Contribution	$40.7	$37.0	$38.1	$50.0	$42.4	$73.5	$48.3	$48.3	$48.3	$48.3	$48.3	$48.3	$48.3	$48.3
Rate Increases														
Water														
Retail	6.9%	6.3%	5.2%	9.4%	9.0%	4.0%	6.0%	7.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Wholesale	5.1%	8.9%	6.4%	5.5%	8.9%	4.0%	6.0%	7.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Sewer														
Retail	1.8%	14.8%	16.1%	10.2%	8.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Wholesale	2.5%	0.0%	8.2%	3.7%	11.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

(1) Source: City of Detroit CAFRs, DWSD audited financial statements and DWSD bond offering Official Statements.
(2) Source: Fourth Amended Disclosure Statement.
(y) Based on current debt service. Coverage may improve under POA terms.
(x) DWSD GRS contributions are projected to decrease materially post-2023, and may cease in their entirety depending on DWSD GRS funding levels.

Citations for Miller Buckfire DWSD Slide Deck dated July 1, 2014
Slide 3 (Historical Information Only)

- **Water Senior Lien Coverage**
  - 2008:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2009:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2010:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2011:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2012:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 50

- **Water Second Lien Coverage**
  - 2008:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2009:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2010:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2011:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 47
  - 2012:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 50

- **Sewer Senior Lien Coverage**
  - 2008:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
  - 2009:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55

- 2010:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
- 2011:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
- 2012:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 60

- **Sewer Second Lien Coverage**
    - 2008:
        - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
    - 2009:
        - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
    - 2010:
        - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
    - 2011:
        - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 55
    - 2012:
        - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 60

- **DWSD GRS Pension Contribution**
    - 2008:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2008, page 116
    - 2009:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2009, page 108
    - 2010:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2010, page 25 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2010 page 26
    - 2011:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2011, page 24 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2011 page 26
    - 2012:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2012, page 26 and

        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2012 page 25

- **GRS UAAL**
    - 2008:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2008, page 117
    - 2009:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2009, page 109
    - 2010:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2010, page 26 or
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2010 page 27
    - 2011:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2011, page 25 or
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2011 page 26
    - 2012:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2012, page 27 or
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2012 page 26

- **DWSD OPEB Contribution**
    - 2008:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2008, page 120
    - 2009:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2009, page 112
    - 2010:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2010, page 29 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2010 page 30
    - 2011:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2011, page 28 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2011 page 30
    - 2012:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2012, page 30 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2012 page 29

- **<u>OPEB UAAL</u>**
    - <u>2008</u>:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2008, page 120
    - <u>2009</u>:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2009, pages 112 & 113
    - <u>2010</u>:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2010, page 30 or
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2010 pages 30 & 31
    - <u>2011</u>:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2011, page 29 or
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2011 pages 30 & 31
    - <u>2012</u>:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2012, pages 30 & 31 or
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2012 page 30

- **<u>DWSD COPs / Swaps Contribution</u>**
    - <u>2008</u>:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2007, page 109
    - <u>2009</u>:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2008, page 109
    - <u>2010</u>:
        - City of Detroit CAFR for the Fiscal Year Ended 6/30/2009, page 101
    - <u>2011</u>:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2010, page 18 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2010 page 18
    - <u>2012</u>:
        - City of Detroit Sewage Disposal Fund Basic Financial Statements for the year ended 6/30/2011, page 18 and
        - City of Detroit Water Fund Basic Financial Statements for the year ended 6/30/2011 page 18

- **<u>Water Retail Rate Increases</u>**
    - <u>2008</u>:
        - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45

- <u>2009</u>:
  - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
- <u>2010</u>:
  - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
- <u>2011</u>:
  - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
- <u>2012</u>:
  - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45

- **<u>Water Wholesale Rate Increases</u>**
  - <u>2008</u>:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
  - 2009:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
  - 2010:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
  - 2011:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45
  - 2012:
    - DWSD Water Supply System Series 2011-C Senior Lien Bond Official Statement page 45

- **<u>Sewer Retail Rate Increases</u>**
  - 2008:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2009:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2010:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2011:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2012:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52

- **<u>Sewer Wholesale Rate Increases</u>**
  - 2008:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2009:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2010:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2011:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52
  - 2012:
    - DWSD Sewage Disposal System, Series 2012-A Senior Lien Bond Official Statement page 52

Attachment 3

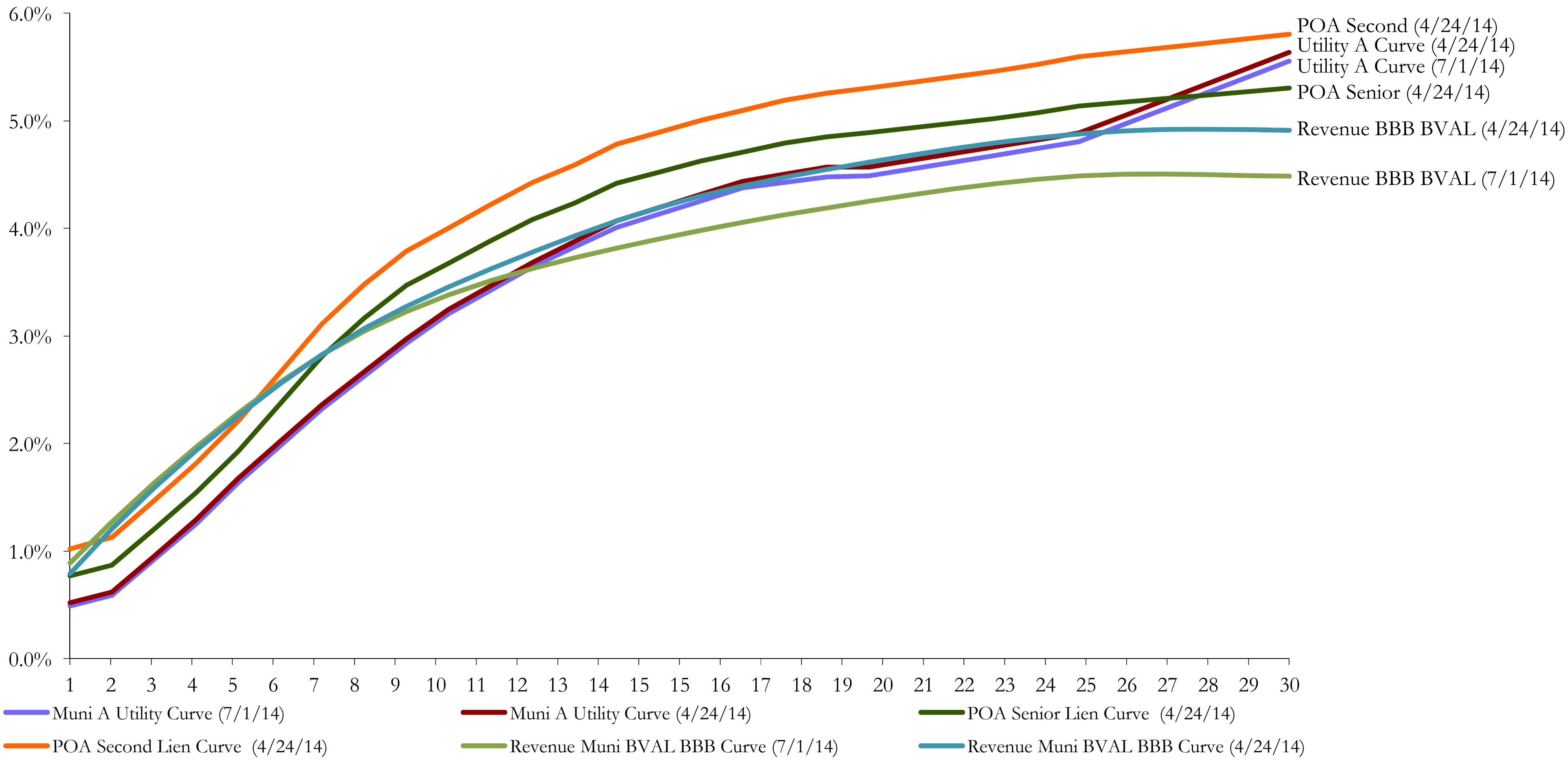
Expert Report Reference Materials

July 1, 2014

YIELD CURVE COMPARISONS

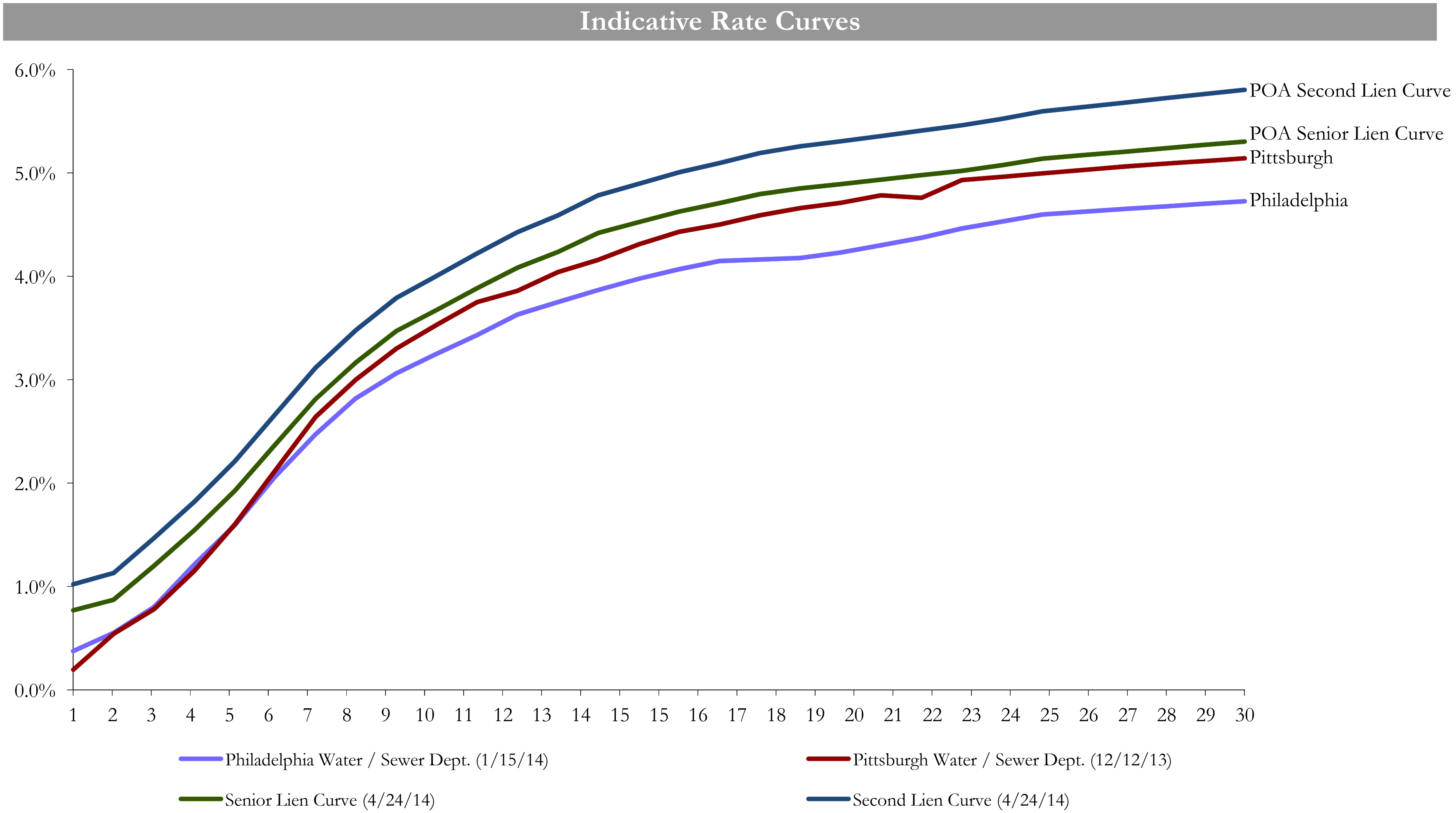
- **BBB Revenue Muni BVAL Curve** - The curve represents the yield curve for tax-exempt revenue securities issued for the rating level. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues calendars, and other proprietary contributed prices.
- **US Muni Utility A Curve** - The curve is populated with US municipal bonds backed by utility revenues with an average rating of A by Moody's and S&P. The option-free yield curve is built using option-adjusted spread (OAS) model. The yield curve is comprised from contributed pricing from the Municipal Securities Rulemaking Board.

Muni Yield Curve Comparison



Source: Bloomberg.

