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 CERTAIN OF THE EXPERT OPINIONS OF MARTHA KOPACZ UNDER FEDERAL RULE OF EVIDENCE 702

Syncora Capital Assurance Inc. and Syncora Guarantee Inc. ("Syncora") submit this motion (the "Motion to Exclude") to exclude portions of the expert opinions of Martha Kopacz, which were disclosed in her expert report and during her deposition.[1] In support of their motion, Syncora respectfully states as follows:

INTRODUCTION

1. Ms. Kopacz is a well-respected and deeply-experienced restructuring professional. She has an impressive resume that details her extensive Chapter 11 expertise — experience that includes her participation in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks, and Chapter 11 Trustees, many of which are very prominent.

[1] Ms. Kopacz's expert report is attached as Exhibit 6A. The relevant excerpts from Ms. Kopacz's deposition are attached as Exhibit 6B.

2. Given Ms. Kopacz's well-deserved reputation as a hard-working and incredibly-capable restructuring professional, it is no surprise that she approached her assignment as the Court's feasibility expert in an industrious manner. Indeed, in just a few short months, Ms. Kopacz and her team conducted over two hundred interviews and fact-gathering meetings in an attempt to gain an understanding of Detroit's operations, the City's current situation, and the bankruptcy process. Based on this work, Ms. Kopacz and her team were able to produce a report that contains many helpful observations on the issues the City faces, and a variety of useful insights into the challenges of Detroit's bankruptcy. With respect to many of these observations and insights, Syncora is in full agreement.

3. Unfortunately, despite Ms. Kopacz's hard work and expertise, she and her team had an impossible task. To begin, she was operating under incredible time pressure — specifically, she had approximately 90 days to provide her expert report.[2]

4. In this case, the time pressures were particularly significant given that the City's forecasts were, in her view, "highly subjective,"[3] "convoluted," and "confusing."[4] As a result, she and her team spent more than two months simply

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[2] Ex. 6B, Kopacz Dep. Tr. at 113:19-21.

[3] *Id*. at 160:15-17.

[4] *Id*. at 181:17-21.

trying to understand the forecasts, projections, and models that the City had created.[5]

5. Unfortunately, the City did little to help Ms. Kopacz in her impossible task and, in fact, compounded her difficulties by its repeated failures to provide all requested information in a timely fashion.[6] In fact, even as of the date of Ms. Kopacz's report, the City had still failed to satisfy all of Ms. Kopacz's outstanding information requests.[7]

6. Further complicating matters was Ms. Kopacz's inexperience in the municipal finance realm. Though Ms. Kopacz undoubtedly has experience in the Chapter 11 context, she has no experience forecasting municipal revenues and expenses.[8] And, as she acknowledged, municipal budgeting is "significantly different" from forecasting for private entities.[9]

7. Regrettably, the confluence of all of these factors requires the submission of the instant motion. As the Court set out in its April 22, 2014 order appointing Ms. Kopacz, one of her principal tasks was to investigate "[w]hether

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[5] *Id*. at 113:7-11.

[6] *Id*. at 325:9-17, 326:12-327:1.

[7] *Id*. at 21:20-22:3; Ex. 6A, Kopacz Report, Ex. 4.

[8] Ex. 6B, Kopacz Dep. Tr. at 149:14-16, 148:21-24.

[9] *Id*. at 40:9-16.

the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."[10] Unfortunately, for a variety of reasons — many of which are the product of the impossible situation that Ms. Kopacz found herself in — Ms. Kopacz's report and deposition testimony indicate that she did not conduct a reliable assessment of the City's forecasts or assumptions and thus cannot satisfy Federal Rule of Evidence 702.

8. *First*, Ms. Kopacz did <u>not</u> actually test the reasonableness of the majority of the assumptions in the City's forecasts.[11] Instead, Ms. Kopacz opined that the City's assumptions are reasonable when considered in the "aggregate."[12]

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[10] *See* 6C, Dkt. No. 4215, Apr. 22, 2014 Order Appointing Expert Witness.

[11] Ex. 6B, Kopacz Dep. Tr. at 196:12-23 (assumptions surrounding assessable value per property); 201:9-24 (assumptions surrounding taxable value), 267:12-269:19 (assumptions surrounding employment growth), 275:21-23 (assumptions surrounding population), 283:21-284:11 (assumptions surrounding wagering revenues), 290:4-23 (assumptions surrounding property values), 291:3-12 (assumptions surrounding property tax collection), 291:13-24 (assumptions surrounding utility user tax revenues). Ms. Kopacz also testified that she did not test any of the City's underlying assumptions except where she specifically stated that she had done so in her report, which means that she did not test the assumptions surrounding (a) salaries and wages; (b) overtime; (c) benefits such as Social Security, (d) unemployment; (e) life insurance; (f) health benefits; (g) employee contributions to the pension plan and the Voluntary Employment Benefit Account; (h) litigation, workers' compensation, and insurance claims; (i) utilities; (j) purchased services; and (k) capital outlays. *Id*. at 320:2-18.

[12] *See*, *e.g.*, *id*. at 223:12-22, 253:11-254:2, 267:7-11, 320:2-18.

But her report does not explain this apparent contradiction or show her work when it comes to her "reasonable in the aggregate" opinion.[13] And, of course, the fact that Ms. Kopacz failed to evaluate the City's material forecasting assumptions individually means that she could have no reliable basis to say that they were all "reasonable in the aggregate."

9. *Second*, when opining on the "reasonableness" of the forecasts for feasibility purposes, Ms. Kopacz did not make any determination regarding their reliability. In other words, she "didn't reach a conclusion about the quality of Ernst & Young's work"[14] or "independently verify all of the data on which the forecasts are built."[15] Nor did she evaluate the City's forecasting methodology for the City's various revenue streams.[16] Instead, Ms. Kopacz testified that she does not know what methodology, if any, underlies the City's forecasts and instead simply "accepted the [City's] methodology, whatever that may be."[17] Having

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[13] *See e.g., id.* at 196:13-23 (testifying that she made no effort to validate any assumptions regarding assessed value per property parcel in the aggregate). *See generally* Ex. 6A, Kopacz Report (containing no analysis supporting Ms. Kopacz's assertion that all of the City's assumptions are "reasonable in the aggregate").

[14] Ex. 6B, Kopacz Dep. Tr. at 48:21-22.

[15] *Id.* at 178:2-9.

[16] *Id*. at 189:16-20.

[17] *Id*. at 190:8-11.

failed to rigorously evaluate (or even understand) the reliability of the City's forecasting methodology, Ms. Kopacz cannot herself offer a sound opinion on the "reasonableness of the City's forecasts."

10. For all of these reasons, Ms. Kopacz failed to render a rigorous and reliable opinion regarding the reasonableness of the City's forecasts and underlying assumptions. But even as it moves to exclude this portion of her report, Syncora would like to reiterate that it recognizes and appreciates the hard work of Ms. Kopacz and her team. Nevertheless, Syncora's admiration for Ms. Kopacz — and its sympathy for the difficulties she encountered dealing with the City — do not excuse her from the requirements of Rule 702. Accordingly, for the reasons herein, Syncora moves the Court to exclude Ms. Kopacz's opinions regarding the City's forecasts and underlying assumptions.

JURISDICTION

11. 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

12. Syncora respectfully moves the Court to exclude Ms. Kopacz's opinions regarding the City's forecasts and underlying assumptions and enter an order substantially in the form of Exhibit 1 attached hereto.

BACKGROUND

13. The Court appointed Ms. Kopacz to review the City's forecasts for the "narrow[]" purpose of assessing the feasibility of the Plan of Adjustment and, in particular, to assess the "reasonableness" of the assumptions underlying the City's projections.[18] Given the "extraordinary" speed of this bankruptcy case, she had less than ninety days to perform the work she was appointed to do.[19]

14. As Ms. Kopacz began her work, she recognized that the forecasts on which the City seeks to base its Plan of Adjustment are "convoluted" and "confusing"[20] — *i.e.*, a "black box" that does not seek to provide a comprehensive forecast of all revenues available to the City.[21] In fact, according to Ms. Kopacz,

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[18] Ex. 6C, Dkt. No. 4215, Apr. 22, 2014 Order Appointing Expert Witness.

[19] Ex. 6B, Kopacz Dep. Tr. at 113:17-21.

[20] *Id*. at 181:17-21; *see also id.* at 111:9-10 ("I, again, have been really critical of how confusing they are.").

[21] Ex 6A, Kopacz Report at 26.

she had never seen any city "employ[] a methodology or an approach . . . like this one."[22]

15. Due to the convoluted nature of the City's model, it "took a lot of time to learn what the City did" in preparing the forecasts.[23] As she observed, the "projections are comprised of multiple forecasts, inclusive of hundreds of individual spreadsheets, prepared by many different individuals and then concatenated into what we all simply call the 'projections.'"[24] Moreover, the different firms who supplied pieces of the forecasts used different "modeling approach[es]."[25]

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[22] Ex. 6B, Kopacz Dep. Tr. at 182:14-17; *see also* Ex. 6A, Kopacz Report at 25 ("[T]he '10 Yr projections'; the '10 Yr/40 Yr projections,' and the 'Restructuring and Reinvestment Initiatives' form an unusual construct for a financial plan for an enterprise attempting to emerge from bankruptcy.").

[23] Ex. 6B, Kopacz Dep. Tr. at 165:16-18.

[24] Ex. 6A, Kopacz Report at 15. *See also* Ex. 6B, Kopacz Dep. Tr. at 51:23-25 ("The Conway model is actually about 30 models together and each of those models is multiple Excel spreadsheets.").

[25] Ex. 6A, Kopacz Report at 15 n. 13 ("There were also differences in modeling approach used by Conway MacKenzie, Mr. Moore's firm, and Ernst & Young, the City's other financial advisor."). *See also* Ex. 6B, Kopacz Dep. Tr. at 180 (agreeing that "the City did not employ a uniform approach in constructing the forecasts").

16. Ms. Kopacz also faced resistance from the City and its outside consultants in obtaining the information necessary to perform her review.[26] The resistance was so great, in fact, that at one point she was forced to seek assistance from the Court.[27] As she explained in her deposition, she was having "trouble getting the working models" from Ernst & Young and the City's "counsel had requested to participate in all of [her] interviews."[28] Her "team's relationships with Ernst & Young and Conway got frayed" to the point that "all of the parties [were] being called to [Judge Rosen's] chambers to be instructed to play nicely."[29] Even more troubling, Ms. Kopacz revealed that during this meeting with Judge Rosen, the City, and its advisors then "discussed" how broad or narrow "her assessment of feasibility was or should be."[30]

17. Though the City ultimately provided some of the information Ms. Kopacz requested, she had not received all the data that she requested as of her

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[26] Ex. 6B, Kopacz Dep. Tr. at 325:9-17, 328:6-13.

[27] *Id.* at 325:9-17, 326:12-327:1.

[28] *Id*. at 328:6-13.

[29] *Id.* at 379:2-7; *see also id.* at 379:8-21 ("Judge Rosen initiated this meeting" and "it was like we need to have a conversation now.").

[30] *Id*. at 380:22-381:4 (explaining that there was a dispute with "Jones Day and me and the advisers about … how broad or narrow … [her] assessment of feasibility was and should be").

July 31, 2014 deposition.[31] Her expert report lists, for example, a dozen requests that were still outstanding at the time she submitted her report — including requests for(a) a "[r]econciliation of 10 Year Plan and City's Triennial Budget"; (b) stochastic or sensitivity analyses on the use of a 6.75% investment return assumption for GRS; and (c) "[a]ll pension plan sensitivity analyses."[32]

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[31] *Id*. at 21:25-22:3; *see also id.* at 119:8-13 ("they're still open requests, so I haven't looked at that."). For example, Ms. Kopacz observed: "Phoenix has no visibility into the receptiveness of the financing sources to the proposed debt offering. To the degree the City is not able to procure anticipated Exit Financing in the amount or at a reasonable interest rate will materially impact the City's cash flow liquidity at its emergence from bankruptcy. As of the date of this Report, it appears that the assumed interest rate of 6% could be low for a high yield instrument like the proposed Exit Financing." Ex. 6A, Kopacz Report at 190. *See also id.* at 195 ("In the event that this financing is unavailable to the City on reasonable terms, is significantly lower in terms of facility amount, or is otherwise different than the assumptions in the POA, it is unlikely the City will have sufficient liquidity to operate and satisfy its obligations."). Other requests were fulfilled too late for her to conduct her analysis. As she observed with respect to the recently-executed CBAs, for example: "Phoenix has recently received the majority of negotiated CBAs, some of which have been fully approved by the State of Michigan, and some of which have been ratified but await the State's approval. Due to the timing of when Phoenix received these CBAs relative to our Report deadline, we have not fully reviewed each of these CBAs. To the degree that the final, agreed-upon terms of the respective CBAs contain aspects that are costlier to the City than the current CETs or contemplated in the projections, the City's liquidity could be negatively impacted. I am further concerned that the newly negotiated CBAs may not have sufficiently addressed the City's historic work rule issues." Ex. 6A, Kopacz Report at 187.

[32] Ex. 6A, Kopacz Report, Exhibit 4 (listing "outstanding requests" to Jones Day, Ernst & Young, and Conway MacKenzie).

18. Ms. Kopacz's lengthy report reflects both her difficulties in grasping the City's forecasts and her failure to analyze the assumptions underlying them. Take, for example, pages 50 and 51 of her report. These two pages narratively describe the City's assumptions regarding future state revenue sharing. But they contain no analysis whatsoever of the reasonableness of those assumptions.

19. Indeed, in reading pages 39 to 110 of Ms. Kopacz's report, one quickly sees that the vast bulk of these pages is given over to simply describing the City's assumptions — rather than analyzing those assumptions. After a few desultory efforts (see, for example, page 47 where she notes that the City's wage growth assumptions "appear reasonable," despite the fact that they are far below the wage growth assumptions for the State), Ms. Kopacz lapses into almost purely narrative descriptions of the City's assumptions, occasionally punctuated by what she describes as her "sensitivity analyses," which are discussed in more detail below.

20. Ms. Kopacz did not evaluate the reliability of the City's forecasts, did not test many of the assumptions that went into the forecasts (and indeed admitted that many of them are untestable), and was unable even to identify the methodology behind the forecasts — let alone vouch for its reliability. For all these reasons, Ms. Kopacz's opinions on feasibility and the reasonableness of the City's projections are unreliable and do not satisfy Rule 702.

LEGAL STANDARD

21. Under Rule 702 and *Daubert*, federal courts must serve as "gatekeep[ers]" to ensure that "any and all scientific testimony or evidence admitted is not only relevant, but reliable."[33] The burden is on the proponent of the expert evidence to satisfy each of Rule 702's requirements.[34] Among other things, the proponent of expert testimony must demonstrate that (1) the proffered expert is "qualified by knowledge, skill, experience, training, or education" to offer the expert's opinions; (2) the proffered testimony is relevant to the issues at hand; and (3) that the testimony is based on "sufficient facts," is "the product of reliable principles and methods," and that those methods have been reliably applied to the facts of the case.[35]

22. Rule 702 requires that the witness be "qualified as an expert by knowledge, skill, experience, training, or education[.]" This is a case-specific and opinion-specific inquiry, because "an individual is not an expert in the abstract; expertise can only be judged within the context of a given case."[36]

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[33] *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 589 (1993).

[34] *Sigler v. Am. Honda Motor Co.*, 532 F.3d 469, 478 (6th Cir. 2000); *Daubert*, 509 U.S. at 592 n.10.

[35] Fed. R. Evid. 702; *Daubert*, 509 U.S. at 594–95.

[36] *Coffee v. Dowley Mfg., Inc.*, 187 F. Supp. 2d 958, 975 (M.D. Tenn. 2002), *aff'd*, 89 F. App'x 927 (6th Cir. 2003) (unpublished); *accord Berry v. City of Detroit*, 25

23. Under Rule 702 and *Daubert*, an expert's opinions may not be based on "subjective belief or unsupported speculation."[37] In order to be admissible, expert testimony must be based on "'good grounds,' based on what is known."[38] The "court's gatekeeping function requires more than simply 'taking the expert's word for it.'"[39] Rather, "the existence of sufficient facts and a reliable methodology is in all instances mandatory."[40]

24. Likewise, in order to satisfy Rule 702's relevance requirement, an expert's opinions must be "sufficiently tied to the facts of the case."[41] Expert

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F.3d 1342, 1351 (6th Cir. 1994) ("The issue with regard to expert testimony is not the qualifications of a witness in the abstract, but whether those qualifications provide a foundation for a witness to answer a specific question.").

[37] 509 U.S. at 590; *Tamraz*, 620 F.3d at 670.

[38] *Pomella v. Regency Coach Lines, Ltd.*, 899 F. Supp. 335, 342 (E.D. Mich. 1995) (quoting *Daubert*, 509 U.S. at 590).

[39] *Thomas v. City of Chattanooga*, 398 F.3d 426, 432 (6th Cir. 2005).

[40] *Hathaway v. Bazany*, 507 F.3d 312, 318 (5th Cir. 2007); *see also Elcock v. Kmart Corp.*, 233 F.3d 734, 756 (3d Cir. 2000) (affirming exclusion of economist's testimony regarding future earnings because it "relied on several empirical assumptions that were not supported by the record").

[41] *Daubert*, 509 U.S. at 591; *see also Pride v. BIC Corp.*, 218 F.3d 566, 578 (6th Cir. 2000) ("there must be a connection between the [expert opinion] being offered and the disputed factual issues in the case in which the expert will testify.") (citation omitted).

testimony is inadmissible where "there is simply too great an analytical gap between the data and the opinion proffered."[42]

25. It is "critical" that an expert's analysis meet these requirements at "every step."[43] "[A]ny step that renders the analysis unreliable under the *Daubert* factors renders the expert's testimony inadmissible."[44]

ARGUMENT

26. As explained below, Ms. Kopacz's opinion testimony regarding the reasonableness of the City's forecasts and projections fails to satisfy the standards of Rule 702 and *Daubert* for three reasons.[45]

27. *First*, Ms. Kopacz did not evaluate or test the vast majority of the assumptions in the City's forecasts. Ms. Kopacz's failure to evaluate the relevant assumptions was not only contrary to the Court's direction, but it also meant that

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[42] *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997).

[43] *Amorgianos v. Nat'l R.R. Passenger Corp.*, 303 F.3d 256, 267 (2d Cir. 2002).

[44] *In re Paoli R.R. Yard PCB Litig.*, 35 F.3d 717, 745 (3d Cir. 1994).

[45] Syncora does not challenge Ms. Kopacz's over-arching opinion that the City will be able to achieve its forecasts. Indeed, Syncora believes and will present evidence demonstrating that it is highly likely that the City will far exceed its forecasts because of the unreasonably-conservative assumptions its forecasters applied at each turn. This motion is thus limited to her opinions that the forecasts and underlying assumptions are "reasonable."

she could not reliably opine on the reasonableness of the City's forecasts and projections.

28. *Second*, Ms. Kopacz did not examine the reliability of the City's forecasts and projections. In other words, Ms. Kopacz did not examine such things as the methodology underlying the City's forecasts or the qualifications of the forecasters.

29. *Third*, Ms. Kopacz lacks the necessary expertise to provide an opinion regarding feasibility or the reasonableness of the City's forecasts and projections. As Ms. Kopacz conceded, she had never projected revenues or expenses or expenses for a municipality — a subject area that is "significantly different" from work she had previously performed.

I. Ms. Kopacz Did Not Perform the Work Necessary to Reliably Opine on the Reasonableness of the City's Forecasts and Projections.

30. When appointing Ms. Kopacz as an expert witness, the Court specifically directed her to "investigate and reach a conclusion" on "[w]hether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."[46] As discussed below, however, Ms. Kopacz failed to perform the work necessary to complete this task — specifically, she did not (a) test the accuracy or reliability of the City's

[46] Ex. 6C, Dkt. 4215, Apr. 22, 2014 Order Appointing Expert Witness, ¶ 2.

assumptions; (b) test the reliability of the data underlying the City's forecasts or projections; (c) provide an opinion that could be tested by the Court; or (d) perform true sensitivity analyses.

A. Ms. Kopacz Did Not Actually Test the Reasonableness of the Assumptions in the City's Forecasts and Projections.

31. As part of her expert report, Ms. Kopacz does not attempt to evaluate the reasonableness of the vast majority of the City's assumptions. Instead, she simply describes the assumptions without performing any analysis or verification, including the following significant revenues and expenses:

- <u>Property Tax Revenues</u>: Ms. Kopacz reported that the City's property tax revenues are "largely predicated upon assumed changes in assessed property values and the estimated collection rates going forward" but did not evaluate the accuracy or reliability of any of these assumptions.[47]

- <u>Sales and Charges for Services</u>: Ms. Kopacz stated, with no analysis, that the balance of the revenue categories for the City's projections for sales and charges for services "are assumed to remain relatively constant over the FY2014-2023 time period."[48] She did not analyze the accuracy or reliability of these assumptions.

- <u>Wagering Tax Revenues</u>: Ms. Kopacz reported that the City's 10-year projections for casino tax revenues "assume a 2.5 YoY [year-over-year] decline in FY2014, a 1.0% decline in FY2015, a 0.5% annual increase in FY2016 and FY 2017, and a 1.0% annual increase in FY2018-23," but provided no analysis of the accuracy or reliability of these assumptions.[49]

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[47] Ex. 6A, Kopacz Report at 56.

[48] *Id.* at 55.

[49] *Id.* at 53.

- Salaries and Wages: Ms. Kopacz summarized the projections for the City's salaries and wages without specifically assessing the reliability or accuracy of the City's assumptions.[50]

- Health Benefits: Ms. Kopacz relied on the projections for City employee health benefits that were prepared by the City's actuary, Milliman, without specifically assessing the accuracy or reliability of the assumptions that underlie the projections.[51]

32. During her deposition, Ms. Kopacz was asked a number of questions regarding the work that she did to test the reasonableness of the assumptions underlying the City's forecasts and projections. Her testimony further confirmed that she did not analyze the accuracy or reliability of the following assumptions:

Assumptions Surrounding Assessed Value Per Property

> Q. Okay. I take it you made no effort to validate any assumptions regarding assessed value per property?
>
> A. That's correct.
>
> Q. Or in the aggregate, correct?
>
> A. Or in the aggregate?
>
> Q. Meaning to the extent the City aggregated assessed values across the City and made assumptions about that, you did not test those assumptions, correct?
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> A. Correct.[52]

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[50] *See id.* at 65-71.

[51] *Id.* at 71-72.

[52] Ex. 6B, Kopacz Dep. Tr. at 196:13-23.

Assumptions Surrounding Taxable Value

> Q. [D]o you believe it's reasonable to assume that taxable value in the City of Detroit will decrease over the next -- by 9 percent, as a result of the citywide reappraisal where the City's senior assessor says that he doesn't know whether taxable value will go up or down?
>
> [Objection.]
>
> A. I don't know.
>
> Q. You don't know if that's reasonable or not?
>
> A. Yes, I do not know if that's reasonable or not.
>
> Q. It's not something you've considered before today?
>
> A. That's correct.[53]

Assumptions Surrounding Casino Tax Revenues

> Q. And so you're -- the focus then was on what are the casino gross receipts against which the rate is applied, right?
>
> A. Yes.
>
> Q. Now, you see that the ten-year projections assume two-and-a-half percent year-over-year declines in fiscal year 2014, a one percent decline in 2015, a half a percent increase in fiscal year 2016 and '17, and a one percent increase thereafter through 2023, correct?
>
> A. Yes.
>
> Q. You did not make an independent finding as to that assumption, as to its reasonableness, correct?

[53] *Id.* at 201:9-24.

A. Correct.[54]

Assumptions Surrounding Property Values

Q. Okay. So, take a look at Page 59. We're going to move on to property values here, okay?

A. Yes. We did this.

Q. So, yeah, we definitely touched on these. But I guess I want to confirm that you didn't make any independent findings regarding whether a one percent, 1.7 percent decline in real property values during the period was a reasonable assumption, correct?

A. Correct.

Q. And you didn't make any findings with respect to whether the personal property increased by .9 percent was a reasonable assumption during that period, correct?

A. That's correct.

Q. And it's also correct that you didn't test the assumption of a 4.8 percent renaissance zone increase during that period, correct?

A. That's correct.[55]

Assumptions Surrounding Population

Q. Okay. You didn't study or evaluate the assumptions regarding population?

A. Correct.[56]

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[54] *Id.* at 283:21-284:11.

[55] *Id.* at 290:4-23.

[56] *Id*. at 275:21-23.

Assumptions Surrounding Employment Growth

Q. You did not make a specific finding or conclusion about whether this assumption on Page 46 regarding employment growth was reasonable, correct?

A. That is correct. I looked at a what-if scenario, the -- the estimate was off. Now, how -- if -- if that estimate is off, right, by some amount, does that have a -- what kind of an impact does that have on the overall projection for income tax?

Q. Okay. So speaking to your expertise in terms of what your training and experience renders you capable of doing, you are capable of assessing whether or not a forecasted increase of .15 percent in City resident employment is a reasonable assumption, correct?

A. Could I do that? Absolutely.

Q. Yeah. You could have done it, but you did not do it.

A. I did not.

Q. Okay. Is that a reasonable assumption?

A. I believe that that assumption is reasonable in light of the -- the totality of what the income tax and revenue assumptions are.

Q. What is the basis for EY's .15 percent assumption in City resident employment increase?

A. You'd have to ask them.

Q. What is the basis for your conclusion that this assumption --

A. Right.

Q. -- is reasonable?

A. Again, as I said, I did not -- in this case, I looked at this assumption. It did not appear unreasonable to me. Okay? And when I factored in the result of all of these estimates in terms of coming up with the revenue assumptions, and I did the sensitivity analysis, the result of what the city is projecting in terms of municipal taxable income and all the other individual revenue items is reasonable.

Q. Do you agree that you're not able to give me an opinion regarding the reasonableness of this assumption on a stand-alone basis?

A. That is correct.[57]

Assumptions Surrounding Property Tax Collection

Q. On the collection rates, do you notice that the City has assumptions regarding different collection rates that bleed from Page 59 to 60?

A. I do.

Q. And it's also fair to say that you didn't make independent findings regarding whether their property tax collection assumptions were reasonable, correct?

A. That's correct.[58]

Assumptions Surrounding Utility User Tax Revenue

Q. Then, similarly, on the utility users tax on Page 62, do you see that?

A. I do.

Q. The forecast -- the forecasted amount is forecast to be approximately two percent of general fund revenue, correct?

A. Yes.

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[57] *Id*. at 267:12-269:19.

[58] *Id*. at 291:3-12.

> Q. Fair to say you did not test the assumptions around the specific utility user tax revenue assumptions by the City forecasters, correct?
>
> A. Correct.[59]

33. Notably, the above are but a handful of the instances where Ms. Kopacz acknowledged that she had not in fact assessed the reasonableness of the City's assumptions. Of even greater significance, however, Ms. Kopacz conceded that if her report does not contain a specific finding regarding the reasonableness of a cost assumption then she ***did not analyze*** whether that particular assumption is reasonable:

> Q: . . . [T]o the extent a description regarding a particular cost assumption doesn't include a specific finding by you regarding the reasonableness of that cost assumption, ***is it fair for the Court to infer that you did not make a specific finding about that cost assumption*** and that you treated it merely as part of your aggregate opinion?
>
> A: Generally, I think that is a correct statement.[60]

34. In other words, where Ms. Kopacz did not explicitly state in her report that she independently evaluated the reasonableness of an assumption, it means that she did not, in fact, do so. This admission has far-reaching implications[61] as a

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[59] *Id*. at 291:13-24.

[60] *Id*. at 320:6-18.

[61] Ms. Kopacz's testimony regarding the omission of specific findings on the cost side clearly implicates similar issues on the revenue assumptions as well. For the vast majority of assumptions, her report discloses no individualized analysis of the

review of Ms. Kopacz's report reveals that she did not specifically evaluate the reasonableness of the vast majority of the City's assumptions, including the following assumptions:[62]

- The City's assumptions regarding projected salaries and wages;[63]
- The City's assumptions regarding overtime;[64]
- The City's assumptions regarding benefits such as Social Security, unemployment, and life insurance;[65]
- The City's assumptions regarding health benefits;[66]
- The City's assumptions regarding employee contributions to the pension plan and the Voluntary Employment Benefit Account;[67]
- The City's assumptions regarding litigation, workers' compensation, and insurance claims;[68]

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macro revenue assumptions — and she explicitly testified that she conducted no analysis of many of the macro revenue assumptions, as cited above.

[62] Moreover, this is in addition to the many other assumptions underlying the City's forecasts that are addressed in the City's expert reports, but are *not* addressed in the report submitted by Ms. Kopacz.

[63] Ex. 6A, Kopacz Report at 66-71.

[64] *Id*. at 73-75.

[65] *Id*. at 75-76.

[66] *Id*. at 71-72.

[67] *Id*. at 77-78.

[68] *Id*. at 79-80.

- The City's assumptions regarding operating supplies, fuel and lubricants, and repairs and maintenance;[69]
- The City's assumptions regarding utilities;[70]
- The City's assumptions regarding purchased services;[71] and
- The City's assumptions regarding capital outlays.[72]

35. Put simply, Ms. Kopacz's failure to individually assess and opine upon the vast majority of the City's assumptions renders her opinion regarding the City's forecasts and projections unreliable and any corresponding testimony should therefore be excluded.

B. Ms. Kopacz Failed to Test the Data Underlying the City's Forecasts and Projections.

36. Separate and apart from Ms. Kopacz's failure to test the assumptions underlying the City's projections and forecasts, Ms. Kopacz committed another error as part of her expert report — she failed to test the data underlying the City's projections and forecasts and instead relied on the data provided by Ernst & Young. Examples of Ms. Kopacz's failure to test the relevant underlying data include the following:

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[69] *Id*. at 80-81.

[70] *Id*. at 81-82.

[71] *Id*. at 83.

[72] *Id*. at 83-84.

Average Income Data

> Q. You haven't independently assessed the average income data for the City of Detroit, correct?
>
> A. That's correct.
>
> Q. Okay. You relied on data that was given to you by Ernst & Young?
>
> A. That's correct.
>
> Q. Okay. And you haven't taken steps to assess the accuracy of that data, correct?
>
> A. That's correct.[73]

Unemployment

> Q. And with respect to the level of unemployment in the City, you also relied on data that was given to you by Ernst & Young, correct?
>
> A. Yes.[74]

Property Values

> Q. I take it you don't know what the City's assessed property values are as you sit here today?
>
> A. I do not.
>
> Q. And you haven't engaged in an independent effort to determine what the assessed value should be, correct?
>
> A. That's correct.[75]

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[73] Ex. 6B, Kopacz Dep. Tr. at 144:25-145:10.

[74] *Id*. at 145:11-145:14.

[75] *Id*. at 195:5-12.

Population Growth

> Q. Okay. With respect to the population assumptions in the forecasts, is it correct that the ten-year projections assume that there will be a 12.3 percent decline in Detroit's population over the next ten years?
>
> A. That is the SEMCOG estimate and that's what the City used.
>
> Q. So the City relied on SEMCOG, correct?
>
> A. Correct.
>
> Q. Do you -- you did not make a specific finding in this section as to whether that population assumption was a reasonable one. Do you agree?
>
> A. I accepted that as a given.
>
> Q. Okay. You accepted it as a given. You did not otherwise test its reasonableness, correct?
>
> A. I did not.[76]

Utility Users Tax

> Q. Now, when it came to historical data about utility user tax revenues, you relied on what was given to you by Ernst & Young; is that correct?
>
> A. That's correct.
>
> Q. You did not attempt to independently assess that data, correct?
>
> A. Correct.[77]

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[76] *Id.* at 273:4-22.

[77] *Id.* at 147:19-148:6.

37. As a justification for this failure, Ms. Kopacz asserted that she did not have enough time "to independently verify all of the data on which the forecasts are built in order to develop [her] own assumptions."[78] Although Ms. Kopacz was operating under an admittedly tight timeline, her failure to independently assess the data on which the City's forecasts are built is problematic for two reasons.

38. First, as Ms. Kopacz conceded, much of the City's financial information is unreliable.[79] Thus, more than in any other case, it was critical for Ms. Kopacz to dig into, understand, and then assess the reliability of the underlying data.

39. Second, Ms. Kopacz's acceptance of the data given to her by Ernst & Young is problematic because Ernst & Young, on multiple occasions, made assumptions that were inconsistent with other information available to the City.[80] Ms. Kopacz thus skipped a critical step when she failed to pressure-test the data.

C. Ms. Kopacz's Expert Opinions Are Not Testable.

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[78] *Id.* at 178:2-9.

[79] *Id*. at 104:12-107:2.

[80] *See generally Motion to Exclude the Testimony of the City's Forecasting Experts Under Federal Rule of Evidence 702*.

40. Rule 702 requires that proffered expert testimony be the product of reliable principles and methods.[81] Courts consider several factors when determining whether a proffered expert's testimony is reliable: (1) the testability of the expert's hypotheses (*i.e.*, whether they can or have been tested); (2) whether the expert's methodology has been subjected to peer review and publication; (3) the known or potential rate of error with respect to the expert's methodology; and (4) whether the methodology is generally accepted in the scientific community.[82] Courts interpreting *Daubert* have considered testability of the expert's hypotheses to be the most important of these four factors.[83] When a proffered expert does not offer any reliable testing of his or her opinions, courts, including the Sixth Circuit, have routinely precluded that witness from testifying.[84]

41. Here, Ms. Kopacz candidly admitted that her opinions regarding the reasonableness of the City's forecasts and assumptions <u>could not</u> be tested:

> Q. So how -- how -- how can we know that taxable incomes as an economic matter shouldn't be expected to grow at the 3.4 percent rate for a decade?

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[81] *Daubert*, 509 U.S. at 594-95.

[82] *Id*. at 593-94.

[83] *See, e.g.*, *Berry v. Crown Equip. Corp.*, 108 F. Supp. 2d 743, 754 (E.D. Mich. 2000); *see also Soldo v. Sandez Pharmaceuticals Corp.*, 244 F. Supp. 2d 434, 462 (W.D. Pa. 2003) (stating that "testability" is most important *Daubert* factor).

[84] *See*, *e.g.*, *Pride*, 218 F.3d at 578; *Berry*, 108 F. Supp. 2d at 754;

A. We don't.

Q. Okay. So how do we test your finding that .46 percent is reasonable?

A. It's not unreasonable.

Q. How do we test that?

A. I don't know that we do.

Q. Do you know of a way that we could test that opinion?

A. I don't know that we can.[85]

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Q. So what was your basis for -- your conclusion that 1.25 percent average wage growth between fiscal year 2014 and 2023 appears to be a reasonable assumption?