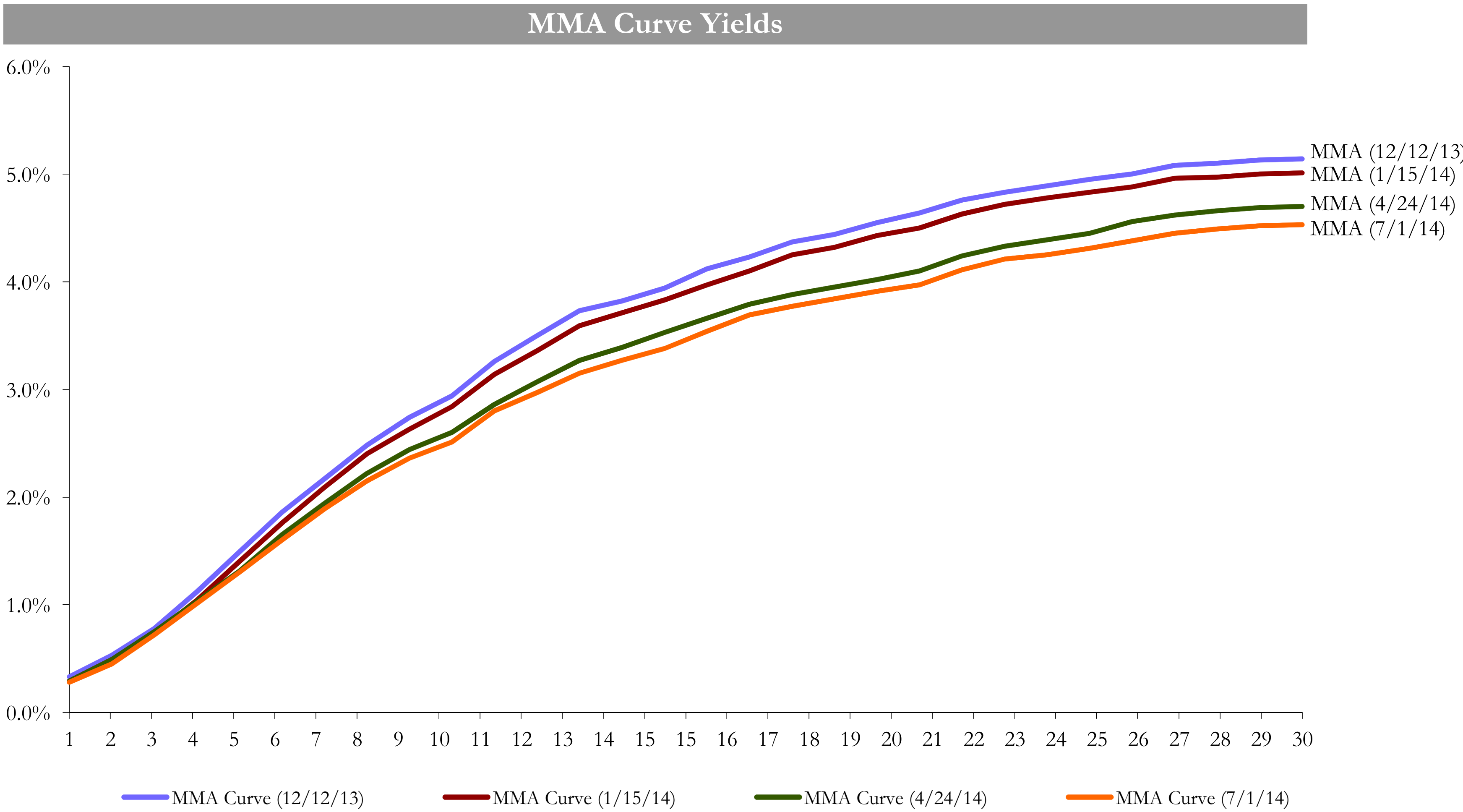
YIELD CURVE COMPARISONS (CONT'D)



Source: Bloomberg.

Recent MMA Curve Yields

- **MMA Yield Curve** – Represents a survey of leading investment firms regarding benchmark AAA GO levels. The data represents a "par coupon" structure and a 10-year par call. The inputs from each firm are monitored and statistically scrubbed to remove outliers and ensure historical consistency. Data is collected through the MMA website, www.mma-research.com.



Source: Bloomberg.

Exhibit B

KENNETH A. BUCKFIRE

EDUCATIONAL AND PROFESSIONAL BACKGROUND

Education

B.A., University of Michigan - 1980

M.B.A., Columbia University - 1987

Employment

Miller Buckfire & Co., LLC
Co-Founder, President and Managing Director (July 2002 – present)

Dresdner Kleinwort Wasserstein (formerly Wasserstein Perella & Co.)
Managing Director (1996 – 2002)

Lehman Brothers
Senior Vice President (1991 – 1996)

Kidder Peabody & Co.
Vice President (1990)

Dillon Read & Co.
Associate (1987 – 1989)

Bridge Capital Partners
Associate (1984)

MONY
Senior Investment Analyst (1980 – 1983)

Governance

Director: Neurophage Pharmaceuticals
Director (Prior): ARK Information Services, Bulldog Communications, Great Bay Power Corp., Van Camp Seafood Corp. and Webfacts
Trustee: New York Philharmonic
Trustee (Prior): Orpheus Chamber Orchestra and Browning School

Selected Transaction Experience

Allegheny International
Amoco Corporation
Cajun Electric
Calpine Corporation
CenterPoint Energy
City of Detroit
City of Stockton, CA
Cleveland-Cliffs
CMS Energy
Dow Chemical
EUA Power Corporation
Excel Maritime
Explorer Pipeline
First Reserve Corporation
Foamex
General Growth Properties
Horizon Natural Resources
Imperial Sugar
McDermott International
Mirant Corporation (Creditors' Committee)
Niagara Mohawk Power
Northwest Power Enterprises
Plantation Pipe Line
Reading & Bates
Rowan Companies
Santa Fe International
Sedco
Southland Royalty Co.
TECO Energy
Texas New Mexico Power Company
Texas Refining
Tosco Corporation
U.S. Generating Florida
Williams Companies

Selected Expert Witness Experience

Calpine Corporation
The City of Detroit
General Growth Properties
Dow Chemical (Re: Rohm & Haas litigation)

<u>Exhibit 6B</u>

July 16, 2014 K. Buckfire Deposition Transcript

KENNETH BUCKFIRE, VOLUME 2

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN

In Re:) Chapter 9

CITY of DETROIT, MICHIGAN,) Case No. 13-53846

Debtor.) Hon. Steven Rhodes

____

VOLUME 2

The Videotaped Deposition of KENNETH BUCKFIRE,
a Rule 30(b)(6) witness,
Taken at 1114 Washington Boulevard,
Detroit, Michigan,
Commencing at 8:09 a.m.,
Wednesday, July 16, 2014,
Before Leisa M. Pastor, CSR-3500, RPR, CRR.

KENNETH BUCKFIRE, VOLUME 2

APPEARANCES:

THOMAS F. CULLEN, JR., ESQ.
Jones Day
51 Louisiana Avenue, N.W.
Washington, D.C. 20001
Appearing on behalf of the Debtor.

CORINNE BALL, ESQ.,
BENJAMIN ROSENBLUM, ESQ.
Jones Day
222 East 41st Street
New York, New York 10017
Appearing on behalf of the Debtor.

KENNETH BUCKFIRE, VOLUME 2

CLAUDE D. MONTGOMERY, ESQ.
Dentons US LLP
1221 Avenue of the Americas
New York, New York 10020
Appearing on behalf of the Retirement Committee.

JENNIFER K. GREEN, ESQ.
Clark Hill, PLC
500 Woodward Avenue, Suite 3500
Detroit, Michigan 48226
Appearing on behalf of the Retirement Systems for the City of Detroit.

KENNETH BUCKFIRE, VOLUME 2

ROBIN D. BALL, ESQ.
Chadbourne & Parke, LLP
350 South Grand Avenue, 32nd Floor
Los Angeles, California 90071
Appearing on behalf of Assured Guaranty Municipa
Corporation.

GUY S. NEAL, ESQ.
Sidley Austin, LLP
1501 K Street, N.W.
Washington, D.C. 20005
Appearing on behalf of National Public Financing.

KENNETH BUCKFIRE, VOLUME 2

Q. And so the substantial the creditors that you are referring to that have a more substantial claim than -- than my clients, who would be that?

A. Again we're talking about a dismissal scenario where you don't have the protection of Chapter 9, well obviously, the LTGOs, the UTGOs, one could argue even the pension and OPEB claim holders because they have executory contracts with the City. All those parties which have claims in the billions certainly swamp the claims of the COPs, and indeed, the question of the priority of the COPs claims because you're relying on the indirect credit of the City, I think would call into question whether in that scenario your clients would receive any value at you will.

Q. And so that's the basis of your opinion with respect to plans compared to treatment upon dismissal?

A. That's correct..

Q. Now, did you analysis the treatment under the plan and justification at a post it to the treatment upon dismissal which you just did here in this --

A. Mm-hmm.

Q. -- testimony when you came to this opinion?

A. Well, I'd also refer you to our June 2013 report where we showed that without intervention in this case

KENNETH BUCKFIRE, VOLUME 2

intervention being the filing for bankruptcy protection, the percentage of City revenues being tasked to manage debt service obligations was growing to an unsustainable level. I believe the peak was 65 percent of total relevance including your clients' claims would absorb over 65 percent of all tax revenues, that's untenable, that's a liquidation scenario and the realty was that the City's experience prebankruptcy I think as a factual matter indicates that that scenario was having an enormously adverse consequence on the ability of the City to maintain itself, provide services, attract tax base and increase revenues.

Q. So now your testimony that you just gave, is it based on any analysis that was done by -- well, yourself, Miller Buckfire, or anyone else in connection with the City of what the recoveries for creditors would be outside of the Chapter 9? Did you do a full analysis saying this is what we anticipate would happen?

A. You mean a liquidation analyses?

Q. Yeah, an analysis of -- using your terms if the case were dismissed?

A. Cities don't liquidate, so we did not do that analysis.

KENNETH BUCKFIRE, VOLUME 2

Q. And apart from a liquidation analysis did you do any analysis of well here's what we think would happen, here's the creditors we think would have a certain type of priority, here's the creditors we think would have a different type of priority here's how we think we testified yesterday the race to the courthouse might come out, did you do any analysis like that?

A. No.

Q. And why not?

A. We thought it was pretty obvious from the condition of the City prebankruptcy about how untenable the situation was and the fact that if you regard some level of City services as being the minimum requirement absorbing revenue there wouldn't be enough cash to pay our creditors, you can see that from the numbers.

Q. And breaking it down a little, did you consider even as to anyone particular group of creditors? Did you take any creditor type and sigh well here's a type of creditor that looking at this opinion might not do as badly in a dismissal scenario versus what they're getting in the bankruptcy.

A. Yes, we did that.

Q. And which creditor were you -- do you that for?

KENNETH BUCKFIRE, VOLUME 2

A. Well, I've already testified to our work on a priority analysis, a so-called recovery analysis by creditor class and we came to a conclusion early on that the GO creditors might in fact have a better recovery in a liquidation scenario because they have the benefit of a tax pledge that might under southern scenarios give them a greater revenue from tax revenues albeit the claim, other than other GO creditors who had no specific revenue.

Q. Can you recall what the results were for any other class of creditors other than the GO? And you just mentioned the GO when you testified about that earlier.

A. Well, regrettably, I thought the recovery to COPs was likely to be zero in that scenario.

Q. And can you -- let me break that down a little. So the recovery to COPs you just said you thought might be zero. What factors went into that analysis?

A. Just my conclusion as to the status of their claims, relative to other claims against the City's revenues.

Q. So and by status, you mean priority and anything else?

A. Priority, lack of tax pledge, indirect nature of their claim against the City, the fact that they might not be classified as a general unsecured claim with other

claims that I would view as an economic matter you know our genuine secured claims with the comes forks the underfunded pension claim the healthcare claim they're all general unsecured claims as I understand that but it's certainly possible that you know some authority might take a different view that those claims require more dedication of revenues first ahead of the COPs.

Q. And so the analysis you did was to first of all prioritize the claims, secondly look within the priority and see well gee what is it they're claiming, what is their likelihood of having some kind of a security interest and things like you just mentioned and then you went through those factors and you applied them within each class. Is there a written report that does that?

A. No.

Q. And you did testify about this analysis yesterday, as well, circles incomes with the DWSD. Who would be the person within the City or -- whether it's Miller Buckfire who would be most knowledgeable about the specifics of that analysis, that recovery analysis?

A. Well, the development of the plan of reorganization, sorry plan of adjustment here was a collaborative

effort between ourselves, Ernst & Young, Conway MacKenzie. We took the lead in analyzing the claims' waterfall and the calculation of the series B notes and how that might be applied against those claims but the actual analysis of the City's plan was done by E & Y, and we contributed our analysis and our views on the balance sheet to their presentation which is now displayed in exhibits LA M of the POA.

Q. Okay, than analysis includes the analysis of the recoveries that you just testified about?

A. That's correct, which is also reflected in my expert report but in a different form.

Q. Okay, and if you can refer to your expert report, what are you referring to?

A. I think it's marked as attachment 1 which is actually a pro forma capitalization of the City it, it's not strictly by class but it does show from an equivalent gap presentation point of view what everyone's getting.

Q. And that would be titled that's the page for those of you who have it entitled City of Detroit pro forma capitalization July 2, 2014?

A. Correct.

Q. So looking at the debt obligations of the COPs that

are listed there, prepetition ballots, what is that a bill I don't know-four, a bill I don't know 473?

A. For the COPs?

Q. Yes.

A. Yes, but I believe this balance includes prepetition interest as well so the billion four seven at this three includes accrued but unpaid interest.

Q. And then under the column claim, reduction of claim, what does that represent?

A. That's just a deduction based on what the debt obligations receiving pursuant to the plan and then this is what they're not receiving so in case of the COPs, the 1.473 billion of claim they'd be receiving 162 million of the series B note and the change, the difference is $1,311,000,000.

Q. So it's being reduced by 89 percent?

A. That's right. Which is comparable with the other similar situated claims. The notes, loans payables, and other unsecured liabilities.