A. The 1.25 over a ten-year period, where you had historically both a decrease in taxable income and an increase in taxable income appears to me to be a reasonable, long-term projection of the overall average increase.

Q. Are you aware of any way to test that conclusion?

A. To test that conclusion?

Q. To test the reasonableness of your assumption?

A. I don't know how you would test the assumption until after it happens.

[85] Ex. 6B, Kopacz Dep. Tr. at 241:9-21.

> Q. Okay. But if the -- if the Court wants to test your finding that this is a reasonable assumption, you're not aware of a way it can test it, correct?
>
> A. No, I am not.[86]

42. In addition, Ms. Kopacz admitted that she could not test the work that the City and Ernst & Young had performed or compare it to other municipalities:

> Q. Okay. Okay. And so what approach did the City utilize in compiling its forecasts?
>
> A. There's not -- I'm struggling because I think the way you're using it is as if there's a professional standard for methodology. There are like -- like we were talking about generally accepted accounting principles. There aren't --there's no -- there are no standards like that for forecasting. There are approaches that people use, but I don't think there's any -- there's no check-the-box sort of standard for forecasting.
>
> Q. Okay. So you're not able to point to a forecasting methodology that exists and say whether the City employed that forecasting methodology or not, correct?
>
> A. That's correct.
>
> Q. And that's because to the best of your knowledge, you're not aware of a standard forecasting methodology for municipal forecasts like these, correct?
>
> A. Or -- yes, that's correct.
>
> Q. And you took a lot of time to learn what the City did, right?
>
> A. Yes.

[86] *Id*. at 252:14-253:10.

Q. What you're not able to say is how what the City did compares to what people typically do when compiling a municipal forecast, correct?

A. Yes.

Q. Because to the best of your knowledge, there is no typical?

A. Every municipal forecast I've seen is different.

Q. Okay. So, following on this line it's fair to say that you can't subject the City's analysis to peer review, correct?

A. I'm not sure I would say that.

Q. You might be able to, you might not be able to; you just don't know?

A. I don't know who the peer would be.

Q. Okay. You can't compare it to industry standards, correct?

A. In -- "industry standards" being?

Q. Municipal forecasting industry.

A. Promulgated by whom?

Q. Anyone.

A. Again, I don't -- I guess the answer would be no.

Q. 'Cause your view is that there aren't any industry standards?

A. That's correct.

Q. So of course you can't, right?

A. Yes. Yes.

> Q. Did you attempt to compare the City's approach to literature on the subject of municipal forecasts?
>
> A. No.
>
> Q. Could you have done that?
>
> A. I think we've got to go back and decide -- define again what we're talking about. I'm talking about the projections in the plan of adjustment. Okay? There are no standards that govern projections in a plan. Whether that's a plan of adjustment, a plan of reorganization or anything like that. Okay? The -- the quote, standards, and I -- and I put that in the finger quotes because I think what you're trying to talk about is the City budget or something -- again, like I said, I don't -- there aren't standards that you would go to to say how do you prepare these projections for the plan of adjustment.[87]
>
> ***************************
>
> Q. Are the City's forecasts amenable to statistical testing?
>
> A. I don't know.[88]

43. Ms. Kopacz's testimony that there are no standard forecasting methodologies is obviously incorrect. As Dr. Cline testified, there are standard forecasting methodologies that cities can use.[89]

44. Without the ability to test Ms. Kopacz's conclusions and opinions, the Court is forced to simply accept Ms. Kopacz's opinions at face value. In other

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[87] *Id*. at 164:19-167:18.

[88] *Id*. at 168.24-169:2.

[89] Ex. 6D, Cline Dep. Tr. at 47:13-18.

words, the assumptions underlying the City's forecasts and projections are reasonable because Ms. Kopacz says they are reasonable. Such testimony, however, represents classic *ipse dixit* opinion testimony that Federal courts have rejected time and again and likewise should be excluded in this case.[90]

D. Ms. Kopacz Did Not Perform True Sensitivity Analyses.

45. The fact that Ms. Kopacz did not fully and rigorously assess the City's assumptions is further demonstrated by the limited "sensitivity analyses" she performed. While Ms. Kopacz purported to perform certain limited sensitivity analyses "related to the forecast and critical assumptions" in order "to better assess the achievability of the projections,"[91] she performed such analyses for only a handful of the assumptions underlying the City's forecasts. Moreover, even with respect to these assumptions, she failed to perform a proper analysis. Rather, she instead conducted what amount to arithmetical exercises, rather than true sensitivity analyses.

46. A sensitivity analysis "is the study of how the variation in the output of a model (numerical or otherwise) can be apportioned, qualitatively and quantitatively, to different sources of variation, and how the given model depends

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[90] *Tamraz v. Lincoln Elec. Co.*, 620 F.3d 665, 671 (6th Cir. 2010).

[91] Ex. 6A, Kopacz Report at 3.

on the information fed to it."[92] Properly done, this technique "allows the analyst to assess the effects on inferences of departures from the assumptions made and the data values[.]"[93] Put slightly differently, when properly executed, sensitivity analyses allow evaluation of "what if?" scenarios that show the effect that changing the model's data or assumptions will have on the model's predictions — allowing, for example, the analyst to determine whether the proposed reorganization plan may still be feasible if the City sees a recession that shrinks its economy in the next decade.

47. A true sensitivity analysis would postulate a change in Detroit's economy, up or down, and then study the way that change rippled through the entire forecast. The expert would then evaluate the likelihood of that outcome in order to gauge the likelihood that the City will under- or over-perform its forecast.

48. Ms. Kopacz never did that. Instead, her purported sensitivity analyses simply calculate the absolute dollar impact that a change in ***one*** of the City's assumption variables would have. For example, when addressing the City's municipal income forecasts, Ms. Kopacz "estimate[d] the impact of a 1 percentage point change in the forecasted growth rate, up or down" on "each category of

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[92] *In re High-Tech Employee Antitrust Litig.*, 2014 WL 1351040, at 22 n.53 (N.D. Cal. Apr. 4, 2014) (citation omitted).

[93] *Id.*

income tax payer in both scenarios."[94] As she testified, this analysis is simply an arithmetical exercise:

> Q. Is it fair to say that this is the mathematical exercise of the simply showing what a 1 percent change results in if no other constants change?
>
> A. That's correct.[95]

49. Ms. Kopacz conceded in her deposition that "all of the sensitivity analyses . . . [she had] done have been done around a single variable."[96] But this is of little use. If the City enjoys an economic boom as a result of the urban revitalization effort it is forcing its creditors to fund, that boom will impact <u>all</u> of the City's revenue streams, not just one of them. Ms. Kopacz did not assess how ***cumulative*** deviations from the City's forecasts may affect the feasibility of the plan in the aggregate — instead addressing the potential impact of these deviations only "around . . . single variable[s]," which does not help a meaningful evaluation of feasibility:

> Q. Did you ever take the sensitivity analyses and say, Now I'm going to link them all together and I'm going to assume that taxable income growth is down a percent, property tax is down a percent, gaming revenue is down a percent, and utility users' tax revenue is down a

[94] Ex. 6A, Kopacz Report at 48.

[95] Ex. 6B, Kopacz Dep. Tr. at 96:15-19.

[96] *Id.* at 97:6-9.

percent and then step back and look to see what impact it had on whether the City can achieve the forecasts?

A. I did not do that analysis.[97]

50. Moreover, even with respect to the single variable she did address, she did not assess the ***likelihood*** that the deviation from the forecast would actually occur:

Q. But you didn't undertake an assumption of the likelihood that that [change in the gross receipts assumption] would happen, correct?

A. That's right.

Q. And just to save time, that's true for all the sensitivity analyses that you did, correct?

A. Yes.

Q. You presented the arithmetical equation, but you did not undertake an assessment of the likelihood of the event, correct?

A. That's correct.[98]

In short, because Ms. Kopacz did not calculate the likelihood that deviations from the City's forecasts may actually happen, ***and*** did not even attempt to address the possible impact that multiple such deviations may have on the City's ability to achieve the forecasts, these purported sensitivity analyses bear almost no relevance to feasibility — the issue the Court directed Ms. Kopacz to address.

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[97] *Id.* at 270:25-271:9.

[98] *Id.* at 284:21-285:8. *See also id.* at 270:16-19, 271:10-20, 280:3-19.

51. In sum, having failed to assess the "reasonableness" of the vast majority of the individual assumptions underlying the City's forecast and having performed an inadequate analysis with respect to those assumptions she did address, Ms. Kopacz cannot reliably fulfill her role as the Court's expert witness.

52. While Ms. Kopacz suggested during her deposition that the City's forecast assumptions are reasonable in the "aggregate,"[99] this opinion is not tethered to any data or analysis because she did not examine the reasonableness of the City's individual assumptions. Her report contains no analysis to support this opinion and it thus amounts to the sort of *ipse dixit* opinion that is forbidden by *Daubert*. Accordingly, she has ***no*** basis on which to opine about the reasonableness of the forecast assumptions as her appointment requires.[100]

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[99] *See* Ex. 6B, Kopacz Dep. Tr. at 253:22-254:2 (explaining that she "concluded that, in totality, the estimates contained in the projections provide a reasonable basis what the City is going to do from an economic perspective during the life of this -- these projections."); *id.* at 267:9-11 ("Q. [. . .] You included that in the aggregate all of the assumptions were reasonable, correct? A. Correct.").

[100] *See, e.g.*, *Coffey v. Dowley Mfg., Inc.*, 187 F. Supp. 2d 958, 974, 975 (M.D. Tenn. 2002) (excluding expert whose "theories [were] not based on sufficient facts and data" and who "did not utilize reliable principles and methods."), *aff'd*, 89 F. App'x 927 (6th Cir. 2003) (unpublished); *Barnette v. Grizzly Processing, LLC*, 2012 WL 293305, at *3 (E.D. Ky. Jan. 31, 2012) (excluding expert who, in opining that defendant's coal processing operations were violating certain regulations, did not do independent analysis and instead "merely parrot[ed]" a witness's testimony that coal dust was escaping the coal processing areas, "and add[ed] the label . . . 'violation' to it.").

II. Ms. Kopacz Did Not Examine the Reliability of the City's Forecasts and Has No Basis to Opine that the Assumptions in Those Forecasts are "Reasonable."

53. Even the work that Ms. Kopacz did perform, however, is unreliable and thus inadmissible under Rule 702. Ms. Kopacz concedes that she did not assess the reliability of the City's forecasts and thus cannot offer any reliable opinion that those forecasts are "reasonable." Although she was appointed to opine on "[w]hether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable,"[101] she admits that reasonableness for purposes of feasibility is ***not*** a synonym for "reliable."[102]

54. As detailed further below, Ms. Kopacz did not examine the experience of the City's forecasting experts to determine whether they are qualified to offer forecasting opinions; she made no effort to determine how bias and subjectivity may have affected the City's forecasts; she did not verify the data on which the forecasts were based; and does not even know what methodology was used for the

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[101] Ex. 6A, Kopacz Report at 1.

[102] Ex. 6B, Kopacz Dep. Tr. at 34:6-8; *see also id.* at 205:13-18 (testifying that in evaluating reasonableness of assumptions, she "only evaluate[d] it for purposes of feasibility").

City's forecasts. Without having undertaken these basic inquiries, Ms. Kopacz cannot say whether the City's projections are "reasonable."[103]

55. As a preliminary matter, Ms. Kopacz did not examine the experience and qualifications of the City's forecasting experts to determine whether they are even qualified to offer projections for the City's revenues and expenditures. Thus, Ms. Kopacz does not know, for example, whether Mr. Cline and his team have any experience in forecasting municipal revenues, and never attempted to assess the extent of that experience, if any.[104] She was likewise unaware of the prior experience, if any, of Mr. Malhotra's team and the Conway MacKenzie team in forecasting municipal expenses and revenues.[105] This oversight is particularly

[103] *See Thomas v. City of Chattanooga*, 398 F.3d 426, 432 (6th Cir. 2005) (the "court's gatekeeping function requires more than simply 'taking the expert's word for it.'"); *Hathaway v. Bazany*, 507 F.3d 312, 318 (5th Cir. 2007) ("the existence of sufficient facts and a reliable methodology is in all instances mandatory."). Nor may an expert 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).

[104] *Id.* at 174:9-15 ("Q. What is the experience of Mr. [C]line and his team when it comes to forecasting revenues? A. I don't know. Q. Okay. Did you make any effort to assess that? A. I did not.").

[105] *Id.* at 175:11-19 (unaware of "the experience of Mr. Malhotra's team when forecasting municipal expenses" or of "the experience of the Conway MacKenzie

important when one remembers that Mr. Cline, Mr. Malhotra, and Ms. Sallee had never forecast revenues or expenses for a City prior to this case.[106]

56. Nor did she undertake any analysis of the biases of the City's forecasters in evaluating the feasibility of the City's Plan of Adjustment.[107] This oversight is critical because of the obvious incentives of the City's forecasters to employ excessively conservative assumptions, as they in fact did.

57. More generally, she acknowledges that she reached no conclusions about the quality of Ernst & Young's work.[108] She admitted, for example, that she did not develop her own assumptions to compare them against the City's.[109] Nor

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team when it came to projecting the costs or revenues associated with a municipal restructuring.").

[106] Mr. Cline, Mr. Malhotra, and Ms. Sallee all testified that they have never done municipal forecasts before the Detroit matter. *See* Ex. 6D, Cline Dep. Tr. at 8:23-24 ("I have not done forecasting for a City."); Ex. 6E, Malhotra Dep. Tr. at 17:14-18, 80:8-11 (stating he had never performed a forecast for a municipality before this forecast for Detroit); Ex. 6F, Sallee Dep. Tr. at 23:24-24:1, 25:24-26:2 (testifying that this is "the first time" she has forecasted taxable values "for a municipality[.]")

[107] Ex. 6B, Kopacz Dep. Tr. at 162:6-8 (agreeing she "didn't consider or analyze what the biases of the City forecasters were").

[108] *Id.* at 48:21-22 ("I -- I didn't reach a conclusion about the quality of Ernst & Young's work.").

[109] *Id.* at 175:20-176:2 (agreeing she did not "independently seek to develop [her] own assumptions first and then compare so that [she] could then compare them to the City's assumption[s]").

did she develop her own forecasts.[110] And although there is now historical data that could be compared to the predictions in the forecasts, Ms. Kopacz did not attempt to validate the forecasts against this data.[111] As she ultimately acknowledged, while some of the information used in the forecast may be reliable, "some may not be reliable."[112]

58. Importantly, Ms. Kopacz also admitted that she does not know what methodology underlies the City's forecasts.[113] And while Ms. Kopacz is aware of at least some forecasting methodologies that exist for predicting municipal revenues, she did not rely on them in this case.[114] She did not "attempt to compare

[110] *Id.* at 218:21-219:6 (did not construct her own forecasts "[b]ecause there would never have been enough time and the availability of information to do that").

[111] *Id.* at 193:2-13 (agreeing that there are now "historical results" that "can be compared to what was once a forecast" but she has not "attempted to validate . . . the prior forecasts against subsequent historical information that's come in").

[112] *Id.* at 103:7-105:21. Nor did Ms. Kopacz perform "a comprehensive review to test whether Conway is correct in either the assessment of operational needs or its conclusion regarding whether the RRIs will solve the operational needs." *Id.* at 115:3-8.

[113] *Id*. at 165:6-10 (testifying that she was "not able to point to a forecasting methodology that exists and say whether the City employed that forecasting methodology or not").

[114] *Id.* at 154:21-155:10 (aware of some methodologies for forecasting municipal revenues but "there's nothing that is as uniform and acknowledged as we have with generally accepted accounting principles"); *id.* at 155:11-156:6 (did not rely on methodologies in publications from the Government Finance Officers Association

the City's approach to literature on the subject of municipal forecasts."[115] Nor was she able to opine as to "how what the City did compares to what people typically do when compiling a municipal forecast."[116] Indeed, she testified that she was not able to identify ***any*** existing forecasting methodology employed by the City, much less perform any analysis to determine whether the City reliably implemented such methodology:

> Q. Okay. So you're not able to point to a forecasting methodology that exists and say whether the City employed that forecasting methodology or not, correct?
>
> A. That's correct.[117]

59. Ms. Kopacz therefore offered no opinion on whether the City used the correct methodology — or, for that matter, *any* methodology — in its forecasts.[118] Ms. Kopacz's testimony is in stark contrast to the testimony of Mr. Cline, who

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in this case); *see also id.* at 156:12-18 (could not identify the different types of qualitative and quantitative "forecasting methods . . . that are specified by the GFOA"); *id.* at 168:17-23 (agreeing she "never consciously applied these methodologies in [her] own forecasting work" and "did not in connection with the City's forecasting").

[115] *Id*. at 166:24-167:3.

[116] *Id*. at 165:19-23.

[117] *Id*. at 164:19-165:15. *See also id*. at 153:19-154:4, 154:21-155:10, 165:19-167:18.

[118] *Id.* at 180:16-20 (agreeing she "never attempted to look at the City's approach to any of the revenue streams and say, they are using the wrong methodology").

stated that "[t]he methodology [Ernst & Young] used is a fairly standard forecasting methodology that's been used extensively in the City of Detroit and for the State of Michigan and in other cities."[119] Rather than test this methodology, Ms. Kopacz simply accepted the City's forecasts as a given even though she found the City's models "convoluted" and "confusing," and testified that she has been "really critical of how confusing they are."[120]

60. Without any meaningful understanding of the methodology that underlies the City's forecasts and assumptions, Ms. Kopacz has no basis to opine on their reasonableness. Any "reasonableness" opinions Ms. Kopacz purports to

[119] Ex. 6D, Cline Dep. Tr. at 47:13-18. As detailed in Syncora's *Motion to Exclude the Testimony of the City's Forecasting Experts Under Federal Rule of Evidence 702*, although Ernst & Young purported to apply a standard forecasting methodology, that methodology suffers from numerous errors that render it inadmissible.

[120] *Id.* at 181:17-21, 111:5-10; *see also* Ex. 6A, Kopacz Report at 26 (acknowledging creditors' concerns that the financial projections "are a 'black box' and that it was the City's intent to obfuscate important information."); *see also* Ex. 6B, Kopacz Dep. Tr. at 182:14-17 (had never seen any city "employ[] a methodology or an approach . . . like this one); *id.* at 100:4-17 (these projections "are not what we would typically expect to see as a set of projections for a plan of reorganization in a Chapter 11 case."); *id.* at 174:5-8 (the projections between different forecasters "were never harmonized and concatenated in a way that they're all in one kind of place.").

provide thus amount to little more than her subjective, unverified, and unverifiable determinations — precisely what Rule 702 and *Daubert* forbid.[121]

III. Notwithstanding Her Experience with Chapter 11 Restructuring, Ms. Kopacz Lacks the Qualifications to Opine on the Feasibility and Reasonableness of the City's Forecasts in this Chapter 9 Proceeding.

61. Finally, while Ms. Kopacz has experience with restructuring engagements generally, she lacks the qualifications and experience either to forecast revenues and expenses for a municipality in a Chapter 9 bankruptcy or to opine on the feasibility or reasonableness of the City's forecasts. Rule 702

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[121] *E.g.*, *Daubert*, 509 U.S. at 590 (an expert's opinions may not be based on "subjective belief or unsupported speculation."); *Coffey*, 187 F. Supp. 2d at 977-78 (noting that "*Daubert* . . . makes clear that proposed expert testimony must be supported by appropriate validation" and excluding expert testimony for failure to meet this requirement) (citation, quotation marks, and alterations omitted); *Powell v. Tosh*, 942 F. Supp. 2d 678, 706 (W.D. Ky. 2013) (declining to accept expert's testimony "based solely on his thirty-years' experience" because despite that experience, those opinions were "anecdotal, subjective, and incapable of independent verification"); *Barnette*, 2013 WL 293305, at *4 (excluding expert who opined, based on fourteen citations that a coal plant received, that that plant was in violation every day for two years because he "[did] not explain how he infer[red] two years' worth of daily violations from [those] fourteen citations"); *Tamraz*, 620 F.3d at 670; *see also Newell Rubbermaid, Inc. v. Raymond Corp.*, 676 F.3d 521, 527 (6th Cir. 2012) (subjectivity and "lack of testing" are "red flags" under *Daubert* and Rule 702); *In re TMI Litig.*, 193 F.3d 613, 703 n.144 (3d Cir. 1999) (excluding expert's opinion based on "subjective" methodology, and noting that "it is impossible to test a hypothesis generated by a subjective methodology because the only person capable of testing or falsifying the hypothesis is the creator of the methodology").

precludes opinions by experts on matters that lie outside their area of expertise — as is the case here.[122]

62. Before this bankruptcy, Ms. Kopacz had never served as an expert in a Chapter 9 case.[123] She is not an economist, an actuary, a statistician, a real property appraiser, or an expert on macroeconomic factors that may impact Detroit in the future.[124] Ms. Kopacz has never been qualified as a valuation expert nor has she offered prior expert testimony on feasibility.[125]

63. As Ms. Kopacz herself acknowledged, municipal budgeting is "significantly different" from forecasting for private entities because it "involves appropriations and encumbrances and concepts" that do not exist "in the private sector."[126] Before this case though, Ms. Kopacz had "not directly worked for a

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[122] *See, e.g.*, *Berry v. City of Detroit*, 25 F.3d 1342, 1351 (6th Cir. 1994) (under Rule 702, an expert must have "qualifications [that] provide a foundation for a witness to answer a specific question"); *Peak v. Kubota Tractor Corp.*, 924 F. Supp. 2d 822, 829 (E.D. Mich. 2013) (expert opinion is inadmissible where "the expert's training and qualifications" do not "relate to the subject matter of his proposed testimony").

[123] Ex. 6B, Kopacz Dep. Tr. at 131:17-19; *see also id.* at 133:8-10 (never "worked in connection with a Chapter 9 bankruptcy other than this one").

[124] *Id.* at 135:13-136:10, 137:10-15.

[125] *Id.* at 131:2-4, 131:10-14.

[126] *Id.* at 41:4-12, 40:9-16.

municipality in projecting revenues or expenses," and "personally ha[s] never done a municipal forecast."[127]

64. Without prior first-hand experience with feasibility analyses or with municipal forecasting —which Ms. Kopacz concedes is "significantly different" from the private sector — Ms. Kopacz's opinions about the feasibility of the City's plans or the reasonableness of the City's forecasts are beyond her area of expertise and thus inadmissible.[128]

CONCLUSION

65. For the foregoing reasons, Syncora respectfully requests that the Court exclude certain of the opinions of Martha Kopacz.

[*Remainder of Page Intentionally Left Blank*]

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[127] *Id.* at 149:14-16, 148:21-24.

[128] *See, e.g.*, *Coffee*, 187 F. Supp. 2d at 975 (excluding expert testimony of "an experienced mechanical engineer and professor of engineering," noting that "an individual is not an expert in the abstract; expertise can only be judged within the context of a given case").

Dated: August 22, 2014

Respectfully submitted,

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

Summary of Exhibits

Exhibit 1 - Proposed Order

Exhibit 2 - Notice of Motion and Opportunity to Object

Exhibit 3 - None [Brief Not Required]

Exhibit 4 - None [Separate Certificate of Service to be Filed]

Exhibit 5 - Affidavits [Not Applicable]

Exhibit 6 A - Expert Report of Martha Kopacz

Exhibit 6 B - July 31, 2014 M. Kopacz Deposition Transcript

Exhibit 6 C - Order Appointing Expert Witness [Docket No. 4215]

Exhibit 6 D - July 14, 2014 R. Cline Deposition Transcript

Exhibit 6 E - July 15, 2014 G. Malhotra Deposition Transcript

Exhibit 6 F - July 24, 2014 C. Sallee Deposition Transcript

<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 MARTHA KOPACZ

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 Martha Kopacz's testimony and opinions regarding the City's forecasts and underlying assumptions, the Court having reviewed 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 Martha Kopacz is GRANTED.

2. The Debtor, the City of Detroit (the "City"), is precluded from introducing testimony or opinions from Ms. Kopacz regarding the City's forecasts and underlying assumptions.

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.

IT IS SO ORDERED.

____

<u>Exhibit 2</u>

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 CERTAIN OF THE EXPERT OPINIONS OF MARTHA KOPACZ UNDER FEDERAL RULE OF EVIDENCE 702

PLEASE TAKE NOTICE that on August 22, 2014 Syncora Capital Assurance Inc. and Syncora Guarantee Inc. ("Syncora") filed the *Motion to Exclude Certain of the Expert Opinions Of Martha Kopacz Under Federal Rule of Evidence 702* (the "Motion") in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") seeking entry of an order to exclude portions of the expert opinions of Martha Kopacz, which were disclosed in her expert report and during her deposition.

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 Syncora's Motion or you want the Bankruptcy Court to consider your views on the Motion, by **September 5, 2014,** you or your attorney must:

File with the Court a written response to the Motion explaining your position with the Bankruptcy Court 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]

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
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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.

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

Dated: August 22, 2014

Respectfully submitted,

KIRKLAND & ELLIS LLP

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

Exhibit 3

None [Brief Not Required]

<u>Exhibit 4</u>

Certificate of Service [To be filed separately]

<u>Exhibit 5</u>

Affidavits
[Not Applicable]

Exhibit 6A

Expert Report of Martha Kopacz

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 MARTHA E.M. KOPACZ REGARDING THE FEASIBILITY OF THE CITY OF DETROIT PLAN OF ADJUSTMENT

On April 22, 2014, Judge Rhodes entered an Order[1] appointing me as the Court's expert witness. Pursuant to that Order, "(t)he Court's expert shall investigate and a reach a conclusion on:

(a) Whether the City's plan is feasible as required by 11 U.S.C. § 943(b)(7); and

(b) Whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."

I am providing this Report under Fed. R. Evid. 706(a). Should additional information become available, I reserve the right to amend or supplement this Report.

[1] Docket #4215, Order Appointing Expert Witness

Section A – Introduction, Scope and Approach

Introduction

I am a Senior Managing Director with Phoenix Management Services, LLC ("Phoenix"), Boston, MA and my *curriculum vitae* is attached as Exhibit 1. I have been assisted throughout this engagement by my colleagues from Phoenix. My billing rate is $595 per hour and the billing rates of my colleagues range from $100 per hour to $550 per hour. As a courtesy, we are reducing our rates by 10% in this case. I have testified previously as noted in my proposal.[2]

Scope and Approach

The scope of my engagement is limited to providing an opinion *only* as to feasibility of the Plan of Adjustment ("POA" or "Plan") of the City of Detroit ("Detroit" or the "City"). My engagement does not include providing an opinion regarding the best interest of creditors. There is little applicable case law related to what constitutes feasibility in a chapter 9 proceeding and even less guidance on my

[2] Docket #4068, Notice Regarding Interviews of Expert Witness Applicants, pages 266-267

role as the Court's independent expert. As such, I developed an approach for this assignment based upon my professional experience and taking into account the facts and circumstances of this matter that I believed to be most relevant. In large measure, I and my team, ("we") have followed the outline contained in my proposal, which is included below.[3]

- Understand the framework and methodology used to prepare the Ten-Year Plan including reliance on historical information
    - Conduct interviews of key personnel and financial advisors
    - Review documentation used to develop the forecasts
    - Review other third party information to independently verify assumptions
- Perform a detailed analysis of the Plan's financial and cash flow forecasts to determine baseline and critical assumptions
- Critique and analyze critical assumptions - those that have significant dollar and/or timing impact and, if not achieved, could decrease cash flow significantly
    - Revenue and/or cash receipts
    - Cost cutting initiatives
    - Reinvestment initiatives and capital spending
    - Interest rate variations
    - Provisions for contingencies
- Evaluate the execution risks associated with the Ten-Year Plan
    - Availability of financial and human capital
    - Reasonableness of timing assumptions
    - Reasonableness of dollar impact (cost or benefit)
    - Adequacy of contingencies
- Perform sensitivity analysis related to the forecast and critical assumptions, as appropriate, to better assess the achievability of the projections
- Form an opinion as to the feasibility of the Ten-Year Plan, as presented

[3] Docket #4068, Notice Regarding Interviews of Expert Witness Applicants, pages 256-257

- Prepare a written report supporting the opinion including additional information that facilitates communication and understanding by stakeholders of the likelihood of Plan success and the potential risks associated with Plan execution

We began with stakeholder interviews amongst the groups listed below. The "Contact Log" as directed in Judge Rhodes' Order, is included as Exhibit 3. This fact- and perception-gathering phase was important to understanding the current situation with the City, the status of bankruptcy case and how the City was approaching its restructuring.

- City of Detroit elected and appointed officials (including the Mayor, City Council President, Chief Financial Officer, Chief of Police and department heads)
- Emergency Manager
- City employees
- City of Detroit retained advisors
  - Jones Day
  - Ernst & Young
  - Conway MacKenzie
  - Miller Buckfire & Co.
- City's retirement systems (PFRS and GRS) and their advisors
- City's public safety labor unions and their advisors
- Creditor constituencies and their advisors
- Detroit Land Bank Authority
- Detroit Institute of Art and their advisors
- Charitable foundations and City benefactors

We then approached the analytical phase, which was iterative. We reviewed and analyzed documents relevant to the City's Plan and the financial projections. We reviewed other City data and third party information to provide background and perspective on the Ten Year ("10 Yr") and Forty Year ("40 Yr") projections and the Restructuring and Reinvestment Initiatives ("RRIs"). We asked more questions of the City, its advisors and other stakeholders, requested more information, and analyzed that information. This process was repeated as necessary until our questions were answered. Some general categories of data, documents and information we reviewed and analyzed are identified below. A more complete listing is included in Exhibit 2.

- Court Documents – POA, Disclosure Statement, City Motions and Creditors' Objections, Eligibility Opinion, Court Orders, Court Docket
- May 5, 2014 and July 2, 2014 10 Yr projections, 40 Yr projections and RRIs, including working models
- Third Party Reports
  - Detroit Blight Removal Task Force Plan
  - Detroit Future City Strategic Framework Plan
  - Consulting reports – McKinsey
  - State and various task force reports on Detroit's financial condition
  - Various federal, state and regional government reports

We critiqued the methodology used to develop the financial projections, as well as the data and information used as the foundation for the assumptions. An explanation of these models is contained in Part II, Section E. We identified the assumptions used to create the June 2013 Baseline Projections and the assumptions that formed the 40 Yr projections. We identified and analyzed the assumptions contained in the RRIs and tested both projections (May 5th and July 2nd) for mathematical integrity.

My assessment focused primarily on operations that are accounted for in the City's General Fund. In addition to the City's General Fund activities, the City has numerous operations that are accounted for in Enterprise Funds. Only Enterprise Funds that have an impact on the City's General Fund were evaluated to determine their impact on the feasibility. [4]

The Report

This Report is comprised of four parts. Part I includes my opinion and the building blocks I used to formulate that opinion. This includes background and contextual information that underpin my assessment as well as the definition I and my team formulated for "feasibility" which establishes the framework for my opinion. Part I includes Sections A through D.

Part II is comprised of Sections E through H and provides insight into the quantitative factors that impact my feasibility assessment. Part III consists of

[4]For example the Detroit Department of Transportation (DDOT) operates primarily as an Enterprise Fund but receives a significant subsidy from the General Fund to fund negative cash flow in the Enterprise Fund; therefore, the failure of DDOT to achieve its plans directly impacts the City General Fund.

Sections I through O and include those issues that affect feasibility in a qualitative manner. Part IV contains the Conclusion. A Table of Contents follows.

Table of Contents

Section B – Statement of Expert's Opinion

On April 22, 2014, Judge Rhodes entered an Order[5] appointing me as the Court's expert witness. Pursuant to that order, "(t)he Court's expert shall investigate and a reach a conclusion on:

(c) Whether the City's plan is feasible as required by 11 U.S.C. § 943(b)(7); and

(d) Whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."

This Report contains my expert opinion and the basis for that opinion. I was assisted by my colleagues at Phoenix Management Services LLC. My work has been guided by the approach that was outlined in my proposal[6] and discussed during

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[5] Docket # 4215, Order Appointing Expert Witness

[6] Docket # 4068, Notice Regarding Interviews of Expert Witness Applicants, pages 256 and 257

my interview on April 18, 2014[7]. I, and members of my team, have conducted more than two hundred interviews and fact gathering meetings with persons involved in this matter or with persons I believed to be helpful to me in forming my opinion.

Based on this work, I conclude that:

(a) The City's plan is feasible as required by 11 U.S. C. § 943(b)(7); and

(b) The assumptions that underlie the City's plan of adjustment projections regarding its revenues, expenses and plan payments are reasonable.

It should be noted that this opinion is rendered in an environment where there are many factors that will have influence on the City's conditions post confirmation that are unknown and unknowable. Throughout this Report, I have noted some of these factors, while other factors may not even be recognized today as potentially having an impact. My opinion is necessarily limited by these unknown factors. It should be recognized, that these factors, when known, could have a material impact on my view of feasibility.

The above statement should only be viewed in the context of this entire Report. No reliance should be made on these statements outside of the context of this Report.

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[7] Transcript of Hearing, April 18, 2014

The remainder of this Report will provide my definition of feasibility, the context in which I am rendering my opinion and my assessment of the key factors affecting my feasibility assessment. While my opinion is arguably very narrowly limited to "feasibility", the assessment I and my team did to arrive at my opinion is multifaceted. This Report attempts to clearly and succinctly lay out the foundation, framework and details supporting my opinion.

The following section, Section C, addresses my definition of feasibility and relies upon numerous resources – legal and otherwise – and my own experience to establish the benchmarks against which I assessed feasibility. Section D discusses the context in which I am rendering my opinion. While there are common experiences among every restructuring and even among municipalities, the unique mix that is Detroit and this chapter 9 proceeding, necessarily impact my perspective and opinion. My intent is not to rehash every issue or pleading that has occurred in this case or even Detroit's recent history, but rather, to highlight a few aspects of the facts and circumstances of this case which have had an important impact on the formulation of my opinion. The last sections of the Report provide a more in depth review of the issues, quantitative and qualitative, I found particularly relevant to my assessment of feasibility. By no means does this Report include every factor I reviewed or considered but does include those issues that shaped my opinion to the greatest extent.

Section C – Feasibility Definition

Defining a Feasibility Standard

Section 943(b)(7) of the Bankruptcy Code requires that before a plan of adjustment may be confirmed the Court must determine that the plan is feasible. However, the Bankruptcy Code does not define "feasible." Few chapter 9 cases address the feasibility requirement[8] and there is little in the way of authoritative writing published regarding feasibility. [9]

In assessing feasibility, I have examined available legal authority and consulted with counsel and other experienced professionals to assist in the formation of an appropriate approach to determining feasibility of the City's POA. Every

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[8] In re *Mount Carbon Metropolitan District*, 242 B.R. 18, 31 (Bankr. D. Colo. 1999) ("The Code does not define feasibility in Chapter 9 nor does it specify what factors the Court should consider in determining whether the Plan is feasible. Due to the relative rarity of Chapter 9 cases, neither the parties nor the Court have found case law specifically addressing the issue.")

[9] Pryor, Scott C., Who Bears the Cost? The Necessity of Taxpayer Participation in Chapter 9, (June 11, 2014) Available at SSRN, http://ssrn.com/abstract=2448997. The author referring to feasibility: "(w)hat is merely unclear in chapter 11 is an impenetrable fog in chapter 9."

restructuring professional, with some degree of experience, probably believes they understand what feasibility is and what it is not. However, in my early discussions with professionals in this case, my own research, and consultations with professionals not involved in the Detroit matter, I found a variety of nuanced points of view regarding a definition of feasibility. Therefore, while it will ultimately be up to the Court to articulate the precise legal parameters of feasibility in this Case, I, along with the Phoenix team, have developed the following feasibility definition (the "Standard"), which I believe is crucial to serving the Court's purpose for my appointment:

> '*Is it likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default*?'

Two Dimensions of the Standard

While I believe that there are certain imposed limitations on feasibility within this Standard, I have taken a relatively structured approach to my view of what is included in feasibility. The Standard includes both quantitative and qualitative components:

Quantitative

- Are the projections contained in the POA mathematically correct and materially reasonable?
- Are the assumptions that the City has used to develop its projections individually, and when taken as a group, reasonable?
- Is there an adequate contingency included in the projections?

Qualitative

- Does the City have the human resources, or can it likely recruit the human resources, required to meet its obligations under the POA?
- Does the City have the appropriate systems and procedures to monitor its financial performance and to provide early warning signs of variances in performance that might cause the City to fall short of the projections and be unable to meet its obligations under the POA?
- Are there appropriate structures to ensure the City's compliance with the POA and with reasonable government standards of operation?
- Will the City be able to reasonably deliver a minimum level of municipal services?
- Is the City's trajectory sustainable?

The quantitative assessment of feasibility is straightforward but exacting. As will be more fully discussed in Part II, the projections[10] in the POA are (correctly

[10] For purposes of this Report, "projections in the Plan" are inclusive of the 10 Yr plan, the 40 Yr plan and the RRIs. If only one of these is discussed, it will be noted. The term "forecast" is often used as a synonym for "projections". While this is not technically correct within accounting literature, the terms will be used interchangeably in this Report to provide variety. The term "model" is used in this Report to describe the one or more excel spreadsheets that together form a financial projection. A "values only model" or "flat model" is essentially a printout of the excel spreadsheets, although it may be provided in electronic format rather than in hard copy. A "working model" contains all the cell references, formulas and

so) quite detailed in many areas. Financial modeling is a highly subjective undertaking that is affected by the assumptions made and the professional biases of the analyst developing the model. Financial modeling is both a science and an art. When the analyst forecasts growing revenue, declining costs, or a change in headcount, he or she has a number of ways to write the mathematical formulas which arrive at the intended numbers. In this case, the POA projections are comprised of multiple forecasts, inclusive of hundreds of individual spreadsheets, prepared by many different individuals and then concatenated into what we all simply call the "projections"[11]. Simple questions, such as "are the salaries used to determine the cost of newly hired employees reasonable?" become detailed. For example, the salary estimates are multifaceted depending on which model and which analyst did the modeling and appear in many of the RRI projections. Because of this, the

"macro" commands that are within the spreadsheets and allows a reviewer of the model to understand what the inputs and assumptions are that create the projections. It is in the working model that a reviewer can understand the "art" of the analyst's modeling.

[11] Expert Report of Charles M. Moore, CPA, CTP, CFF in re City of Detroit, Michigan. In footnote 2, Mr. Moore provides a similar explanation of modeling methodology: "Given the number and diversity of the departments my team and I examined, the specific methodology utilized was not exactly the same for each department. Notwithstanding any particular deviations that were necessary, this core methodology and approach was generally utilized across our analysis and development of the Reinvestment Initiatives." This is an example of differences that can occur within a model built by the same firm. There were also differences in modeling approach used by Conway MacKenzie, Mr. Moore's firm, and Ernst & Young, the City's other financial advisor.

quantitative assessment of "reasonableness" surrounding the individual assumptions, and assumptions taken as a group, of the POA projections was more involved than I would have expected.

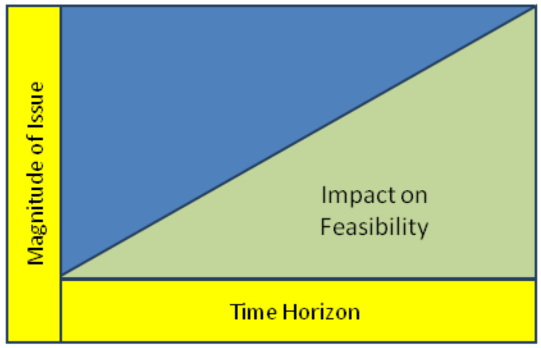
The qualitative aspects of the Standard include what I have come to refer to, as "skill and will" and are as important as the quantitative assessment. Qualitative aspects also include external influences that can affect the implementation of the Plan. Part III, Section K – Leadership and Human Capital, discusses the City's need for more highly skilled employees. Another qualitative issue is the upcoming transition from the leadership of the Emergency Manager to the leadership of Mayor Duggan and his administration. When that transition occurs, there will be little more than three years remaining within which the current elected officials will have the responsibility to operate the City consistent with the POA – therefore political 'will' must be passed to future elected officials. This is not a problem limited to Detroit, but to all municipal proceedings. Section M – Post-Confirmation Oversight discusses ways to mitigate this variable.

The Aspect of Time on the Standard

A municipal government is an entity designed to exist in perpetuity. Therefore, as we considered feasibility there is a requirement to determine the timeframe for the feasibility assessment. As we developed the feasibility Standard, we considered the following questions:

- Given the electoral system and the requirement for strong leadership, do we limit the timeframe to the next election cycle?
- Is there some other timeframe at which feasibility stops? For example, if after 5 years, visibility into the operations of the City becomes more opaque, do we only consider the first 5 years?
- Do we consider the timeframe over which financial commitments are made in the POA? That is, do we look at the restructured pension obligations of the retirees and current employees and attempt to determine whether the POA is feasible during their entire lifetimes?

Ultimately, we based our Standard on an indeterminate time period. However, I believe that the issues of feasibility must be viewed both in terms of their quantitative or qualitative impact <u>and</u> the time horizon over which the impacts may occur. That is, as the time horizon expands, so too does the magnitude required for an issue to impact feasibility. For example, a potential $50 million shortfall in year 1 will have a much more significant impact on the assessment of feasibility than the same shortfall in year 20.



The Standard Allows for a Range of Values

An additional aspect to my definition of feasibility is the concept that the reasonableness of the quantitative and qualitative components of the Standard can be a range of values. When looking at the reasonableness of assumptions and projections, most people understand that "reasonable" can exist along a continuum. Projections can be reasonable and favor the views of the debtor and projections can be reasonable and favor the views of creditors. Of course, at the outer edges of "reasonable", values become unreasonable, either because they are exceptionally conservative or wildly aggressive. We have evaluated the assumptions imbedded with the financial forecasts within this continuum of reasonableness.

Detroit differs from a company emerging from chapter 11 in that the City does not have to be service delivery solvent to emerge from bankruptcy. It will be on a trajectory towards service delivery solvency[12] and in some areas, the current level of service is adequate. I do not need to envision that Detroit will become a best in class municipality to determine that the POA is feasible. For Detroit, emerging from essential services failure to adequate and reasonable service delivery will be a success.[13]

What Feasibility is Not

When we developed the feasibility definition, we also considered what feasibility does not include. First, and foremost, feasibility is not a guarantee. If the City were to propose a plan under which, based on reasonable assumptions, the City could not help but meet its obligations – effectively a guaranteed outcome – it is likely that while feasible, such plan would not satisfy the best interests of creditors test under section 943(b)(7) of the Bankruptcy Code.[14]

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[12] Eligibility Opinion of Judge Rhodes

[13] Anderson, Michelle Wild "The New Minimal Cities" http://yalelawjournal.org/article/the-new-minimal-cities; March 2014

[14] The "best interest test of creditors" is specifically outside the scope of my appointment and as such, is not part of the opinion I have formed. See Docket #4215, Order Appointing Expert Witness, ¶2 and 3.

Similarly, but at the other end of the spectrum, a feasible plan should avoid visionary schemes primarily based on "mere hopes, desires and speculation"[15]. Further, the Court must determine whether there is a reasonable prospect of successful completion of the proposed plan.[16] As a point of reference, a frequently cited legal standard for feasibility in Chapter 11 is whether the factual showing at the plan confirmation hearing establishes a "reasonable assurance of success," though "success need not be guaranteed."[17]

Lastly, I do not believe the Standard entails: (1) whether the projections in the POA may generate more cash to distribute and therefore provide greater recoveries for creditors or (2) whether there may be alternative plans that could produce a better outcome for the City or its creditors. During my team's evaluation of feasibility, we have been exposed to numerous views on these subjects. Because this is outside my scope and not included in our Standard, I have not attempted to form, nor have I formed, any opinion on these matters.

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[15] 242 B.R. 18 (1999) in re Mount Carbon Metropolitan District.

[16] Lawall, Francis J. and Miller, J. Gregg, Debt Adjustments for Municipalities Under Chapter 9 of the Bankruptcy Code, a Collier Monograph, 2012.

[17] Case, Stephen H., Some Confirmed Chapter 11 Plans Fail, So What?, 47 B.C. L. Rev. 59 (2005), http://lawdigitalcommons.bc.edu/bclr/vol47/iss1/4.

In summary, the Standard we have defined includes both quantitative and qualitative assessments of feasibility, including a risk assessment measured against a time horizon and allows for a reasonable range of values within the projections. This Standard is the backdrop against which the remainder of this Report should be read.

Section D - Context

This section of the Report attempts to identify some of the contextual parameters for my expert opinion. The role as the Court's expert on feasibility is both vast and specific, and subsumed within a unique set of facts and circumstances surrounding the City of Detroit, its history and plethora of challenges. Included amongst these topics are:

- The impact of the bankruptcy process on the feasibility assessment
- An "as is" perspective of Detroit which anchors my opinion
- An explanation of what the Plan of Adjustment is and is not
- Identification of factors that affect my opinion separate and apart from the proposed POA

Bankruptcy Process Impact

I am humbled and honored to have been selected as the Court's expert in this matter. The speed with which this restructuring and bankruptcy case has progressed is nothing short of extraordinary. The speed has been both an advantage and a disadvantage to the feasibility of the POA.

The restructuring profession generally views quick trips through the bankruptcy process to be advantageous for a variety of reasons: less distraction of the management team, lower professional costs, more negotiated (vs. litigated) solutions, quicker payments to creditors, and less uncertainty for employees and vendors. This could all be true with the Detroit case.

However, I believe the speed of this proceeding has negatively impacted the level of feasibility of the POA. This bankruptcy has been largely focused on deleveraging the City, often to the exclusion of fixing the City's broken operations. The bilateral mediations between the City and the creditor groups worked well to quickly deliver settlements of key disputes. However, the lack of time available for multiparty negotiation has resulted in settlements that, taken in total, greatly reduce the contingency available in the Plan. Pain sharing is an important component of the restructuring process that helps ensure that all the stakeholders appreciate the "size of the pie" as opposed to creating the proverbial "win-lose" tug of war between the debtor and the creditor.

Detroit "As Is"

Detroit is at a tipping point. While some may consider the chapter 9 filing as the low point in this great City's history, I believe that it was the beginning of creating what can become a virtuous cycle of revitalization, improving economics and quality of life betterments for those who choose to live and work within the City. It is hard to imagine that people with such diverse political and socio-economic perspectives would have come together as they have in this process without the bankruptcy filing. Traditional political maneuverings are working to Detroit's advantage and residents have the prospect of once again living in a community that is more safe and supportive. Black, white, Republican, Democrat, poor, wealthy, educated, illiterate and everyone in between have an opportunity to contribute to the virtuous cycle of revitalization, or not.

The City of Detroit's chapter 9 filing has justifiably received extensive attention across international media and within legal and financial circles. The outcomes will be referenced extensively for years, for what was accomplished and arguably, what could have been accomplished during the proceedings. As the largest chapter 9 to date, if any municipality ever needed the protection and tools of the bankruptcy process, it is Detroit. At every level, Detroit was failing as a city – as measured by the shrinking of its population, useful infrastructure and purposeful enterprises - and as a government – as measured by its inability to deliver essential services. Having spent a large amount of time in Detroit since my appointment, my interaction with citizens, City employees and stakeholders in the bankruptcy have influenced my view of both the in-court restructuring and the out-of-court work that is equally important to Detroit's ability to effectuate its POA.

The Plan of Adjustment

Even after many years of practice with dysfunctional, insolvent, operationally troubled enterprises, I was confused by the City's projections in POA. Section E of this Report provides detail on how the projections and RRIs are structured. Suffice it to say that the "10 Yr projections", the "10 Yr/40 Yr projections," and the "Restructuring and Reinvestments Initiatives" form an unusual construct for a financial plan for an enterprise attempting to emerge from bankruptcy. The baseline projections ("10 Yr projection, Exhibit J to the Disclosure Statement) were prepared in June 2013 to show what would happen to the City without a restructuring, which they did very well. The "10 Yr/40 Yr projection" (Exhibit K in the Disclosure Statement) expands the baseline, steady state projection for the 40 Yr time horizon of the POA. Then, in order to begin to understand how the restructured Detroit might operate – delivering services and paying creditors – one must factor in the RRIs contained in Exhibit J to the Disclosure Statement. This is convoluted and contributes to the feelings amongst many creditors in this case that the financial projections in the POA are a "black box" and that it was the City's intent to obfuscate important information. I choose to believe that is was simply an unfortunate result of two advisory firms sharing responsibilities[18] rather than one firm "owning" the financial projections start to finish, as is, and should be, the norm.

The City's Plan of Adjustment is primarily limited to a "balance sheet" restructuring, as chapter 11 veterans would characterize it, and it includes only some of the City's operations. This is loosely analogous to a company that files a bankruptcy for the parent company and some, but not all, of the subsidiaries. The chapter 9 proceeding has been overwhelmingly focused on deleveraging the City for the long term, reducing future obligations. That is good. However, the operational restructuring that often occurs with commercial reorganizations will be left largely to Mayor Duggan and his managers for the post confirmation period. That is

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[18]Ernst & Young, originally retained by the City of Detroit in May 2011, and Conway MacKenzie, originally retained by the City of Detroit in January 2013, have served the City post-petition in a collaborative arrangement. Each firm has taken responsibility for certain aspects of typical debtor "financial advisory" services and the firms work well together. No comments herein should be construed as criticism of this collaboration; rather, I believe it would have been preferable for a single firm to have prepared a single, integrated financial projection for the POA.

unfortunate but is understandable given the speed with which this bankruptcy has occurred and the Emergency Manager's priorities during his similarly short tenure.

Readers of the POA should view the Plan projections as a "sources and uses" statement which describes cash available to fund delivery of some of the services the City provides and certain payments to creditors. As such, these projections are useful only for purposes of confirming the POA (or not, as the case may be) and directionally providing guidance for the City to plan its finances going forward for those operations that are addressed in the POA. It is important to understand that the POA projections are not a business plan for the City. They are not the City's budget. They are not the "financial plan" referenced in Public Acts 181 and 182 of 2014, also referred to as the "Grand Bargain" legislation.

The confusion about the projections in the POA and these other financial plans is evident within the City including its employees, amongst the media and the stakeholders. The projections in the POA have not been harmonized with the City's budget that was passed by the City Council on June 5, 2014. As such, any funding of the RRIs will require first identification of a funding source, and then approval by the CFO and Mayor, and finally, approval by the City Council of a budget amendment to support the appropriations. Although the City has many financial reporting priorities, it is highly advisable that the budget department amend the approved June budget for the numerous anticipated changes post confirmation, harmonizing the current headcounts and spending levels with the RRIs that the City intends to execute in the coming year, and submit a new budget to the City Council for approval.

The sooner the City can divorce itself from the confusion created by the POA projections, the better. The City needs a multi-year Business Plan which can act as a single financial and operational plan, including all departments and enterprise activities (of which an amended budget would be a part) as well as capital plans that can be publicly communicated and compared to actual performance. A "bridge" should be prepared which identifies the components of the POA projections that are included in the City's Business Plan and then the POA projections can be archived.

Another confusion I believe exists in the POA is the investment plan for infrastructure and service delivery improvements that are required to revitalize the City. Those funds will necessarily come from reducing costs of existing service delivery either through efficiency improvements or elimination of activities. The media has created the impression that the City's investment of more than $1 billion over the course of the coming years is a "given". This is incorrect. There is no funding source for these investments, including blight removal, other than the Exit

Financing[19] and the projected structural surplus in the POA projections; that is: the projected revenues must exceed the projected expenses of the City for the foreseeable future. It is important that readers of the POA understand there is no cash in a bank account to fund the RRIs. The cash for the investments will come from the Mayor and the departmental leaders delivering services as economically and efficiently as the POA forecasts.

Outside Factors of Influence

I can say, unequivocally, that without the positive and capable leadership of Mayor Duggan and the constructive relationship between the City Council and the Mayor, I would be unable to opine that the plan, as currently proposed, is feasible. The near term future will require course adjustments as undoubtedly revenues and expenses will vary from projections and unforeseen events will demand changes in plans. The democratic system has put in place individuals who, at least for the next three years, can choose to continue the positive course for the City. I believe they will do so.

[19] The City's investment banker, Miller Buckfire & Co. has prepared solicitation materials as is the process of sourcing this financing.

Southeast Michiganders and Detroiters are extensively engaged in civic and charitable pursuits that benefit the revitalization of Detroit. While detractors cite crime rates and nonfunctioning public works, there are a similar group of enthusiastic, impassioned supporters of Detroit's bright future. Two tangible examples are the Detroit Future City plan and the Blight Task Force report. Each of these privately funded efforts resulted in professionally stellar frameworks that current and future elected officials should consider as components of Detroit's master plan. I find it encouraging that there are the underpinnings of business plans for the City which can be blended with financial plans to improve the prospects of success.

In addition, the level of private funds invested in Detroit annually is significant. During my interviews, one executive estimated that private foundations, collectively, spend between \$150-\$200 million annually on "public" works to support investments in the safety, health and welfare and economic development within the City of Detroit. This level of funding is significant to the overall revitalization efforts outlined in the POA.

Section E - City of Detroit Financial Forecast Summary

Introduction

The City's Plan of Adjustment incorporates multiple, interrelated financial forecasts that must be individually and collectively evaluated in order to fully understand how the City intends to operate after a confirmation of the Plan of Adjustment. These forecasts, which vary in both duration and intended scope, emanated from the various City professional advisors and their original responsibilities. To fully appreciate the operating plan for the City, Phoenix has reviewed each of the financial forecasts and has worked with the City and its professionals to understand how each of these documents bridge to one another.

The Plan of Adjustment's financial forecasts are as follows:

1. Plan of Adjustment – Ten Year Financial Projections (the "10 Yr Plan"),
2. Plan of Adjustment – Forty Year Financial Projections (the "40 Yr Plan")
3. Plan of Adjustment – Restructuring and Reinvestment Initiatives (the "RRIs")
4. City of Detroit – Triennial Executive Budget ("City Budget")

Plan of Adjustment – Ten Year Financial Projections

The 10 Yr Plan, built and modified by Ernst & Young ("E&Y"), is the City's financial forecast for the fiscal years 2014-2023. This plan was originally developed to show how Detroit would operate exclusive of the chapter 9 bankruptcy proceeding. That is, it is effectively the baseline plan. This forecast was built on a department level basis and does not include the quantitative impacts of the restructuring initiatives, the cancellation of debt, the cash flow ramifications from the alterations in the City's pension plans and OPEB[20], and other impacts of the bankruptcy proceedings.

The City and its advisors produced, as part of the Fourth Amended Plan for the Adjustment of Debts of the City of Detroit and the corresponding Fourth Amended Disclosure Statement (dated May 5, 2014), an updated version of the 10 Yr Plan which reflected the then most current forecast assumptions and terms of negotiated agreements. In light of the incremental negotiations, modified forecast assumptions and other changes, a newer 10 Yr Plan (in concert with an updated 40 Yr Plan and modified RRIs) has been produced by the City advisors and is dated July 2, 2014. For the purpose of this Report, Phoenix used the July 2, 2014 version

[20] Other Post Employment Benefits

of the City's financial forecasts. The following analysis[21] identifies the quantifiable variances between the most recent iterations of the City's financial forecasts. While the net of all changes only impacted the Plan by $5.2 million, on an absolute value basis, the July 2nd version of the 10 Yr Plan contains changes that are in aggregate $491 million versus the May 5th version for the FY2014-2023 time period.

[21] The analysis is sourced from the 5.5.14 POA and 7.2.14 POA and figures are from the bibliography: Conway Mackenzie Models:1-54 and Ernst & Young Models 8-11

	7.2.14 POA vs 5.5.14 POA	
	10 Year Variance	**Absolute Value Change**
Base Model Revenue		
State Revenue Sharing	$ 36.6	$ 36.6
Wagering Taxes	$ (13.1)	$ 13.1
Property Taxes	$ (15.7)	$ 15.7
Sales and Charges for Services	$ (0.9)	$ 0.9
Total Base Model Revenue	**$ 6.9**	**$ 66.3**
Base Model Operating Expenditures		
DDOT Subsidy	$ (59.7)	59.7
Delay in Payroll Processing	$ (4.4)	4.4
PLD LED Lights	$ (2.7)	2.7
Total Base Model Operating Expenditures	**$ (66.8)**	**$ 66.8**
A. Total Changes to Base Model	**$ (59.9)**	**$ 133.1**
Reinvestment Revenue		
GSD Grant	$ 5.7	$ 5.7
Total Reinvestment Revenue	**$ 5.7**	**$ 5.7**
Reinvestment Operating Expenditures		
Fire Department Labor Change	$ (49.8)	$ 50.7
Police Department - Adjust Avg Salary to Act. in Base Forecast	$ 22.5	$ 22.5
Fire Department- Adjust Avg Salary to Act. in Base Forecast	$ 45.2	$ 45.2
All Other Labor	$ 1.5	$ 2.5
DPD - Increse in Annual Facility Costs of New Precincts	$ (6.2)	$ 6.2
Training	$ (1.1)	$ 1.1
Purchased Services	$ (0.7)	$ 0.7
Total Reinvestment Operating Expenditures	**$ 11.4**	**$ 129.0**
Capital Investments		
Police Fleet Spending	$ 10.0	$ 10.0
GSD Facility Maintenance and Other Capex	$ 6.1	$ 6.1
Deferral of Airport Bay Upgrades and T-Hangars	$ 5.0	$ 5.0
R&M Fire Dept Facilities	$ 3.0	$ 3.0
Rec Facilities	$ 2.5	$ 2.5
311 System	$ 0.6	$ 0.6
Total Capital Investments	**$ 27.3**	**$ 27.3**
B. Total Changes to RRI's	**$ 44.4**	**$ 162.0**
Potential Deals		
Public Safety 3% Bonus in FY 16	$ (5.6)	$ 5.6
OPEB now $1MM for PFRS	$ 11.7	$ 11.7
Pension now 12.25% of wages	$ (21.1)	$ 21.1
Total Potential Deals	**$ (15.0)**	**$ 38.4**
Non Operating		
Adjusted Note B	$ (55.0)	$ 55.0
Add Note A2	$ 6.1	$ 6.1
QOL Exit Financing P&I	$ 85.1	$ 85.1
Deferrals	$ (10.7)	$ 10.7
Contingency	$ (0.2)	$ 0.2
Total Non Operating	**$ 25.3**	**$ 157.1**
C. Total Changes due to New Deals/Non Operating	**$ 10.3**	**$ 195.5**
Total Net Change (A+B+C)	**$ (5.2)**	**$ 490.6**

Plan of Adjustment – Forty Year Financial Projections

The 40 Yr Plan, also built and modified by E&Y, is the financial forecast for the fiscal years 2014-2053 that purports to indicate the City's performance over the next 40 years. Contrary to the 10 Yr Plan, the 40 Yr Plan includes the impact of the RRIs, the cancellation of debt, the cash flow ramifications from the alterations in the City's pension plans and OPEB, and other impacts of the bankruptcy proceedings. The 40 Yr Plan has not been built by department and is only a summary of the overall expected City performance.

Plan of Adjustment - Restructuring and Reinvestment Initiatives

The Restructuring and Reinvestment Initiatives have been constructed and amended by Conway Mackenzie ("CM") following CM's City-wide departmental review begun in January 2013. The reinvestment initiatives include funding for additional City personnel and operating requirements, targeted capital expenditures, and blight removal. In total, the RRIs assume the City will invest approximately $1.7 billion in restructuring initiatives. This $1.7 billion of investment is funded in part by $483 million of incremental revenue generated as a result of the RRIs and $358 million of anticipated costs savings from the execution of the RRIs over the FY2014-2023 period. The remaining funding source for the RRIs will be generated by operating City surpluses and the Exit Financing. The process to develop these detailed initiatives included highly detailed inputs, risks, constraints and other factors in how the initiatives will be implemented.

City of Detroit - Triennial Executive Budget

The City annually develops a Triennial Executive Budget that forecasts the financial operations of the City for the subsequent three fiscal years. This budget historically forms the basis for how the City intends to operate on a departmental level and is developed in line with historical government reporting protocols. The Triennial Budget is developed in a manner that allows for reconciliation with the City's fund accounting[22] and only includes items for which funding has been received, approved and allocated. The City's FY2015 budget was unanimously approved by the Detroit City Council on June 5, 2014.

The timing of the City's annual budget cycle, including review and approval by the City Council, and the timing of the bankruptcy proceedings created a bit of a

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[22] Governmental fund accounting is beyond the scope of this Report. However, the reader should appreciate that 1) government accounting standards can vary significantly from those used in the private sector, 2) fund accounting can sometimes create artificial classifications of revenues and expenses that do not resemble how the entity operates on a regular basis and 3) the City's POA projections were prepared separately from the City's Triennial Budget. In the past few weeks, the City's budget team and the financial advisors have worked to reconcile the major differences between the POA projections and the City's budget.

conundrum for the FY2015 budget. As such, the FY2015 budget does not reflect many of the POA proposals, including most of the RRIs and the revised debt service requirements. This may create a procedural bottleneck in that funding for the RRIs will require first, approval by the Emergency Manager, Mayor and Chief Financial Officer,[23] and then a budget amendment to be approved by the City Council.

Phoenix Review

Phoenix has thoroughly reviewed each of the above identified forecasts. In addition, numerous meetings have been held to discuss the forecasts with the City, E&Y, and CM. While Phoenix appreciates the inherent complexity of any financial forecast for an enterprise of this magnitude, a number of concerns regarding how the multiple forecasts impact one another warrants discussion.

First and most importantly, the City does not have a consolidated, departmental financial forecast that incorporates the baseline forecast and all of the POA proposals, specifically, the RRIs. While the respective 10 Yr, 40 Yr, and RRI forecasts have been expertly researched, constructed, and amended, the fact remains

[23] This group is referred to as the "Approving Parties". Procedures have been established to manage the RRI activities. The Approving Parties will assess the RRI funding requests from the various department heads for appropriateness, ensure that the City has the cash for fund the initiatives and allocate the money amongst the requested initiatives.

that the City does not have an aggregated forecast to use as a fiscal roadmap going forward. During our many meetings with City leadership and department heads, it was evident that the individuals responsible for delivering essential services did not have an adequate understanding of the POA impacts to their operations and the manner in which the RRIs would occur.

I have participated in the budget review meetings with the Mayor, the department heads and their respective teams and believe that the sooner the POA projections, in their current form, can be archived, the better. Although improving, there is still a gap in the understanding by the department heads, relating to their budgets and the impact the RRIs will play in what they will be responsible for in the future. In the next few years, the funding for the RRIs is largely, if not exclusively, dependent on the Exit Financing. At this point, we understand the Exit Financing is not committed and the amount and terms have not been determined. For purposes of my assessment and resulting opinion, I have assumed that Exit Financing will be available in an amount sufficient to implement the POA as set forth in detail later in this Report.

Section F - Revenue and Macro Assumptions

Summary[24]

The City of Detroit's Plan of Adjustment include 10 Yr revenue projections for the fiscal years 2014-2023 and 40 Yr revenue projections for the fiscal years 2014-2053 ("40 Yr Plan"). The 10 Yr Plan revenues were forecasted including and excluding the assumed accretive impact of the proposed RRIs detailed in the Plan of Adjustment. As illustrated below, the total revenues projected in the 10 Yr Plan - exclusive of the impact of the RRIs - is $10.4 billion; alternatively, the 10 Yr Plan's cumulative revenues inclusive of the impact of the RRIs is $11.2 billion.

	FY2014-2023				FY2024-2033		FY2034-2043		FY2044-2053	
General Fund Revenues	Without Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment	
Municipal income tax	$ 2,566	25%	$ 2,770	25%	$ 3,510	29%	$ 4,591	32%	$ 6,059	35%
State revenue sharing	$ 2,000	19%	$ 2,000	18%	$ 2,121	18%	$ 2,307	16%	$ 2,533	15%
Wagering taxes	$ 1,733	17%	$ 1,733	15%	$ 1,906	16%	$ 2,105	15%	$ 2,325	13%
Sales and charges for services	$ 1,118	11%	$ 1,118	10%	$ 1,161	10%	$ 1,415	10%	$ 1,725	10%
Property taxes	$ 964	9%	$ 1,074	10%	$ 1,370	11%	$ 1,640	11%	$ 1,903	11%
Other revenue	$ 713	7%	$ 713	6%	$ 754	6%	$ 918	6%	$ 1,120	6%
General Fund reimbursements	$ 260	2%	$ 260	2%	$ 239	2%	$ 291	2%	$ 355	2%
Utility users'	$ 252	2%	$ 257	2%	$ 304	3%	$ 353	2%	$ 410	2%
Department Revenue Initiatives	$ -	0%	$ 483	4%	$ 586	5%	$ 715	5%	$ 871	5%
Transfers in	$ 829	8%	$ 829	7%	$ 148	1%	$ 22	0%	$ -	0%
Total General Fund Revenues	**$ 10,434**	**100%**	**$ 11,237**	**100%**	**$ 12,098**	**100%**	**$ 14,358**	**100%**	**$ 17,302**	**100%**

[24] Unless otherwise stated the financial projections referenced in section F are sourced from the bibliography: Ernst & Young Models: 10-11

The analyses below will identify the City's individual revenue components (on an annual and cumulative basis), the estimated growth for each revenue category over the time periods of both forecasts, and the key assumptions utilized for each revenue category. The following analyses will also identify and compare, where applicable, third party assumptions for various operating metrics (e.g. wages, employment, population, etc.) as they relate to the assumptions the City used to derive these forecasts. Finally, this revenue analysis provides sensitivity scenarios designed to illustrate the variability of the revenue forecasts as underlying assumptions are changed.

Municipal Income Tax

The City of Detroit, in accordance with the Michigan Public Act 284 of 1964, has been one of 22 Michigan municipalities to impose a municipal income tax on its residents, nonresidents working in Detroit, and resident businesses. The City's municipal income tax receipts, due to declines in population and the economy, have decreased by 30% since 2002. Municipal income tax revenues are forecasted to account for 25% of General Fund revenue in the FY2014-2023 period.

As mentioned above, the City's POA projections estimate revenues for the 10 year period covering FY2014-2023 with and without the incremental revenue impact of the RRIs. The following analysis illustrates the "without Restructuring and Reinvestment Initiatives" scenario.

10 Yr Plan - Without RRIs

The City's 10 Yr Plan forecasts annual municipal income tax through the estimation of the year-over-year ("YoY") growth in taxable income for the following subsections:

- City residents
  - Average annual YoY taxable income growth: 0.85%
  - Income tax rate: 2.4%
  - FY2014-2023 City resident income taxes: $1,561 million
- Non-residents
  - Average annual YoY taxable income growth: 1.18%
  - Income tax rate: 1.2%
  - FY2014-2023 non-resident income taxes: $761 million
- Corporations
  - Average annual YoY taxable income growth: 1.63%
  - Income tax rate: 2.0%
  - FY2014-2023 corporation income taxes: $245 million

The taxable income growth assumptions appear to be reasonably conservative relative to the recent uptick in taxable income in FY2011-2013. For Detroit residents, taxable income growth has averaged 3.4% annually for those three years. During the same period, taxable income growth has averaged 3.5% for non-residents and 2.2% for corporations. The annual taxable income growth during FY2011-2013 is likely reflective of the recovery from the 2008-2009 financial crisis, when the City’s taxable income base suffered double-digit YoY percentage declines.

10 Year Plan – Municipal Income Tax (Without RRIs)

	Preliminary forecast										FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Total
City Residents (A)											
Taxable income growth	1.94%	1.45%	0.46%	0.46%	0.46%	0.46%	0.65%	0.65%	1.00%	1.00%	**0.85%**
Taxable income	$ 6,294.0	$ 6,385.5	$ 6,414.7	$ 6,444.0	$ 6,473.5	$ 6,503.3	$ 6,545.8	$ 6,588.6	$ 6,654.5	$ 6,721.1	**$ 65,025.1**
Income tax rate	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
Total City Resident income taxes	151.1	153.3	154.0	154.7	155.4	156.1	157.1	158.1	159.7	161.3	**1,560.6**
Non-Residents (B)											
Taxable income growth	2.23%	1.70%	0.70%	0.70%	0.70%	0.69%	0.50%	1.19%	1.69%	1.69%	**1.18%**
Taxable income	$ 6,065.0	$ 6,168.1	$ 6,211.2	$ 6,254.5	$ 6,298.0	$ 6,341.7	$ 6,373.4	$ 6,449.4	$ 6,558.5	$ 6,669.3	**$ 63,389.0**
Income tax rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Total Non-Resident income taxes	72.8	74.0	74.5	75.1	75.6	76.1	76.5	77.4	78.7	80.0	**$ 760.7**
Corporations (C)											
Net tax collection growth	2.34%	2.50%	2.00%	2.00%	2.00%	1.50%	1.00%	1.00%	1.00%	1.00%	**1.63%**
Taxable income (implied)	$ 1,128.3	$ 1,156.5	$ 1,179.6	$ 1,203.2	$ 1,227.3	$ 1,245.7	$ 1,258.2	$ 1,270.7	$ 1,283.5	$ 1,296.3	**$ 12,249.3**
Corporate tax rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Net tax collections	22.6	23.1	23.6	24.1	24.5	24.9	25.2	25.4	25.7	25.9	**$ 245.0**
Total Municipal income taxes (D) = (A+B+C)											
Taxable income	$13,487.3	$13,710.2	$13,805.5	$13,901.7	$13,998.8	$14,090.7	$14,177.4	$14,308.8	$14,496.5	$14,686.7	**$ 140,663.5**
Calculated tax rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	**1.8%**
Total Municipal income taxes	246.4	250.4	252.1	253.8	255.5	257.1	258.7	260.9	264.1	267.3	**$ 2,566.3**
Adjustment Municipal income taxes											
Adjustment for actuals	-	-	-	-	-	-	-	-	-	-	**$ -**
Total Adjusted Municipal income taxes	**$ 246.4**	**$ 250.4**	**$ 252.1**	**$ 253.8**	**$ 255.5**	**$ 257.1**	**$ 258.7**	**$ 260.9**	**$ 264.1**	**$ 267.3**	**$ 2,566.3**

The POA’s 10 Yr projections “build up” the annual taxable income growth assumption by adding separate assumptions for annual wage growth and employment growth.