Q. Is there a backup for this that analyzes it any -- any further?

A. Well, this is a summary of information contained in the POA, so you have to go back to the POA and look class by class to determine what treatment is

proposed. Of course, in the POA itself, we would stipulate that the COPs recovers zero for legal reasons but not resulted to the pro rata claims analysis that we had done.

Q. And what we're talking about now is the pro rata claims analysis that we've already referred to, correct.

A. That's right.

Q. That separate and apart from any legal analysis --

A. That's right, and of course the COPs as I mentioned before, takes into account that we are only allowing 40 percent overall COPs claim, which is one of the reasons that it is so used reduced.

Q. So separate and apart from the plan of adjustment, because I've reviewed the plan of adjustment, are there any analyses other than those that are attached to the plan of adjustment, referred to in the plan of adjustment and attached as exhibits which you know there are many?

A. Mm-hmm.

Q. Other than those do you know of any analysis regarding the pro ratas on a recovery basis that you've just referred to?

A. No.

KENNETH BUCKFIRE, VOLUME 2

claims against the City are pursuant to the service contracts, correct?
A. **I am.**
Q. And do you understand that those are direct claims against the City?
A. **I do.**
Q. Do you remember that there was conversation with Mr. Soto about the fact that there is $162 million in B notes, face value B notes going to the -- the class 9?
A. **I do.**
Q. Is that the total amount that's going into the reserve established for class 9 or is that the present value of the total face value? Because in my mind there is -- something's not adding up there and so I want to try and understand it.
A. **Well, when you say it's not adding up, what is it not adding up to?**
Q. So I thought that the way it worked was that a reserve was set up --
A. **Mm-hmm.**
Q. -- and that the reserve was on a nominal basis without present valuing 15 percent of the total amount of COPs in B notes, meaning approximately $210 million in B

KENNETH BUCKFIRE, VOLUME 2

notes -- and by the way, I could have this all wrong, 210 million in B notes go into the reserve in the event the COPs all try to litigate their rights and are all vindicated, they would actually get 15 cents in nominal face value B notes, that the 40 percent discounted face value is only applied to a settling COP holder who decided not to take the risk of litigation and said I would like what I can get today. That's my understanding, whether it's right or not is up to you to decide, but what I'm trying to understand is what is that $162 million figure from your attachment 1 or whatever that one is?
A. **That's our calculation of the share that the COPs would have, the total amount of B notes the City is going to issue pursuant to the plan, so again if you look at attachment 1, and albeit this is a summary of information contained in greater detail in the plan itself, the City is going to be issuing approximately $650 million of series B notes, present value.**
Q. 632 maybe?
A. **Well, you have -- yeah, because you have to deduct the exit financing from the billion 249, you got to deduct the UTGO bonds and the LTGO DSA series. That leaves you with, you know, 632, 650.**

KENNETH BUCKFIRE, VOLUME 2

Q. So is it your understanding that the reserve -- the total amount of reserve on a nominal basis is 162 million in B notes?
A. **I'd have to go back and check the math against that. That's my general recollection. But I have to go back and verify it.**
Q. Okay.
A. **I haven't looked at that in a while.**
Q. Let me turn it around on you a bit and say do you know whether -- take a look there at the pro forma obligation, are any of those other numbers standing out to you as ones that are present valued or represent nominal amounts? Like look at the OPEB UAAL, is the 450 million -- do you remember, isn't that 450 in face B notes?
A. **Yes.**
Q. Okay, does that lead you to believe that the other numbers you've represented on the pro forma are face value B notes?
A. **Hold on a second. I'm just -- you want to know whether these are present value numbers or nominal numbers --**
Q. Yeah.
A. **-- or par amount?**

KENNETH BUCKFIRE, VOLUME 2

Q. Yeah.
A. **Oh, okay. These are the par amounts of the notes being issued, okay? There's no present value calculation of these notes, we have not actually done a valuation of the notes from a market point of view yet.**
Q. Now, isn't it true that in coming to your opinion that creditors do better under the plan than they would do in a dismissal scenario you did not construct a forecast of the City's revenues and costs in a dismissal scenario, correct?
A. **Correct.**
Q. And no one else has either, correct?
A. **Correct.**
Q. Now, your opinion that creditors are doing better under the plan than they would in a dismissal scenario is based on in part on the assumption that the City would be unable and it would be impractical for the City to raise taxes without further eroding revenue; is that correct?
A. **That's right.**
Q. I quoted that from your report. Sound familiar?
A. **It does.**
Q. Has a ring to it. So let me separate unable and

impractical, okay, Mr. Buckfire? What is the basis for your assumption that the City would be unable to raise taxes in a dismissal scenario?

A. Well, it's -- I'll take it as a fact because it was reported in our June 2013 report that the City was already at the state-allowed maximum property tax millage rates, and therefore, has no further ability to raise the rate for property tax point of view. I believe the income tax rate, itself, is already quite high relative to neighboring communities, so that gets to the question of both impracticability and inability.

Q. And I'm holding impracticability to one side, I'm talking about inability now.

A. Yes. There's also the inability, and this is again a fact, that prior to the bankruptcy -- and it's getting better slowly, the City proved -- how should I say this nicely, consistently unable to collect taxes due. Which is a failure of the City administration in executing its responsibilities to collect taxes that have been assessed. So even if you wanted to raise the rate, you can't make people pay you, and if they aren't going to pay you and you make no effort to collect it's sort of irrelevant what the rate is.

Q. Now, with respect to the caps that are imposed on the City with respect to income taxes and property taxes, did you evaluate whether or not those caps are applicable to a party who gets a judgment against the City?

MR. CULLEN: Do you have a -- is that a legal question?

MR. BALL: It certainly is kind of a -- it's a mixed question of law and analysis that would go -- we're already talking about legal matters when we talk about caps, those are statutes, right, the cap?

MR. CULLEN: Do you have an understanding?

BY MR. HACKNEY:

Q. Yeah.

A. I have a general understanding.

Q. What is your general understanding?

A. That it's under certain circumstances a creditor might seek a judgment requiring the City to raise taxes.

Q. Okay.

A. But whenever we -- I don't recall discussing this issue, I was quickly reminded that the City already has the highest property tax rates in the State of Michigan and that even if we wanted to raise taxes and

could raise taxes, it would simply drive people out of the City more quickly, so you might end up in a situation that the higher you raise your rates the less revenue you collect.

Q. So if I understand your testimony, what you're saying is if a creditor got a judgment against the City, it might make it so that the City was able to impose taxes above the statutory caps but the heightened tax would not yield additional revenue because it is impractical to raise taxes in any event --

A. Right.

Q. -- is that correct?

A. Correct, otherwise known a Pyrrhic victory.

Q. A Pyrrhic victory or you can't get blood --

A. Blood from a stone, another way of saying it.

Q. It's got to be turnip, I'm sure. No one would ever think you could get blood out of a stone, I think it's water out of a rock.

MR. CULLEN: Proverbs are various.

BY MR. HACKNEY:

Q. Well, we should definitely get them all I think straight, but I take it you did not undertake an analysis of the amount of tax increase that could be imposed via a creditor judgment against the City to

determine whether it would yield additional revenue?

A. Not directly, but we did ask the tax experts at E&Y to do an analysis of the City's revenues and take into account the sensitivity of revenues to tax rates.

Q. So you asked Mr. Klein at E&Y?

A. I did.

Q. And you asked Mr. Klein to study the question of what would additional taxes yield in the way of revenue?

A. Well, not that -- I asked him to identify what the sensitivity of the City's revenues would be to changes in tax rates because the change of tax rates relative to surrounding communities will have an influence on whether or not people want to live here or in Southfield, Michigan or any neighboring suburb.

Q. So you asked him to study the impact a tax increase or a tax decrease would have on the tax base, correct?

A. Correct, I did.

Q. And what did he tell you?

A. You know, I've reviewed his expert report and I've talked to him over months about these issues. His conclusion was that because the City already has very high tax rates, any further increase in rates would certainly lead to a decline of revenue but that a maintenance of rates was probably sustainable from a

revenue point of view, but that a decline of rates would over time have the ability to improve overall collections, but it would take a long time to demonstrate that effect.

Q. And did you rely on Mr. Klein's opinion in reaching your own opinion?

A. Yes, because his opinion underpins the revenue projections and therefore the cash flow projections of the City's plan.

Q. And did Mr. Klein also opine that increasing taxes would not yield marginal revenue?

A. He certainly told me that, but again to be very specific we're talking about property tax revenues.

Q. Yes.

A. Okay.

Q. Understood. And did you rely on that information from Mr. Klein in reaching your conclusion about the fact that City's not going to generate additional revenue from raising taxes?

A. Yes.

Q. Did you take any steps to pressure test Mr. Klein's advice to you that raising taxes would not yield marginal revenue?

A. No, I haven't done mathematical economics in a really

long time and he is a very well-qualified econometrician and so I relied on him.

Q. So with respect to your conclusion that it would be impractical to raise taxes, have you told me everything that you've done with respect to reaching that conclusion?

A. Yes.

Q. Now, have you reviewed the testimony of Mr. Evanko, the City's senior assessor?

A. No.

Q. Have you ever spoken to that man?

A. I have not.

Q. Did you speak to anyone in the treasury department about your -- your findings with respect to the City's -- the impracticality of the City's raising taxes to generate marginal revenue?

A. Only in the context of could the state assist the City in collecting income taxes. All right. I had several conversations with former State Treasurer Dillon last year, because it had been a proposal by the City for many years to ask the state to do withholding of City income tax on people who were working in the City but not living in the City.

Q. Okay.

A. And I asked him specifically what the state could do to assist the City in terms of collecting more efficiently those kinds of income taxes.

Q. So other than the notion of collecting more efficiently the taxes you're already assessing or imposing, you did not discuss with the treasury department whether increasing taxes would yield marginal revenue, correct?

A. That's correct.

Q. Now -- and isn't it fair to say that you, yourself, did not do any forecasting of future revenues in a scenario where the petition was dismissed?

A. Correct, we relied on Ernst & Young.

Q. And I'll come back to that in just a second. Ernst & Young, they did not do a forecast for the situation where the petition is dismissed, correct?

A. That's correct.

Q. They did a forecast for the future ahead in the absence of the restructuring, correct?

A. They did a forecast assuming the restructuring was successful. Which forecast are you referring to?

Q. In the June 2000 --

A. Oh, I see.

Q. They did the so-called steady state forecast, right?

A. Yes, that was a just a roll forward of the City as they see it at that point.

Q. As they found it?

A. Yeah.

Q. And you have never seen from them a forecast of what would happen if the case were dismissed in the next couple months, correct?

A. No.

Q. Am I correct?

A. That's right.

Q. Now, is forecasting future revenues of a municipality something that falls within your area of expertise as an expert?

A. No.

Q. It's not something that you could do if you wanted to?

A. I could probably do it, but I'm not an expert. That's why we sought out Ernst & Young to provide that service because Mr. Klein is uniquely qualified to do it.

Q. Okay, and did you ever ask Mr. Klein to perform a forecast of the City's performance if the petition were dismissed?

A. No.

Q. Are you familiar with the Government Finance Officers

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Association?

A. No.

Q. I take it it's fair to say that you did not consider any of their forecasting techniques to consider City revenues in the case the petition were dismissed?

A. No, once we brought on Ernst & Young to provide the service we relied upon them.

Q. Okay, and you have not employed any econometric models to determine the future revenues in the City in the event different types of taxes were increased, correct?

A. Correct.

Q. You did not conduct any time series analyses to determine future revenues of taxes were increased, correct?

A. Correct.

Q. You have not conducted linear multiple regression analysis to evaluate future revenues if taxes were increased, correct?

A. Correct.

Q. And nor has anyone else to the best of your knowledge, correct?

A. That's correct.

Q. Now, you also say that material increases in taxes

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will likely increase delinquency rates and cause residents to leave the City; do you recall that opinion from your report?

A. I do.

Q. What do you mean by a material tax increase?

A. Materiality is always subject to judgment, but it's probably something greater than 10 percent.

Q. Okay.

A. That would be regarded as material particularly on the property tax side.

Q. Okay. Did you do any quantitative analysis to determine the impact of a less than 10 percent tax increase on City revenue?

A. No.

Q. Do you know what the City's current delinquency rates are for property taxes?

A. I don't.

Q. Do you know what they are for income taxes?

A. No.

Q. Have you ever studied either of those questions?

A. I did last year at the time the June 2013 report was being produced, but I haven't really looked at that issue since then.

Q. And let me just tell you that I know that it is

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described in the report but were you the one that actually conducted the study to determine the answer or did you just -- are you just saying that you saw it in that report?

A. I say that in the report. The work was done by Conway MacKenzie and Ernst & Young.

Q. Okay, so you personally have not studied the question?

A. That's correct.

Q. And you have never done anything to pressure test Conway MacKenzie's findings, correct?

A. Correct.

Q. Now, have you ever quantified how much delinquency rates would increase in different scenarios where taxes are increased?

A. You're asking me whether I pressure tested this a different way.

Q. Well, the first -- when I was asking about that pressure testing I was saying you never checked to see what they found to be the delinquency rates, whether that was correct?

A. That's correct.

Q. Okay, but this is a different question which is, did you ever attempt to quantify how delinquency rates would go up if taxes went up?

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A. No.