Wage Growth (Without RRIs)

The 10 Yr Plan estimates – for both the City residents and nonresident categories – an average wage growth of 1.25% for the FY2014-FY2023 period, an estimate that appears reasonable when compared to the state and national forecasts highlighted below. The income growth forecast for corporations is 1.63% and is conservative relative to the State forecast. The Michigan Senate Fiscal Agency assumed an average 2.65% wage growth rate for Detroit which is reflective of the average state forecast of 3.65% reduced by a 1% structural adjustment for the City of Detroit.

Employment Growth (without RRIs)

The annual employment rate of City residents is forecasted to decline by 0.4% for the FY2014-FY2023 period. Non-residents' average annual employment is estimated to decrease by 0.07% for this time period. As was the case with forecasted wage growth, the employment growth assumptions seem reasonable when compared to the recent actual employment growth for the entire City of Detroit over the last three fiscal years which averaged 0.4%.

10 Year Plan – Municipal Income Tax (Without RRIs)
Taxable Income Growth Metrics

	Preliminary forecast										FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Total
City Residents (A)											
Wage Growth	2.53%	2.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	**1.25%**
Employment Growth	-0.59%	-0.55%	-0.54%	-0.54%	-0.54%	-0.54%	-0.35%	-0.35%	0.00%	0.00%	**-0.40%**
Taxable income growth	**1.94%**	**1.45%**	**0.46%**	**0.46%**	**0.46%**	**0.46%**	**0.65%**	**0.65%**	**1.00%**	**1.00%**	**0.85%**
Non-Residents (B)											
Wage Growth	2.53%	2.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	**1.25%**
Employment Growth	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.31%	-0.50%	0.19%	0.69%	0.69%	**-0.07%**
Taxable income growth	**2.23%**	**1.70%**	**0.70%**	**0.70%**	**0.70%**	**0.69%**	**0.50%**	**1.19%**	**1.69%**	**1.69%**	**1.18%**
Corporations (C)											
State CIT forecast (SFA est. May 2013)	3.80%	5.70%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	**3.65%**
Detroit structural adjust.	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	**-1.00%**
Net growth rate	**2.80%**	**4.70%**	**4.00%**	**3.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.65%**
Assumed Forecast Growth Rate	**2.34%**	**2.50%**	**2.00%**	**2.00%**	**2.00%**	**1.50%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.63%**

10 Yr Plan with RRIs

The 10 Yr projections forecast annual municipal tax income through the estimation of the year-over-year ("YoY") growth in taxable income for the following subsections:

- City residents
  - Average annual YoY taxable income growth: 2.32%
  - Income tax rate: 2.4%
  - FY2014-FY2023 City resident income taxes: $1,693 million
- Non-residents
  - Average annual YoY taxable income growth: 2.37%
  - Income tax rate: 1.2%
  - FY2014-FY2023 non-resident income taxes: $817 million
- Corporations
  - Average annual YoY taxable income growth: 2.65%
  - Income tax rate: 2.0%
  - FY2014-FY2023 corporations income taxes: $260 million

Due primarily to the more optimistic City residents' taxable income growth assumptions in the "With Reinvestment Initiatives" scenario, the latter scenario assumes an additional $204 million in municipal income tax revenue in the 2014-2023 time period. A Sensitivity Analysis is provided below to gauge the impact of the City's actual results materially deviating from the 10 Yr Plan's forecast.

10 Year Plan – Municipal Income Tax (With RRIs)

	Preliminary forecast										FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Total
City Residents (A)											
Taxable income growth	2.57%	3.17%	2.25%	2.19%	2.15%	2.16%	2.18%	2.18%	2.18%	2.18%	**2.32%**
Taxable income	$ 6,332.7	$ 6,533.4	$ 6,680.7	$ 6,827.2	$ 6,974.0	$ 7,124.5	$ 7,279.5	$ 7,437.9	$ 7,599.7	$ 7,765.0	**$ 70,554.5**
Income tax rate	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
Total City Resident income taxes	152.0	156.8	160.3	163.9	167.4	171.0	174.7	178.5	182.4	186.4	**1,693.3**
Non-Residents (B)											
Taxable income growth	2.91%	3.29%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	**2.37%**
Taxable income	$ 6,105.4	$ 6,306.5	$ 6,444.0	$ 6,584.5	$ 6,728.0	$ 6,874.7	$ 7,024.6	$ 7,177.7	$ 7,334.2	$ 7,494.1	**$ 68,073.8**
Income tax rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Total Non-Resident income taxes	73.3	75.7	77.3	79.0	80.7	82.5	84.3	86.1	88.0	89.9	**$ 816.9**
Corporations (C)											
Net tax collection growth	2.80%	4.70%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	**2.65%**
Taxable income (implied)	$ 1,133.4	$ 1,186.6	$ 1,234.1	$ 1,271.1	$ 1,296.5	$ 1,322.5	$ 1,348.9	$ 1,375.9	$ 1,403.4	$ 1,431.5	**$ 13,004.0**
Corporate tax rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Net tax collections	22.7	23.7	24.7	25.4	25.9	26.4	27.0	27.5	28.1	28.6	**$ 260.1**
Total Municipal income taxes (D) = (A+B+C)											
Taxable income	$13,571.4	$14,026.5	$14,358.7	$14,682.8	$14,998.6	$15,321.7	$15,653.0	$15,991.5	$16,337.3	$16,690.6	**$ 151,632.2**
Calculated tax rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	**1.8%**
Total Municipal income taxes	247.9	256.2	262.3	268.3	274.0	279.9	286.0	292.2	298.5	304.9	**$ 2,770.3**
Adjustment Municipal income taxes											
Adjustment for actuals	-	-	-	-	-	-	-	-	-	-	**$ -**
Total Adjusted Municipal income taxes	**247.9**	**256.2**	**262.3**	**268.3**	**274.0**	**279.9**	**286.0**	**292.2**	**298.5**	**304.9**	**2,770.3**

Wage Growth (with RRIs)

The 10 Yr projections estimate – for both the City residents and nonresident categories – an average wage growth of 2.16% for the FY2014-2023 period, or roughly 91 basis points[25] higher than the "without RRIs" scenario. The wage growth forecast for corporations is 2.65%, or equivalent to the Michigan Senate Fiscal Agency assumption.

Employment Growth (with RRIs)

The number of City residents employed is forecasted to increase 0.15% for the FY2014-2023 period, while the non-residents' average annual employment is anticipated to increase 0.21% over this time period.

10 Year Plan – Municipal Income Tax (With RRIs)
Taxable Income Growth Metrics

	Preliminary forecast										FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Total
City Residents (A)											
Wage Growth	2.53%	3.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	**2.16%**
Employment Growth	-0.13%	0.14%	0.25%	0.19%	0.15%	0.16%	0.18%	0.18%	0.18%	0.18%	**0.15%**
Taxable income growth	**2.57%**	**3.17%**	**2.25%**	**2.19%**	**2.15%**	**2.16%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.32%**
Non-Residents (B)											
Wage Growth	2.53%	3.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	**2.16%**
Employment Growth	0.38%	0.26%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	**0.21%**
Taxable income growth	**2.91%**	**3.29%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.37%**
Corporations (C)											
State CIT forecast (SFA est. May 2013)	3.80%	5.70%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	**3.65%**
Detroit structural adjust.	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	**-1.00%**
Taxable income growth	**2.80%**	**4.70%**	**4.00%**	**3.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.65%**

[25] A basis point is equivalent to 0.01%; therefore 100 basis equals 1%

Comparable Assumptions

When comparing the City of Detroit's wage growth assumptions versus its state or national estimates, the POA's wage assumptions appear reasonable in light of the City's history of lagging state/national statistics.

Comparable Metric Analysis	
Wage Growth	
10 Year Plan - without Reinvestment	1.25%
10 Year Plan - with Reinvestment	2.16%
State	
Michigan Dept. of Treasury - FY2014	3.90%
Michigan Dept. of Treasury - FY2015	3.90%
Michigan Dept. of Treasury - FY2016	3.90%
Michigan Senate Fiscal Agency - FY2014	2.30%
Michigan Senate Fiscal Agency - FY2015	2.60%
Federal	
CBO - Real Wage Growth	2.47%

In a similar fashion to forecasted wage growth, the City's employment growth assumptions for FY2014-2023 are more conservative relative to the applicable State of Michigan forecasts and the City's recent actual results.

Comparable Metric Analysis	
Employment Growth	
10 Year Plan - City Residents - without Reinvestmer	-0.40%
10 Year Plan - Non-Residents - without Reinvestme	-0.07%
10 Year Plan - City Residents - with Reinvestment	0.15%
10 Year Plan - Non-Residents - with Reinvestment	0.21%
State	
Michigan Dept. of Treasury - FY2014	1.50%
Michigan Dept. of Treasury - FY2015	1.40%
Michigan Dept. of Treasury - FY2016	1.40%
Michigan Senate Fiscal Agency - FY2014	0.80%
Michigan Senate Fiscal Agency - FY2015	0.50%

Sensitivity Analysis

The following analysis illustrates the incremental impact to the City of Detroit's actual taxable income if there are deviations to the forecasted metrics in the 10 Yr Plan. For Municipal Income taxes, while multiple economic assumptions factor into the final estimates, the driving metric is the annual growth rate of taxable income. As such, the analysis below estimates the impact of a 1 percentage point change in the forecasted growth rate, up or down, for each category of income tax payer in both scenarios.

($ million)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	FY2014-2023 Total
	Preliminary forecast										
For Every 1% Change in Annual Taxable Income Growth Rate											
Without Reinvestment											
City Residents	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	**15.5**
Non-Residents	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	**7.5**
Corporations	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	**2.4**
Total	**2.4**	**2.5**	**2.5**	**2.5**	**2.5**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**25.4**
With Reinvestment											
City Residents	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	**16.6**
Non-Residents	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	**8.0**
Corporations	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	**2.5**
Total	**2.4**	**2.5**	**2.6**	**2.6**	**2.7**	**2.7**	**2.8**	**2.9**	**2.9**	**3.0**	**27.1**

For the Without RRIs scenario, every 1 percentage point deviation in the 10 Yr Plan's assumption will result in an approximate $25 million in collected income tax revenues variance for the FY2014-2023 period. Due to higher income tax forecast in the With Reinvestment Initiatives case, the estimated variance – as compared to the original 10 Yr Plan - increases to $27 million over that ten year period in question.

State Revenue Sharing

The City of Detroit receives aid from the State of Michigan in connection with constitutional and statutory sharing of sales tax revenue and economic vitality incentive payments ("EVIP"). Per Michigan's constitution, the State is required to distribute 15% of all state taxes imposed on retailers. The constitutional revenue sharing is a function of a municipality's population relative to the other municipalities in Michigan, while the statutory revenue sharing is distributed to municipalities that comply with certain “best practices” and reporting requirements.

					Preliminary forecast						10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
State Revenue Sharing Calculations											
Constitutional Payment	53.5	54.8	56.9	58.5	60.2	62.0	63.8	57.3	59.0	60.7	**$ 586.8**
Statutory Payment	136.3	140.5	140.5	140.5	140.5	140.5	140.5	140.5	140.5	140.5	**$ 1,400.5**
Estimated State Revenue Sharing	**$ 189.8**	**$ 195.3**	**$ 197.4**	**$ 199.0**	**$ 200.7**	**$ 202.5**	**$ 204.3**	**$ 197.8**	**$ 199.5**	**$ 201.2**	**$ 1,987.3**
Other shared taxes (induding liquor and beer license:	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	$ 1.3	**$ 13.2**
Total State Revenue Sharing	**$ 191.2**	**$ 196.6**	**$ 198.7**	**$ 200.3**	**$ 202.0**	**$ 203.8**	**$ 205.6**	**$ 199.1**	**$ 200.8**	**$ 202.5**	**$ 2,000.5**

Constitutional Payments

The State of Michigan’s constitutional payments emanate from the statutory sharing of sales tax revenue and are based upon the population of Detroit (as measured by the decennial Census) as a percentage of the total State’s population. The constitutional payments are distributed every other month via a formula multiplying Detroit’s population by defined distribution rates.

The 10 Yr projections utilize Detroit’s population from the 2010 Census – 712,501 – to factor the State’s constitutional payment for the fiscal years 2014-2021. For FY2022 and FY2023, the 10 Yr Plan utilized the Southeast Michigan Council of Governments (“SEMCOG”) forecast which reflects a 12.3% decline in Detroit’s population to 625,152.

Statutory Payments

The State's EVIP funds are appropriated annually by the State Legislature and therefore carry more inherent risk than the mandated State constitutional payments. The EVIP funds are allocated per the following categories:

- Category 1 – Accountability and Transparency
    - Each municipality is required by October 1st to produce a citizen's guide of its most recent local finances, including a recognition of unfunded liabilities, a performance dashboard, a debt service report, and a project budget report
- Category 2 – Consolidation of Services
    - Each municipality is required by February 1st to produce a service consolidation plan that is submitted to the Michigan Department of the Treasury; including details of service cooperation, consolidations, and privatizations with estimated cost savings
- Category 3 – Unfunded Accrual Liability Plan
    - Each municipality with unfunded accrual liabilities is required by June 1st to produce a plan to lower all such unfunded accrual liabilities; detailing previous actions taken and a go forward plan of existing and new initiatives

The 10 Yr projections assume that the City continues to receive 100% of its possible State allocation, or approximately $140 million annually for the entire FY2014-2023 time period.

Sensitivity Analysis

The following analysis illustrates the incremental impact to the City if State Revenue Sharing deviates from the assumptions in the 10 Yr forecast. The analysis below estimates the impact of a 5% change in the 2020 Census forecasted population and a 5% change in the statutory payment allocation. Because the constitutional payment is based on the 2010 Census figure through FY2021, the impact of a 5% population change would only be realized in FY2022 and FY2023. For the statutory payment, a 5% change in the allocation would have a cumulative impact of $70 million to the General Fund during the FY2014-2023 period.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
For Every 5% Change in Applicable State Revenue Sharing Metric											
Constitutional Payment	-	-	-	-	-	-	-	-	3.0	3.0	$ **6.0**
Statutory Payment	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	$ **70.0**
Total State Revenue Sharing	**$ 6.8**	**$ 7.0**	**$ 7.0**	**$ 7.0**	**$ 7.0**	**$ 7.0**	**$ 7.0**	**$ 7.0**	**$ 10.0**	**$ 10.1**	**$ 76.0**

The City of Detroit recently saw its portion of State's revenue sharing decrease significantly, from a combined annual total of $267 million in FY2009 to as low as $173 million in FY2012. While the State's revenue sharing to Detroit has increased in FY2013 and FY2014, the City remains susceptible to decreases in revenue sharing should the State's budget position change.

Wagering Taxes

The City of Detroit, per the Michigan Gaming Control and Revenue Act, is authorized to impose a 10.9% wagering tax on casinos operating within the City. In addition, the City collects other fees from the casinos in the City based on operating agreements with each. Wagering tax revenues are forecasted to account for 17% of General Fund revenue in the FY2014-2023 period.

					Preliminary forecast						10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Wagering Taxes Drivers											
% Change in Gross Receipts	-2.5%	-1.0%	0.5%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.3%
Wagering Taxes Calculation											
Adjusted Gross Receipts (A)											
MGM	$ 565.4	$ 559.7	$ 562.5	$ 565.3	$ 571.0	$ 576.7	$ 582.5	$ 588.3	$ 594.2	$ 600.1	$ 5,765.8
Motorcity	445.6	441.2	443.4	445.6	450.0	454.5	459.1	463.7	468.3	473.0	$ 4,544.4
Greektown	331.6	328.3	329.9	331.6	334.9	338.2	341.6	345.0	348.5	352.0	$ 3,381.7
	$ 1,342.6	$ 1,329.2	$ 1,335.8	$ 1,342.5	$ 1,355.9	$ 1,369.5	$ 1,383.2	$ 1,397.0	$ 1,411.0	$ 1,425.1	$ 13,691.8
Wagering Tax Rate (B)	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	
Additional Payment (per 2006 operating agreement)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Subtotal Wagering Tax (D) = (A)*(B+C)											
MGM	67.3	66.6	66.9	67.3	67.9	68.6	69.3	70.0	70.7	71.4	$ 686.1
Motorcity	53.0	52.5	52.8	53.0	53.6	54.1	54.6	55.2	55.7	56.3	$ 540.8
Greektown	39.5	39.1	39.3	39.5	39.9	40.3	40.7	41.1	41.5	41.9	$ 402.4
Revenue Target Supplemental Wagering Tax (E)											
MGM	5.7	5.6	5.6	5.7	5.7	5.8	5.8	5.9	6.0	6.0	$ 57.8
Motorcity	4.5	4.4	4.4	4.5	4.5	4.6	4.6	4.6	4.7	4.7	$ 45.5
Greektown	-	-	-	-	-	-	-	-	-	-	$ -
Total Wagering Tax (F) = (D+E)											
MGM	72.9	72.2	72.6	72.9	73.7	74.4	75.1	75.9	76.7	77.4	$ 743.9
Motorcity	57.5	56.9	57.2	57.5	58.1	58.6	59.2	59.8	60.4	61.0	$ 586.3
Greektown	39.5	39.1	39.3	39.5	39.9	40.3	40.7	41.1	41.5	41.9	$ 402.4
Total Wagering Tax	169.9	168.2	169.0	169.9	171.6	173.3	175.0	176.8	178.6	180.3	$ 1,732.6

As a result of the wagering tax rate (10.9%) and the additional 2006 tax rate (1.0%) being held constant, the key assumption in the 10 Yr forecast is the annual percentage change in casino gross receipts. The Detroit casinos have experienced increasing competition recently due to the openings of casinos in Cleveland and Toledo, Ohio resulting in declining wagering tax revenues for the City. The 10 Yr projections assume a 2.5% YoY decline in FY2014, a 1.0% decline in FY2015, a 0.5% annual increase in FY2016 and FY2017, and a 1.0% annual increase in FY2018-2023.

Through the first six calendar months of 2014, Detroit's aggregate casino revenues decreased 3.6% versus the same six month period in 2013. These actual results for the first six calendar months of 2014 represent a 110 basis points negative variance to the POA's FY2014 forecast and a 260 basis points negative variance to the FY2015 forecast.

Sensitivity Analysis

The following analysis illustrates the incremental impact of the City's actual Casino Wagering tax deviating from the assumptions in the 10 Yr projections. The analysis below estimates the impact of a 1% change, up or down, in the estimated casino gross receipts. The current projections assume casino gross receipts will average annual growth of 0.3% for FY2014-2023. Every 1 percentage point change in the gross receipts assumption will result in an approximate $16 million variance in the FY2014-2023 period.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
For Every 1% Change in Gross Receipts											
Annual Impact on Total Wagering Tax	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.7	16.2

Sales and Charges for Services

Detroit receives revenues for City delivered-services such as maintenance and construction, recreation, ambulance services, court fees, permits and licenses, etc. Nearly half of these revenues are reflected as "Non Departmental" (e.g. municipal servicing fees on gross wagering revenues, personal services IPOs). Sales and Charges for Services revenues are forecasted to account for 11% of General Fund revenue in the FY2014-2023 period.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Non-Departmental	51.8	51.7	52.1	52.6	53.1	53.6	54.1	54.7	55.2	55.7	**534.7**
PLD	41.2	28.7	26.1	23.5	20.8	18.1	15.3	12.3	10.6	10.7	**207.2**
Fire	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	**149.0**
36th District Court	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	**100.3**
Police	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	**45.8**
General Services	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	**23.1**
Human Resources	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	**22.5**
Law	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	**17.3**
Health & Wellness	1.0	-	-	-	-	-	-	-	-	-	**1.0**
ITS	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	**5.1**
Other	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	**12.0**
Sales and charges for services	**$ 131.5**	**$ 118.0**	**$ 115.8**	**$ 113.6**	**$ 111.4**	**$ 109.2**	**$ 107.0**	**$ 104.4**	**$ 103.3**	**$ 104.0**	**$ 1,118.0**
YoY $ Change	**$ 7.7**	**$ (13.5)**	**$ (2.2)**	**$ (2.2)**	**$ (2.2)**	**$ (2.2)**	**$ (2.2)**	**$ (2.5)**	**$ (1.1)**	**$ 0.7**	
YoY % Change	**6.2%**	**-10.3%**	**-1.9%**	**-1.9%**	**-1.9%**	**-2.0%**	**-2.0%**	**-2.4%**	**-1.1%**	**0.6%**	

During the ten year period, the largest change relates to transitioning responsibility for the City's street lights from the PLD to the Public Lighting Authority beginning in FY2014. When the seven year transition is complete, the City will no longer collect revenue from external customers. The balance of the revenue categories are assumed to remain relatively constant over the FY2014-2023 time period.

Property Taxes

The City of Detroit levies property taxes to fund general operations and support various tax obligations. Detroit also levies additional property taxes to fund the Detroit Public Library, Detroit Public Schools, Wayne County Community College, the State of Michigan, and a number of special authorities.

City of Detroit Millage

- Non-Departmental (General City): 19.9520 mills
- Debt Service: 9.771 mills
- Library: 4.631 mills

Property tax revenues are forecasted to account for approximately 9% of General Fund revenue in the FY2014-2023 period. As previously mentioned, the City's Plan of Adjustment estimates revenues for the 10 year period covering FY2014-2023 both with and without the incremental revenue associated with the RRIs. The following analysis illustrates the "without RRIs" scenario.

10 Yr Projections - Without RRIs

The City's forecasted property tax revenues, due to the relatively-constant millage rates, are largely predicated upon the assumed changes in assessed property values and the estimated collection rates going forward.

Assessed Property Values

The 10 Yr projections assume individualized, average annual property value growth rates for each of the City's three property classifications: real property, personal property, and the Renaissance Zone. The 10 Yr projections assume real property values will decline 4% annually during the FY2014-2023 period, and personal property values will decline 0.3% for the same time period. The Renaissance Zone forecast assumes a 4.8% annual increase – aided by the 47% forecasted growth assumption in FY2014 which is consistent with the FY2012-2013 average.

Collection Rates

The POA forecast assumes improving property tax collections over the FY2014-2023 timeframe. The 10 Yr projections assume that collections for the non-departmental property taxes improve from an assumed 78% in FY2014 to 80% in FY2015-2019 to 84% in the last four years of this ten year period. Estimated collections for debt service is projected to decrease from an assumed 82% in FY2014 to 80% in FY2015-2019 to 84% in the last four years of this ten year period. Estimated collections for library property taxes are assumed to improve from 82% in FY2014-2016 to 84% in FY 2017 to 85% in FY2018-2023.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Change in assessed values											
Real Property	-6.4%	-14.0%	-3.8%	-2.7%	-2.4%	-2.3%	-9.6%	-0.1%	0.7%	0.7%	**-4.0%**
Personal Property	-1.5%	-1.2%	-1.1%	-0.7%	-0.2%	-0.1%	0.3%	0.3%	0.4%	0.4%	**-0.3%**
Renaissance Zone	47.3%	-11.8%	1.0%	1.0%	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%	**4.8%**
Values											
Real Property	$6,200.3	$5,335.3	$5,134.4	$4,993.6	$4,874.8	$4,762.7	$4,307.4	$4,303.0	$4,333.2	$4,363.7	
Personal Property	1,183.7	1,169.0	1,156.0	1,148.3	1,145.8	1,144.6	1,147.9	1,151.2	1,155.7	1,160.3	
Total Valuation (for Non-Departmental & Library)	$7,384.0	$6,504.3	$6,290.4	$6,141.9	$6,020.6	$5,907.3	$5,455.3	$5,454.1	$5,488.9	$5,524.0	
Renaissance Zone	917.2	809.1	817.2	825.4	833.7	846.2	863.1	880.4	898.0	915.9	
Total Valuation (for Debt Service)	$8,301.2	$7,313.4	$7,107.6	$6,967.4	$6,854.3	$6,753.5	$6,318.4	$6,334.5	$6,386.9	$6,439.9	
Millage											
Non-Departmental (General City)	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	
Debt Service	*9.771*	*10.699*	*10.143*	*10.343*	*10.311*	*10.013*	*10.060*	*9.896*	*7.030*	*6.270*	
Library	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	
Adjusted tax levy											
Non-Departmental (General City)	$ 147.3	$ 128.2	$ 124.0	$ 121.0	$ 118.6	$ 116.4	$ 107.3	$ 107.3	$ 108.0	$ 108.7	**$ 1,186.9**
Debt Service	81.1	78.2	72.1	72.1	70.7	67.6	63.6	62.7	44.9	40.4	**653.3**
Library	34.2	30.1	29.1	28.4	27.9	27.4	25.3	25.3	25.4	25.6	**278.6**
Total	$ 262.6	$ 236.6	$ 225.2	$ 221.5	$ 217.2	$ 211.3	$ 196.2	$ 195.3	$ 178.3	$ 174.7	**$ 2,118.9**
Collection rate											
Non-Departmental (General City)	*78.0%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*	*84.0%*	*84.0%*	*84.0%*	*84.0%*	**81.4%**
Debt Service	*82.0%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*	*84.0%*	*84.0%*	*84.0%*	*84.0%*	**81.8%**
Library	*82.0%*	*82.0%*	*82.0%*	*84.0%*	*85.0%*	*85.0%*	*85.0%*	*85.0%*	*85.0%*	*85.0%*	**84.0%**
City collections											
Non-Departmental (General City) [A]	$ 114.9	$ 102.6	$ 99.2	$ 96.8	$ 94.9	$ 93.1	$ 90.2	$ 90.1	$ 90.7	$ 91.3	**$ 963.8**
Debt Service	66.5	62.6	57.7	57.6	56.5	54.1	53.4	52.7	37.7	33.9	**532.8**
Library	28.0	24.7	23.9	23.9	23.7	23.3	21.5	21.5	21.6	21.7	**233.8**
Total	$ 209.5	$ 189.9	$ 180.7	$ 178.4	$ 175.1	$ 170.4	$ 165.0	$ 164.3	$ 150.0	$ 147.0	**$ 1,730.3**
General fund collections [A]+[B]	**$ 114.9**	**$ 102.6**	**$ 99.2**	**$ 96.8**	**$ 94.9**	**$ 93.1**	**$ 90.2**	**$ 90.1**	**$ 90.7**	**$ 91.3**	**$ 963.8**

Components of Property Tax Value

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Components of Property Taxable Value (non - RZ)											
Residential Property	3,948.1	3,138.7	2,981.7	2,862.5	2,748.0	2,638.0	2,176.4	2,165.5	2,187.2	2,209.0	
Real Property - Commercial	1,786.9	1,750.0	1,715.0	1,697.8	1,697.8	1,697.8	1,706.3	1,714.8	1,723.4	1,732.0	
Real Property - Industrial	465.4	446.7	437.7	433.4	429.0	426.9	424.7	422.6	422.6	422.6	
Total - Real Property	**6,200.3**	**5,335.3**	**5,134.4**	**4,993.6**	**4,874.8**	**4,762.7**	**4,307.4**	**4,303.0**	**4,333.2**	**4,363.7**	
Forecasted YoY Change - Real Property											
Residential Property	*-7.4%*	*-20.5%*	*-5.0%*	*-4.0%*	*-4.0%*	*-4.0%*	*-17.5%*	*-0.5%*	*1.0%*	*1.0%*	**-6.1%**
Real Property - Commercial	*-5.0%*	*-2.1%*	*-2.0%*	*-1.0%*	*0.0%*	*0.0%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	**-0.8%**
Real Property - Industrial	*-2.5%*	*-4.0%*	*-2.0%*	*-1.0%*	*-1.0%*	*-0.5%*	*-0.5%*	*-0.5%*	*0.0%*	*0.0%*	**-1.2%**
Total - Real Property	***-6.4%***	***-14.0%***	***-3.8%***	***-2.7%***	***-2.4%***	***-2.3%***	***-9.6%***	***-0.1%***	***0.7%***	***0.7%***	**-4.0%**
Personal Property - Commercial	529.5	524.1	513.6	508.5	508.5	508.5	511.0	513.6	516.2	518.7	
Personal Property - Industrial	290.4	253.7	251.2	248.7	246.2	244.9	243.7	242.5	242.5	242.5	
Personal Property - Utility	363.7	391.2	391.2	391.2	391.2	391.2	393.1	395.1	397.1	399.0	
Total - Personal Property	**1,183.7**	**1,169.0**	**1,156.0**	**1,148.3**	**1,145.8**	**1,144.6**	**1,147.9**	**1,151.2**	**1,155.7**	**1,160.3**	
Forecasted YoY Change - Personal Property											
Personal Property - Commercial	*-3.8%*	*-1.0%*	*-2.0%*	*-1.0%*	*0.0%*	*0.0%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	**-0.6%**
Personal Property - Industrial	*3.2%*	*-12.6%*	*-1.0%*	*-1.0%*	*-1.0%*	*-0.5%*	*-0.5%*	*-0.5%*	*0.0%*	*0.0%*	**-1.4%**
Personal Property - Utility	*-1.6%*	*7.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	**0.8%**
Total - Personal Property	***-1.5%***	***-1.2%***	***-1.1%***	***-0.7%***	***-0.2%***	***-0.1%***	***0.3%***	***0.3%***	***0.4%***	***0.4%***	**-0.3%**

10 YR Projections - With RRIs

Assessed Property Values

The 10 Yr projections – with RRIs - assumes real property values will decline 1.7% during the FY2014-2023 period, and personal property will increase by 0.9% during that same time period. The Renaissance Zone is forecasted to increase 4.8% annually during the ten year period – aided by the 47% forecasted growth assumption in FY2014.

In January 2014, the City launched a property tax assessment reform designed to make Detroit more attractive to current and prospective residents. As initial studies have indicated that significant portions of the City are over-assessed, the assessment reform is likely to result, in the near term, in reduced assessments and property tax revenues. This scenario is forecasted via an assumed 9% decline in real property assessments in FY2015 and a 3-4% drop in FY2015. The City believes that reduced assessments will result in improved property tax collection rates and, in the longer term, increased property values as Detroit becomes a more desirable location.