Q. Are you aware of any data showing that increasing taxes will increase delinquency rates in the City of Detroit?

A. Only by inspection of the City's historical record as tax rates went up, my understanding from City officers, including Jack Martin with whom I discussed this issue, was the delinquency rate went up, as well.

Q. Ah, so you're -- you're under the impression that there's historical evidence in the City of Detroit that shows a connection between increasing tax rates and increasing delinquency rates?

A. It was anecdotal at the time he told me that.

Q. So you were told that by Mr. Martin. Did you ever attempt to confirm that?

A. No.

Q. Do you know whether the incomes tax in the City has gone up or down over the last 15 years?

A. Are you talking about the rate or the revenues collected?

Q. The rate, sorry.

A. I don't.

Q. Do you know whether --

A. But I'm referring to property taxes.

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Q. So let's not miss each other, so separately you don't know whether income taxes have gone down over the last 15 years, correct?
A. I don't.
Q. And you don't know whether there's a historical connection in Detroit between the income tax rate and the delinquency rate, correct?
A. That's correct.
Q. You've never studied that connection?
A. No.
Q. Now, you were saying that your conversation with Mr. Martin was limited to the subject of property tax rates, correct?
A. Correct.
Q. And that what he told you was that property tax rates had increased, and as they had increased, delinquencies had increased, correct?
A. Correct, it was all part of the blight issue because as they assess property taxes people would walk away from their houses and that would become blighted and that would be counted as a delinquent tax issue by the City.
Q. Have you attempted to the economic literature for scholarly articles connecting tax rates and

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delinquency rates?
A. No.
Q. Have you reviewed data from any other cities with respect to their tax increases and their delinquency rate increases for either income or property taxes?
A. No.
Q. Do you know whether the relationship between increasing taxes of either property or income and the delinquency rates associated with income or property taxes is a linear relationship?
A. I don't.
Q. If property taxes are increased by 10 percent, which is right at the threshold of materiality as you identify it, what will the percentage increase in delinquencies be?
A. I don't know.
Q. Do you believe that increasing the casino tax will increase delinquencies in the City of Detroit?
A. I don't see what the correlation would be.
Q. I take it so that the answer is no?
A. No.
Q. And what about the utility users tax, if the utility users tax goes up will delinquencies go up?
A. I think it would have a minimal impact on that.

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Q. I take it you have not studied the issue of whether increases in either the casino tax or the utility users tax would generate marginal revenue, correct?
A. That's correct.
Q. You also say that one of your assumptions is that an increase in taxes will cause people to leave; is that correct?
A. Yes.
Q. Have you conducted any analysis to determine how many people will leave under different scenarios where taxes are increased?
A. No.
Q. Do you know what the historical relationship between tax increases and population levels is in the City of Detroit?
A. Well, it's not a simple correlation, there are many other factors that have led to population loss. Certainly increasing tax rates has been a contributing factor to the population leaving the City but not the only factor.
Q. And what's your basis for that opinion?
A. Just my knowledge of the City and, you know, looking at the City's revenues, adjusted for population, knowledge of the City's local economy and conditions

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here.
Q. Anything else?
A. No.
Q. There's obviously been a number of other things going on in this area in addition to whatever tax policy has been, correct?
A. Which is what I just testified to.
Q. Yeah, and I wanted to clear, so you've had significant deindustrialization, correct?
A. That has been a major factor of the deadline in population in the City.
Q. You have not conducted, however, any quantitative analysis assessing the relationship between tax rates and population levels over historical time periods in Detroit, correct?
A. Correct.
Q. Do you know if Detroit raised property taxes by 30 percent how many people would leave?
A. No.
Q. What is the City's current millage rate on residential homes; do you know?
A. Not off the top of my head.
Q. Do you know it approximately?
A. I'd just be guessing, I don't -- I don't recall.

Q. Okay, what about nonresidential properties? What's the millage rate on them?
A. I don't recall the rates.
Q. Do you know how the City's property taxes compare with the surrounding municipalities' property taxes?
A. It was all disclosed in the June 2013 report. We did do a selected summary of total taxes paid by community on that type, that was disclosed.
Q. Is that the extent of your knowledge on the subject?
A. Yes.
Q. And you didn't perform that data collection, correct, you're just -- you just saw it, right?
A. That's right.
Q. So do you know whether it's accurate or not?
A. I don't.
Q. Okay. You have not undertaken a comprehensive study of what surrounding municipalities levy when it comes to property taxes, correct?
A. Correct.
Q. Are you currently of the view that there is no surrounding municipality that has higher property taxes than the City of Detroit?
A. No.
Q. You're not of that view?

A. I don't know.
Q. Oh, there may be, there may not be, you don't know?
A. I don't know for a fact.
Q. Do you know how many cities in the metropolitan -- what does MSA stand for?
A. Metropolitan statistical area.
Q. There you go. In the MSA -- showoff -- have a population of more than 50,000?
A. Let's see, in this area, it would be Detroit, Southfield, probably Troy, probably Dearborn, those are the ones that I would assume would be in that category.
Q. Do you agree that blight remediation will have a positive impact on property values in Detroit?
A. Yes.
Q. And are you aware that property -- that certain blight remediation will take place even if the petition is dismissed?
A. Yes.
Q. And have you evaluated the extent to which that blight remediation will have a positive impact on property values in the City of Detroit?
A. No.
Q. Now, are you aware that the City recently reduced its

taxable value on assessed -- on properties in its jurisdiction by approximately $1 billion?
A. I am.
Q. And what do you know about that, just that it happened?
A. I know that it happened.
Q. And have you evaluated the extent to which that decrease has an impact on property owners' ability to withstand an increase in the rate?
A. Nope.
Q. Do you know the difference between taxable value and state equalized value?
A. No.
Q. Do you agree that the City's property tax enforcement mechanism has been ineffective in recent years?
A. Is that -- yes, I would agree with that statement.
Q. And what I mean by the enforcement mechanism is I mean the folks at the City who are responsible either for defending assessed values or for collecting property taxes; is that what you understand --
A. It has been very ineffective.
Q. Okay, now, have you studied the question to see the extent to which it is the broken enforcement mechanism that is driving delinquencies as opposed to the tax

rates?
A. I've already testified to this that certainly the City's inability to officially collect assessed taxes has been a problem in terms of overall revenues being generated by those taxes.
Q. And so the corollary of that is if you fix the enforcement mechanism you'll see delinquencies go down, correct?
A. Or you might see more foreclosures because people really refuse to pay the taxes and they walk away from their homes.
Q. And so do you understand, however, that the better you are enforcing your mechanism the more of a signal you're sending to the body politic that it needs to pay its taxes?
A. Yes.
Q. And so better enforcement can lead to decreased delinquencies, right?
A. I would hope so.
Q. But you did not study the extent to which improved enforcement would reduce delinquency rates, correct?
A. Correct.
Q. Have you studied the impact -- and by the way, have you reviewed the Plante Moran report?

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A. Which one?

Q. The one they did on the assessor's office?

A. No.

Q. Have you studied the impact that improvements to the assessor's office will have on property tax collections?

A. I haven't studied it, no.

Q. Do you -- are you aware that some of those improvements have already taken place?

A. Yes.

Q. Okay, and do you know the extent to which they have all already taken place?

A. No.

Q. Have you studied the impacts that improvements to the treasurer's office will have on the collection of either income or property taxes?

A. No.

Q. And do you know the extent to which there have already been made improvements to the treasurer's office?

A. I know there were programmed improvements, yes.

Q. You know some have -- have been made to date?

A. They were supposed to have been made.

Q. And do you know the extent -- do you know the percentage of the improvements that have already been made to the ones that are anticipated to be made to that office?

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MR. CULLEN: Counsel, the percentage of initiatives, of dollars, of -- percentage of what?

BY MR. HACKNEY:

Q. Either way, just in terms of when it comes to treasury --

A. Mm-hmm.

Q. -- you know, how far are they along in their restructuring the department in terms of what's been done to date versus what's in the future?

A. No.

Q. Now, you -- you state that the City's tax burden is objectively very high; do you recall that in your report?

A. I do.

Q. What do you mean by objectively?

A. When you compare the taxes paid by a resident of Detroit relative to a resident of a surrounding community, especially when adjusted for per capita income, the City resident is paying a higher tax burden than a resident, for example, of Southfield or Dearborn.

Q. Now, did you take any steps to compare the total tax burden, state, federal and city, of the average Detroiter and compare it to residents of other cities?

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A. No.

Q. Do you know how Michigan income taxes compare to other states?

A. In general, they are higher than some and lower than others.

Q. Okay, but do you have a sense of where they fall on the 50 states?

A. They're toward the higher end.

Q. They're towards the higher end?

A. Yes.

Q. And what about sales tax?

A. Sales tax is also on the higher end.

Q. Have you -- even if you haven't conducted it, have you seen any analysis of the total tax burden on Detroiters as compared to the total tax burden imposed on citizens of other municipalities?

A. I recall looking at a study like that maybe two years ago, but I don't recall any more recent than that.

Q. Are you aware that the City of Atlanta increased property taxes by 36 percent in 2009?

A. No.

Q. Have you taken any effort to try and study either the internet or published literature or anything to determine whether there are other municipalities out there that have made significant increases in a given year to a particular type of tax like property taxes?

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A. No, with the exception of Chicago.

Q. All right, and the recent proposal?

A. Yes.

Q. I'm certainly paying attention to that one.

A. I bet you are.

Q. Actually, I live in Evanston but I think I'm covered by the same taxing authority.

I take it you haven't conducted any analysis of the impact that Atlanta's property tax increase had on its economy, correct?

A. That's correct.

Q. And are you aware that the City of Boston increased property taxes by 15 percent in 2009?

A. No.

Q. Haven't studied that either, correct?

A. That's right.

Q. Have you undertaken a review of the economic -- of the literature regarding the impact of increasing taxes on economic growth?

MR. CULLEN: I think you asked him that

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A. You're assuming we don't pay their interest when due or the contract revenues when due?

Q. You already have not done so, sir.

A. I know that.

Q. Yeah.

A. So upon dismissal you're assuming we would continue not paying those service contracts.

Q. I actually think it doesn't matter whether you do or not. I think the acceleration happened, but that's just my opinion.

A. I see. No, we never considered that.

Q. You have not considered that. And I take it you haven't considered whether the UTGO or LTGO are accelerated upon dismissal of the bankruptcy or have previously been accelerated?

A. No.

Q. As you sit here today, do you know what the amount of the pension trust claim against the City is? I mean in the dismissal scenario.

A. Well, if you terminate the plans, this is where I'm trying to -- there are two different scenarios on the pension side. One is which the plan continues but you don't fund it, in which case the unfunded benefit is, you know, a cost -- that is perhaps as little as 3

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perhaps as much of $4 billion dollars of underfunding as opposed to a termination of the plan, which would actually have created larger underfunding, which is one of the reasons that the City has taken the position we don't terminate the plans we'd rather freeze them. So in the dismissal scenario, which is what you're referring to, and we assume that we're not terminating the plans, I assume we would continue to have the obligation to fund whenever we can afford to fund; otherwise, we would be in default under our payment obligations.

Q. Okay, and the amount of the claim that the pension system would have upon dismissal would be the amount of the outstanding annual amount for that year?

A. Which we haven't paid.

Q. Yes, which you have not paid, is that your --

A. That's my understanding.

Q. And similarly the OPEB claimants would have their right to receive payment for the healthcare that they were entitled to that year, correct?

A. Correct.

Q. Okay. What about with UTGO or LTGO, what would the size of their claim be against the City upon dismissal?

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A. Well, they have, as I mentioned before, in theory the right to tax revenues because they have revenue pledges, correct? So they would have presumably the same status and they would move to enforce their rights to receive all those tax revenues and, I believe, ask for relief not to share those revenues with the City general fund.

Q. Did you evaluate whether the City is in breach of the CETs? Do you know what those are?

A. I do.

Q. The City Employment Terms?

A. Yes.

Q. Yeah, is the City in breach of the CETs?

A. I don't believe we are.

Q. And you know the City has struck a number of collective bargaining agreements recently?

A. Yes, which is why I don't believe we are in breach of the CETs because they have been replaced --

Q. Let's bring it up to the present. You're aware the City has struck collective bargaining agreements with all of its unions, correct?

A. Yes.

Q. Other than the one fire union?

A. Right, I am aware of that.

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Q. To the best of your knowledge, is the City in compliance with all of these collective bargaining agreements that it just struck?

A. To my knowledge, yes.

Q. Okay, isn't it are your expectation that active employees would not be people that had claims against the City in the dismissal scenario?

A. So long as we honor the terms of their agreements.

Q. What conclusion did you reach regarding the total number of claims that would be asserted -- total dollar value of claims that would be asserted against the City in a dismissal scenario?

A. It would be the sum of all the funded debt obligations, which we've already discussed, which includes the COPs and the GO debt and the pension and OPEB claim holders, which presumably we could not satisfy on an ongoing basis.

Q. And I take it you've never sat down with a piece of paper and tried to work this out, right, in terms of what the total claim size would be, correct?

A. Correct, we've not done a dismissal analysis.

Q. Okay.

A. I testified to that previously.

Q. Yeah, and I -- fair enough. Is it your understanding that the City would not be able to undertake the restructuring and reinvestment initiatives if the petition were dismissed?