Collection Rates

The POA forecast assumes improving property tax collection over the FY2014-2023 timeframe. The 10 Yr projections assume collections for non-departmental property taxes improve from a 78-82% range the 1st six years of the ten year period to 87% in the four years at the end of this period. The 10 Yr projections assume collections for debt service improve from a 78-82% range the 1st six years of the ten year period to 87% in the four years at the end of this period. Estimated collections for library property taxes are assumed to improve from 82% in FY2014-2016 to 84% in FY 2017 to 85% in FY2018-2023.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Change in assessed values											
Real Property	-6.4%	-14.0%	-2.0%	-1.3%	0.0%	1.2%	-4.1%	2.8%	3.5%	3.5%	**-1.7%**
Personal Property	-1.5%	-1.2%	-0.3%	1.0%	1.0%	1.8%	1.8%	2.0%	2.2%	2.2%	**0.9%**
Renaissance Zone	47.3%	-11.8%	1.0%	1.0%	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%	**4.8%**
Values											
Real Property	$6,200.3	$5,335.3	$5,228.1	$5,158.6	$5,158.4	$5,218.0	$5,005.5	$5,146.4	$5,328.1	$5,516.5	
Personal Property	1,183.7	1,169.0	1,164.9	1,176.6	1,188.4	1,209.5	1,231.1	1,255.7	1,283.7	1,312.5	
Total Valuation (for Non-Departmental & Library)	$7,384.0	$6,504.3	$6,393.0	$6,335.2	$6,346.8	$6,427.5	$6,236.5	$6,402.1	$6,611.9	$6,828.9	
Renaissance Zone	917.2	809.1	817.2	825.4	833.7	846.2	863.1	880.4	898.0	915.9	
Total Valuation (for Debt Service)	$8,301.2	$7,313.4	$7,210.3	$7,160.6	$7,180.4	$7,273.6	$7,099.6	$7,282.4	$7,509.9	$7,744.9	
Millage											
Non-Departmental (General City)	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	*19.952*	
Debt Service	*9.771*	*10.699*	*9.999*	*9.818*	*9.603*	*9.070*	*8.645*	*8.311*	*5.773*	*5.034*	
Library	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	*4.631*	
Adjusted tax levy											
Non-Departmental (General City)	$ 147.3	$ 128.2	$ 126.0	$ 124.8	$ 125.1	$ 126.6	$ 122.8	$ 126.1	$ 130.2	$ 134.5	**$ 1,291.8**
Debt Service	81.1	78.2	72.1	70.3	69.0	66.0	61.4	60.5	43.4	39.0	**640.9**
Library	34.2	30.1	29.6	29.3	29.4	29.8	28.9	29.6	30.6	31.6	**303.2**
Total	$ 262.6	$ 236.6	$ 227.7	$ 224.5	$ 223.4	$ 222.4	$ 213.1	$ 216.3	$ 204.2	$ 205.1	**$ 2,235.9**
Collection rate											
Non-Departmental (General City)	*78.0%*	*80.0%*	*80.0%*	*82.0%*	*82.0%*	*82.0%*	*87.0%*	*87.0%*	*87.0%*	*87.0%*	**83.2%**
Debt Service	*82.0%*	*80.0%*	*80.0%*	*82.0%*	*82.0%*	*82.0%*	*87.0%*	*87.0%*	*87.0%*	*87.0%*	**83.6%**
Library	*82.0%*	*82.0%*	*82.0%*	*84.0%*	*85.0%*	*85.0%*	*85.0%*	*85.0%*	*85.0%*	*85.0%*	**84.0%**
City collections											
Non-Departmental (General City) [A]	$ 114.9	$ 102.6	$ 100.8	$ 102.4	$ 102.6	$ 103.9	$ 106.8	$ 109.7	$ 113.3	$ 117.0	**$ 1,074.0**
Debt Service	66.5	62.6	57.7	57.6	56.5	54.1	53.4	52.7	37.7	33.9	**532.8**
Library	28.0	24.7	24.3	24.6	25.0	25.3	24.5	25.2	26.0	26.9	**254.6**
Total	$ 209.5	$ 189.9	$ 182.8	$ 184.7	$ 184.1	$ 183.2	$ 184.8	$ 187.5	$ 177.0	$ 177.8	**$ 1,861.3**
General fund collections [A]+[B]	**$ 114.9**	**$ 102.6**	**$ 100.8**	**$ 102.4**	**$ 102.6**	**$ 103.9**	**$ 106.8**	**$ 109.7**	**$ 113.3**	**$ 117.0**	**$ 1,074.0**

Components of Property Tax Value

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
					Preliminary forecast						
Components of Property Taxable Value (non - RZ)											
Residential Property	3,948.1	3,138.7	3,044.5	2,953.2	2,908.9	2,923.4	2,660.3	2,740.1	2,849.7	2,963.7	
Real Property - Commercial	1,786.9	1,750.0	1,732.5	1,749.8	1,784.8	1,820.5	1,856.9	1,903.3	1,960.4	2,019.2	
Real Property - Industrial	465.4	446.7	451.1	455.7	464.8	474.1	488.3	502.9	518.0	533.6	
Total - Real Property	**6,200.3**	**5,335.3**	**5,228.1**	**5,158.6**	**5,158.4**	**5,218.0**	**5,005.5**	**5,146.4**	**5,328.1**	**5,516.5**	
Forecasted YoY Change - Real Property											
Residential Property	*-7.4%*	*-20.5%*	*-3.0%*	*-3.0%*	*-1.5%*	*0.5%*	*-9.0%*	*3.0%*	*4.0%*	*4.0%*	**-3.3%**
Real Property - Commercial	*-5.0%*	*-2.1%*	*-1.0%*	*1.0%*	*2.0%*	*2.0%*	*2.0%*	*2.5%*	*3.0%*	*3.0%*	**0.7%**
Real Property - Industrial	*-2.5%*	*-4.0%*	*1.0%*	*1.0%*	*2.0%*	*2.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	**1.1%**
Total - Real Property	***-6.4%***	***-14.0%***	***-2.0%***	***-1.3%***	***0.0%***	***1.2%***	***-4.1%***	***2.8%***	***3.5%***	***3.5%***	**-1.7%**
Personal Property - Commercial	529.5	524.1	513.6	518.8	523.9	534.4	545.1	558.7	575.5	592.8	
Personal Property - Industrial	290.4	253.7	256.3	258.8	261.4	264.0	266.7	269.3	272.0	274.7	
Personal Property - Utility	363.7	391.2	395.1	399.0	403.0	411.1	419.3	427.7	436.2	445.0	
Total - Personal Property	**1,183.7**	**1,169.0**	**1,164.9**	**1,176.6**	**1,188.4**	**1,209.5**	**1,231.1**	**1,255.7**	**1,283.7**	**1,312.5**	
Forecasted YoY Change - Personal Property											
Personal Property - Commercial	*-3.8%*	*-1.0%*	*-2.0%*	*1.0%*	*1.0%*	*2.0%*	*2.0%*	*2.5%*	*3.0%*	*3.0%*	**0.8%**
Personal Property - Industrial	*3.2%*	*-12.6%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	**-0.1%**
Personal Property - Utility	*-1.6%*	*7.5%*	*1.0%*	*1.0%*	*1.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	**1.9%**
Total - Personal Property	***-1.5%***	***-1.2%***	***-0.3%***	***1.0%***	***1.0%***	***1.8%***	***1.8%***	***2.0%***	***2.2%***	***2.2%***	**0.9%**

Sensitivity Analysis

The Sensitivity analysis below estimates the impact of a 1% change in the forecasted collection rate for each category of property classification in both the "with RRIs" and "without RRIs" scenarios.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	FY2014-2023 Total
					Preliminary forecast						
For Every 1% Change in Annual Collection Rates											
Without Reinvestment											
Real Property	1.5	1.3	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	**11.9**
Personal Property	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.4	0.4	**6.5**
Renaissance Zone	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	**2.8**
Total	**2.6**	**2.4**	**2.3**	**2.2**	**2.2**	**2.1**	**2.0**	**2.0**	**1.8**	**1.7**	**21.2**
With Reinvestment											
Real Property	1.5	1.3	1.3	1.2	1.3	1.3	1.2	1.3	1.3	1.3	**12.9**
Personal Property	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.4	0.4	**6.4**
Renaissance Zone	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	**3.0**
Total	**2.6**	**2.4**	**2.3**	**2.2**	**2.2**	**2.2**	**2.1**	**2.2**	**2.0**	**2.1**	**22.4**

For the Without RRIs scenario, every 1% change in the 10 Yr assumption will result in an approximate $21 million change in collected income tax revenues in the

FY2014-2023 period. Due to higher property tax collection forecast in the With RRIs case, the estimated variance increases to $22 million over that ten year period in question.

Utility Users' Taxes

The City of Detroit is the only city in Michigan authorized to levy a 5% utility users' excise tax. The City imposes this tax on consumers of telephone, electric, steam, and gas services. Utility users' tax revenues are forecasted to account for approximately 2% of General Fund revenue in the FY2014-2023 period.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
WITHOUT REINVESTMENT											
Utility users tax collections - Gross	$ 37.0	$ 37.0	$ 37.0	$ 37.4	$ 37.8	$ 38.2	$ 38.6	$ 38.9	$ 39.3	$ 39.7	**$ 381.0**
Less: PLA transfer	(16.9)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	**(129.4)**
Utility users tax collections - Net	**$ 20.1**	**$ 24.5**	**$ 24.5**	**$ 24.9**	**$ 25.3**	**$ 25.7**	**$ 26.1**	**$ 26.4**	**$ 26.8**	**$ 27.2**	**$ 251.6**
YoY % Change	***-43.0%***	***22.1%***	***0.0%***	***1.5%***	***1.5%***	***1.5%***	***1.5%***	***1.5%***	***1.5%***	***1.5%***	***-1.0%***
WITH REINVESTMENT											
Utility users tax collections - Gross	$ 37.0	$ 37.0	$ 37.4	$ 38.0	$ 38.5	$ 38.9	$ 39.3	$ 39.7	$ 40.1	$ 40.5	**$ 386.6**
Less: PLA transfer	(16.9)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	**(129.4)**
Utility users tax collections - Net	**$ 20.1**	**$ 24.5**	**$ 24.9**	**$ 25.5**	**$ 26.0**	**$ 26.4**	**$ 26.8**	**$ 27.2**	**$ 27.6**	**$ 28.0**	**$ 257.2**
YoY % Change	***-43.0%***	***22.1%***	***1.5%***	***2.3%***	***2.2%***	***1.5%***	***1.5%***	***1.5%***	***1.5%***	***1.5%***	***-0.8%***

Other Revenues

The City of Detroit annually generates revenues for City-services related to permits, licenses, parking fines, grant revenues, and 36th District Court fees. Grant revenue is comprised of approximately $11 million in Fire Department SAFER grants in FY2015 and 2016, $4-5 million annually in Police Department grants, with the balance related to Homeland Security, health initiatives, and the planning and development department. Other revenues are forecasted to account for approximately 7% of General Fund revenue in the FY2014-2023 period.

	Preliminary forecast										10 Year
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Parking/court fines and other revenue	$ 29.2	$ 29.2	$ 29.2	$ 29.2	$ 29.2	$ 29.2	$ 29.2	$ 29.2	$ 29.2	$ 29.2	**$ 291.9**
YoY % Change	-7.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**-0.7%**
Grant revenue	$ 27.9	$ 27.1	$ 25.6	$ 14.2	$ 14.5	$ 14.8	$ 15.0	$ 15.3	$ 15.5	$ 15.8	**$ 185.7**
YoY % Change	-52.0%	-3.1%	-5.3%	-44.7%	2.5%	1.7%	1.7%	1.7%	1.6%	1.6%	**-9.4%**
Licenses, permits and inspection charges	$ 9.0	$ 9.1	$ 9.1	$ 9.1	$ 9.2	$ 9.2	$ 9.3	$ 9.3	$ 9.3	$ 9.4	**$ 92.0**
YoY % Change	-15.5%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	**-1.1%**
Revenue from use of assets	$ 4.1	$ 11.7	$ 5.2	$ 5.2	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	**$ 47.6**
YoY % Change	-64.3%	185.7%	-55.4%	0.0%	-31.9%	0.0%	0.0%	0.0%	0.0%	0.0%	**3.4%**
Other Taxes	$ 9.6	$ 9.6	$ 9.6	$ 9.6	$ 9.6	$ 9.6	$ 9.6	$ 9.6	$ 9.6	$ 9.6	**$ 95.6**
YoY % Change	-16.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**-1.7%**
Total - Other Revenue	**$ 79.8**	**$ 86.6**	**$ 78.7**	**$ 67.3**	**$ 66.0**	**$ 66.3**	**$ 66.6**	**$ 66.9**	**$ 67.2**	**$ 67.5**	**$ 712.8**
	-28.6%	**8.5%**	**-9.1%**	**-14.5%**	**-1.9%**	**0.4%**	**0.5%**	**0.4%**	**0.4%**	**0.4%**	**-4.3%**

Section G - Operating Expenditures

Summary[26]

The operating expenditures in the City of Detroit's POA 40 Yr Projections are summarized below:

General Fund Operating Expenditures	FY2014-2023			FY2024-2033			FY2034-2043			FY2044-2053		
Salaries/Overtime/Fringe	$	3,768	47.3%	$	4,612	48.8%	$	5,700	48.1%	$	7,121	47.5%
Health Benefits	$	753	9.4%	$	928	9.8%	$	1,374	11.6%	$	2,034	13.6%
Active Pension	$	348	4.4%	$	444	4.7%	$	548	4.6%	$	683	4.6%
OPEB Future Retirees	$	32	0.4%	$	37	0.4%	$	43	0.4%	$	51	0.3%
Other Operating Expenses	$	3,073	38.5%	$	3,437	36.3%	$	4,190	35.3%	$	5,108	34.1%
Total General Fund Operating Expenditures	**$**	**7,974**	**100.0%**	**$**	**9,458**	**100.0%**	**$**	**11,855**	**100.0%**	**$**	**14,997**	**100.0%**

The City's 10 Yr projections were developed by E&Y primarily to reflect the "baseline" financial condition of the City in the summer of 2013, assuming no changes in legacy obligations. These projections were prepared in significant detail and are the initial building block for the financial forecasts that are contained in the POA. The analysis below identifies the City's individual operating expense categories, the estimated growth for each category, and the key assumptions utilized. These expenditures exclude the expenditures related to the RRIs even though the

[26] Unless otherwise stated the financial projections referenced section G are sourced from the bibliography: Ernst & Young Models: 10-11

categories are similar. Section H includes the analysis of the expenditures associated with the RRIs.

The detailed operating expenditures in the 10 Yr forecast are as follows[27]:

	FY2014-2023	
General Fund Operating Expenditures	$	% of Costs
Salaries & Wages	$ 3,165	39.7%
Health Benefits	$ 753	9.4%
Overtime	$ 326	4.1%
Other Benefits	$ 278	3.5%
Active Pension	$ 348	4.4%
OPEB Future Retirees	$ 32	0.4%
Professional and contractual services	$ 559	7.0%
Risk management and insurance	$ 445	5.6%
Materials & supplies	$ 376	4.7%
Utilities	$ 296	3.7%
Purchased services	$ 230	2.9%
Other expenses	$ 359	4.5%
Maintenance capital	$ 62	0.8%
Contributions to non enterprise funds	$ 216	2.7%
DDOT subsidy	$ 530	6.7%
Total General Fund Operating Expenditures General Fund	**$ 7,974**	**100.0%**
Operating Surplus Prior to Legacy, Non Operating Expenses and RRI's	**$ 2,781**	

[27] The analysis shows both estimates from the base 10 Yr plan and estimates from the 40 year plan including pension and OPEB payments to future retirees. The analysis was done to estimate a run rate operating surplus prior to accounting for the RRIs.

Salaries & Wages

Salaries and wages related to the General Fund were $297.6 million in FY2013 and accounted for 40.4% of the City's estimated operating expenses. By FY2023, the City is projecting Salaries and Wages to represent 39.7% of operating expenses prior to the additional headcount from the RRIs.

Headcount

City-wide headcount in FY2013 was 10,043[28] versus the prior 5 year average of 12,610. The City projected headcount using the projected FY2013 headcount by department and assuming that headcount remained constant over the next ten years except for the following exceptions:

- Departments that are being outsourced including: DWDD, Human Services, PLD, Homeland Security and the majority of the Health and Wellness and City Council Departments. The City also adjusted some department headcount estimates higher or lower than FY2013 based on the most recent information from FY2014
- The Finance and HR department headcount reductions due to the implementation of a new payroll service in FY2017
- The Police and Fire Departments include projections for attrition and new hires beginning in FY2015

[28] The 2013 headcount is from the 10 Yr base model and was the estimated headcount when the financial model was initially prepared. The assumptions are based off of the projected headcount going forward. Actual headcount by department differs by this amount. The analysis in this section will reference the 2013 headcount in the base 10 Yr plan.

Total employees across all departments is projected to be 9,742 in FY2023 versus 10,043 in FY2013 or a 3.1% decrease. The average headcount from FY2008-FY2012 was 12,610 and the FY2023 headcount represents a 22.7% decrease from this level. Projected headcount by department:

	Preliminary Forecast									
Department	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Police	2,706	2,747	2,882	2,895	2,895	2,895	2,895	2,895	2,895	2,895
Fire	1,183	1,238	1,228	1,228	1,228	1,228	1,228	1,228	1,228	1,228
Transportation	978	1,048	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065
Sewer	1,016	1,016	1,016	1,016	1,016	1,016	1,016	1,016	1,016	1,016
Water	873	873	873	873	873	873	873	873	873	873
36th District Court	362	362	362	362	362	362	362	362	362	362
Library	335	335	335	335	335	335	335	335	335	335
General Services	298	272	272	272	272	272	272	272	272	272
Waste	265	265	265	265	265	265	265	265	265	265
Streets	230	225	225	225	225	225	225	225	225	225
Finance	216	216	216	206	206	206	206	206	206	206
Recreation	202	202	202	202	202	202	202	202	202	202
BSED	192	192	192	192	192	192	192	192	192	192
Planning & Development	116	113	113	113	113	113	113	113	113	113
Parking	90	90	90	90	90	90	90	90	90	90
Law	86	86	86	86	86	86	86	86	86	86
Elections	80	60	60	60	60	60	60	60	60	60
Human Resources	84	84	84	60	60	60	60	60	60	60
ITS	35	38	38	38	38	38	38	38	38	38
Mayor	22	24	24	24	24	24	24	24	24	24
Public Works	14	19	19	19	19	19	19	19	19	19
Non-Departmental	21	17	17	17	17	17	17	17	17	17
Auditor General	17	17	17	17	17	17	17	17	17	17
Budget	16	16	16	16	16	16	16	16	16	16
City Clerk	15	15	15	15	15	15	15	15	15	15
Zoning	11	11	11	11	11	11	11	11	11	11
City Council	9	10	10	10	10	10	10	10	10	10
Health & Wellness	14	9	9	9	9	9	9	9	9	9
Ombudsperson	6	6	6	6	6	6	6	6	6	6
Human Rights	5	5	5	5	5	5	5	5	5	5
Airport	5	5	5	5	5	5	5	5	5	5
Administrative Hearings	4	4	4	4	4	4	4	4	4	4
PLD	70	12	7	5	3	3	3	2	-	-
Total	**9,578**	**9,634**	**9,770**	**9,747**	**9,745**	**9,745**	**9,745**	**9,744**	**9,742**	**9,742**

A comparison of FY2023 with FY2013 headcount for the General Fund and Enterprise Funds is shown below:

General Fund	Headcount 2023	2013	Var
Police	2,895	2,909	(14)
Fire	1,228	1,189	39
36th District Court	362	362	-
General Services	272	298	(26)
Waste	265	265	0
Finance	206	228	(22)
Recreation	202	202	-
Planning & Development	113	116	(3)
Law	86	86	-
Elections	60	80	(20)
Human Resources	60	93	(33)
ITS	38	35	3
Mayor	24	22	2
Public Works	19	41	(22)
Non-Departmental	17	21	(4)
Auditor General	17	14	3
Budget	16	16	-
City Clerk	15	15	-
Zoning	11	11	-
City Council	10	46	(36)
Health & Wellness	9	80	(71)
Ombudsperson	6	6	-
Human Rights	5	5	-
Administrative Hearings	4	4	-
DWDD	-	7	(7)
Homeland Security	-	1	(1)
Human Services	-	22	(22)
PLD	-	99	(99)
Total General Fund	**5,940**	**6,271**	**(331)**

Enterprise Funds	Headcount 2023	2013	Var
DDOT	1,065	1,060	5
Sewer	1,016	1,016	-
Water	873	873	-
Library	335	335	-
Streets	225	199	26
BSED	192	192	-
Parking	90	90	-
Airport	5	5	-
Total Enterprise Funds	**3,802**	**3,772**	**31**

Average Salary

The City calculated departmental salaries and wages by using the headcount projections above and calculating a base average salary by department. The City determined the base average salary via two methods:

- The City calculated the average departmental salary by using the total FY2013 expense for salaries and wages by department and divided that by the average headcount of the department over the course of FY2013.
- The City analyzed each department's average salary at a point in time, conducting this analysis in November of 2013.

The City's advisors reviewed both estimates with each department head and selected the average salary that was considered the most reasonable going forward based on attrition estimates and estimated future hirings.

City-wide 10% wage reductions were implemented prior to FY2014 for the majority of employees. The Fire and Police departments FY2014 average salaries were adjusted by 4.1% and 2.1% in the projections respectively to account for 10% wage reductions for the remaining employees with contracts that expired in FY2013.

It should be noted that the baseline 10 Yr model used average salaries for the Fire and Police departments even though employees leaving via attrition will be replaced by employees at lower wages and new employees will most likely be entry level employees at lower salary levels. This assumption change was made recently and adjusted in the July 2, 2014 RRIs for each respective department. The add backs can be seen in Section H. The average wages also include a 10% wage reduction to 36th District Court employees from FY2013 levels in 2014. For all employees, wage inflation is assumed with the following schedule:

Year	YoY Change
2015	5.0%
2016	0.0%
2017	2.5%
2018	2.5%
2019	2.5%
2020	2.0%
2021	2.0%
2022	2.0%
2023	2.0%

Projected average salary by department by year:

					Preliminary Forecast					
Department	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Police	$ 51,514	$ 54,454	$ 54,454	$ 55,816	$ 57,211	$ 58,641	$ 59,814	$ 61,010	$ 62,231	$ 63,475
Fire	$ 55,950	$ 58,747	$ 58,747	$ 60,216	$ 61,721	$ 63,264	$ 64,530	$ 65,820	$ 67,137	$ 68,479
Transportation	$ 30,767	$ 32,306	$ 32,306	$ 33,113	$ 33,941	$ 34,790	$ 35,486	$ 36,195	$ 36,919	$ 37,658
Sewer	$ 56,127	$ 58,933	$ 58,933	$ 60,406	$ 61,916	$ 63,464	$ 64,734	$ 66,028	$ 67,349	$ 68,696
Water	$ 40,481	$ 42,505	$ 42,505	$ 43,568	$ 44,657	$ 45,774	$ 46,689	$ 47,623	$ 48,575	$ 49,547
36th District Court	$ 46,252	$ 48,564	$ 48,564	$ 49,779	$ 51,023	$ 52,299	$ 53,345	$ 54,411	$ 55,500	$ 56,610
Library	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General Services	$ 33,501	$ 35,176	$ 35,176	$ 36,056	$ 36,957	$ 37,881	$ 38,639	$ 39,412	$ 40,200	$ 41,004
Waste	$ 33,188	$ 34,847	$ 34,847	$ 35,718	$ 36,611	$ 37,527	$ 38,277	$ 39,043	$ 39,823	$ 40,620
Streets	$ 33,188	$ 34,847	$ 34,847	$ 35,718	$ 36,611	$ 37,527	$ 38,277	$ 39,043	$ 39,823	$ 40,620
Finance	$ 45,415	$ 47,685	$ 47,685	$ 48,878	$ 50,099	$ 51,352	$ 52,379	$ 53,427	$ 54,495	$ 55,585
Recreation	$ 16,904	$ 17,749	$ 17,749	$ 18,193	$ 18,648	$ 19,114	$ 19,496	$ 19,886	$ 20,284	$ 20,690
BSED	$ 47,306	$ 49,672	$ 49,672	$ 50,913	$ 52,186	$ 53,491	$ 54,561	$ 55,652	$ 56,765	$ 57,900
Planning & Development	$ 53,640	$ 56,322	$ 56,322	$ 57,730	$ 59,173	$ 60,652	$ 61,865	$ 63,103	$ 64,365	$ 65,652
Parking	$ 33,594	$ 35,274	$ 35,274	$ 36,156	$ 37,060	$ 37,986	$ 38,746	$ 39,521	$ 40,312	$ 41,118
Law	$ 71,497	$ 75,072	$ 75,072	$ 76,949	$ 78,873	$ 80,844	$ 82,461	$ 84,111	$ 85,793	$ 87,509
Elections	$ 27,971	$ 29,370	$ 29,370	$ 30,104	$ 30,856	$ 31,628	$ 32,260	$ 32,906	$ 33,564	$ 34,235
Human Resources	$ 49,727	$ 52,213	$ 52,213	$ 53,519	$ 54,857	$ 56,228	$ 57,353	$ 58,500	$ 59,670	$ 60,863
ITS	$ 57,494	$ 60,369	$ 60,369	$ 61,878	$ 63,425	$ 65,011	$ 66,311	$ 67,637	$ 68,990	$ 70,369
Mayor	$ 92,861	$ 97,504	$ 97,504	$ 99,942	$ 102,440	$ 105,001	$ 107,101	$ 109,243	$ 111,428	$ 113,657
Public Works	$ 46,029	$ 41,811	$ 41,811	$ 42,856	$ 43,927	$ 45,025	$ 45,926	$ 46,844	$ 47,781	$ 48,737
Non-Departmental	$ 80,395	$ 84,414	$ 84,414	$ 86,525	$ 88,688	$ 90,905	$ 92,723	$ 94,578	$ 96,469	$ 98,399
Auditor General	$ 65,304	$ 68,569	$ 68,569	$ 70,283	$ 72,041	$ 73,842	$ 75,318	$ 76,825	$ 78,361	$ 79,928
Budget	$ 64,173	$ 67,381	$ 67,381	$ 69,066	$ 70,792	$ 72,562	$ 74,013	$ 75,494	$ 77,003	$ 78,544
City Clerk	$ 46,300	$ 48,615	$ 48,615	$ 49,831	$ 51,076	$ 52,353	$ 53,400	$ 54,468	$ 55,558	$ 56,669
Zoning	$ 25,120	$ 26,376	$ 26,376	$ 27,035	$ 27,711	$ 28,404	$ 28,972	$ 29,551	$ 30,142	$ 30,745
City Council	$ 68,378	$ 71,500	$ 71,500	$ 73,288	$ 75,120	$ 76,998	$ 78,538	$ 80,108	$ 81,711	$ 83,345
Health & Wellness	$ 60,946	$ 73,547	$ 73,547	$ 75,386	$ 77,270	$ 79,202	$ 80,786	$ 82,402	$ 84,050	$ 85,731
Ombudsperson	$ 81,064	$ 85,117	$ 85,117	$ 87,245	$ 89,426	$ 91,662	$ 93,495	$ 95,365	$ 97,272	$ 99,217
Human Rights	$ 57,093	$ 59,948	$ 59,948	$ 61,447	$ 62,983	$ 64,558	$ 65,849	$ 67,166	$ 68,509	$ 69,879
Airport	$ 64,882	$ 68,126	$ 68,126	$ 69,829	$ 71,575	$ 73,364	$ 74,832	$ 76,328	$ 77,855	$ 79,412
Administrative Hearings	$ 82,422	$ 86,544	$ 86,544	$ 88,707	$ 90,925	$ 93,198	$ 95,062	$ 96,963	$ 98,902	$ 100,881
PLD	$ 49,211	$ 84,190	$ 81,474	$ 79,817	$ 79,591	$ 81,182	$ 82,806	$ 84,462	$ -	$ -

<u>Department Salaries and Wages</u>

The Police and Fire departments represent 76.5% of total salaries and wages in the General Fund. The following charts summarize the salaries and wages by department over the 10 year period for labor costs reflected in the General Fund and the Enterprise Funds:

Salaries and Wages - General Fund				
General Fund		**FY 2014-2023**	**% of Salaries**	**% of Revenue**
Police	$	1,654	52.3%	14.7%
Fire	$	765	24.2%	6.8%
36th District Court	$	187	5.9%	1.7%
Finance	$	106	3.3%	0.9%
General Services	$	103	3.2%	0.9%
Law	$	68	2.2%	0.6%
Recreation	$	38	1.2%	0.3%
Human Resources	$	37	1.2%	0.3%
Planning & Development	$	31	1.0%	0.3%
Mayor	$	25	0.8%	0.2%
ITS	$	24	0.8%	0.2%
All Other GF Depts.	$	127	4.0%	1.1%
Total General Fund	**$**	**3,165**	**100.0%**	**28.2%**

Salaries and Wages - All Other Funds			
All Other Funds		**FY 2014-2023**	**% of Salaries**
Sewer	$	637	36.1%
Water	$	395	22.4%
DDOT	$	363	20.5%
Waste	$	98	5.6%
BSED	$	96	5.5%
Streets	$	84	4.7%
Planning & Development	$	61	3.5%
All Other Depts.	$	31	1.8%
Total Other Funds	**$**	**1,765**	**100.0%**

Following FY2023, the City projects total salaries and wages will increase 2% a year from FY2024-FY2033 and 2.25% a year from FY2034-FY2053.

Health Benefits

Health benefits for active employees in the General Fund in FY2013 totaled $47.8 million or 6.5% of operating expenses. Over the next ten years the city is estimating Health Benefits to account for 9.4% of operating expenses. The City relied on their actuary, Milliman, Inc.[29], to project health care costs per active employee. Milliman's estimated FY2014 healthcare costs are based on headcount estimates provided by the City and reflect cost of healthcare plan designs offered for FY2014 enrollment:

[29] See Milliman Letter Re: City of Detroit Active Health Plan Projections Dated November 3, 2014.

	FY2014					
		Milliman Per Employee Estimate				
	Headcount	**Medical**	**Dental**	**Vision**	**Total**	**2014 Total**
Uniform	3,957	$ 8,459	$ 667	$ 79	$ 9,205	$ 36
General	2,532	$ 7,378	$ 667	$ 79	$ 8,124	$ 21
DOT	936	$ 9,087	$ 667	$ 87	$ 9,841	$ 9
Water/Sewer	1,815	$ 7,675	$ 667	$ 79	$ 8,421	$ 15
Library	384	$ 6,695	$ 667	$ 79	$ 7,441	$ 3
Total	**9,624**					**$ 84**

Milliman projected estimates for year over year percent changes in healthcare costs per employee from FY2015 thru FY2019. After FY2019 the City projected annual healthcare increases. The City estimated 4% a year in annual inflation in healthcare costs for FY2020 through FY2023.

	Milliman Letter Estimates					City Estimates			
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Uniform	-2.1%	6.8%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
General	-4.4%	6.8%	7.1%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
DOT	-11.3%	6.7%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
Water/Sewer	-1.3%	6.8%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
Library	-2.8%	6.5%	7.1%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
36th DC	-4.0%	6.7%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%

Health benefits in the General Fund include $142.8[30] million of OPEB payments for current retirees including $123.8 million in FY2014 and $19 million in FY2015. The City continued to pay healthcare costs for retirees after filing bankruptcy in the form of a stipend. The total amount projected to be paid was deducted when calculating total recovery for the OPEB claim via UTGO Note A.

[30] Total payments to current retirees in the financial model is actually $162.8 million. This amount includes $20 million considered recovered after negotiations and it is paid in cash under the sources section in the 40 Yr model along with other unsecured creditors.

The following chart shows the total projected health benefit expenses in the General Fund in FY2014-FY2023:

		Preliminary Forecast									
General Fund Active Health Benefits	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
General Fund Active Employees	$ 49.2	$ 48.0	$ 52.4	$ 55.9	$ 60.0	$ 63.6	$ 66.1	$ 68.7	$ 71.5	$ 74.3	**$ 609.8**
OPEB Payments for Current Retirees	$ 123.8	$ 19.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 142.8**
Total General Fund	**$ 173.0**	**$ 67.1**	**$ 52.4**	**$ 55.9**	**$ 60.0**	**$ 63.6**	**$ 66.1**	**$ 68.7**	**$ 71.5**	**$ 74.3**	**$ 752.6**

Overtime

Overtime accounted for $29.7 million in the General Fund in FY2013 which was 4% of total operating expenditures and 10% of payroll. The City assumed that overtime in the projections as a percentage of payroll stays constant from FY2013 except for a few exceptions:

- Overtime in the Fire department increases from 7% in FY2013 to 8.5% in FY2014 and finally decreases to 6% from FY2015-FY2023. The Fire Department overtime levels were down from the FY2008-FY2012 average of 13.4% to 7% in FY2013 as the Fire Department has been successful in reducing overtime due to better staffing model. Additional overtime reductions for the department are reflected in section H.
- Overtime in the Police Department is expected to increase from 12% in FY2013 to 15% in FY2014 and FY2015 and back to 14% in FY2016-FY2023. The expected increase is a result of changing from 12 hour shifts to 8 hour shifts.
- Overtime for DDOT is projected to decrease to 40% of payroll versus 42.8% in FY2013. The overtime for DDOT in operating expenditures does not account for projected overtime decreases due to additional hires in DDOT and updates to its existing bus fleet that reduce overtime by a considerable amount. The reduction in overtime can be seen in Section H.