A. It could only do so if it suspended payments to as many of its creditors as possible.

Q. And have you made an assumption about what the City would or would not do in the event the petition were dismissed?

A. Well, I've already testified that back in, this was December or January when the court initially declined to approve the postpetition financing, we gave consideration to how we would operate the City in the event that we lost access to our required cash. We began to think about that problem at that point. I asked Ernst & Young and Conway to start developing an emergency plan in the case that we lost access to that, which we ultimately never actually went ahead and did because it turned out we did get access to postpetition financing. It was only in that context we ever examined a worst-case scenario in which the City had to, you know, allocate its remaining capital to essential projects.

Q. And so I take -- so you have never personally evaluated the extent to which the City would undertake

the restructuring reinvestment initiatives in the dismissal scenario, correct?

A. Correct.

Q. Now, I think that you testified about this with respect to Mr. Soto, but I was catching up a little bit. Is it your understanding that in the dismissal scenario, creditor recoveries would be on a pari passu basis?

A. Not all creditors.

Q. Okay, which ones would be and which ones would not as -- in your assumption?

A. Well, the UT and LTGO bondholders would be, in my judgment, at a higher priority than other creditors because they have the benefit of a tax pledge. It's my view that the other creditors to the City should be thought of as general unsecured claim holders and therefore treated roughly the same.

Q. Okay, so the general unsecured claim holders would be recovering on a pari passu basis in the dismissal scenario, correct?

A. That would be my assumption, which is consistent with the June 2013 proposed treatment of those creditors.

Q. So your estimation of COPs holder recoveries in the dismissal scenario is that they would receive zero; is

that correct?

A. I didn't say that.

Q. I thought -- so what is your -- let me ask this then. What is your estimation of what COPs holders would recover in the dismissal scenario?

A. I think they're likely to recover zero, not because of their classification as a creditor, which is -- I want to be very clear about that, but just because the City will have little or no value to distribute because its remaining cash flow, right, will not be sufficient once you get through allocation to the GO bondholders and provide for essential City services to provide any discretionary cash flow available for future debt service, which would include sharing that cash flow with other general unsecured claim holders, because on the map that we use -- and this goes back to the June 2013 report, the COPs claims are a billion four, at the time we believed that we had perhaps as much as $10 billion of other claims. So on a best-case basis if the COPs share pro rata, they might get at best 15 cents of whatever we had available to the overall pool of general unsecured claim holders, that's the best they could do, but if we have nothing to give anybody, that is, no security that would trade in the market at

anything close to a fair value, yeah, they could get zero.

Q. But that analysis assumes that all the other general unsecured claims have accelerated, correct?

A. Yes.

Q. Now --

A. Or have a claim on the cash flow of the City, which further reduces the amount of value available to accelerate the claims.

Q. Okay. But you haven't actually done the analysis, though, to see who would get any surplus revenue that exists above operating expenditures and secured debt, correct?

A. You've already asked me this, we have not done a dismissal analysis.

Q. I'm sorry, I don't mean to go over and over, I just -- make sure I haven't asked it in a different way.

A. Anxious to get the answer which I can't give you.

MR. CULLEN: Some kind of turnip or dead horse or something.

A. Is there a metaphor we haven't turned up yet?

MR. CULLEN: It's blood out of a stone. Yeah, because you can't get blood out of a stone.

MR. HACKNEY: I can't -- I'm not going to

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use them again. I shot the wad on all three of them, although shot the wad is a good one.

MR. CULLEN: Gray area.

MR. HACKNEY: I'm sorry, I agree. Let's move on, I'm sorry.

BY MR. HACKNEY:

Q. These ad valorem taxes for the UTGO, you're familiar with what those are?

A. In general, yes.

Q. Have you -- have you determined the extent to which in a dismissal scenario a UTGO holder would be paid in full?

A. No.

Q. So you don't know the answer to that question?

A. Only in the -- only with respect to the revenues that the City has been collecting relative to the millages that applied to these UTGOs which have been insufficient to cover the debt. You are aware that for years the City was supposed to be collecting this millage but did not do so, and therefore, the ultimate resolution of the UTGO claim had to take recognition of that fact, the revenues were not sufficient.

Q. But you haven't studied the question of whether in a dismissal scenario UTGO would get more than 74 cents

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on the dollar, correct?

A. That's right.

Q. One of your assumptions is that in the race to the courthouse scenario, creditors are unable to compel the City to sell assets or to take a lien on public property; is that correct?

A. Yes.

Q. And you say that you understand this to be true, correct?

A. I do.

Q. Who told you that?

A. Jones Day.

Q. And did you do any analysis to test whether or not that advice was correct?

A. No.

Q. Now, you're aware that PA 436 requires the emergency manager to resolve the fiscal crisis facing the City of Detroit, correct?

A. Yes.

Q. Have you evaluated the extent to which asset sales might be required in a dismissal scenario by PA 436?

A. No.

Q. When you were talking about the flexibility of spending associated with the restructuring and

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reinvestment initiatives, you ended up answering the question to Mr. Soto in the context of if there was a recession that caused impact X, you could study the restructuring and reinvestment initiatives and determine which could not be deferred and which could; do you remember that answer?

A. I do.

Q. Have you undertaken a study to determine which of the restructuring and reinvestment initiatives are flexible in that way?

A. Not a study, but I have an opinion.

Q. You have an opinion?

A. Yes.

Q. Is it an opinion based -- I mean, is it just a sense or is it a formal opinion or --

A. It's just my opinion.

Q. Just your opinion. What is your opinion?

A. That in that scenario the first thing I would advise whoever was responsible to defer blight spending but to maintain investment programs related to public safety at all costs.

Q. Okay, so in your view when you look at the restructuring or reinvestment initiatives you see public safety initiatives as being the ones that are

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least flexible in terms of deferral and blight as being the most flexible?

A. On a very short-term basis.

Q. On a very short term --

A. If you had to defer spending on blight removal for six months and come back six months later, you can do that, the houses aren't going anywhere.

Q. Now, have you undertaken to determine the total amount of grant moneys the City has been awarded since the June creditor proposal of last year?

A. Not specifically, no.

Q. Are you aware that the City has been awarded hundreds of millions of dollars in grants since that time?

A. I am.

Q. And have you analyzed the extent to which the City could use those grant moneys to fund restructuring and reinvestment initiatives?

A. No. It does accelerate the program, however. Having more money allows them to take out more blight --

Q. And I'm saying in a dismissal scenario have you studied the extent to which the City could use the grant moneys to fund restructuring and reinvestment initiatives?

A. No.

KENNETH BUCKFIRE, VOLUME 2

Q. Is the City going to be service delivery solvent upon emergence from bankruptcy under the plan?
A. I would say they would approach that standard within the first year of emergence.
Q. So you believe within a year of emergence the City of Detroit will be providing the appropriate level of municipal services?
A. No, I said they will approach that level.
Q. Okay.
A. Okay? You have --
Q. Now, I'm not sure who's the lawyer.
A. Well, no, it's a very complicated question -- it's a complicated question --
Q. Okay.
A. -- because there are so many categories of service delivery the City has to fix.
Q. All right, let's take a step back.
A. All right.
Q. Let's break it down. One of your opinions is that the City is service delivery insolvent, correct?
A. It was service delivery insolvent upon the filing of the bankruptcy.
Q. Filing of the bankruptcy, okay. One of your opinions is that the City was service delivery insolvent at the

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time it filed, correct?
A. Correct.
Q. Now let's ask about today, is the City service delivery insolvent today?
A. Yes.
Q. Okay. Do you believe the City will be service delivery insolvent as of the anticipated plan confirmation date of September 30?
A. You know, it's a complicated question to answer and I hesitate only because you have to look at it by service delivery segment, safety services being the most important, followed by public lighting, followed by transportation services. The City has made dramatic strides in all those areas to improve service delivery, I'd have to go back and check because I'm not totally up to speed on where they stand on those programs. My understanding is that by the time the City emerges they will have made very dramatic improvements to public safety programs, so on those -- programs they may well be service solvent, I don't have a similar opinion on DDOT, which is the Department of Transportation, and I do know that the program to relight the City is ongoing and is expected to be completed next year, so on that element they're

KENNETH BUCKFIRE, VOLUME 2

probably insolvent but in terms of overall safety they will probably be solvent by the time they emerge.
Q. That's a fair caveat. So what you're saying is there has been enormous work -- there has been an enormous amount of work done to date?
A. Yes.
Q. That work may have rendered certain areas of the City service delivery solvent, correct?
A. Correct.
Q. Included in those areas would be an area like public safety, correct?
A. Yes.
Q. Other areas may be on a path to service delivery solvency that ranges in time?
A. Correct, and you should -- you should probably ask Mr. Moore where the City stands on all these programs --
Q. Sure.
A. -- because Conway MacKenzie's been managing most of them.
Q. That's a good advice. We'll take you up on that, but with respect to you --
A. You can thank him for me.
Q. What's that?

KENNETH BUCKFIRE, VOLUME 2

A. You can thank him for me.
Q. I will. I will. He's always glad to see me. So do you have an opinion as you sit here today of what areas where the City is service delivery insolvent or close to it at least in your view? I know we can ask Mr. Moore but --
A. I'm not really not current on that.
Q. So you don't know?
A. It's July, I haven't looked at this issue in a number of months so I am not current.
Q. So you haven't studied the question?
A. That's correct.
Q. Now, have you evaluated the likelihood that the City might choose to sell its art collection in a dismissal scenario?
A. No.
Q. And have you -- I take it then you haven't evaluated the impact such a sale would have on creditor recoveries, correct?
A. We have not done a dismissal analysis.
Q. Okay. Have you considered the possibility that the grand bargain might happen even if the petition were dismissed?
A. Well, my understanding is that one of the principal

elements of that grand bargain is that the pension retirees who have rights to sue the City would presumably then have those rights restored and they may well pursue those rights, in which case the state's funding would go away.
Q. Yeah, there's no question that the grand bargain as it's currently drafted, if the plan is blown up somehow, it goes away?
A. Correct.
Q. Have you evaluated the extent to which it might be reconstituted in a dismissal?
A. That's speculation and I've already testified we haven't done a dismissal analysis.
Q. Now, do you understand that two of the motivating concerns of the grand bargain were to safeguard the art from any future attempts to get at it by creditors and to lessen the misery of pensioners in connection with the cuts?
MR. CULLEN: Objection, foundation. Whose motivations?
BY MR. HACKNEY:
Q. Well, the people that are parties to the grand bargain?
A. Their motivations are their motivations. The City's

motivation is to maximize the value of assets in a way that's consistent with the rehabilitation of the City, and the grand bargain does that.
Q. Okay, by infusing hundreds of millions of dollars into the City, correct?
A. Into the City for the City's -- benefit of the City's creditors, which in this case happen to be the retirees.
Q. But you understand that the two points I raised about protecting the art and helping the pensioners are -- are considered to be two of the motivating factors for the grand bargaining?
A. That's my understanding.
Q. And those would still apply in a dismissal scenario, correct?
A. That's speculation on my part.
Q. Okay, so it's not something you've evaluated?
A. No.
Q. And I take it you have not independently assessed the reliability of the City's forecast, correct?
A. Correct.
Q. Do you know -- do you understand that the City of Detroit has above-average unemployment when compared to the national employment rate?

A. Yes.
Q. And as a result of that, isn't it true that the City does not have a problem with attrition in its active employee ranks?
A. I'm not sure there's a relationship between the unemployment rate and attrition. What are you referring to?
Q. Well, just that when unemployment is high it tends to make people want to hold on to a good job.
A. That's a general statement, I don't -- I do not know how that applies to the case of Detroit.
Q. You haven't studied problems that the City may have either retaining active employees or attracting new ones; is that correct?
A. Only anecdotally.
Q. Okay, you haven't conducted a systematic study?
A. No.
Q. And are you aware of anecdotal evidence that the City is having trouble retaining employees?
A. The City has had historically trouble retaining qualified employees, they've had no trouble retaining unqualified employees.
Q. And that's just the anecdotal evidence you were referring to earlier?

A. And personal relationships with many of those same City employees.
Q. In a dismissal scenario will the City be able to borrow money on a secured basis?
A. I believe so.
Q. Okay. And would it be able to do so at reasonable rates?
A. I believe so.
Q. In a dismissal scenario?
A. Oh, I'm sorry, no.
Q. I gave you a favor there --
A. No.
Q. -- because otherwise I'm crossing you later and you were like what was I saying. So let's do it again. In a dismissal scenario can the City borrow on a secured basis?
A. Probably.
Q. Okay, and would it be able to do so at reasonable rates?
A. Probably not.
Q. Why not?
A. I would assume any lender would look at the overall situation of Detroit and given the tremendous uncertainties facing the ultimate resolution of its

crippling liabilities would view that its position as a lender might be at some point under attack by other creditors, that it might find itself in a subsequent Chapter 9, have to protect its rights to get repaid pursuant to its pledge, and therefore they would want to be paid for that risk. They would also probably require that the terms of the loan be very short.

Q. The postpetition facility, however, was not one that required plan confirmation, isn't that correct?

A. That's correct.

Q. And Barclays facility tolerates dismissal of the petition, correct?

A. That's right.

Q. And you actually felt that that was a very favorable rate, if I recall, correct?

A. That's true.

Q. Something on the order of 3-1/2 percent, correct?

A. It is 3-1/2 percent.

Q. But your testimony is that even though you were able to secure that loan on a secured basis during the midst of a at the time nonconsensual bankruptcy that if the petition were dismissed that there would be a material difference in the secured barring of the City?