The chart below highlights overtime across all departments as a percentage of total department payroll:

					Preliminary Forecast						
Department	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Police	12.0%	15.0%	15.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Fire	7.0%	8.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Transportation	42.8%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Sewer	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%
Water	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
36th District Court	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
General Services	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%
Waste	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Streets	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Finance	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Recreation	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
BSED	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
Planning & Development	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Parking	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Law	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Elections	20.8%	22.4%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Human Resources	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
ITS	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Mayor	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Public Works	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Non-Departmental	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Auditor General	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Budget	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
City Clerk	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Zoning	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
City Council	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health & Wellness	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Ombudsperson	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Human Rights	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Airport	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Administrative Hearings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PLD	49.8%	29.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

The chart below highlights General Fund overtime paid over the ten year period:

General Fund Overtime

Department	**10 Year Total**	**% of Overtime**
Police	235	72%
Fire	48	15%
General Services	24	7%
Finance	8	2%
All Other GF Depts.	12	4%
Total Overtime	**$ 326**	**100%**

The majority of overtime in the General Fund is driven by Police, Fire and General Services. Overtime for DDOT is projected to be $145 million over the 10 year period. Although DDOT is not funded by the General Fund, the General Fund does provide a subsidy to DDOT as it has historically operated at a deficit. Overtime for the majority of departments has decreased from the FY2008-FY2012 average. If the current assumptions are understated and actual overtime reverts back to FY2008-FY2012 levels, the overtime costs could increase as shown below:

Department	**2008-2012 Avg**	**10 Yr Avg**	**Var**	**Additional OT Over 10 Yrs at 08-12 Avg**
Police	15.0%	14.2%	0.8%	14
Fire	13.4%	6.3%	7.1%	55
DDOT	44.6%	40.0%	4.6%	17
Total				**$ 85**

Other Benefits

Other benefits including social security, unemployment and life insurance totaled $34 million in the General Fund in FY2013 representing 4.6% of operating expenses and 11.4% of payroll. The City projected other benefits by calculating the FY2013 cost per employee for each benefit and multiplying it by the number of employees projected in FY2014. For the Fire and Police Departments, which have both uniform and civilian employees, the City calculated the uniform employees at the Police or Fire Department per employee cost and civilians at the General City per employee cost. The analysis below highlights the calculations the City made regarding fringe benefits:

Benefit Per Head	**Fire**	**Police**	**DOT**	**Gen City**	**BSED**	**36DC**	**Sewer**	**Water**	**Library**
As a % of Payroll									
Emp Benefits-Social Security	0.00%	0.00%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Per Head Cost									
Unemployment	$ -	$ -	$ 400	$ 1,900	$ 200	$ -	$ 200	$ 125	$ 100
Misc Benefits	$ 23	$ 23	$ 20	$ 52	$ 87	$ -	$ 30	$ 50	$ 38
Unused Sick Leave	$ 3,892	$ 1,424	$ 100	$ 991	$ 650	$ -	$ 1,025	$ 1,026	$ 298
Longevity	$ -	$ -	$ 257	$ -	$ -	$ 491	$ -	$ -	$ 388
Group Life Insurance	$ 802	$ 802	$ 287	$ 287	$ 287	$ 1,053	$ 287	$ 287	$ 287
Income Protection	$ -	$ -	$ 244	$ 37	$ 31	$ 614	$ 34	$ 60	$ 36
DOT Sick & Accident	$ -	$ -	$ 802	$ -	$ -	$ -	$ -	$ -	$ -
Total Benefit Per Head	**$ 4,717**	**$ 2,249**	**$ 2,109**	**$ 3,266**	**$ 1,254**	**$ 2,158**	**$ 1,575**	**$ 1,548**	**$ 1,146**

Total Fringe Benefits	**Fire**	**Police**	**DOT**	**Gen City**	**BSED**	**36DC**	**Sewer**	**Water**	**Library**
FY13 Heads (estimated)									
Uniform	917	2,632	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Civilian	271	277	1,060	2,107	192	362	1,016	873	335
FY13 Payroll (estimated)									
Uniform	$ 53,491,447	$ 138,515,971							
Civilian	$ 15,813,821	$ 14,577,797	$ 30,283,777	$ 80,289,491	$ 7,844,088	$ 18,577,833	$ 33,315,825	$ 34,893,517	$ -
Heads x per head costs	$ 4,898,103	$ 6,503,401	$ 2,235,541	$ 6,882,139	$ 241,370	$ 780,081	$ 1,601,205	$ 1,352,018	$ 383,974
Payroll x % of payroll costs	$ 1,209,757	$ 1,115,201	$ 2,316,709	$ 6,142,146	$ 600,073	$ 1,421,204	$ 2,548,661	$ 2,669,354	$ -
Total fringe costs	**$ 6,421,533**	**$ 7,939,065**	**$ 4,552,250**	**$ 13,024,285**	**$ 841,443**	**$ 2,201,285**	**$ 4,149,865**	**$ 4,021,372**	**$ 383,974**
Fringe costs as % of payroll	**9.3%**	**5.2%**	**15.0%**	**16.2%**	**10.7%**	**11.8%**	**12.5%**	**11.5%**	**n/a**

Going forward, the City assumed fringe benefits as a percent of payroll would stay constant. As a result, fringe benefits increase at the same rate as wage inflation projected in the forecast. In addition to fringe benefits, the City included a one-time 3% bonus in FY2016 to all uniformed employees and a one-time 2.5% bonus to non-uniformed employees. Below summarizes the General Fund cost for fringe benefits by year including the bonus payments:

					Preliminary Forecast						
Fringe Benefits	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
PFRS	$ 13.4	$ 14.5	$ 14.8	$ 15.2	$ 15.6	$ 16.0	$ 16.3	$ 16.6	$ 17.0	$ 17.3	$ 156.6
General	$ 8.6	$ 8.8	$ 8.7	$ 8.6	$ 8.8	$ 9.0	$ 9.2	$ 9.4	$ 9.5	$ 9.7	$ 90.4
36 District Court	$ 2.0	$ 2.1	$ 2.1	$ 2.1	$ 2.2	$ 2.2	$ 2.3	$ 2.3	$ 2.4	$ 2.4	$ 22.1
Total General Fund	**$ 23.9**	**$ 25.4**	**$ 25.6**	**$ 26.0**	**$ 26.6**	**$ 27.3**	**$ 27.8**	**$ 28.3**	**$ 28.9**	**$ 29.5**	**$ 269.2**
One Time 2.5% Bonus to AFSCME			$ 1.8								$ 1.8
One Time 3% Bonus to all Uniform			$ 6.9								$ 6.9
Total General Fund Fringe Benefits	**$ 23.9**	**$ 25.4**	**$ 34.3**	**$ 26.0**	**$ 26.6**	**$ 27.3**	**$ 27.8**	**$ 28.3**	**$ 28.9**	**$ 29.5**	**$ 277.9**

Active Pension

The city is establishing a new hybrid pension plan for its active employees. Details regarding the new pension plan are discussed in Section J. The City assumed the following contributions per employee group as a percentage of payroll based on the most recent negotiations:

	Contribution %
Non Public Safety	5.75%
Public Safety	12.25%
PLSA	12.25%

The chart below summarizes the City's yearly estimated contributions to the pension plan:

	Preliminary Forecast										
Active Pension	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Non Public Safety Payroll	$ 69.8	$ 71.9	$ 69.8	$ 71.3	$ 72.9	$ 74.7	$ 76.2	$ 77.7	$ 79.1	$ 80.6	$ 744.1
DDOT Payroll	$ 30.1	$ 33.9	$ 34.4	$ 35.3	$ 36.1	$ 37.1	$ 37.8	$ 38.5	$ 39.3	$ 40.1	$ 362.6
Total Non Uniform Payroll	$ 99.9	$ 105.8	$ 104.2	$ 106.6	$ 109.1	$ 111.8	$ 114.0	$ 116.2	$ 118.4	$ 120.7	$ 1,106.7
Non Public Safety Contribution	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Non Public Safety Active Pension	**$ 5.7**	**$ 6.1**	**$ 6.0**	**$ 6.1**	**$ 6.3**	**$ 6.4**	**$ 6.6**	**$ 6.7**	**$ 6.8**	**$ 6.9**	**$ 63.6**
Police Payroll (Excluding DPLSA)	$ 102.0	$ 110.4	$ 117.7	$ 121.4	$ 124.4	$ 127.5	$ 130.1	$ 132.7	$ 135.3	$ 138.0	$ 1,239.4
Police Contribution	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
Police Active Pension	**$ 12.5**	**$ 13.5**	**$ 14.4**	**$ 14.9**	**$ 15.2**	**$ 15.6**	**$ 15.9**	**$ 16.3**	**$ 16.6**	**$ 16.9**	**$ 151.8**
Fire Payroll	$ 66.2	$ 72.7	$ 72.1	$ 73.9	$ 75.8	$ 77.7	$ 79.2	$ 80.8	$ 82.4	$ 84.1	$ 765.1
Fire Contribution	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
Fire Active Pension	**$ 8.1**	**$ 8.9**	**$ 8.8**	**$ 9.1**	**$ 9.3**	**$ 9.5**	**$ 9.7**	**$ 9.9**	**$ 10.1**	**$ 10.3**	**$ 93.7**
DPLSA	$ 37.1	$ 39.0	$ 39.0	$ 39.9	$ 40.9	$ 42.0	$ 42.8	$ 43.6	$ 44.5	$ 45.4	$ 414.2
DPLSA Contribution	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
DPLSA Active Pension	**$ 4.5**	**$ 4.8**	**$ 4.8**	**$ 4.9**	**$ 5.0**	**$ 5.1**	**$ 5.2**	**$ 5.3**	**$ 5.5**	**$ 5.6**	**$ 50.7**
Adjustment Year 1	$ (12.1)										$ (12.1)
Active Pension Contribution	**$ 18.8**	**$ 33.3**	**$ 34.0**	**$ 34.9**	**$ 35.8**	**$ 36.7**	**$ 37.4**	**$ 38.2**	**$ 38.9**	**$ 39.7**	**$ 347.8**

Active OPEB

The city is establishing a Voluntary Employment Benefit Account ("VEBA") for its active employees' future healthcare costs. The City assumed a contribution of $1 million per year to PFRS and 2% of payroll for non-uniform employees based on the most recent negotiations. Summarized below is the City's yearly estimated contribution to the VEBA:

	Preliminary Forecast										
Active OPEB	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Non Public Safety Payroll	$ 69.8	$ 71.9	$ 71.5	$ 71.3	$ 72.9	$ 74.7	$ 76.2	$ 77.7	$ 79.1	$ 80.6	$ 745.8
DDOT Payroll	$ 30.1	$ 33.9	$ 34.4	$ 35.3	$ 36.1	$ 37.1	$ 37.8	$ 38.5	$ 39.3	$ 40.1	$ 362.6
Total Non Uniform Payroll	$ 99.9	$ 105.8	$ 105.9	$ 106.6	$ 109.1	$ 111.8	$ 114.0	$ 116.2	$ 118.4	$ 120.7	$ 1,108.4
OPEB Contribution	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Non Public Safety OPEB	**$2.0**	**$2.1**	**$2.1**	**$2.1**	**$2.2**	**$2.2**	**$2.3**	**$2.3**	**$2.4**	**$2.4**	**$22.2**
PFRS (Includes DPLSA)	$ 205.4	$ 222.1	$ 228.8	$ 235.2	$ 241.1	$ 247.1	$ 252.1	$ 257.1	$ 262.3	$ 267.5	$ 2,418.7
PFRS Contribution	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
PFRS OPEB	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 10.0**
OPEB Payments	**$ 3.0**	**$ 3.1**	**$ 3.1**	**$ 3.1**	**$ 3.2**	**$ 3.2**	**$ 3.3**	**$ 3.3**	**$ 3.4**	**$ 3.4**	**$ 32.2**

<u>Professional and Contractual Services</u>

Professional and Contractual Services are comprised of the following categories: Auditing, Medical, Legal, Personal Service Contracts and Other Contracts. Professional and Contractual Services are expected to account for 7% of total costs over for the 10 Yr forecast. The City assumes all Professional and Contractual Services expenses will increase by 1% a year, with a few exceptions:

- Medical costs decrease from $22.7 million in FY2013 to $1.3 million in FY2014 due to the transition of the Health and Wellness department
- Personal Service Contracts are affected by a $2 million increase in FY2014 related to City Council's outsourcing of its support staff
- Personal Service Contracts in the Mayor's department increase from $8,000 in FY2013 to $500,000 in FY2014 and to $1 million in FY2015 before decreasing to $29,000 in FY2018.
- Personal Service Contracts increase in the Public Lighting department as a number of jobs are outsourced beginning in FY2014. Those outsourced jobs are eliminated by FY2021.

- Other Contracts fluctuates due to additional resources needed in the election department during election years, resulting in an additional $3 million expense.

Below is a breakdown including year over changes by line item:

	Preliminary Forecast										
Professional & Contracts	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Auditing	$ 2.2	$ 2.2	$ 2.2	$ 2.2	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.4	$ 22.7
YoY Change	*-11.8%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*-0.3%*
Medical	$ 1.3	$ 1.4	$ 1.4	$ 1.4	$ 1.4	$ 1.4	$ 1.4	$ 1.4	$ 1.5	$ 1.5	$ 14.1
YoY Change	*-94.1%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*-8.5%*
Legal	$ 2.4	$ 2.5	$ 2.5	$ 2.5	$ 2.6	$ 2.6	$ 2.6	$ 2.6	$ 2.6	$ 2.7	$ 25.7
YoY Change	*0.0%*	*1.6%*	*1.4%*	*1.2%*	*0.7%*	*0.6%*	*0.7%*	*0.7%*	*0.9%*	*1.0%*	*0.9%*
Personal Services Contracts	$ 10.5	$ 22.5	$ 18.7	$ 15.2	$ 12.3	$ 11.4	$ 10.1	$ 8.7	$ 8.0	$ 8.1	$ 125.4
YoY Change	*98.0%*	*114.4%*	*-17.0%*	*-18.5%*	*-19.2%*	*-7.3%*	*-11.2%*	*-13.5%*	*-8.9%*	*1.0%*	*11.8%*
Other Contracts	$ 37.1	$ 35.1	$ 35.4	$ 35.7	$ 39.3	$ 36.4	$ 36.7	$ 37.0	$ 40.7	$ 37.7	$ 371.0
YoY Change	*-14.5%*	*-5.5%*	*0.9%*	*0.9%*	*10.2%*	*-7.6%*	*0.9%*	*0.9%*	*9.8%*	*-7.3%*	*-1.1%*
Total Professionals & Contracts	**$ 53.5**	**$ 63.6**	**$ 60.1**	**$ 57.1**	**$ 57.8**	**$ 54.0**	**$ 53.1**	**$ 52.2**	**$ 55.1**	**$ 52.3**	**$ 558.9**
	-29.8%	***18.7%***	***-5.4%***	***-5.1%***	***1.3%***	***-6.6%***	***-1.6%***	***-1.8%***	***5.6%***	***-5.1%***	***-3.0%***

Risk Management & Insurance

Risk Management and Insurance is comprised of the following categories: Litigation, Workers Comp, Other Claims and Insurance. Risk Management and Insurance is expected to account for 5.6% of total costs over the 10 Yr Plan. The global assumption is Risk Management and Insurance will increase by 1% per year except for the following assumption:

- Litigation costs increase to FY2013 levels in FY2015 as the City exits bankruptcy in FY2015.

Below is a breakdown including year over changes by line item:

	Preliminary Forecast										
RM and Insurance	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Litigation	$ 18.8	$ 26.6	$ 26.8	$ 27.1	$ 27.4	$ 27.6	$ 27.9	$ 28.2	$ 28.5	$ 28.8	$ 267.6
YoY Change	*-28.5%*	*41.3%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*2.1%*
Workers Comp	$ 4.8	$ 4.9	$ 4.9	$ 4.9	$ 5.0	$ 5.0	$ 5.1	$ 5.1	$ 5.2	$ 5.3	$ 50.2
YoY Change	*0.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*0.9%*
Other Claims	$ 11.6	$ 11.7	$ 11.8	$ 11.9	$ 12.0	$ 12.1	$ 12.3	$ 12.4	$ 12.5	$ 12.6	$ 120.9
YoY Change	*0.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*0.9%*
Insurance	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.7	$ 0.7	$ 6.3
YoY Change	*-24.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-2.4%*
Total RM and Insurance	**$ 35.2**	**$ 43.1**	**$ 43.5**	**$ 43.9**	**$ 44.4**	**$ 44.8**	**$ 45.3**	**$ 45.7**	**$ 46.2**	**$ 46.7**	**$ 438.8**
YoY Change	***-17.6%***	***22.5%***	***1.0%***	***1.0%***	***1.0%***	***1.0%***	***1.0%***	***1.0%***	***1.0%***	***1.0%***	***1.3%***

Materials and Supplies

Materials and Supplies are comprised of the following categories: Operating Supplies, Fuel and Lubricants, Repairs and Maintenance and Other. Materials and Supplies are expected to account for 4.7% of total costs over the ten year period. The global assumption is all materials and supplies expenses will increase by 1% per year.

- Operating Supplies decrease from FY2016-2021 due to the transition of the Public Lighting department.
- Fuel and Lubricants decrease in FY2015 due to the transition of the Public Lighting department.
- Repairs and Maintenance decrease in FY2017 due to $1.9 million in savings in the ITS department as a result of the new payroll system.

Below is a breakdown including year over changes by line item:

	Preliminary Forecast										
Materials & Supplies	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Operating supplies	$ 5.1	$ 5.6	$ 5.9	$ 5.6	$ 5.3	$ 4.9	$ 4.6	$ 4.2	$ 4.1	$ 4.2	**$ 49.4**
YoY Change	*18.4%*	*9.1%*	*6.2%*	*-5.1%*	*-4.8%*	*-8.3%*	*-6.7%*	*-7.6%*	*-2.1%*	*1.0%*	***0.0%***
Fuel & Lubricants	$ 45.5	$ 15.7	$ 15.8	$ 16.0	$ 16.1	$ 16.3	$ 16.5	$ 16.6	$ 16.8	$ 17.0	**$ 192.2**
YoY Change	*0.8%*	*-65.6%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	***-5.7%***
Repairs & Maint	$ 11.9	$ 11.0	$ 11.4	$ 9.8	$ 9.6	$ 9.3	$ 9.1	$ 8.8	$ 8.8	$ 8.9	**$ 98.5**
YoY Change	*16.3%*	*-7.5%*	*4.1%*	*-14.3%*	*-1.8%*	*-3.4%*	*-2.4%*	*-2.7%*	*-0.3%*	*1.0%*	***-1.1%***
Other - MS	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	**$ 35.8**
YoY Change	-0.3%	0.9%	0.6%	0.3%	-0.4%	-0.6%	-0.4%	-0.5%	-0.2%	0.0%	***-0.1%***
Total Materials & Supplies	**$ 66.0**	**$ 35.8**	**$ 36.7**	**$ 35.0**	**$ 34.7**	**$ 34.0**	**$ 33.6**	**$ 33.2**	**$ 33.3**	**$ 33.5**	**$ 375.9**
YoY Change	***4.5%***	***-45.8%***	***2.7%***	***-4.8%***	***-0.8%***	***-1.8%***	***-1.2%***	***-1.3%***	***0.1%***	***0.9%***	***-4.8%***

<u>Utilities</u>

Utilities are expected to account for 3.7% of total costs over the 10 Yr forecast.

All Utilities are expected to increase by 1% per year except for the following:

- Water is projected to increase year over year by the following:

Year	**YoY Change**
2015	1.5%
2016	5.7%
2017	5.7%
2018	2.8%
2019	3.5%
2020	3.5%
2021	3.5%
2022	3.9%
2023	3.9%

- Sewage is projected to increase year over year by the following:

Year	YoY Change
2015	1.4%
2016	3.7%
2017	2.9%
2018	3.1%
2019	3.7%
2020	3.6%
2021	3.7%
2022	4.0%
2023	4.0%

- Outside purchases for electricity is expected to increase 25% in FY2015 as the City transitions to purchasing electricity from an outside vendor.

	Preliminary Forecast										
Utilities	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Telecommunications	$ 9.3	$ 9.4	$ 9.5	$ 9.6	$ 9.6	$ 9.7	$ 9.8	$ 9.9	$ 10.0	$ 10.1	$ 97.0
YoY Change	*134.9%*	*1.0%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*1.0%*	*1.0%*	*14.3%*
Water	$ 1.3	$ 1.3	$ 1.4	$ 1.4	$ 1.5	$ 1.5	$ 1.5	$ 1.5	$ 1.6	$ 1.6	$ 14.7
YoY Change	*12.2%*	*0.7%*	*3.5%*	*3.7%*	*1.1%*	*1.8%*	*1.9%*	*1.8%*	*3.0%*	*3.9%*	*3.4%*
Natural Gas	$ 2.3	$ 1.9	$ 1.9	$ 1.8	$ 1.8	$ 1.8	$ 1.8	$ 1.8	$ 1.9	$ 1.9	$ 18.9
YoY Change	*-0.4%*	*-16.4%*	*-1.5%*	*-7.1%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*-1.9%*
Steam	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.8	$ 0.8	$ 0.8	$ 0.8	$ 0.8	$ 0.8	$ 7.6
YoY Change	*15.3%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*2.4%*
Electricity	$ 4.3	$ 6.4	$ 4.3	$ 3.9	$ 3.9	$ 3.8	$ 3.8	$ 3.8	$ 3.9	$ 3.9	$ 42.1
YoY Change	*1.1%*	*47.7%*	*-33.4%*	*-8.1%*	*-1.3%*	*-1.3%*	*-0.4%*	*0.6%*	*0.8%*	*1.0%*	*0.7%*
Sewage	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.3	$ 7.3	$ 7.4	$ 7.5	$ 7.7	$ 8.0	$ 74.0
YoY Change	*30.7%*	*0.2%*	*0.8%*	*0.2%*	*0.4%*	*1.0%*	*1.0%*	*1.0%*	*2.5%*	*4.0%*	*4.2%*
Utilities IPO	$ 3.3	$ 4.1	$ 4.1	$ 4.1	$ 4.2	$ 4.2	$ 4.3	$ 4.3	$ 4.4	$ 4.4	$ 41.4
YoY Change	*-4.8%*	*21.5%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*2.5%*
Other - Utl	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
YoY Change	*-2.2%*	*-7.2%*	*-5.3%*	*-18.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-3.3%*
Total Utilities	**$ 28.5**	**$ 31.0**	**$ 29.1**	**$ 28.8**	**$ 29.0**	**$ 29.2**	**$ 29.4**	**$ 29.7**	**$ 30.2**	**$ 30.7**	**$ 295.7**
YoY Change	***33.3%***	***8.9%***	***-6.2%***	***-1.0%***	***0.5%***	***0.7%***	***0.9%***	***1.0%***	***1.4%***	***1.9%***	***4.1%***

Purchased Services

Purchased Services are expected to account for 2.9% of total costs over the ten year period. All Purchased Services are expected to increase by 1% per year except for the following:

- 17% increase in FY2016 driven by the implementation of the payroll service.

	Preliminary Forecast										
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Purchased Services	$ 18.4	$ 19.3	$ 22.6	$ 24.8	$ 24.6	$ 24.3	$ 24.2	$ 24.0	$ 24.0	$ 24.2	$ 230.4
YoY Change	*234.8%*	*4.9%*	*17.5%*	*9.4%*	*-0.5%*	*-1.2%*	*-0.7%*	*-0.8%*	*0.2%*	*0.8%*	*26.4%*

Other Expenses and Capital Outlays

Other Expenses and Capital Outlays are expected to account for 5.3% of total costs over the 10 Yr projections. The majority of expenses are expected to increase approximately 1%. The chart below highlights all other operating expenses in the General Fund:

	Preliminary Forecast										
Other Expenses	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**10 Year Total**
Printing	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 7.1
YoY Change	*46.6%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*5.6%*
Rental	$ 11.8	$ 12.6	$ 12.7	$ 12.7	$ 12.7	$ 12.6	$ 12.6	$ 12.6	$ 12.6	$ 12.6	$ 125.5
YoY Change	*25.7%*	*7.0%*	*0.1%*	*0.1%*	*-0.1%*	*-0.1%*	*-0.1%*	*-0.1%*	*0.0%*	*0.0%*	*3.2%*
Employee Parking	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 4.3
YoY Change	*-20.9%*	*2.3%*	*1.9%*	*1.5%*	*0.4%*	*0.1%*	*0.3%*	*0.3%*	*0.8%*	*1.0%*	*-1.2%*
Private Car Reimbursement	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 2.5
YoY Change	*-5.8%*	*1.2%*	*1.1%*	*1.1%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*1.0%*	*1.0%*	*0.3%*
Travel	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 1.6
YoY Change	*-1.1%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*0.8%*
Training	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 6.2
YoY Change	*182.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*19.1%*
Other Operating Costs	$ 11.0	$ 15.0	$ 11.5	$ 10.9	$ 10.2	$ 10.2	$ 10.3	$ 10.3	$ 10.3	$ 10.4	$ 110.1
YoY Change	*5.9%*	*36.0%*	*-22.8%*	*-5.6%*	*-6.3%*	*0.2%*	*0.3%*	*0.2%*	*0.4%*	*0.5%*	*0.9%*
Development Costs	$ 2.8	$ 2.9	$ 2.9	$ 2.9	$ 3.0	$ 3.0	$ 3.0	$ 3.1	$ 3.1	$ 3.1	$ 29.8
YoY Change	*-6.4%*	*1.3%*	*1.2%*	*1.1%*	*0.9%*	*0.8%*	*0.9%*	*0.9%*	*1.0%*	*1.0%*	*0.3%*
Total Improvement Fund	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 7.2	$ 71.6
YoY Change	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Capital Outlays	$ 5.9	$ 6.0	$ 6.1	$ 6.1	$ 6.2	$ 6.2	$ 6.3	$ 6.4	$ 6.4	$ 6.5	$ 62.0
YoY Change	*-57.6%*	*1.0%*	*1.0%*	*0.9%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*-4.9%*
Total Other and Capital Outlays	**$ 40.8**	**$ 45.7**	**$ 42.5**	**$ 41.9**	**$ 41.3**	**$ 41.4**	**$ 41.6**	**$ 41.7**	**$ 41.8**	**$ 42.0**	**$ 420.7**
YoY Change	***-10.4%***	***12.01%***	***-7.19%***	***-1.25%***	***-1.42%***	***0.25%***	***0.29%***	***0.29%***	***0.37%***	***0.41%***	***-0.7%***

Section H – RRIs and Non-Operating Expenditures

Summary[31]

The City identified restructuring and reinvestment initiatives by department that are essential to the revitalization of Detroit and the provision of essential municipal services. The City has identified $1.7 billion of reinvestment initiatives to be undertaken during the next ten years, provided funding is available to do so. This section focuses on the underlying assumptions in the RRIs and certain other non-operating expenditures that are reflected in the POA projections. The total RRIs and non-operating expenditures are summarized below:

[31] Unless otherwise stated the financial projections referenced in section H are sourced from bibliography: Conway Mackenzie Models: 28-54 and Ernst & Young Models 10-11.

General Fund	FY2014-2023	FY2014-2023	FY2014-2023	FY2014-2023
Operating Surplus Prior to Legacy, Non Operating Expenses and RRI's	**$ 2,781**	**$ 2,054**	**$ 1,788**	**$ 1,434**
Reinvestment Initiatives				
Department revenue initiatives	$ 483	$ 586	$ 715	$ 871
Less:				
Additional operating expenditures	$ 357	$ 359	$ 438	$ 534
Capital investments	$ 582	$ 443	$ 501	$ 605
Blight	$ 420	$ -	$ -	$ -
Reinvestment Deferrals	$ (30)	$ (223)	$ 11	$ 242
Total Reinvesment Expenditures	**$ 1,330**	**$ 579**	**$ 950**	**$ 1,381**
Other Non Operating Expenses				
Less:				
PLD Decommission	$ 75	$ -	$ -	$ -
Contributions to Income Stabilization Fund	$ 18	$ 2	$ -	$ -
Professional Fees	$ 130	$ -	$ -	$ -
Working Capital	$ 25	$ -	$ -	$ -
Secured Debt	$ 391	$ 391	$ 67	$ -
Swap Interest	$ 104	$ -	$ -	$ -
QOL Exit Financing	$ 336	$ 110	$ -	$ -
Contingency	$ 101	$ 121	$ 144	$ 173
Total Non Operating Expenses	**$ 1,179**	**$ 624**	**$ 211**	**$ 173**
Funds Available for Unsecured Claims	**$ 755**	**$ 1,437**	**$ 1,342**	**$ 752**

The RRIs were developed by department by CM, and identify capital investments, additional labor and other operating expenses that are needed to ensure that each City department is providing a basic level of service for Detroit residents. In addition, the City identified revenue enhancing initiatives as part of its departmental reviews. The chart below highlights the RRIs by category:

Revenue	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Pricing/Fees	$ 0.4	$ 10.0	$ 15.5	$ 16.8	$ 21.5	$ 23.2	$ 27.3	$ 26.8	$ 30.9	$ 31.8	$ 204.1
Faster Collections	$ 2.2	$ 12.6	$ 15.0	$ 18.3	$ 18.6	$ 18.9	$ 19.2	$ 19.4	$ 19.8	$ 20.1	$ 164.3
Grant Revenue	$ 3.1	$ 40.6	$ 9.0	$ 12.2	$ 12.9	$ 0.5	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 80.6
Other	$ (0.1)	$ 19.9	$ (0.2)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ -	$ (0.1)	$ -	$ 19.3
Past Due Collections	$ 1.5	$ 4.9	$ 5.7	$ 2.5	$ -	$ -	$ -	$ -	$ -	$ -	$ 14.7
Total Revenue	**$ 7.2**	**$ 88.0**	**$ 45.1**	**$ 49.7**	**$ 52.9**	**$ 42.5**	**$ 46.9**	**$ 46.8**	**$ 51.3**	**$ 52.5**	**$ 482.9**

Operating Expenditures	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Permanent Labor	$ 2.7	$ 24.2	$ 20.1	$ 22.2	$ 21.7	$ 19.8	$ 19.7	$ 19.0	$ 18.6	$ 17.7	$ 185.6
Professional & Contract Services	$ 0.4	$ (1.0)	$ (1.3)	$ (1.3)	$ (1.2)	$ (1.2)	$ (1.1)	$ (1.1)	$ (1.1)	$ (1.0)	$ (10.0)
Active Benefits	$ 1.3	$ 10.2	$ 10.2	$ 12.7	$ 12.6	$ 11.8	$ 11.9	$ 11.6	$ 11.5	$ 11.3	$ 105.1
Training	$ 0.3	$ 7.3	$ 9.2	$ 6.3	$ 5.4	$ 5.2	$ 5.1	$ 5.2	$ 5.3	$ 5.0	$ 54.4
Materials and Supplies	$ 2.0	$ 6.6	$ 11.5	$ 10.2	$ 8.3	$ 8.8	$ 9.4	$ 9.6	$ 10.1	$ 10.6	$ 87.1
Utilities	$ 0.2	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 2.6
Purchased services	$ 0.4	$ 0.8	$ (0.8)	$ (0.5)	$ (1.0)	$ (0.5)	$ (1.0)	$ (0.5)	$ (0.9)	$ (0.4)	$ (4.5)
Risk management/insurance	$ (0.0)	$ (2.1)	$ (6.1)	$ (6.1)	$ (6.1)	$ (6.1)	$ (6.1)	$ (6.1)	$ (6.1)	$ (6.1)	$ (50.7)
Transfers In/(Out) (General Fund)	$ (0.4)	$ 4.4	$ 0.5	$ (2.3)	$ (2.7)	$ (3.5)	$ (3.5)	$ (3.1)	$ (3.6)	$ (3.6)	$ (17.7)
Grant related expenses	$ 1.2	$ 15.6	$ 3.5	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20.3
All Other	$ (0.1)	$ (1.7)	$ (1.7)	$ (1.6)	$ (1.6)	$ (1.6)	$ (1.5)	$ (1.6)	$ (1.6)	$ (1.6)	$ (14.8)
Total Operating Expenditures	**$ 8.0**	**$ 64.6**	**$ 45.3**	**$ 39.9**	**$ 35.6**	**$ 33.0**	**$ 33.0**	**$ 33.3**	**$ 32.5**	**$ 32.1**	**$ 357.4**

Reorganization/Investment	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Technology Infrastructure	$ 3.1	$ 41.3	$ 34.4	$ 19.6	$ 10.1	$ 7.4	$ 10.7	$ 8.8	$ 8.8	$ 7.5	$ 151.7
Capital Expenditures	$ 5.9	$ 33.5	$ 41.7	$ 26.1	$ 22.4	$ 19.5	$ 22.7	$ 20.0	$ 16.7	$ 16.8	$ 225.4
Other Infrastructure	$ 8.3	$ 25.8	$ 24.0	$ 19.1	$ 16.4	$ 15.7	$ 15.8	$ 15.2	$ 13.7	$ 13.4	$ 167.4
Reorganization Costs	$ 3.2	$ 18.2	$ 6.3	$ 0.9	$ 1.2	$ 1.0	$ 2.7	$ 2.0	$ 1.2	$ 1.0	$ 37.7
Total Reorganization/Investment	**$ 20.6**	**$ 118.9**	**$ 106.4**	**$ 65.6**	**$ 50.2**	**$ 43.6**	**$ 51.9**	**$ 46.0**	**$ 40.4**	**$ 38.6**	**$ 582.2**

Revenue Initiatives

The City identified $483 million in additional revenue over the 10 year period that could be available to the City if it implements the RRIs effectively. The largest sources of additional revenue include: increasing service and fares for DDOT, increasing the volume and dollar amount of parking tickets and collecting income taxes and various civil fines at a faster rate. The revenue initiatives also include $52 million from the Hardest Hit Fund and other grants that the City has identified that were not in the baseline 10 Yr projections. The chart below highlights the revenue initiatives:

Revenue Initiative	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
DDOT Expansion	$ 0.4	$ 1.5	$ 5.7	$ 7.1	$ 11.7	$ 13.4	$ 17.5	$ 17.1	$ 21.2	$ 22.0	$ 117.6
Faster 36DC Collections	$ -	$ 3.9	$ 5.5	$ 8.5	$ 8.7	$ 9.0	$ 9.2	$ 9.5	$ 9.8	$ 10.1	$ 74.1
Increased Parking Tickets	$ -	$ 5.6	$ 6.8	$ 6.8	$ 6.8	$ 6.8	$ 6.8	$ 6.8	$ 6.8	$ 6.8	$ 60.3
Income Tax Collection Improvements	$ 1.2	$ 4.9	$ 4.9	$ 5.2	$ 5.2	$ 5.2	$ 5.2	$ 5.2	$ 5.2	$ 5.2	$ 47.4
Increased Collections for New Fire Department Hires	$ 0.9	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.7	$ 3.7	$ 33.7
New Billings for Services	$ -	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 26.2
All Other	$ 4.7	$ 65.6	$ 15.6	$ 15.6	$ 13.9	$ 1.5	$ 1.6	$ 1.6	$ 1.7	$ 1.8	$ 123.6
Total Revenue Initiatives	**$ 7.2**	**$ 88.0**	**$ 45.1**	**$ 49.7**	**$ 52.9**	**$ 42.5**	**$ 46.9**	**$ 46.8**	**$ 51.3**	**$ 52.5**	**$ 482.9**

DDOT is expecting to increase the number of buses in service from 282 in FY2013 to 394 in FY2023. In addition, the City is projecting total miles to increase from 12.1 million miles in FY2013 to 16.5 million miles in FY2023. The increase in mileage is expected to increase revenue by $47 million over the ten year period and is dependent on obtaining new buses, which are grant funded, and increasing the number of routes.

The City is also projecting increased revenue as a result of fare price increases. The City has not had a fare price increase in the last 8 years. The following table shows the projected fare increases for DDOT:

Year	Fare Price	YoY Change
2013	$ 1.50	0.0%
2014	$ 1.50	0.0%
2015	$ 1.50	0.0%
2016	$ 1.75	16.7%
2017	$ 1.75	0.0%
2018	$ 2.00	14.3%
2019	$ 2.00	0.0%
2020	$ 2.25	12.5%
2021	$ 2.25	0.0%
2022	$ 2.50	11.1%
2023	$ 2.50	0.0%

The City took into account decreased ridership at each fare price increase, assuming ridership would decrease 2% for every 10% increase in fares. The increased revenue associated with the fare increases, minus the reduced ridership, results in a total revenue increase over the ten year period of $70 million.

The City is projecting it will be able to collect an additional $74 million as a result of better collections of civil fines and infractions. The City currently collects infractions at a 36% rate. The City is projecting it will increase collections from 36% in 2013 to 56.8% in 2023 leading to the additional $74 million in revenue over the ten year period. The City believes this collection rate is achievable as the regional average is currently 65% which includes Detroit's low collection rate. The City has identified a few initiatives that will help improve collections including increased access to ATM's at the Court and improved operating systems and business processes.

The Emergency Manager implemented increases to parking ticket fines on April 3, 2014[32]. The City has long lagged comparable municipalities in this regard[33]. The recent increase in the parking fines, in addition to additional parking officers, is expected to increase revenue by $60 million over the ten year period.

The Finance department has identified a number of initiatives to improve the collection of income taxes. These include additional staffing, targeting non-

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[32] See Emergency Manager City of Detroit Order Number 24

[33] See PVB Revenue Enhancement White Paper dated December 9, 2013.

residents working in Detroit and using outside services. The initiatives are expected to generate an additional $47 million over the ten year period.

The Fire department is expecting to collect additional revenue as a result of 9 new ambulances, additional Fire Marshalls and cross training fire fighters to do Fire Marshall and EMS work. The initiatives are expected to generate $34 million in revenue over the ten years. The Fire department, along with the Police department, expects to increase revenues by billing services that have not been billed in the past. These new billings represent $26 million in additional revenue over the ten year period.

Operating Expenditures

The City is projecting it will incur an additional $357 million in operating expenditures in the next 10 years related to the RRIs. This does not include $420 million estimated for Blight over the next ten years. Blight is discussed separately in section L of this Report.