A. Well, there were very different facts and circumstances surrounding that. I don't believe that in any way helps understand what the City would have to do to borrow money in a dismissal situation, which is what you're positing now.

Q. Yeah, you're right. By the way, the exit financing that you're currently working to line up, that's also going to be on secured basis, correct?

A. We have suggested to lenders that security is available but we've also encouraged them to propose unsecured financing facilities.

Q. I think we've talked about this before, but when you suggest things to the market they have a tendency to not want less than that, right?

A. Depends on the demand for the financing.

Q. Do you think that the exit facility might be unsecured?

A. Ask me in a week.

Q. Okay. I will. Have you assessed the abilities to save money by --

A. I know you will.

Q. I'm going to call you and ask you.

A. You have to call Tim first.

Q. Yeah, I'll get permission. Have you assessed the

abilities of the City to save money by privatizing DDOT?

A. That issue has been studied.

Q. Have you studied it?

A. No.

Q. Now, that's something that could be done in a dismissal context as well, correct?

A. In theory, yes.

Q. Okay, and I take it you have not tried to factor in the privatization of DDOT to what creditor recovery should be in a dismissal scenario because you did not do a dismissal analysis, correct?

A. Yes.

Q. And I take it you would give the same answer for any other asset whether it was parking or Belle Isle or the art collection, correct?

A. Correct.

Q. Now, isn't it true that the City's exploring whether it can enter into a public-private partnership in connection with DWSD?

MR. CULLEN: To the extent that that's public knowledge, it's the subject of mediation.

MR. HACKNEY: I think the RFP was -- public. I mean, I read articles about the fact that

emergency manager was soliciting requests for proposal.

MR. BALL: The RFP has been produced, it's produced in the case.

MR. CULLEN: The RFP for which?

MR. BALL: For the public-private partnership.

A. Yes.

BY MR. HACKNEY:

Q. Are you involved in that?

A. Yes.

Q. Okay. What is your expect -- so what is your expectation regarding the structure of a PPP? And what I mean is you remember how you had a conversation earlier about the fact that the regional authority might entail a sale lease-back with a $47 million annual revenue stream; do you remember that?

A. I do.

Q. Is there an analog in the PPP context where somehow the City gets revenue out of the PPP agreement?

MR. CULLEN: This was not in the RFP and this is part of the ongoing negotiations in the mediation.

BY MR. HACKNEY:

Q. I won't ask for any specifics because I can imagine that you're -- that's probably what you debate, I'm just trying to understand it structurally. Let me put it to you this way. Is the -- I could see a scenario where you engage in a public-private partnership simply to reduce the efficiency and cost of the system and --
A. Improve the efficiency, not reduce --
Q. Yeah, improve the efficiency, right. Improve the efficiency --
A. And lower the cost.
Q. -- lower the cost and then lower rates, I could see that being one reason for why you might do it. I can see a city like Detroit that's been through a difficult process with the counties where it was hoping to do a sale lease-back viewing a PPP as a means of obtaining a revenue stream, and I just want to know whether that is one of the goals of the PPP? All right. Let's do it this way guys.
A. I'm sorry, I don't know what I can say.
Q. That's okay. That is a theoretical possibility with a PPP, correct?
A. Yes, it is.
Q. Okay, and that theoretical possibility is one that you

could arguably pursue whether the plan is confirmed or the petition is dismissed, correct?
A. Yes.
Q. But like the other assets of the City, it's not one that you've studied to determine its impact on creditor recoveries correct?
A. In a dismissal scenario, that's correct.
Q. With respect to access to the capital markets, isn't it correct that you have found great enthusiasm for people desiring to lend to Detroit?
A. Yes.
Q. In fact, investors are tripping over themselves when it comes to lending to the City, correct?
A. I didn't say that.
Q. I know you didn't, other people have.
A. Who?
Q. Kevyn Orr.
A. I can only say what I've said, there's a lot of enthusiasm for reviewing and potentially providing financing for the City of Detroit.
Q. And you agree that Detroit has, if its plan is confirmed, undergone a massive deleveraging of its obligations, correct?
A. Yes.

Q. And it is that massive deleveraging that makes the credit so attractive to potential lenders, correct?
A. That's one factor. The other factor is the oversight commission and continued institutional oversight of the City now provided for by the state legislation.
Q. That's right, so you view it as kind of, look, there's a quantitative component, that's the massive deleveraging, right?
A. Right.
Q. There's a qualitative component which is we're not going to do this again, that's the oversight, correct?
A. And I would say that's an even more important credit factor than the deleveraging of the City.
Q. Now, your opinion is actually that you'll be able to obtain credit on reasonable terms, isn't that right?
A. Yes.
Q. What do you consider reasonable terms to be?
MR. CULLEN: You did go through --
BY MR. HACKNEY:
Q. You did go through -- it's longer than ten years and what was the interest rate again?
A. Less than 5 percent.
Q. Less than 5 percent. At what point would you still have access to credit on reasonable terms with a lower

percentage of deleveraging? So I think you postulate a 70 percent deleveraging in your expert report; is that correct?
A. That's right.
Q. Would the City still have access to credit on reasonable terms if it only delevered 60 percent?
A. Well, it's not the right basis of comparison, you have to look at the annual anticipated debt service and legacy costs that are required to be funded by the City over the next ten years, so the total amount of liability reduction is of less relevance than that calculation.
Q. Well, you understand that the deleveraging is being accomplished by substituting B notes in many instances for what used to be the claims of the creditors?
A. I do understand that.
Q. So there's a relationship in the sense that the B note is what comes out at the end, right?
A. Well, but it's in the totality how much total leverage the City will still have post emergence, which we've laid out in this -- you know, in my expert report, it's, you know, a billion two of total funded debt when you include the reorganization securities given to the GO bondholders and others and the exit

we've asked for preliminary indications on the 24th of July.

Q. Okay.

A. We do expect to send it out to more parties this week only because we sent it out on Friday and a lot of people have left for the weekend already, so we got them yesterday.

Q. And so do you think you're going to bring that thing in before August 14, which is when we start the plan trial?

A. That is our expectation.

Q. That's about 20 days after, that's about 21 days after you get your --

A. Correct.

Q. -- responses?

A. But when we say bring in, I think we will bring in a recommendation to the emergency manager and have negotiated to a commitment letter stage, we will not have recommended we close or execute any financing documents until confirmation --

Q. That's fine. I was just curious about, I mean, general experience within three weeks of getting indications of interest is that fast, slow, or reasonable?

A. In this situation I would say that's reasonable only because we've been talking to market participants for months, they're well aware of the plan, all of the financial documents are out there, there's not much to do from a diligence point of view, it's really a question of structure and rate and interest.

Q. On page 4 of your report you say that the revitalization efforts are assumed to attract a new tax base for the City; do you remember that?

A. I do.

Q. And that means assumed by you, correct?

A. I believe it's assumed by the emergency manager and all of his key advisors as well as leading public officials of the state and community leadership.

Q. Okay, you have not independently accessed the accuracy of that assumption, correct?

A. No.

Q. Am I correct?

A. It's an assumption.

Q. It is an assumption that you have not independently assessed, correct?

A. Correct.

Q. Oh, you know, earlier you were talking about being personally involved in mediating with the COPs

holders; do you remember that testimony?

A. Yes.

Q. And I know there's a mediation order that contains within it a requirement of confidentiality, but is the time frame that you're referring to on those mediations in the fourth quarter 2013?

A. Yes.

Q. Was it in connection with the swap settlement motion?

A. No. Separate from that. Judge Perris was the mediator, so I mean -- right?

Q. Yes. Were the COP insurers in those?

A. Yes. Yeah, it was absolutely. We spent weeks on it.

Q. You spent weeks negotiating with the COP insurers and the COP holders on plan treatment?

MR. CULLEN: We were in the same courthouse under the same egis, fumbling back and forth.

MR. HACKNEY: And in New York.

MR. CULLEN: And in New York.

MS. BALL: Negotiated settlement.

MR. HACKNEY: On plan treatment?

MS. BALL: A settlement.

A. Settlement.

BY MR. HACKNEY:

Q. Of the swap?

A. Not the swap, of the --

MS. BALL: The whole relationship.

A. -- the whole thing, the swaps, the COPs, everything. We wanted to do a grand bargain to the benefit of the COPs and insurer --

MR. CULLEN: He's --

BY MR. HACKNEY:

Q. I remember what you were talking about but that -- okay. Well, we're talking about the same thing in any event so I just want to make sure. Do you have any understanding of how the City valued its OPEB obligations under the plan, the $4.3 billion number?

A. It's been months since I've looked at that so the answer is no.

Q. Do you remember you talked about meeting with -- meeting Graham Beal early on in, if I remember, the first half of 2013?

A. Yes.

Q. In any of your meetings with Graham Beal did you suggest that he might be replaced?

A. No.

Q. Did you ever suggest that he should be fired?

A. No.

Q. Did you ever tell him that he might be fired if he

<u>Exhibit 6C</u>

July 14, 2014 R. Cline Deposition Transcript

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN

In Re:) Chapter 9
CITY of DETROIT, MICHIGAN,) Case No. 13-53846
Debtor.) Hon. Steven Rhodes

____

The Videotaped Deposition of ROBERT CLINE,
Taken at Jones Day
51 Louisiana Avenue, NW
Washington, DC
Commencing at 9:05 a.m.
Monday July 14, 2014,
Before Marjorie Peters, RMR, CRR

APPEARANCES:
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change of any underlying economics of the City of Detroit.

Q. But the City can take actions that would change the underlying economics without going into Chapter 9, correct?

A. I don't know the answer to that.

Q. Okay. As far as you're aware, though, your baseline scenario is not trying to forecast what would happen if the petition for bankruptcy was dismissed?

A. I would describe our baseline forecast as a continuation of the trends that have been affecting Detroit over the last 10 years to 20 years.

Q. And has anybody from the City told you that they're going to allow the trends that have continued to continue into the future?

A. I haven't had those conversations myself.

Q. I mean, do you have any understanding about why you have this baseline scenario in your report?

A. My understanding is that the baseline scenario reflects expected revenue streams under current law in a continuation of recent economics in the City of Detroit.

Q. Do you have any understanding of what activities the City will or will not perform in the baseline scenario?

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A. I do not.

Q. Do you have any understanding of what activities the City will or will not perform in the restructuring scenario?

A. I do not know the specifics of any alternatives.

Q. Would raising the income tax rate be a reasonable policy for the City of Detroit?

A. I can't comment on the policy options for Detroit. We were not asked to evaluate those as part of our analysis.

Q. And so, you're offering no opinion that raising the income tax rate or property tax rates or utility tax rates or wagering tax rates or any of the other rates would be inappropriate or unreasonable, correct?

A. We were not asked to evaluate any tax policy alternatives for the City of Detroit.

Q. So, you're not offering any opinion saying that raising tax rates would be unreasonable, correct?

A. I'm not commenting on policy options for the City of Detroit.

Q. So, you're not offering -- I'm just trying to get an idea of what opinions you're offering. So, you're

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not offering an opinion that raising tax rates would be unreasonable, correct?

A. I'm not commenting on any tax policy options available to the City of Detroit.

Q. You know that question -- there could be a yes or no answer to that question, right?

A. My perspective is that we were asked to do revenue forecasts of the major revenue sources under current law. We were not asked nor did I volunteer information on alternatives available to the City of Detroit.

Q. Okay. So, you haven't done any work that will allow you to testify that raising tax rates would be unreasonable or inappropriate, correct?

A. I have not.

Q. And you haven't done any work that says that increasing tax revenues through increased collections would be --

(Telephone interruption.)

MR. STEWART: Just hit one. Thanks.

BY MR. SMITH:

Q. -- inappropriate or not feasible, correct?

A. He we have not evaluated tax policy opportunities -- alternatives for Detroit.

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Q. And you haven't done any work that would allow you to testify that Detroit couldn't just add new taxes, correct?

A. We have not.

Q. And you haven't done any work that would allow you to testify that Detroit couldn't generate significant additional revenue by either adding new taxes or increasing tax rates?

MR. STEWART: Objection.

MR. SMITH: Correct?

THE WITNESS: We were not asked to look at policy options for the City of Detroit.

BY MR. SMITH:

Q. And so, you haven't done any work that would allow you to testify that Detroit can't generate significant increased revenue through either increasing tax rates, increasing collections, or adding new taxes, correct?

MR. STEWART: Objection.

THE WITNESS: I think there may have been a double negative in there. Could you repeat the question?