Labor

The largest component of additional operating expense over the ten year period is permanent labor which totals $186 million and represents 52% of the additional operating expenditures. Below is a summary of the labor increase:

Labor	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
New Labor due to Incremental Headcount	$ 5.5	$ 27.6	$ 31.7	$ 35.6	$ 34.4	$ 32.2	$ 32.2	$ 31.1	$ 31.2	$ 30.7	$ 292.2
Overtime for New Employees	$ -	$ 0.0	$ 0.2	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.4	$ -	$ 2.0
Overtime Savings from New Employees	$ -	$ 0.7	$ (2.5)	$ (6.9)	$ (7.0)	$ (7.1)	$ (7.3)	$ (7.4)	$ (7.5)	$ (7.7)	$ (52.7)
Efficiency Savings	$ -	$ (0.0)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.4)	$ (1.3)	$ (1.4)	$ (1.8)	$ (2.0)	$ (7.5)
Add Back Overestimate Police and Fire Wages	$ (2.9)	$ (4.1)	$ (9.1)	$ (6.5)	$ (5.8)	$ (5.1)	$ (4.2)	$ (3.6)	$ (3.6)	$ (3.6)	$ (48.5)
Total Labor Expense	**$ 2.7**	**$ 24.2**	**$ 20.2**	**$ 22.3**	**$ 21.7**	**$ 19.8**	**$ 19.7**	**$ 19.0**	**$ 18.6**	**$ 17.3**	**$ 185.6**

Additional headcount by department projections can be seen below:

Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
DDOT - Transportation	-	-	50	113	131	133	134	138	149	163
Police	125	250	250	210	175	162	149	149	149	149
Fire	161	97	84	182	193	165	153	135	129	117
Finance/Budget	28	120	121	121	112	112	112	112	112	112
General Services	112	112	112	112	112	112	112	112	112	112
Mayor's Office	31	31	31	31	31	31	31	31	31	31
Human Resources	4	19	22	22	22	22	22	22	22	22
Ombudsperson	-	-	20	20	20	20	20	20	20	20
Law	-	9	17	17	17	17	17	17	17	17
Labor Relations	-	3	11	11	11	11	11	11	11	11
Human Rights / Board of Ethics	-	6	6	6	6	6	6	6	6	6
Auditor General / Inspector General	-	4	4	4	4	4	4	4	4	4
Airport	-	1	1	1	1	1	1	1	1	1
Buildings and Safety	2	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
City Clerk	-	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Municipal Parking	1	7	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Non-Departmental (36D Initiatives)	-	(15)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)
Planning & Development	16	(32)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)
Total	**480**	**609**	**660**	**781**	**766**	**727**	**704**	**690**	**694**	**696**

The total consolidated number of employees[34] for all departments by year including the base 10 Yr Plan and RRIs is highlighted below:

Total Employees	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2008-2012 Average**	**Variance**
Total Employees Reinvestment		480	609	660	781	766	727	704	690	694	696		
Total Employees Base Model	10,043	9,578	9,634	9,770	9,747	9,745	9,745	9,745	9,744	9,742	9,742		
Total Employees	**10,043**	**10,058**	**10,242**	**10,431**	**10,529**	**10,512**	**10,472**	**10,449**	**10,434**	**10,436**	**10,439**	**12,395**	**-15.8%**

New Hires by Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Incremental Employees - Reinvestment	480	129	52	121	(15)	(40)	(23)	(14)	4	2	**696**
Incremental Employees - Base Model	(465)	56	136	(23)	(2)	-	-	(1)	(2)	-	**(301)**
Total Additional Head Count	**15**	**185**	**188**	**98**	**(17)**	**(40)**	**(23)**	**(15)**	**2**	**2**	**396**

The chart below shows total employees by department from both the 10 Yr forecast and RRIs in FY2023 General Fund departments:

[34] The FY2008-2012 average only includes departments that will still be operating in FY2023

2023 Employees by Department				2023 vs. 2008-2012 Avg.		
General Fund	**Base**	**Reinvestment**	**Total**	**2008-2012 Avg**	**Var**	**% Variance**
Police	2,895	149	3,044	3,322	(277)	-9.1%
Fire	1,228	117	1,345	1,358	(14)	-1.0%
36th District Court	362	(25)	337	301	36	10.5%
General Services	272	112	384	495	(111)	-28.9%
Waste/Public Works	284	-	284	416	(132)	-46.5%
Finance/Budget/ITS	260	112	372	373	(1)	-0.3%
Recreation	202	-	202	436	(233)	NM
Planning & Development	113	(34)	79	156	(77)	-98.3%
Law	86	17	103	112	(10)	-9.3%
Elections	60	-	60	72	(12)	-19.5%
Human Resources	60	33	93	159	(66)	-71.4%
Mayor	24	31	55	67	(12)	-22.0%
Non-Departmental	17	-	17	26	(9)	-54.6%
Auditor General	17	4	21	17	4	19.2%
City Clerk	15	(3)	12	22	(10)	-82.3%
Zoning	11	-	11	15	(3)	-30.9%
City Council	10	-	10	75	(65)	NM
Health & Wellness	9	-	9	271	(262)	NM
Ombudsperson	6	20	26	9	17	64.9%
Human Rights	5	6	11	10	2	14.4%
Administrative Hearings	4	-	4	6	(2)	-55.0%
Total General Funds	**5,940**	**539**	**6,479**	**7,718**	**(1,239)**	**-19.1%**

After accounting for the additional employees in the reinvestment initiatives, the City is still operating with 19% fewer employees than the 5 year average from FY2008-2012. The largest increases in employees occur in Transportation, Police, Fire, Finance and the General Services departments:

- The 163 additional employees at DDOT include 35 additional uniformed employees to increase safety on buses, and additional bus drivers for additional routes
- The Police department is estimating 250 additional civilian personnel in FY2015 which will allow the City to redeploy uniformed personnel to police activities
- The Fire department expects to hire new fire fighters to provide adequate levels of service to the City. These fire fighters will be cross trained to improve efficiency and reduce overtime in the department

- The Finance department expects to hire an additional 112 employees as it identifies ways to operate more efficiently, identify new grant revenue and collect taxes at a faster pace
- General Services expects to hire an additional 112 employees primarily related to facilities and park maintenance.

The City forecasts incremental labor costs by identifying the positions to be added or eliminated and estimating the salary for those positions. Going forward the City assumed the same year over year incremental salary increases per employee as were projected in the base model. Over the ten year period the City expects incremental salaries and wages to increase $292 million due to the RRIs. The chart below summarizes incremental labor costs by department:

Incremental Salary & Wages	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Finance/Budget	$ 0.3	$ 5.0	$ 6.3	$ 6.5	$ 6.7	$ 6.8	$ 7.0	$ 7.1	$ 7.2	$ 7.4	$ 60.4
Police	$ 1.5	$ 8.8	$ 9.4	$ 7.4	$ 5.6	$ 5.0	$ 4.5	$ 4.6	$ 4.7	$ 4.8	$ 56.2
Fire	$ 1.7	$ 5.6	$ 4.0	$ 8.0	$ 7.8	$ 5.6	$ 5.6	$ 3.9	$ 3.3	$ 2.0	$ 47.4
General Services	$ 0.7	$ 2.3	$ 4.4	$ 4.5	$ 4.7	$ 4.8	$ 4.9	$ 5.0	$ 5.1	$ 5.2	$ 41.6
DDOT - Transportation	$ 0.1	$ 1.9	$ 2.2	$ 3.3	$ 3.7	$ 3.8	$ 3.9	$ 4.1	$ 4.4	$ 4.7	$ 32.1
Law	$ -	$ 0.7	$ 1.5	$ 1.5	$ 1.5	$ 1.6	$ 1.6	$ 1.6	$ 1.7	$ 1.7	$ 13.4
Mayor's Office	$ 0.8	$ 1.3	$ 1.3	$ 1.3	$ 1.4	$ 1.4	$ 1.4	$ 1.4	$ 1.5	$ 1.5	$ 13.3
Human Resources	$ -	$ 0.9	$ 1.3	$ 1.4	$ 1.4	$ 1.4	$ 1.5	$ 1.5	$ 1.5	$ 1.5	$ 12.4
Planning & Development	$ 0.3	$ 0.9	$ 0.8	$ 0.9	$ 0.9	$ 0.9	$ 0.9	$ 0.9	$ 1.0	$ 1.0	$ 8.5
Ombudsperson	$ -	$ -	$ 0.4	$ 0.6	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 5.2
Labor Relations	$ -	$ 0.1	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 3.7
Human Rights / Board of Ethics	$ -	$ 0.2	$ 0.3	$ 0.3	$ 0.3	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 3.1
Auditor General / Inspector General	$ -	$ 0.2	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 2.5
Airport	$ -	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 1.6
Municipal Parking	$ 0.0	$ 0.2	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.2)
Buildings and Safety	$ 0.0	$ 0.0	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.3)
Elections	$ -	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.4)
City Clerk	$ -	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (1.5)
Non-Departmental (36D Initiatives)	$ -	$ (0.3)	$ (0.7)	$ (0.8)	$ (0.8)	$ (0.8)	$ (0.8)	$ (0.8)	$ (0.8)	$ (0.9)	$ (6.7)
Total Incremental Salary and Wages	**$ 5.5**	**$ 27.6**	**$ 31.7**	**$ 35.6**	**$ 34.4**	**$ 32.2**	**$ 32.2**	**$ 31.1**	**$ 31.2**	**$ 30.7**	**$ 292.2**

In the base model, the City assumes that overtime remains at the FY 2013 level as a percentage of payroll. The City assumes that the incremental employees hired as a result of the RRIs do not increase or decrease the overtime assumed in the base model with the following exceptions:

- Fire department overtime decreases by $2 million over the ten year period and further savings of $6.3 million occur due to reaching adequate staffing levels
- DDOT assumes $48.7 million in overtime savings over the 10 year period as new buses are added to the fleet, maintenance on old buses decreases, overtime is reduced considerably. In addition, new safety cameras and additional police staff should increase driver and rider safety, thereby decreasing driver absenteeism and resulting in decreased overtime

The decrease in overtime at DDOT is a key assumption over the next ten years as the City provides a subsidy to DDOT. The analysis below highlights the projected overtime in gross dollars and as a percentage of payroll for both the base model and the added employees and the decreased overtime from the RRIs:

DDOT Consolidated Payroll and Overtime	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Total Payroll Base Model	$ 30.1	$ 33.9	$ 34.4	$ 35.3	$ 36.1	$ 37.1	$ 37.8	$ 38.5	$ 39.3	$ 40.1	$ 362.6
Total Overtime Base Model	$ 12.0	$ 13.5	$ 13.8	$ 14.1	$ 14.5	$ 14.8	$ 15.1	$ 15.4	$ 15.7	$ 16.0	$ 145.0
As a % of Payroll	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***
New Payroll	$ 0.1	$ 1.9	$ 2.2	$ 3.3	$ 3.7	$ 3.8	$ 3.9	$ 4.1	$ 4.4	$ 4.7	$ 32.1
Overtime Savings	$ -	$ (1.0)	$ (5.6)	$ (5.6)	$ (5.7)	$ (5.8)	$ (6.0)	$ (6.1)	$ (6.1)	$ (6.7)	$ (48.7)
Consolidated DDOT Payroll	$ 30.2	$ 35.7	$ 36.6	$ 38.6	$ 39.8	$ 40.9	$ 41.7	$ 42.6	$ 43.7	$ 44.8	$ 394.7
Consolidated Overtime	$ 12.0	$ 12.6	$ 8.2	$ 8.5	$ 8.7	$ 9.0	$ 9.1	$ 9.3	$ 9.6	$ 9.3	$ 96.3
As a % of Payroll	***39.8%***	***35.2%***	***22.3%***	***21.9%***	***21.9%***	***22.0%***	***21.8%***	***21.9%***	***22.0%***	***20.8%***	***24.4%***

The City is expecting overtime for DDOT to decrease from its baseline estimate of 40% to 20.8% by FY2023. If the City is unsuccessful in decreasing overtime and overtime remains at 40% of payroll, the subsidy would be $61 million higher than currently projected over the ten years.

Prior to the July 2nd projections, the City reexamined the projections for salaries and wages for new hires in the Police and Fire departments in the baseline 10 Yr projections. In the May 5th projections the City assumed all new hires would be at the average salary of the department. In reality, the new entry level employees hired will likely be at a much lower pay scale. Recalculating the actual salaries for these new employees in the baseline model results in $48.5 million[35] in total savings for the ten year period:

Recalc of Police and Fire Base Model Hires	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Police	$ -	$ (1.1)	$ (6.1)	$ (3.5)	$ (2.7)	$ (1.9)	$ (0.9)	$ (0.2)	$ (0.2)	$ (0.2)	$ (16.7)
Fire	$ (2.9)	$ (3.0)	$ (3.0)	$ (3.1)	$ (3.1)	$ (3.2)	$ (3.3)	$ (3.4)	$ (3.4)	$ (3.5)	$ (31.8)
Total Add Backs for Pay Difference	**$ (2.9)**	**$ (4.1)**	**$ (9.1)**	**$ (6.5)**	**$ (5.8)**	**$ (5.1)**	**$ (4.2)**	**$ (3.6)**	**$ (3.6)**	**$ (3.6)**	**$ (48.5)**

Professionals and Contractual Services

The City is projecting a $10 million decrease in professional and contractual services over the 10 Yr projections. The savings are primarily related to the Income Tax department implementing CityTax and the need for less outside employment.

[35] The reduced costs associated with the changes in assumptions for the Police and Fire departments in this section do not include additional add backs for benefits which are $5.8 million and $13.3 million for the Police and Fire departments, respectively, and are included in the benefits section. Total reduced costs for the recalculation including salary, overtime and benefits is $67.7 million for the two departments.

Benefits

The City estimated benefits using the following percentage of payroll projections:

Incremental Benefits as a % of Payroll	% of Payroll
Police	40.5%
Fire	42.0%
General Services	45.0%
DDOT - Transportation	49.2%

Using the above rates, the City estimates an additional $105.1 million in benefits for employees hired as part of the RRIs:

Incremental Benefits	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Finance/Budget	$ 0.2	$ 2.2	$ 2.8	$ 2.9	$ 3.0	$ 3.1	$ 3.1	$ 3.2	$ 3.3	$ 3.3	$ 27.2
Police	$ 0.6	$ 3.1	$ 1.3	$ 1.6	$ 1.2	$ 1.3	$ 1.4	$ 1.8	$ 1.8	$ 1.9	$ 16.0
Fire	$ (0.4)	$ 1.3	$ 0.7	$ 1.9	$ 1.8	$ 0.7	$ 0.4	$ (0.4)	$ (0.9)	$ (1.6)	$ 3.6
General Services	$ 0.3	$ 1.1	$ 2.0	$ 2.0	$ 2.1	$ 2.2	$ 2.2	$ 2.2	$ 2.3	$ 2.3	$ 18.7
DDOT - Transportation	$ 0.1	$ 0.7	$ 0.9	$ 1.6	$ 1.8	$ 1.9	$ 1.9	$ 2.0	$ 2.2	$ 2.4	$ 15.6
Law	$ -	$ 0.3	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.8	$ 6.0
Mayor's Office	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.7	$ 0.7	$ 6.1
Human Resources	$ -	$ 0.4	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 5.6
Planning & Development	$ 0.1	$ 0.4	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 3.3
Ombudsperson	$ -	$ -	$ 0.2	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 2.4
Labor Relations	$ -	$ 0.0	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 1.7
Human Rights / Board of Ethics	$ -	$ 0.1	$ 0.1	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 1.4
Auditor General / Inspector General	$ -	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 1.1
Airport	$ -	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.7
Municipal Parking	$ 0.0	$ 0.1	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.1)
Buildings and Safety	$ 0.0	$ 0.0	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.1)
Elections	$ -	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.2)
City Clerk	$ -	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.7)
Non-Departmental (36D Initiatives)	$ -	$ (0.2)	$ (0.3)	$ (0.3)	$ (0.3)	$ (0.4)	$ (0.4)	$ (0.4)	$ (0.4)	$ (0.4)	$ (3.0)
Total Incremental Benefits	**$ 1.3**	**$ 10.2**	**$ 10.2**	**$ 12.7**	**$ 12.6**	**$ 11.8**	**$ 11.9**	**$ 11.6**	**$ 11.5**	**$ 11.3**	**$ 105.1**

The City took a conservative approach to estimating benefits in its RRIs by using higher percentages of payroll estimates than those used in the baseline forecasts:

Benefits as a % of Payroll	2015	2016	2017	2018	2019	2020	2021	2022	2023
Police	34.0%	35.1%	35.9%	36.7%	37.3%	37.7%	38.1%	38.5%	38.9%
Fire	37.0%	38.0%	38.7%	39.5%	40.0%	40.4%	40.7%	41.1%	41.5%
DDOT	44.4%	47.3%	49.8%	51.4%	52.4%	53.0%	53.7%	54.5%	55.3%
Non Uniform	39.2%	40.2%	41.0%	41.7%	42.4%	42.7%	43.1%	43.5%	43.8%

Training

The City is projecting $54.4 million in training expenditures over the next ten years, beginning in mid FY2015. The estimate includes $2,000 per employee per year for all non-uniform City employees through FY2017 and $1,500 per employee per year after FY2017. The City also assumes $600,000 in yearly city-wide Human Resources training beginning in FY2016. Fire department training to cross train employees and meet minimum grant standards is projected to be $13.3 million during the time period. Below is a breakdown of training expenditures over the ten years:

Training	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Employee Training	$ 0.0	$ 3.2	$ 4.9	$ 4.1	$ 4.1	$ 4.0	$ 4.0	$ 4.0	$ 4.0	$ 4.0	$ 36.3
Fire Training	$ 0.3	$ 4.1	$ 3.7	$ 1.6	$ 0.7	$ 0.6	$ 0.5	$ 0.6	$ 0.7	$ 0.4	$ 13.3
HR Training	$ -	$ -	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 4.8
Total Training	**$ 0.3**	**$ 7.3**	**$ 9.2**	**$ 6.3**	**$ 5.4**	**$ 5.2**	**$ 5.1**	**$ 5.2**	**$ 5.3**	**$ 5.0**	**$ 54.4**

Materials & Supplies

The City expects to spend $87.1 million in additional materials and supplies related to the RRIs. The largest component is an additional $65.1 million needed by the General Services department to repair city buildings and to provide adequate levels of service to the City's operating departments. In addition the City expects to spend $37.4 million on materials and supplies due to the additional routes projected by DDOT. The Police department expects to spend $16.2 million on vests, improvements in technology and various other supplies.

The total additional expenditures related to materials and supplies are offset by $35.8 million of projected cost savings from consolidation of vendors, improved department staffing and process related enhancements. Below is a breakdown of the projected increase in materials and supplies:

Materials and Supplies	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
M&S to Achieve Desired Service Levels	$ 1.2	$ 5.5	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 65.1
M&S due to Increased Miles Driven	$ 0.4	$ 0.9	$ 1.9	$ 3.0	$ 4.0	$ 4.5	$ 5.0	$ 5.4	$ 5.9	$ 6.4	$ 37.4
Risk Management Technology	$ -	$ 0.3	$ 2.6	$ 0.6	$ 0.6	$ 0.6	$ 0.7	$ 0.6	$ 0.6	$ 0.6	$ 7.2
Miscellaneous Police Supplies	$ -	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.6	$ 0.6	$ 0.6	$ 6.0
Vest Replacement	$ 0.1	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.4	$ 0.4	$ 3.1
Finance - Purchasing Savings	$ 0.0	$ (2.0)	$ (2.0)	$ (2.0)	$ (5.0)	$ (5.0)	$ (5.0)	$ (5.0)	$ (5.0)	$ (5.0)	$ (35.8)
All Other M&S	$ 0.3	$ 0.8	$ 0.6	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 4.2
Total Material and Supplies	**$ 2.0**	**$ 6.6**	**$ 11.5**	**$ 10.2**	**$ 8.3**	**$ 8.8**	**$ 9.4**	**$ 9.6**	**$ 10.1**	**$ 10.6**	**$ 87.1**

Risk Management & Insurance

The City is projecting $50.7 million in savings related to risk management and insurance. The savings are projected as a result of reduced workers comp payments due to an improved risk management function and better claims processing. In addition, the City projects $2 million of yearly savings due to a reduction in lawsuits through improved risk management. Below is a summary:

Risk Management and Insurance	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Workers Comp Savings	$ -	$ -	$ (4.0)	$ (4.0)	$ (4.0)	$ (4.0)	$ (4.0)	$ (4.0)	$ (4.0)	$ (4.0)	$ (32.0)
Reduction in Lawsuits	$ -	$ (2.0)	$ (2.0)	$ (2.0)	$ (2.0)	$ (2.0)	$ (2.0)	$ (2.0)	$ (2.0)	$ (2.0)	$ (18.0)
All Other	$ -	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.7)
Total Risk Management & Insurance	**$ -**	**$ (2.1)**	**$ (6.1)**	**$ (6.1)**	**$ (6.1)**	**$ (6.1)**	**$ (6.1)**	**$ (6.1)**	**$ (6.1)**	**$ (6.1)**	**$ (50.7)**

Other Operating Expenditures

Other operating expenditures over the ten year period include:

- Utilities: $2.6 million in additional costs projected by the General Services department
- Purchased Services:
  - $4.5 million in savings related to $6.75 million less outside legal costs due to additional labor in the Law department
  - $5.7 million in savings due to less involvement from consultants in the Finance department
  - $1.1 million in additional expenditures related to additional DDOT miles
  - $1.9 million in additional outside services in the Police department
  - $1.7 million for storage and maintenance of medical records due to the outsourcing of the Health and Wellness department
  - $1.3 million in additional actuarial and benefit consulting
  - $1.2 million in security and planning related to the Airport department.
- Grants: $20.3 million in grant related costs associated with the Hardest Hit Fund from FY2014-2016
- Other Expenses:
  - $17.4 million in other savings as a result of the Neighborhood and Lean Process Improvement Program
  - $7.1 million in costs in the Police department mostly related to new facilities

Reorganization/Investment

The City is projecting it will incur an additional $582 million in capital expenditures and infrastructure improvements in the next 10 years to improve the City's level of services. The City views these initiatives as critical components in stabilizing the City and attracting and retaining quality employees for the City of Detroit.

Technology & Infrastructure

The City's IT department has been underfunded for many years and is in need of a significant upgrade to its operating systems, software and hardware. The City expects to undertake a number of initiatives to improve the current systems in place including:

- $29 million related to a new ERP System which includes both installation and annual maintenance to improve the City's financial processes and reporting
- $11.7 million related to City wide hardware upgrades
- $10.9 million related to data backup centers
- $10.4 million related to the City-wide installation of Microsoft 365
- $5.2 million related to the implementation of CityTax

Other significant investments which will provide better services to the citizens of the Detroit include the installation and implementation of a new 311 system, implementation of an integrated public safety system and replacement of handheld Police radios. Below is a breakdown of key IT and infrastructure investments over the next ten years:

IT and Infrastructure	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
ERP System	Finance	$ -	$ 7.4	$ 10.3	$ 9.0	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 29.0
Replacement of Radios	Police	$ -	$ 7.5	$ 7.5	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 22.0
Implementation of Integrated Public Safety System	Police	$ -	$ 4.5	$ 2.5	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 13.8
Hardware Upgrade	Finance	$ -	$ 1.5	$ 2.0	$ 2.0	$ 1.2	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 11.7
Data Back Up Center	Finance	$ -	$ -	$ 4.9	$ 2.4	$ 0.2	$ 0.2	$ 2.7	$ 0.2	$ 0.2	$ 0.2	$ 10.9
Microsoft Application Department - 365 Cloud (Net of Savings)	Finance	$ -	$ 1.3	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 10.4
311 System	Ombudsperson	$ -	$ -	$ 3.0	$ 0.5	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 7.0
Document Imaging and Management System	Finance	$ -	$ 3.0	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 5.4
Implementation of City Tax	Finance	$ 0.1	$ 1.7	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 5.2
Upgrades to 36th District Court Technology	Non Departmental	$ -	$ 1.6	$ 0.8	$ 0.4	$ 0.4	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 4.2
Citywide Network Infrastructure	Finance	$ -	$ 2.0	$ -	$ -	$ 1.1	$ -	$ -	$ 1.1	$ -	$ -	$ 4.2
Security Access System to Building	Finance	$ -	$ 0.6	$ 0.6	$ 0.6	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 3.8
Workbrain Upgrades	Finance	$ 1.1	$ -	$ -	$ -	$ 1.2	$ -	$ -	$ -	$ 1.3	$ -	$ 3.6
Fire Vehicle Technology Upgrade	Fire	$ -	$ 0.7	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.7	$ 0.1	$ 0.1	$ 0.1	$ 2.2
Helpdesk Software	Finance	$ -	$ 1.6	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 2.0
Active Directory Service Migration	Finance	$ -	$ 1.3	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 2.0
Cashiering Controls	Finance	$ -	$ 1.4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.4
HR Learning Center and Implementation	HR	$ -	$ 0.5	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 1.3
Operating System Upgrade	Finance	$ -	$ 1.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.0
SQL Server Update	Finance	$ -	$ 0.2	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.7
All Other	Various	$ 1.9	$ 3.6	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.6	$ 0.7	$ 0.5	$ 0.5	$ 9.8
Total IT and Infrastructure		**$ 3.1**	**$ 41.3**	**$ 34.4**	**$ 19.6**	**$ 10.1**	**$ 7.4**	**$ 10.7**	**$ 8.8**	**$ 8.8**	**$ 7.5**	**$ 151.7**

<u>Capital Expenditures</u>

The City has identified a number of facility-related capital expenditures including current facility repairs and new or replacement facilities, some of which are itemized below.

- $40.3 million for repairs and space consolidation across all City buildings
- $37 million for facility improvements and emergency repairs to the various parks and recreation centers

- $34.2 million for a new Police training facility, new precincts and various improvements to current buildings
- $71.3 million for Fire department improvements including $31.2 million in repairs and maintenance to current firehouses, $21 million for 7 new firehouses and $19 million in new gear and equipment
- $15.7 million in required airport upgrades by the Department of Transportation
- $10.3 million in system and equipment upgrades for DDOT that are not grant funded.

The chart below details the capital expenditures the City is projecting over the ten year period:

Capital Expenditures	**Department**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Ten Year Total**
Department City Wide Projects and Space Consolidation	GSD	$ 1.2	$ 5.1	$ 7.2	$ 4.8	$ 3.8	$ 3.6	$ 3.6	$ 3.8	$ 3.7	$ 3.7	$ 40.3
Facility Improvements/Upgrades and Emergency Repairs	Recreation	$ 0.9	$ 4.8	$ 4.1	$ 4.8	$ 4.0	$ 4.5	$ 3.9	$ 3.3	$ 3.3	$ 3.3	$ 37.0
Department wide improvement projects, New Training Facility and New Precincts	Police	$ 0.7	$ 13.7	$ 6.5	$ 0.1	$ 0.5	$ 0.2	$ 3.3	$ 3.1	$ 3.0	$ 3.0	$ 34.2
R&M of Fire Department Facilities	Fire	$ 1.1	$ 3.0	$ 5.5	$ 2.4	$ 1.1	$ 2.0	$ 5.1	$ 4.1	$ 3.0	$ 4.0	$ 31.2
New Firehouses	Fire	$ -	$ -	$ 3.0	$ 3.0	$ 3.0	$ 6.0	$ 3.0	$ 3.0	$ -	$ -	$ 21.0
Gear and equipment	Fire	$ 2.0	$ 3.0	$ 1.4	$ 2.1	$ 1.7	$ 1.7	$ 1.7	$ 1.5	$ 2.4	$ 1.5	$ 19.0
Executive Bay Upgrades, New Jetway, Terminal Upgrades and Other Improvements	Airport	$ -	$ 0.4	$ 5.0	$ 5.3	$ 5.0	$ -	$ -	$ -	$ -	$ -	$ 15.7
ERP, Security, Fleet Mgt, Radio, AVL & APC System Upgrades (All Non Grant Funded)	DDOT	$ -	$ 1.6	$ 2.0	$ 2.3	$ 2.5	$ 1.0	$ 1.0	$ -	$ -	$ -	$ 10.3
Herman Keifer Demolition Costs	Health and Wellness	$ -	$ -	$ 5.1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5.1
R&M for buildings	Non Departmental	$ -	$ 1.0	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 5.0
Upgrades to Caniff Impound Lot	Parking	$ -	$ 0.7	$ 0.1	$ 0.1	$ 0.1	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 2.0
Training Location	HR	$ -	$ -	$ 1.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.0
All Other	Various	$ -	$ 0.4	$ 0.3	$ 0.6	$ 0.3	$ -	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 3.7
Total CapEx		**$ 5.9**	**$ 33.5**	**$ 41.7**	**$ 26.1**	**$ 22.4**	**$ 19.5**	**$ 22.7**	**$ 20.0**	**$ 16.7**	**$ 16.8**	**$ 225.4**

Fleet

The City reviewed the current condition of vehicles in the Police, Fire, GSD and Parking departments. The City projected the number of vehicles needed by department to supply adequate levels of service to the City. The City then projected the cost per vehicle and projected life cycles for each vehicle to determine the yearly number of vehicles to be purchased and the related cost.

- The Police Department projects an average life cycle of 3.5 years resulting in 270 new scout cars costing $91.3 million over the next ten years
- Fleet purchases for the Fire Department include $40 million for new purchases and $18.6 million for repairs of their current fleet
- The General Services department projects spending $6.4 million over the next ten years on purchases of new vehicles and equipment and $9.7 million on upgrades to City owned parks
- The Parking Department expects to spend $1.4 million over the next ten on vehicles

The chart below outlines fleet spending over the ten year period:

Fleet	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Fleet replacement - Police	Police	$ -	$ 9.5	$ 11.7	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 91.3
Fleet Replacement Program and Preventive Maintenance Program	Fire	$ 6.2	$ 11.7	$ 9.0	$ 5.9	$ 5.7	$ 4.9	$ 5.1	$ 4.5	$ 3.0	$ 2.7	$ 58.6
Upgrade Parks	GSD	$ 1.2	$ 3.5	$ 2.5	$ 2.5	$ -	$ -	$ -	$ -	$ -	$ -	$ 9.7
Replacement of vehicles	GSD	$ 0.9	$ 0.7	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 6.4
Fleet replacement - Parking	Parking	$ -	$ 0.4	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 1.4
Total Fleet		**$ 8.3**	**$ 25.8**	**$ 24.0**	**$ 19.1**	**$ 16.4**	**$ 15.7**	**$ 15.8**	**$ 15.2**	**$ 13.7**	**$ 13.4**	**$ 167.4**

<u>Reorganization</u>

The City is expecting to incur various expenses related to implementing the RRIs. These are generally one-time expenses and include:

- $15.4 million in costs related to reassessing and revaluing all properties in the City
- $10.2 million related to outside services for strategic planning, facility consolidation and zoning activities
- $3.7 million for contract employees at the 36th District Court related to restructuring initiatives.

Reinvestment Deferrals

As the City negotiated settlements with creditors and stakeholders, proposed POA payments have taken priority over RRI spending in the near term. As a result, there has been a need to permanently or temporarily defer RRIs in order to maintain adequate levels of liquidity to fund operations and meet the obligations proposed in the POA. The updated July 2nd projections identify all but $29.8 million of the deferrals as to the individual RRI and the timing. In general, the City sought to defer RRIs that would have the least impact on future revenue and cost savings. If the City enters into additional settlements with creditors, it is likely that additional RRI deferrals will be necessary.

Non Operating Expenditures

The City projected a number of necessary non-operating expenditures in the POA projections. These include one-time costs associated with the chapter 9, decommission of the City's power plants, payments required in the POA and a 1% contingency, among other items. These expenses are detailed below:

Other Non Operating Expenses	10 Year Total
Professional Fees	$ 130
PLD Decommission	$ 75
Working Capital	$ 25
Contributions to Income Stabilization Fund	$ 18
Secured Debt	$ 391
QOL Exit Financing	$ 336
Swap Interest	$ 104
Contingency	$ 101
Total Non Operating Expenses	**$ 1,179**

Professional Fees

The City projected professional fees for the various constituents involved in the Chapter 9 case. The City projected $82.2 million and $47.8 million in professional fees in for FY2014 and FY2015 respectively. The City assumes at the time of emergence the professional fees for the majority of the firms projected will be discontinued. The chart below highlights the professional fees by firm:

Professional Fees	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
City Professional fees											
Conway Mackenzie (Ops)	$ 14.0	$ 6.5	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20.5
Ernst & Young (FA)	$ 13.4	$ 4.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 18.3
Jones Day (Counsel)	$ 35.7	$ 10.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 46.6
Miller Buckfire (IB)	$ 5.4	$ 19.5	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24.9
Milliman (actuary)	$ 1.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.0
Total City Professional Fees	**$ 69.5**	**$ 41.8**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 111.3**
Creditors Professional fees											
Lazard (FA)	$ 1.8	$ 0.7	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.5
Denton (Counsel)	$ 13.8	$ 5.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 18.8
Brooks Wilkins Sharkey & Turco PLLC (local	$ 0.8	$ 0.3	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.1
Segal (actuary)	tbd	tbd	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	**$ 16.3**	**$ 6.0**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 22.3**
Total Creditors Professional fees	**$ 85.8**	**$ 47.8**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 133.6**
Less: State reimbursements for advisor fees	$ (3.6)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (3.6)
Total Professional fees	**$ 82.2**	**$ 47.8**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 130.0**

PLD Decommission

Street lights will be transitioned to the Public Lighting Authority during FY2015-2023. The City estimates approximately $75 million over a ten year period in decommission expenses. The City assumed $2.4 million for each of its 31 substations. Below are expected expenditures per year:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
PLD Decommission	$ -	$ 2.5	$ 5.0	$ 15.0	$ 10.0	$ 10.0	$ 10.0	$ 12.5	$ 10.0	$ -	$ 75.0

Working Capital

The City estimates additional expenditures related to working capital in FY2014 of $39.9 million primarily related to past due vendor payments. This amount is offset by $20 million in proceeds from a bond escrow fund. The chart below identifies the working capital impact over the next 2 years.

Identified risks and opportunities to 10-year plan	**2014**	**2015**	**Total**
Higher Transportation Dept (DDOT) operating subsidy in CF	$ 2.0	$ 5.0	$ 7.0
Accounts payable vendor risk in CF	$ 30.0	$ -	$ 30.0
Cash escrow reserve requirement for self-insurance	$ 7.8	$ -	$ 7.8
Refunding bond proceeds drawn from escrow	$ -	$ (20.0)	$ (20.0)
Total	**$ 39.8**	**$ (15.0)**	**$ 24.8**

Income Stabilization Fund

The Income Stabilization Fund is the result of negotiations between the City and the PFRS and GRS. $20 million will be paid to pensioners that meet the following criteria:

- Eligible pensioner's total household income is equal to 130% of the federal poverty Level in 2013 or:
- The annual pension benefit payment payable to each eligible pensioner equals 100% of the annual pension benefit payment actually received by the eligible pensioner in 2013, whichever amount is lower.