BY MR. SMITH:

Q. You haven't done any work that will allow you

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to testify that Detroit can't significantly increase revenues by increasing tax rates or increasing tax collections or by adding new taxes, correct?
MR. STEWART: Objection.
THE WITNESS: We have done no analysis -- excuse me.
MR. STEWART: Go ahead.
THE WITNESS: We have done no analysis on tax policy options in Detroit.
BY MR. SMITH:
Q. So, the answer is correct, correct?
A. I am still having --
MR. STEWART: Reread the question.
THE WITNESS: Please, reread the question, I think the double negative is still there.
(The record was read back by the reporter.)
THE WITNESS: I believe the correct answer to that question is, as I mentioned, we have looked at the collection rate of the property tax. We calculated an effective collection rate, and we did use that in our forecast.
We did not -- were not asked to and did not provide forecasts under alternative policy options, whether it's a tax rate change or adoption of a new

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tax, or change, in the base of an existing tax.
BY MR. SMITH:
Q. So, you -- Ernst & Young concluded that the City could increase property tax revenues by increasing collections, correct?
A. In our forecast of the property tax revenues, we did vary the collection rate over time.
Q. And you increased the collection rate; is that correct, or do you not know?
A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run.
Q. Okay. But you haven't -- you haven't done any work that would allow you to testify that Detroit can't significantly increase revenues by increasing tax rates, correct?
MR. STEWART: Objection.
THE WITNESS: All of our revenue estimates are based upon current law rates.
BY MR. SMITH:
Q. So, the answer to my question is correct? You haven't done the work?
MR. STEWART: Objection.
THE WITNESS: Could you repeat the

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question, please.
(The record was read back by the reporter.)
THE WITNESS: We accepted the current law tax rates as what was available to Detroit. To the extent that Detroit is at the maximum, and I believe it may be the case for all of those tax rates, it would imply that under current law, that option is not available.
BY MR. SMITH:
Q. But current law can change, correct?
A. Correct.
Q. And you would agree with me that if current law changes, Detroit can increase tax revenue significantly by increasing tax rates, correct?
MR. STEWART: Objection.
THE WITNESS: It is true that an increased rate, with no offsetting decrease in the base, could increase revenue, but if you were going to forecast the increase of a tax rate in Detroit, you would also have to forecast the potential decrease in the tax base with mobile people and investment.
BY MR. SMITH:
Q. And so, sitting here today, you haven't done the work that would allow you to testify that increasing

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tax rates wouldn't result in significant additional revenue for the City of Detroit, correct?
MR. STEWART: Objection.
THE WITNESS: As I believe I've answered several times, we did not evaluate alternative policies. We is accepted current law as the foundation for our forecast.
BY MR. SMITH:
Q. Okay. So the answer is correct, you didn't do that work, correct?
A. Would you rephrase the question.
Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues?
MR. STEWART: Objection.
THE WITNESS: We did not run alternatives with our model at different tax rates.
BY MR. SMITH:
Q. That's something that you could have done, right? That's technically feasible for you to do, correct?
A. We were not asked to do that analysis.
Q. Okay. But is it technically feasible for you to do an analysis like that?

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A. We would have to do additional work compared to what we have done to this point, because as I mentioned, it's not just changing the rate, it's also understanding the behavioral response of the base in response to the change in the rate. We are not set up to do that in our current runs.

Q. And you also haven't done the work that would allow you to testify that Detroit couldn't significantly increase revenues by adding new taxes, correct?

A. We have not analyzed the addition of new revenue sources for Detroit.

Q. Okay. The -- one potential new revenue source would be imposing the commuter tax, correct? That's a reasonable --

A. I don't know if it's legally available to Detroit as an option.

Q. Okay. But imposing a commuter tax is something that the City could either do by itself or in conjunction with the State, correct?

A. I don't know the answer to that.

Q. Okay. So, you haven't investigated whether Detroit could add a commuter tax, correct?

A. I have not.

Q. All right. Another potential -- that you know

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that there's cities, though, that have commuter taxes, right?

A. There are selected cities that tax non-residents who are working in the city, as Detroit does. Some at differential rates, some at the same rate.

Q. Okay. And they do that through a variety of mechanisms, correct?

A. I believe they look basically like income taxes.

Q. And sometimes they're parking lot-type -- you know, charges for fees for parking or other services that might disproportionately fall on non-residents?

MR. STEWART: Objection.

THE WITNESS: I'm not familiar with the details of those taxes.

BY MR. SMITH:

Q. All right. You know that some cities have a city-only sales tax, correct?

A. City-only sales tax. I believe that is the case.

Q. And you haven't investigated whether Detroit could increase revenues by adding a city-only sales tax, correct?

A. As I answered earlier, we did not analyze any

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revenue options for the City of Detroit.

Q. Okay. You only did the work that you were asked by the lawyers for the City to do, correct?

MR. STEWART: Objection.

THE WITNESS: We were given an assignment by Ernst & Young to provide a revenue estimate of the major tax sources for the City of Detroit over the next 10 years. Then it was expanded to an additional 30-year perspective. That is the job that we were asked to do, and that is what we did and is reported on in the expert report.

BY MR. SMITH:

Q. Who asked you to do that job?

A. That was a -- we were retained by the Ernst & Young team working in Detroit.

Q. Okay. So, it wasn't Mr. Malhotra that gave you the scope of the work that you were to perform in this case?

A. I believe our initial discussions of the scope of the work did come from him.

Q. Would it be fair to say that you haven't done any analysis of the full range of potential revenue sources available to the City?

MR. STEWART: Objection.

R. CLINE

THE WITNESS: We haven't done an analysis of any of the revenue options available to the City.

BY MR. SMITH:

Q. And that would include both tax and non-tax revenue options?

A. Correct.

Q. I mean, if you were advising a City in financial distress, what actions would you advise them to take to increase revenue or cut costs?

MR. STEWART: Objection.

THE WITNESS: We are very careful in all of our projects at Ernst & Young not to make policy recommendations to governments.

BY MR. SMITH:

Q. Okay. So, Ernst & Young -- is it that you don't have the qualifications to make policy recommendations to governments or is there some other reason that you don't do that?

A. We don't do that because those are political decisions. We don't make policy recommendations to individual units of government.

Q. So, ultimately, the amount of revenue available to the City of Detroit and the amount of costs

Exhibit 6D

July 22, 2014 K. Orr Deposition Transcript

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN

In Re:) Chapter 9

CITY of DETROIT, MICHIGAN,) Case No. 13-53846

Debtor.) Hon. Steven Rhodes

____

VOLUME 2

The Videotaped Deposition of KEVYN ORR,
in his personal capacity and as Rule 30(b)(6) witness,
Taken at 2 Woodward Avenue,
Detroit, Michigan,
Commencing at 9:10 a.m.,
Tuesday, July 22, 2014,
Before Leisa M. Pastor, CSR-3500, RPR, CRR.

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foundations, correct?

A. That is correct. You know, I may -- let me say this generally. I may have had meetings with foundation principals outside of the confines of the mediation, just hail-fellow-well-met, saw them at an event, how are you. There were no substantive conversations about the contribution that did not occur outside of the mediation order.

Q. And that's fine, because the only ones that I really want to ask you about are ones that relate to the Grand Bargain?

A. Right, right.

Q. And those would fall under the gambit of the mediation?

A. Those would fall under the gambit of mediation.

Q. Now, if I asked you your state of mind based on what you understood the foundations to be willing to do or what you thought they would be willing to do, you would also invoke the mediation order to the extent his state of mind was created by communications of the foundation, correct?

MR. SHUMAKER: I think that's right because I don't see how he could give you his impressions or his understanding without going into what was going on

in the mediation.

MR. HACKNEY: Right, because he lacks foundation to speak to what the foundations thought. If I asked him what he understood them to have thought, you'll take the position that it would be based on what they told him?

MR. SHUMAKER: Correct, it all would have been derived from the mediation discussions.

MR. HACKNEY: Okay, and so I'll just note for the record, Mr. Shumaker, that this is the position that Ms. Kofsky (ph.), a cop, took in a prior deposition, and I understand the basis for it. I will let you know that I don't necessarily agree with it based on comments that Judge Rhodes made about how state of mind might work in the mediation context, but it doesn't matter because I feel like we're not going to work that out today anyway.

MR. SHUMAKER: Understood.

BY MR. HACKNEY:

Q. And I just want to understand you all's position on it. So just a couple big ones, if I ask you did you ever ask the foundations to contribute money with no strings attached you'll decline to ask answer that question, correct?

A. I think I have to.

Q. If I ask you did the foundations ever offer to contribute money without insisting on transfer of the art institute, you'll decline to answer that question, correct?

A. I think I have to.

Q. And if I ask you hey, who is it that imposed the condition on the Grand Bargain that the art institute would be transferred, was it you, or was it them, or was it Judge Rosen, you'll decline to answer those questions, correct?

A. I believe so.

Q. Mr. Orr, has the Grand Bargain -- which you know what I'm talking about, right?

A. Yes, the money we talked about before, the 366 million from the foundations, a $350 million value settlement from the State, and $100 million from the DIA benefactors as funneled through the Founders' Society.

Q. Correct, in exchange for the art -- in connection with the art being -- the DIA being conveyed into a public trust, correct?

A. Contributions targeted towards the two pension funds with the condition that not one piece of art be sold or de-assessed as a result of this process.

Q. And the purpose of the transfer to a public trust is to ensure that the art is never sold to satisfy the claims of the City's creditors, correct?

A. Yes, now and forever, yes.

Q. Not only current creditors but future ones, as well?

A. Correct.

Q. So has the Grand Bargain, Mr. Orr, helped the COPs holders to achieve a higher recovery?

A. I don't think so.

Q. Mr. Orr, what are the principal terms of the LTGO settlement?

A. The LTGO settlement centers around a dedicated millage that's to extend for the next approximately 13 years, and the terms of a settlement that roughly 26 percent -- oh, the LTGO, I'm sorry --

Q. Yeah.

A. Okay, I'm sorry, I'm going -- I thought you were just talking about -- I'm doing it temporally --

Q. That's okay.

A. I'm sorry.

Q. I'm hopping around.

A. Okay.

Q. Let's start over.

A. Let's start over.

KEVYN ORR, VOLUME 2

Q. So let's set the stage. The LTGO settlement has been announced in the press, and there's some information that's kind of available about it, but I actually literally don't know --

A. Right.

Q. -- what the terms are, and there's been some suggestion that it's the continued subject of negotiations, so I want to give you a fair setup.

A. Yeah, that's -- that's why I was -- I can talk about UTGO...

MR. SHUMAKER: You can discuss what's made public.

A. Okay. The mediators issued a statement on the LTGOs, we did not, my office did not, recognizing that there was a settlement which, in part, dealt with a class of creditors, I think 170-some-odd-million dollars of claims, which would get an allowed claim in a certain amount. The -- I know from e-mails that I received as late as last night that some of the final details are still under discussion so I'm a little -- that was done in the mediation, so I don't want to run afoul of the mediation order as far as if you have a press release, I'll be happy to discuss about what's in the release but I don't know if I can discuss any more

KEVYN ORR, VOLUME 2

than that.

BY MR. HACKNEY:

Q. It's frankly been kind of confused on this, but I'll tell you what I know. First, it's my understanding that you do not have a final agreement with the LTGO; is that correct?

A. I think that is correct.

Q. What you have is what is loosely described as an agreement in principal on some but not all of the terms, correct?

A. I think that's fair.

Q. Now, the -- but the one thing I'm able to see, I'll tell you, in the expert reports is that Mr. Buckfire says that the $164 million of the unsecured portion of LTGO is getting $55 million in value of some form, okay? I'll represent to you you can see that in the exhibit. I'll also represent to you that somehow in Mr. Malhotra's work there is some implication that that is paid in 2015 under the forecasts, okay? I'm less sure on that one, okay?

A. Right.

Q. What I will tell you is that 55 million on 164 million of unsecured LTGO works out to a 34-cent recovery on that, okay? So -- and I'm -- this is going on and on,

KEVYN ORR, VOLUME 2

but I asked like Heather for this, Ms. Lennox, and she actually referred me to this information.

A. Right.

Q. But then I wasn't able to confirm that that was the whole deal and so that's why you have this big involved --

A. Right.

Q. -- lead-in, okay? So let's just start with, is it your understanding that -- let's do it this way. Is it your understanding that at least part of the deal that is part of the agreement in principal that is public is that they will get approximately 34 cents on their unsecured claim?

A. Yeah. Without having any intent to directly or indirectly violate the mediation order, I do not think it is unfair based upon published reports, but I do not recall that the mediation statement included the actual amount.

Q. It didn't.

A. Yeah, so I don't -- I don't want to necessarily go beyond what was included in that statement, I think the statement was generally there was a settlement of a certain amount and recognition of a claim. I'll stick with that. There is no reason for me to believe

KEVYN ORR, VOLUME 2

that mathematically that that 55 percent of roughly 100 --

Q. No, 34 percent.

A. No, 55 million of 170-some-odd million is equally equivalent to 34 percent.

Q. But like as you -- I mean, I'm trying to tell you that it's not just, you know, me -- it's like the debtor's counsel told me to look at these things to get at least some of the terms.

A. And like I said, I have no reason to dispute what you were told or what they did; I just don't want to do it, okay?

Q. Okay.

A. So I'm -- I'm trying to stay within -- I have been admonished before about possible breaches of the mediation privilege by -- by several judges now and I don't want to run afoul of that in any way.

Q. So is it fair to say, Mr. Orr, that I think you're declining to discuss the terms of the LTGO settlement based on caution about not knowing what is and what is not public?

A. I think that's fair.

Q. Okay. I guess what I will say then is I'm going to reserve my questioning on this, this is also a

KEVYN ORR, VOLUME 2

Q. That's exactly right, so the way to say it is when the City is looking at its UAAL obligations to the GRS it says to itself, well, part of this UAAL is attributable to former or current DWSD workers, right?
A. Yes.
Q. And it figures out what that percentage is and then it charges that percentage against the DWSD enterprise fund, correct?
A. Yes.
Q. And it earmarks a request for money from the DWSD enterprise fund to pay that percentage, correct?
A. Yes, I'm unsure if the direct mechanics of whether or not that money is paid directly to the GRS fund or if it comes into the City and goes to GRS as part of the City's overall contribution but there is a percentage relationship for DWSD's share of the GRS obligation.
Q. And when the COPs came along and ostensibly at least, plugged the hole in the UAAL that existed back in the time, the similar -- the City similarly employed the same sharing mechanism with respect to interest and principal expense for the COPs, right?
A. Was there an allocation of the COPs funding related to GRS/DWSD employees?
Q. Right.

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A. Yes, I believe so.
Q. In fact, you and I have looked at that before, I think, where we've seen one of those kind of complicated allocations you see because remember when you didn't pay the COPs in June --
A. Right.
Q. -- that had implications for, you know, your appropriations from the DWSD?
A. Yeah, allocable -- allocable share --
Q. That's right.
A. -- allocable share, yes.
Q. And is it correct that the allocable share of the DWSD, whether it's to UAAL or to COPs interest and principal service, is approximately 11 percent?
A. I don't recall the exact percentage, but I think it's in that range.
Q. Okay, I was wondering if you -- I tried to figure it out --
A. Yeah.
Q. -- by looking at it and I couldn't and I wondered if you knew?
A. At one point I probably did, but I just don't recall right now.
Q. Now, you talked a lot with Mr. Neal the other day

KEVYN ORR, VOLUME 2

about this idea that the DWSD is supposed to be a closed system; do you remember that?
A. Yes.
Q. And you do understand that -- that one of the notions is that the reason the City believes it can charge the DWSD for its fair share of either UAAL or COPs principal and interest service is because those are fairly considered overhead expenses of the system, correct?
MR. SHUMAKER: Object to the form.
BY MR. HACKNEY:
Q. Because they relate to employees that worked for the system and are part of the true cost?
A. Yeah, I think you could call it overhead, we -- you know, I've always looked at it as just the City has a whole number of employees, a certain number of them are employed at an enterprise fund and there needs to be a -- roughly equivalent payment relative to those employees at that function at that department.
Q. But you also understand that the characterization of it actually matters under, like, the bond documents, right?
A. Right.
Q. Don't you?

KEVYN ORR, VOLUME 2

A. Yeah.
Q. It has to be characterized, I think, as overhead expense in order to be fairly charged against the system?
A. That's fair, if that's what you're getting at --
Q. Yeah.
A. -- as the nomenclature, yes.
Q. Because you can't just say I'd like some money from the DWSD, right?
A. There has to be a reason within the terms of the documents that would justify that allocation.
Q. That's right, and the reason we've discussed is the fact that a certain percentage of the retirees are former DWSD employees, right?
A. Yes.
Q. Okay. Now, if you charge the DWSD for its contribution, isn't it fair to say that the City has to actually use the money in the way that it tells the DWSD it's going to use it?
A. Generally speaking, yes.
Q. I mean you can't, like, charge the DWSD for its percentage of the COPs principal and interest service and then take the money and go build a park with it?
A. Generally speaking, I think that's true.

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KEVYN ORR, VOLUME 2

Q. Okay. Do you agree that if the petition -- the bankruptcy petition were dismissed, it's likely that at a minimum, the City could continue to get from the DWSD its share of the COPs principal and interest service?

A. I have no reason to believe that is not true.

Q. The DWSD is not insolvent; isn't that correct?

MR. SHUMAKER: Object to the form.

A. Yeah, I -- I -- there -- there may be -- I don't know if they are or they aren't.

BY MR. HACKNEY:

Q. In the -- in the postconfirmation time period, if the plan is confirmed, will the DWSD bear any of the interest expense associated with the B notes?

A. There are currently a series of mediations ongoing surrounding DWSD and its obligations. I don't want to bump up against the confidentiality provisions that I've been admonished not to -- not to breach. That being said, I think I can answer your question. Can you repeat your question?

Q. Let's try it this way, Mr. Orr.

A. Yeah.

Q. Let's try it this way.

A. Yeah.

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KEVYN ORR, VOLUME 2

Q. There are forecasts that you've reviewed, right?

A. Right.

Q. And the forecasts include postconfirmation forecasts that assume the plan of confirmation, right?

A. Right.

Q. In those forecasts, does the City bear the entirety of the B note interest expense? That's a good way to back into it.

A. Okay, or is there some expense allocated to an enterprise --

Q. Exactly right.

A. I think your question -- that way of doing it, I think your question is fair. It does not bear the entirety of it; there is an allocation.

Q. Oh, there is an allocation?

A. I think that --

Q. Let's put it this way. The answer to that question should be found in the forecast? I literally don't know.

A. No, but I --

Q. I was literally asking you a discovery question.

A. Well, I'm trying -- there is an allocation of 428 million at DWSD that is supposed to go to help finance the note. I think I can speak to that.

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KEVYN ORR, VOLUME 2

Q. Oh, I see.

A. Yeah.

Q. Because do the pensioners get -- I thought the pensioners don't get B notes, do they?

A. No, but I'm trying to -- I'm trying to --

Q. Because I thought that -- that was the nine-year payment that you matched up with the Grand Bargain, but that was cash money --

A. Yeah, that was --

Q. -- over the retirement --

A. That payment is year over year for nine years that's indexed to the possibility of restoration, that's why it's nine years. I'm not sure that goes into what 388 million B note but -- I'm trying to make sure that I don't bump up against any discussions that are going in -- that are ongoing.

Q. Okay. I mean, is it a fair summary to say you don't know whether the forecast allocated a percentage of the B note interest expense through the DWSD or not?

A. Yeah, I'd say that.

Q. Okay. Let's talk about the Grand Bargain some more if we could, Mr. Orr.

A. Sure.

Q. Do you know -- the Grand Bargain can also be -- is

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KEVYN ORR, VOLUME 2

also known as the DIA settlement, correct?

A. Yeah, people call it different things, but I think it's fair that people call it either one of those.

Q. Okay, and so the way it works, we've talked about it, but the DIA settlement is the -- is the contributions of the charitable foundations and the DIA Corp. in connection with the art collection going into a public trust, correct?

A. Yes.

Q. And then the state contribution of its money has a number of bells and whistles to it but is, itself, conditioned on the DIA settlement?

A. Well, yes, it's conditioned on a settlement of claims against the State relating to that provision of the constitution, article 9, section 24 regarding pension rights and also in part for the DIA settlement and the art to be put into the trust.

Q. Yeah, and that's what I meant by the other bells and whistles. Like even if the retirees gave the State a waiver, that's actually not sufficient for the State contribution. You have to get the DIA settlement, as well?

A. Yes.

Q. When did you agree to the Grand Bargain? Let me put

<u>Exhibit 6E</u>

July 23, 2014 C. Moore Deposition Transcript

CHARLES MOORE, CPA
IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN

In re: Chapter 9
CITY OF DETROIT, MICHIGAN Case No. 13-53846
Debtor. Hon. Steven W. Rhodes
_______________________________________/

The Videotaped Deposition of CHARLES MOORE, CPA
Taken at 1114 Washington Boulevard,
Detroit, Michigan,
Commencing at 9:01 a.m.,
Wednesday, July 23, 2014,
Before Quentina Rochelle Snowden, CSR-5519.

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Department?

MR. SOTO: I'm talking about for the Fire Department. Thank you.

THE WITNESS: The --

BY MR. SOTO:

Q And I'm actually -- let me be more specific. For the Fire Department in connection with the plan of adjustment.

A All of the documents that I would have relied on are in Exhibit 4. There are many that relate to the Fire Department.

Q And that would involve any spending required analysis?

A Yes.

Q And any cost reduction analysis?

A Yes.

Q Did it also involve any revenue generation analysis?

A Yes.

Q Did you perform any forecasts in connection with the work you did on the City's plan of adjustment?

A How do you define "Forecast"?

Q Forecasts in connection with forecast of proposed expenditures. We've already discussed some forecasts in your opinion one with respect to

savings that might be expected and revenue that might be expected with respect to blight removal. That's what I'm referring to as forecasts.

A Okay. I'll use the term, "Financial projections".

Q That's fine with me.

A Yes. We -- we certainly did in that the entire Exhibit 5 -- well really Exhibits 5, 6, 7 and 8 to my expert report are all of those projections.

Q Now, let me step away from the expert report for a second only to -- as I'm here representing a number of other counsel who have asked me to ask questions as well.

In connection with the plan of adjustment, did you -- did you work on any financial projections?

A The financial projections that are included in the plan of adjustment -- and when we say "Plan of adjustment", just to be clear, I'm referring to the fourth amended plan of adjustment filed around May 5th.

Q I agree with that. I know there's one coming, but we can only work with the ones we have.

A Yes. The financial projections that are included in the plan, I'll just list off the ones that I'm

familiar with, there is a 40-year financial projection, there's a 10-year financial projection. There are the restructuring and reinvestment initiatives. There are the water and sewerage projections. Those are the ones that I can think of offhand.

As it relates to the first two, the 40-year and the 10-year, those are documents that Ernst and Young was the author of, however, Conway MacKenzie provided inputs to both of those documents. The third one, the restructuring and reinvestment initiatives, Conway MacKenzie was the author of that document. The water and sewerage projections Conway MacKenzie was the author of that set of projections.

Q In connection with preparing those projections, did you perform any financial projections or analysis that assumed that that the City's Chapter 9 case was dismissed?

A No.

Q Why not?

A If you look at the work that we're doing, the work that this -- the work that Conway MacKenzie is focused on is, how should the departments be

operating and what is necessary to get them to that point, regardless of in or out of Chapter 9. So while I have been involved in the Chapter 9 process, the focus of our work is without regard to Chapter 9.

Q So if the plan -- and let me see if -- I think I understood what you just said, but let me make sure, and you tell me if I'm wrong here. If the plan of adjustment in this matter were dismissed, is it your position that those reinvestment expenses, those reinvestment initiatives, the ones that are set forth in the plan of adjustment, as well as the ones that you opine on in your expert report, could go forward?

MR. HAMILTON: Object to form. You can answer.

THE WITNESS: They -- they should still go forward.

BY MR. SOTO:

Q Forgive me, I'm just taking some time to get rid of some questions here that I think you've already answered.

A No problem. Take your time. As many as you want to get rid of that's fine with me.

CHARLES MOORE, CPA

Q Me too. Okay. Regarding the work that you performed in connection with your engagement with the City -- I've already heard you testify about the numbers. Did you have any interfacing with anyone at Miller Buckfire?

A Yes.

Q And who would that be?

A Ken Buckfire, Jim Doak, Kyle Herman, Kevin Haggard, Sanjay Marken, Vlad -- and I can't recall Vlad's last name.

Q But it's not the Impaler. It's --

A Correct. At least it did not seem to be. I think those were the primary individuals from Miller Buckfire that I can think of, offhand.

Q And what was the nature of your interaction with them?

A I interacted with Miller Buckfire on a number of different items. I interacted and Conway MacKenzie interacted quite a bit with Miller Buckfire as it relates to the Water and Sewerage Department. The ten-year business plan that we developed, and options being considered for DWSD. I interacted with Miller Buckfire on the quality of life financing, or the post-petition financing. I've

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interacted with Miller Buckfire as it relates to the exit financing. And I have interacted with Miller Buckfire on a variety of general restructuring topics.

Q In connection with your work with Miller and Buckfire on the quality of life financing, the post-petition financing, and the exit financing, do you expect to testify at the hearing on the plan of adjustment with respect to those items?

A I don't know.

Q So the quality of life financing interaction, what did -- what did that involve? What -- when you say quality of life financing, just so it's clear to the Court, what are you referring to?

A Sure. This is post-petition financing that the City obtained, in the amount of approximately $120 million. And the financing was used to fund a number of the reinvestment initiatives. That's why it's commonly referred to as quality of life financing.

Q And then you referred to separately as to post-petition financing. Was that the same thing?

A I actually -- if I did, that's not how I meant for it to be.

CHARLES MOORE, CPA

Q And you might not have.

A Yeah. Quality of life financing, or post-petition financing. Quality of life financing is post-petition financing.

Q Understood. And then the exit financing, what was your interaction with respect to that?

A The financing -- the exit financing just so we're clear, is financing that the City is intending to obtain as part of its exit from bankruptcy, which will, in part, refinance the quality of life financing, as well as provide some additional financing.

And my understanding -- my interaction was to understand the amount, the timing of that, so that the timing of the initiatives, restructuring or reinvestment initiatives could be timed appropriately.

Q Did you make recommendations regarding the amount of post -- of -- excuse me -- of exit financing?

A I wouldn't say that I made recommendations, but I provided input from the standpoint of the amount and the timing of the reinvestment initiatives.

Q So, if I'm understanding it, what you said -- what you're saying is, look, I -- I looked at the exit

CHARLES MOORE, CPA

financing and I looked at the reinvestment initiatives, I looked at the amount of the reinvestment initiatives, the cost of them, and when we think they're going to be needed, and I spoke with the people who were putting together the exit financing and told them, look, for the reinvestment initiatives here's the amount that we need and here's the timing; is that correct?

A I think that's a fair statement, yes.

Q Anything other than that?

A I don't believe so.

Q When you talk to someone about the amount you thought the reinvestment initiatives would -- would require, or the timing, did anyone say, "Well, that's just way too much, we just can't agree to that"?

A I'm sure that someone has said that at various points in time. Not anyone specific that I can recall, but that has been a -- a fairly consistent topic of discussion, which is how quickly can the City implement the various initiatives, the benefits that are received, how -- how -- obviously the City would like to receive the benefits as soon as possible, balanced against the sources of cash to