The payments will be made over a 14 year period from excess funds from the UTGO property Tax Millage after accounting for UTGO Secured debt payments and Note A UTGO debt payments. Below highlights the projected payments over the ten year period:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Income Stabilization Fund	$ 2.5	$ 2.3	$ 2.3	$ 2.2	$ 2.1	$ 2.1	$ 2.0	$ 1.3	$ 1.1	$ 17.8

Secured Debt

The City projects debt payments for secured debt to continue to be paid via the same amortization schedules used prior to filing Chapter 9. Below is the detailed amortization schedule for each tranche of debt:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
UTGO Secured Debt											
Beginning Principal - UTGO DSA	$ 100.0	$ 98.4	$ 96.5	$ 94.4	$ 92.2	$ 89.8	$ 87.2	$ 84.5	$ 81.6	$ 78.4	$ 100.0
Principal	$ 1.6	$ 2.0	$ 2.1	$ 2.2	$ 2.4	$ 2.5	$ 2.7	$ 2.9	$ 3.2	$ 3.4	$ 25.0
Ending Balance	**$ 98.4**	**$ 96.5**	**$ 94.4**	**$ 92.2**	**$ 89.8**	**$ 87.2**	**$ 84.5**	**$ 81.6**	**$ 78.4**	**$ 75.0**	**$ 75.0**
Interest	$ 8.0	$ 7.9	$ 7.8	$ 7.7	$ 7.5	$ 7.4	$ 7.2	$ 7.0	$ 6.8	$ 6.6	$ 73.8
LTGO Secured											
Beginning Principal - LTGO DSA	$ 249.8	$ 245.5	$ 238.8	$ 231.8	$ 224.5	$ 216.7	$ 208.6	$ 200.0	$ 191.0	$ 181.7	$ 249.8
Principal (Based on Set-Asides)	$ 4.3	$ 6.7	$ 7.0	$ 7.4	$ 7.7	$ 8.1	$ 8.6	$ 9.0	$ 9.4	$ 9.8	$ 78.0
Ending Balance	**$ 245.5**	**$ 238.8**	**$ 231.8**	**$ 224.5**	**$ 216.7**	**$ 208.6**	**$ 200.0**	**$ 191.0**	**$ 181.7**	**$ 171.8**	**$ 171.8**
Interest (Based on Set-Asides)	$ 12.6	$ 12.4	$ 12.0	$ 11.7	$ 11.3	$ 10.9	$ 10.5	$ 10.1	$ 9.7	$ 9.3	$ 110.3
LTGO Secured - 2012 Refinancing											
Beginning Principal (For GF, actual Debt Service different)	$ 129.5	$ 126.6	$ 122.2	$ 117.6	$ 112.7	$ 107.6	$ 102.3	$ 96.7	$ 90.9	$ 84.7	$ 129.5
Principal	$ 2.9	$ 4.4	$ 4.6	$ 4.9	$ 5.1	$ 5.3	$ 5.6	$ 5.8	$ 6.1	$ 6.5	$ 51.3
Ending Balance	**$ 126.6**	**$ 122.2**	**$ 117.6**	**$ 112.7**	**$ 107.6**	**$ 102.3**	**$ 96.7**	**$ 90.9**	**$ 84.7**	**$ 78.3**	**$ 78.3**
Interest	$ 6.1	$ 6.0	$ 5.8	$ 5.6	$ 5.4	$ 5.1	$ 4.9	$ 4.7	$ 4.4	$ 4.1	$ 52.2
Yearly Secured Debt Payments	**$ 35.4**	**$ 39.4**	**$ 39.4**	**$ 39.4**	**$ 39.4**	**$ 39.4**	**$ 39.5**	**$ 39.5**	**$ 39.5**	**$ 39.6**	**$ 390.5**

Quality of Life/Exit Financing

The City plans to draw down $292.7 million on its $300 million Exit Facility by the end of FY2016. The current quality of life loan is expected to be refinanced as part of the exit facility at the emergence of bankruptcy. The Exit Facility bears interest at 6% and matures in 2026. The City begins to make principal payments on the loan starting in 2019.

Swap Interest

The City assumes the agreed upon settlement of the PFRS and GRS Swaps of $85 million at emergence from bankruptcy. The City has continued to make quarterly swap payments while in bankruptcy. The payments made to date will be deducted from the final payment made at settlement. Below are the projected payments in FY2014 and FY2015 and reconciliation of the final payment assumed to occur in October 2014:

	2014	2015	Total
POC Swaps			
PFRS Interest	$ 29.6	$ 10.2	$ 39.8
GRS Interest	$ 16.3	$ 5.5	$ 21.9
POC Swap Payment	**$ 45.9**	**$ 15.7**	**$ 61.6**
Swap Settlement		$ 42.1	$ 42.1
Total Swap Payments	**$ 45.9**	**$ 57.8**	**$ 103.8**

Reconciliation of Final Payment	Total
Settlement	$ 85.0
FY14 int. payments (Post Bankruptcy)	$ 27.2
FY15 Int. payments (Prior to Emergence from Bankruptcy)	$ 15.7
Bulk payment in Oct, 2014	**$ 42.1**

Contingency

The City assumed a yearly contingency estimate of 1% of total revenue. Total revenue includes revenue from the base plan, revenue from the RRIs and proceeds from the Exit Facility. Total contingency is $101 million over the ten year period. Public Acts 181 and 182 of 2014, part of the so called Grand Bargain legislation requires a contingency of not less than 5% of projected expenses in each year. This difference in the amount of contingency is approximately $40 million in FY2015.

Section I - Systems, Controls and Reporting

<u>Introduction</u>

> *"The effective use of technology is an essential foundation of a modern, efficient and effective government, and that absent a modernized IT infrastructure, a city is unable to adequately deliver government services for the public."*[36]

This quote is from Beth Niblock's Report filed in connection with the Detroit bankruptcy. Ms. Niblock, the City of Detroit's Chief Information Officer, also concludes in her report that: "The City's information technology is deficient".[37] I agree that a working technological platform allows the City to properly operate. I also believe that the City's IT infrastructure is so broken that, left unaddressed, threatens the City's ability to meet the commitments in the POA. The City's current technology infrastructure problems are the direct result of long term, systematic underfunding and lack of leadership.

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[36] Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, para 6 page 3.

[37] Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, para 4.A. page 3.

Nowhere is this failure as evident as it is in the City's Finance departments. The lack of accounting and financial information systems confounds virtually every City operation and makes it difficult to perform even basic analysis or performance monitoring. The Emergency Manager's description below provides a realistic picture of the City's current systems:

> *"The City's core financial, accounting and budgeting systems similarly suffer from the lack of modern IT. The City's financial reporting and budget development systems: (a) are 10 to 15 years old; (b) require a manual interface (70% of journal entries are booked manually); (c) lack reliable fail-over and back-up systems; and (d) lack a formal, documented IT governance structure, all of which impairs the reporting, efficiency and accuracy of the data and the accountability of the systems. The City's grant tracking systems are fragmented and unstandardized to the extent that the City is unable to comprehensively track citywide grant funds and status or prevent disallowed costs. Aged IT infrastructure within the City's Buildings, Safety Engineering and Environmental Department ("BSEED") and the DFD leads to bottlenecks in permit invoicing and collections…."*[38]

These issues will not be addressed overnight, nor will they be easy. The funding, implementation, and management of new information and reporting systems are critical to adequately deliver government services to the public. The City has accumulated dozens of non-integrated systems which make it impossible to obtain the timely and reliable systemic information necessary for efficient operations and informed decision making. The remainder of this section will discuss some

[38] Declaration of Kevyn Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code. Page 30, para 41.

particular challenges with accounting and financial controls and reporting and conclude with a discussion of the broader issues surrounding the investments the City must make in IT.

<u>Accounting Controls and Processes</u>

Of all of the measurable impacts of the City's IT, Accounting Control and Reporting problems, perhaps the most visible is the impact on the City's financial reporting, which affects the ability of City leaders and department heads to make real time, informed decisions. In the City's 2012 Independent Auditors Report, KMPG states:

> "Although the City of Detroit (City) has made incremental improvement in their financial closing and reporting processes, deficiencies still exist in the processes to evaluate accounts, and timely record entries into the general ledger in a complete and accurate manner"[39]

Historically, the City has not performed monthly closings or published monthly financial statements. The City's accounting "closing" process is so inefficient that recent attempts the City has made to implement a monthly General Ledger ("G/L") closing and financial statement preparation process have failed.

[39] Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, KPMG, 2012, Pg 3

Going forward, I believe the City needs to prioritize monthly financial reporting against the City's budget. A monthly closing process will enable the City's leaders to make the continuous large and small adjustments needed to promote directional compliance with the Plan.

KPMG has determined the City's system of internal accounting controls and procedures are so weak that KPMG cannot rely on them when performing the year-end audit. The ineffectiveness of the current financial systems does not allow the City to internally perform essential daily tasks such as account reconciliations, bank reconciliations, and account analysis, which are the cornerstones of good accounting controls. Rather, these activities are performed once a year by outside consultants as part of preparation for the annual audit process. To that end, KPMG performs substantive testing of all accounts to its materiality threshold in order to render an opinion on the City's financial statements and explains why it takes the City about twelve months to prepare fiscal year-end financial reports.

Financial Reporting

Perhaps the only standardized financial reporting that the City undertakes is the development of the Comprehensive Annual Financial Report ("CAFR") which is promulgated by the Government Finance Officers Association. The CAFR is essentially a comprehensive look at the City's financial position and performance. The City's CAFR for the fiscal year ended June 30, 2013 has not been released as of the date of this Report.

Another of the City's major reporting tasks is performed by Ernst & Young. E&Y prepares daily, weekly and monthly reports of cash, revenues, and expenditures. These reports track the City's available cash using bank statements and numerous other City documents that report one or more cash activities. These reports are independently generated and are not reconciled to the City's general ledger system through account reconciliations or bank reconciliations. These E&Y reports are consolidated for multiple accounting periods, as well as reported separately in other City reports including those of the Emergency Manager. The current cash management and cash reporting system has been managed by E&Y personnel since before the appointment of the Emergency Manager. It is my understanding that the City has not budgeted for E&Y continuing in this role after confirmation, nor has the City made accommodations to take over this work from E&Y. This is an unacceptable risk to the success of the POA and the City must identify and fund a solution for both the near term and longer term.

Whenever contemporaneous financial information is required, the City has no choice but to rely on the incomplete and unreliable financial data from the G/L system. As such, external reports such as the Emergency Manager's reports to Financial Advisory Board contain necessary disclaimers such as:

> "The revenues and expenditures report includes entries that have not been posted in the general ledger and encumbrances. This manner of presentation provides the most up to date data on revenues and expenditures. Unposted entries are preliminary and subject to review before they are finalized; therefore, actual results will likely be different from the preliminary results presented herein, and those differences may be material."[40]

Potential Plan Implications

Beyond financial reporting, the efficient and controlled execution of the accounting and finance functions are essential to achieving the financial initiatives set forth in the Plan. Some of the most important assumptions in the POA depend on improving the accounting and finance function within the City. For example:

- Municipal Income Taxes: the City processes and audits income tax returns, and collects income tax revenues which account for 25% of the City's revenue in FY2014-2023
- Purchasing: the City's purchasing function manages the City's contracts for all commodities and services which are forecasted to total $3 billion in the next ten years
- Property Taxes: The assessor's office creates the tax rolls used to invoice citizens and commercial customers for real estate taxes which are estimated to account for 9% of the City's revenue in FY2014-2023 and the Treasury department is responsible for the billing and collection function

[40] Emergency Manager's report

- Grants: Grant funding is expected to increase in the City going forward. In fact, there are additional opportunities for the City to acquire grants if it can responsibly manage and account for them. The City has failed to properly account for and manage grants in the past which has led to improperly spent funds. The City can benefit by tens of millions of dollars if this process is improved

The diminished capacity of these finance departments to execute their basic functions is a result of attrition and an historic failure to invest in people and systems. If the City does not build internal capacity in its finance and accounting functions in a timely fashion, it could threaten the execution of the POA.

Information Technology

The City, as detailed in the Plan, is addressing its system issues with a number of major initiatives funded as part of the RRIs. These IT-related initiatives include:

- $29 million related to a new Enterprise Resource Planning ("ERP") system, which includes both the installation and annual maintenance to improve the City's financial processes and reporting.
- $11.7 million related to City-wide hardware upgrades.
- $10.9 million related to Data Back Up centers.
- $10.4 million related to the City-wide installation of Microsoft 365.
- $5.2 million related to the implementation of City Tax.

While the IT department expects to spend almost $85 million on restructuring initiatives over the next 10 years, the total investment in IT related expenses by the City is upwards of $150 million. It should be noted that this figure does not include a budget of $3 million for the implementation of a replacement payroll system, which is included in E&Y's base line financial projections. We believe the City would benefit with a more centralized control over all IT related investments. The following chart details the significant IT-related restructuring initiatives out of each of the departmental RRIs:

IT and Infrastructure	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
ERP System	Finance	$ -	$ 7.4	$ 10.3	$ 9.0	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 29.0
Replacement of Radios	Police	$ -	$ 7.5	$ 7.5	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 22.0
Implementation of Integrated Public Safety System	Police	$ -	$ 4.5	$ 2.5	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 13.8
Hardware Upgrade	Finance	$ -	$ 1.5	$ 2.0	$ 2.0	$ 1.2	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 11.7
Data Back Up Center	Finance	$ -	$ -	$ 4.9	$ 2.4	$ 0.2	$ 0.2	$ 2.7	$ 0.2	$ 0.2	$ 0.2	$ 10.9
Microsoft Application Department - 365 Cloud (Net of Savings)	Finance	$ -	$ 1.3	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 10.4
311 System	Ombudsperson	$ -	$ -	$ 3.0	$ 0.5	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 7.0
Document Imaging and Management System	Finance	$ -	$ 3.0	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 5.4
Implementation of City Tax	Finance	$ 0.1	$ 1.7	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 5.2
Upgrades to 36th District Court Technology	Non Departmental	$ -	$ 1.6	$ 0.8	$ 0.4	$ 0.4	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 4.2
Citywide Network Infrastructure	Finance	$ -	$ 2.0	$ -	$ -	$ 1.1	$ -	$ -	$ 1.1	$ -	$ -	$ 4.2
Security Access System to Building	Finance	$ -	$ 0.6	$ 0.6	$ 0.6	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 3.8
Workbrain Upgrades	Finance	$ 1.1	$ -	$ -	$ -	$ 1.2	$ -	$ -	$ -	$ 1.3	$ -	$ 3.6
Fire Vehicle Technology Upgrade	Fire	$ -	$ 0.7	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.7	$ 0.1	$ 0.1	$ 0.1	$ 2.2
Helpdesk Software	Finance	$ -	$ 1.6	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 2.0
Active Directory Service Migration	Finance	$ -	$ 1.3	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 2.0
Cashiering Controls	Finance	$ -	$ 1.4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.4
HR Learning Center and Implementation	HR	$ -	$ 0.5	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 1.3
Operating System Upgrade	Finance	$ -	$ 1.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.0
SQL Server Update	Finance	$ -	$ 0.2	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.7
All Other	Various	$ 1.9	$ 3.6	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.6	$ 0.7	$ 0.5	$ 0.5	$ 9.8
Total IT and Infrastructure		**$ 3.1**	**$ 41.3**	**$ 34.4**	**$ 19.6**	**$ 10.1**	**$ 7.4**	**$ 10.7**	**$ 8.8**	**$ 8.8**	**$ 7.5**	**$ 151.7**

These initiatives are a significant investment and present an opportunity for the City to improve services and functionality throughout its operations. However, to enhance the City's ability to execute the proposals within the POA, the City will need to manage the execution of the IT initiatives at the most senior level in the City and make sure that it reacts to any material deviations - from cost or timeline - in the implementations.

According to CFO John Hill, the City's strategy to correct this catastrophic decline in essential finance, accounting and IT services has three major components:

- Implement a new payroll system and restructure the existing payroll reporting structure
- Implement a new integrated ERP system without customization accompanied by the implementation of the ERP's "best practices" polices and business processing procedures
- Restructure the existing organization structure, processes and controls.

Replacing the payroll system is considered to be of the highest priority by everyone we spoke with. Under the existing organization structure, payroll processing reports operationally to the Human Resources department. The Payroll system technology is under the jurisdiction of the City's IT department. Under the envisioned Finance and Accounting reorganization, payroll processing would report to the CFO, as it should.

The second part of this major undertaking is to implement a new, integrated ERP system along with established "Best Practices" for policies, procedures and business processes. The City's IT department will have overall responsibility for the implementation forecasted to take approximately 2-3 years and cost approximately $29 million.[41] The objective will be to replace the existing Oracle ERP system with an updated, integrated ERP system that will:

- Replace various standalone Finance and Accounting systems
- Eliminate the manual loading of data coming from other stand-alone systems as is done with the current Oracle ERP system
- Improve efficiencies and implement strong systematic internal controls

[41] Per the Conway McKenzie IT restructuring budget.

- Ensure an interim closing process and preparation of interim financial statements and other reporting necessary for the City to manage its financial affairs

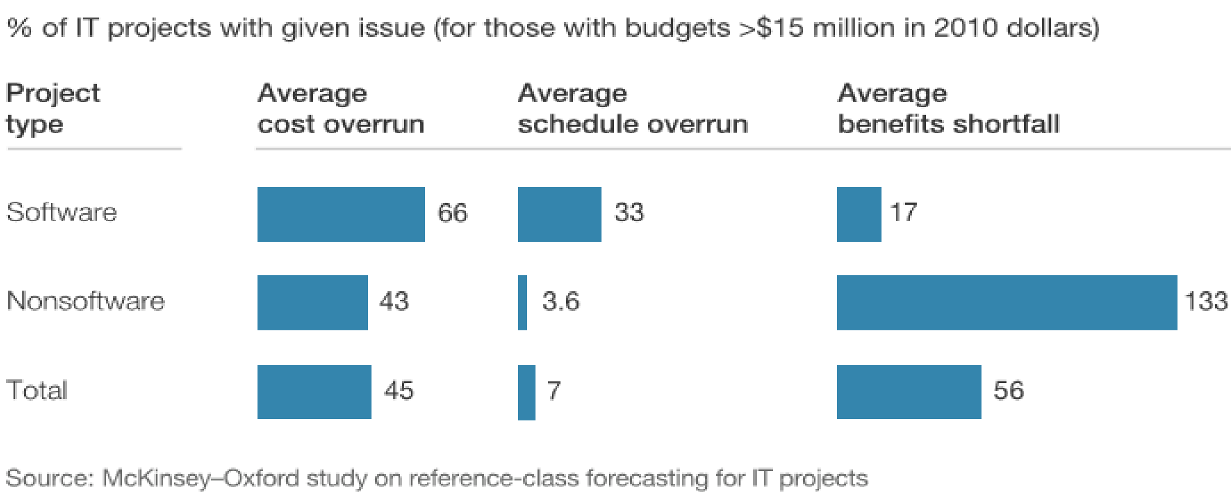
The City believes that it will take several years to implement a new ERP system and, in the interim, the City will have to rely on the existing systems. Although many of the inefficiencies and control weaknesses cannot be eliminated, the City believes the main ERP weaknesses can be mitigated by strengthening the organizational structure and hiring employees with enhanced skill sets at all levels and functions, but primarily mid-tier management. John Hill described the City's strategy as:

- Restructure the Organization to establish better functionality
    - Implement a flatter, functionally-orientated organization chart
    - Strengthen mid-tier managers to provide better supervision and accountability
    - Establish centralized governance of City-wide Finance and Accounting functions with the CFO or alternative centralized governing body
    - Establish centralized governance of City-wide IT functions with the CIO or alternative centralized governing body.
- Revise and upgrade job descriptions and applicant skill set requirements and qualifications
- Update the City's outdated and uncompetitive compensation structure to enable the City to attract and retain qualified employees
- Implement new recruiting processes
- Implement initiatives aimed at correcting major deficiencies in each department's existing systems and procedures

<u>Risk of Failure</u>

The above strategy was created to help ensure the successful implementation of the IT system initiatives. Large IT systems initiatives have historically contained an inherent risk. McKinsey & Co. notes that:

> *As IT systems become an important competitive element in many industries, technology projects are getting larger, touching more parts of the organization, and posing a risk to the company if something goes wrong. Unfortunately, things often do go wrong. Our research, conducted in collaboration with the University of Oxford, suggests that half of all large IT projects—defined as those with initial price tags exceeding $15 million—massively blow their budgets. On average, large IT projects run 45 percent over budget and 7 percent over time, while delivering 56 percent less value than predicted. Software projects run the highest risk of cost and schedule overruns*



The root causes of cost overruns in IT systems implementations for projects over $15 million include: unclear objectives and lack of business focus, shifting requirements and technical complexity, unaligned teams, lack of skills, unrealistic schedule and reactive planning.[42]

Impact on Feasibility

The risks associated with the IT initiatives alone, warrant additional financial contingency beyond the general 1% assumption in the POA projections. Systems, controls and reporting concerns are high on the list of long term threats to feasibility. It is critical that the City effectively implements the IT initiatives which lay the foundation of many of the other benefits associated with the RRIs. Detroit will need strong leadership and exceptional tenacity to accomplish the initiatives on time and on budget.

I am encouraged by the City's recent decision to terminate its efforts to outsource payroll due to a poor design for the implementation. Current City leadership appropriately abandoned this project, despite having previously spent several million dollars in the pre-implementation phase, when they realized the vendor was trying to automate the City's antiquated payroll system rather than implement a new system that would meet the needs of the City going forward. This exemplifies why the most senior levels of City leadership, including the Mayor, CFO

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[42] McKinsey Report on the City of Detroit, May 2011

and CIO, must be actively involved in the strategy and implementation plans to ensure success and progress with clear measurement metrics.

Section J - Pensions

Introduction

Detroit's legacy retirement obligations, combining both pensions and OPEB, are the City's largest liability when combining the funded and unfunded liabilities. Additionally, these liabilities are arguably the most visible to the City's retirees, current employees, and to its citizens, generally. Despite the relative importance, the magnitude of the City's retirement obligations and the methods for calculating them are largely unknown. Assessing the City's future pension and OPEB responsibilities involves, among other factors, forecasted health care costs, complex actuarial models[43], and assumptions for the anticipated rate of returns on the pensions' assets and the rate used to discount the plans' future liabilities. Critical decisions made today will have a substantial impact on the City's liquidity in future

[43] Traditional actuarial forecasts imbed assumptions related to pensioners' mortality, rates of retirement, salary increases, overtime, disability rates, interest earned on assets, and pension plan administrative expenses.

years. The magnitude and importance of these decisions will be critical to Detroit's viability in the decades to come.

Background

The City of Detroit has historically maintained two separate defined benefit plans, one for uniformed personnel and one for all other City employees. The City's existing pension plans are administered by the respective Retirement Systems, the Police & Fire Retirement System of the City of Detroit ("PFRS") and the General Retirement System of the City of Detroit ("GRS"). The bankruptcy claims related to PFRS claims are classified as Class 10, while the GRS claims are designated as Class 11 in the POA. These plans provided for a calculated amount of retirement income based on earnings and longevity of each individual employee. As typical with defined benefit plans, the benefits are fixed and are not dependent on investment returns or other outside factors.

Detroit's Plan, in an effort to mitigate the City's expanding legacy pension issues, proposes to fundamentally restructure the City's pension obligations for both its current retirees and its active employees, effective June 30, 2014. The Plan provides that, on the Effective Date, the City will assume the obligations related to already accrued benefits under the GRS and the PFRS pension plans *as those benefits will have been modified in the POA.* The POA pension proposal modifies each plan under revised structures that impose reduced monthly pension amounts and/or reduced or eliminated COLA adjustments. The POA also proposes to restructure the accrual of pension benefits of active employees beginning on July 1, 2014, the parameters of which are detailed below.

City of Detroit Retirees Demographics

As of June 30, 2013, the Retirement Systems for the City of Detroit had approximately 32,247 members. The demographics of the each Retirement System are detailed below:

	PFRS		GRS		RS Total	
Active	3,272	26%	5,658	28%	8,930	28%
Retirees	9,054	73%	12,118	61%	21,172	65%
Other	111	1%	2,214	11%	2,325	7%
	12,437		**19,990**		**32,427**	

Of the City's estimated 21,172 retirees, roughly 7,200 (or 34%) are over the age of 75, with another 35% between the ages of 65 and 75. The average PFRS pension in FY2013 was $30,607 as compared to the average FY2013 GRS pension of $19,213.

Pension Funding Level

The accounting for defined benefit plans can be very complex. The calculations used to determine the appropriate funding levels required each year are dependent upon macro-economic factors, actuarial assumptions, and other variables that can be difficult to understand and can be manipulated to bias the required funding levels.[44]

Historically, a number of different practices have contributed to a significant funding shortfall in the two pension plans. The Retirement Systems utilized unrealistic rate of return assumptions and managed the pension plans in accordance with questionable investment strategies that resulted in considerable underfunding of the respective Plans. The Retirement Systems assumed aggressive annual rates of return on investment (PFRS: 8.0%; GRS: 7.9%), allocated asset gains and losses over a seven-year period which masked potential funding shortfalls, and utilized renewing 29- (PFRS) and 30- (GRS) year amortization periods for funding the unfunded pension obligations.

The calculation of this funding shortfall, or the Unfunded Actuarial Accrued Liability ("UAAL"), is dependent upon the use of assumptions as noted above.

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[44] Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 5

Based on the assumption methodologies used by the retirement systems previously, the UAAL was projected, at the end of FY2012, to have been approximately $977 million.[45] At June 30, 2013, that UAAL estimate was $1.5 billion as PFRS reported it was 89% funded with a UAAL of $415 million. At that same time, GRS reported it was 70% funded with a UAAL of $1.1 billion. Using what the City now believes are more accurate assumptions, the City's actuary - Milliman, Inc. - has estimated that the combined systems' UAAL, at June 30, 2013, was approximately $3.5 billion. [46]

In addition to issues involving the aggressiveness of the rate of return assumption used to determine funding levels, also contributing to the increase of the UAAL were a number of questionable activities engaged in by the retirement systems, which included:

- Utilizing GRS fund assets to pay the promised returns on the Annuity Savings Program which, upon members of GRS allocating 3%, 5% or 7% of their after-tax salaries into a discreet defined contribution plan, effectively guaranteed a minimum 7.9% annual investment return

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[45] Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 5

[46] Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 7

regardless of the actual investment performance of the pension plans' assets;

    - Using actual market returns for crediting purposes rather than the guarantee, the City believes that over $387 million of excess investment earnings were credited to Annuity Savings Funds from 2003-2013

- GRS trustees, when the plan's actual returns were higher than the assumed rate of return, paid a portion of the positive variance between the actual investment return and the assumed rate of return in an additional pension check to already retired pensioners in what is commonly referred to as the "13th check" program
- The City periodically deferred its required year-end PFRS contributions, and then borrowed to pay those deferrals with debt priced at a rate of 8%;
- Retirement System officials have been accused and/or indicted of material fiduciary misconduct, allegedly draining the pension of necessary liquidity and contributing to the underfunding of the Retirement Systems.[47]

<u>Pension Treatment</u>

The City's Plan of Adjustment proposes to "freeze" the accruing of pension benefits under the terms of the City's legacy pension plans and, effective June 30, 2014, institute restructured, distinct pension plans for the City's active employees. For the current employees, their future pensions will be a combination of that which was accrued under the legacy plan through June 30, 2014, and after that date, what will be accrued under the new revised plan as detailed below. For the City's retirees,

[47] Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 10

depending on whether they are members of PFRS or GRS, the POA proposes to modify their accrued benefits under the legacy pension plans via reductions in gross pensions, cost of living adjustments, or reductions in investment earnings in the Annuity Savings Program.

Active City Employees

The Plan of Adjustment proposes a "hybrid" pension plan for the City's active employees for their accrued employment time after June 30, 2014. The adjusted pension plan – for both PFRS and GRS – endeavors to combine the features of a fixed contribution plan with the estimated investment performance of a fixed benefit plan. The City and its actuaries constructed this hybrid plan to generate accrued pension payments to its active employees upon retirement commensurate with a 6.75% estimated annual investment return.

For active PFRS employees, the updated pension formula will be equivalent to their Final Average Compensation ("FAC") – defined as the average base compensation (excluding overtime, sick leave, longevity, etc. over the last ten consecutive years) times years of service times 2.0%. For example, a theoretical PFRS employee whose FAC was $40,000 with 25 years of experience would accrue an annual pension of $20,000 ($40,000 x 25 x 2.0%). This calculation represents the defined benefit portion of the new hybrid plan. The defined contribution portion of the new plan incorporates an annual 12.25% contribution from the City of employees' base compensation and requires an employee contribution of 6%, if the employee was hired before July 1, 2014, or 8% if hired after that date. In addition, PFRS employees will be eligible for retirement at ages 50-52, depending on their rank, with twenty-five years of service.

The revised GRS pension plan for active employees is similar to the PFRS plan, albeit adjusted for Social Security (GRS pensioners are eligible for Social Security in contrast to PFRS pensioners). The updated pension formula will be equivalent to FAC over the last ten consecutive years times years of service times 1.5%. For example, a theoretical GRS employee whose FAC was $40,000 with 30 years of experience would accrue an annual pension of $18,000 ($40,000 x 30 x 1.5%). The City will contribute 5.75% of the employee's base compensation annually, while the employee will contribute 4%. In addition, GRS employees will be eligible for retirement at age 55 with thirty years of service.

Proposed POA Restructured Terms

	PFRS	GRS
Pension Formula	FAC x # of years x 2.0%	FAC x # of years x 1.5%
Investment Return	6.75%	6.75%
ER Contribution	11-12% of base compensation	5% of base compensation
EE Contribution	Hired before 7/1/14: 6%; after 7/1/14: 8%	4% of base compensation
Retirement Age	Age 50-52 with 25 years experience	Age 55 with 30 years experience
COLA Eligibility	0-1% compounded, variable	Variable after 4 years and 100% funded
Annuity Savings Fund	n/a	Interested credit at actual return (0-5%)
Theoretical Annual Pension		
($40k FAC with 25/30 years experience)	$20,000 = $40,000 x 25 x 2.0%	$18,000 = $40,000 x 30 x 1.5%

The fundamental amendments to the future pension plans lend themselves favorably to the POA's feasibility. Redefining base compensation as an average of the last ten years' pay as opposed to last three, eliminating non-base compensation such as overtime and sick leave from the calculation, reducing the estimated rate of return, and incorporating a defined employee contribution all contribute to the increased likelihood that the City can meet the requirements of the new pension plan. A concern remains, though, that embedded within the "hybrid" nature of this pension plan, is the concept that a fixed contribution will, ***over time***, produce the required, fixed benefit. Pension plans with fixed contributions are generally just that -- defined contribution plans, not defined benefit plans. To the degree that the actual investment return underperforms the targeted levels or the employee population exhibits life expectancies in excess of the actuarial assumptions, the City has the potential to again be saddled with an underfunded pension plan.

Current Retirees

The combined UAAL for both Retirement Systems was approximately $3.5 billion as of June 30, 2013. The City's Plan of Adjustment, for the current retirees' pension plan, establishes targeted funding rates by the end of fiscal year 2023 for each Retirement System, specifically 75% for PFRS and 70% for GRS, based upon a heavily-negotiated 6.75% assumed investment rate of return. While I assume this investment rate of return as a "given" in all pension analyses to follow, further discussion with regards to the appropriateness of this assumed investment rate of return, and more particularly, its use as the assumed liability discount rate, is detailed below. These targeted funding levels, combined with the proposed benefit reductions for each pension plan, dictate the required cash contributions to the Retirement Systems during the period ending June 30, 2023. The POA proposes that the City will amortize the remaining UAAL for each Retirement System – as of June 30, 2023 – over the following thirty-year timeframe.

The following graph illustrates, per the City's actuary – Milliman, Inc. – the estimated funding levels for PFRS and GRS at ten-year intervals during the period FY2014-2053[48]. Based on the City's actuarial tables, the POA projections assume

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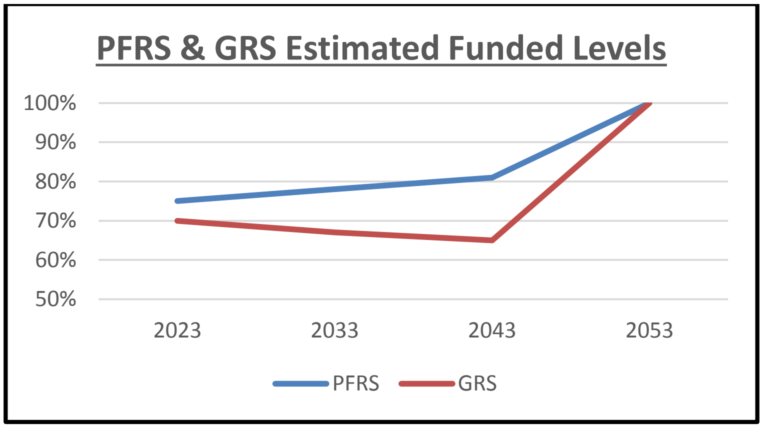
[48] Both PFRS and GRS plans are forecasted to initially have decreasing funding levels; PFRS is forecasted to decrease from 87% in FY2015 to 78% in 2023; GRS is estimated to decrease from 74% in FY2015 to 65% in FY2043

that the pension plans' funding levels significantly improve in the last ten years of this forty year period in question[49].



The POA assumed investment rate of return of 6.75% was a heavily negotiated component of the POA amongst the City, its retirees, the Retirement Systems, the Retiree Committee, and the labor unions. The POA stipulates that the board of trustees of the PFRS and GRS "must" maintain a 6.75% investment return assumption through the period ending June 30, 2023; thereafter, that rate is at the discretion of the Retirement Systems. While the new, proposed rate is more conservative than the historically-used 7.9% and 8.0% rates, current debate abounds as to whether a municipal pension plan, that is not 100% funded, should use any rate for its liability discount rate other than the government risk-free rate.

[49] Milliman, Inc. letter, dated May 7, 2014

The following table illustrates where the City's proposed 6.75% investment rate compares to other comparable municipal pension plan assumptions[50]:

Public Pensions - Assumed Investment Returns - Dec 2013

City of Detroit	**6.75%**
Connecticut Teachers	8.50%
Houston Firefighters	8.50%
Ohio Police & Fire	8.25%
Ohio PERS	8.00%
Michigan Municipal/SERS/Public Schools	8.00%
U.S. National Average	**7.72%**
CALPERS	7.50%
Indiana PERF/Teachers	6.75%
DC Police & Fire/Teachers	6.50%

Pension Funding

In an effort to partially alleviate the City of Detroit's liquidity concerns and to fund some portion of the proposed RRIs in the first ten years, the Plan of Adjustment incorporates dedicated external funding for the Retirement Systems aimed at reducing the respective UAALs, portions of which the receipt is predicated upon Classes 10 (PFRS) and 11 (GRS) voting to accept the Plan. The following analyses illustrate the POA's proposed funding sources for the respective Retirement Systems over the 2014-2053 timeframe encompassed in the POA's 40 Yr Plan.

Plan of Adjustment – Proposed PFRS Contributions – FY2014-2053

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[50] NASRA Issue Brief: "Public Pension Plan Investment Return Assumptions"; April 2014

($ Millions)	2014 - 2023	2024 - 2033	2034 - 2043	2044 - 2053
City-specified Contributions				
State of Michigan	$ 96	$ -	$ -	$ -
Foundations (DIA Settlement)	$ 165	$ 201	$ -	$ -
Other/City GF	$ -	$ 416	$ 465	$ 311
Total	**$ 261**	**$ 618**	**$ 465**	**$ 311**

Plan of Adjustment – Proposed GRS Contributions – FY2014-2053

($ Millions)	2014 - 2023	2024 - 2033	2034 - 2043	2044 - 2053
City-specified Contributions				
DWSD	$ 429	$ -	$ -	$ -
UTGO	$ 32	$ -	$ -	$ -
State of Michigan	$ 99	$ -	$ -	$ -
DIA (DIA Settlement)	$ 45	$ 55	$ -	$ -
Other/City GF	$ 115	$ 575	$ 474	$ 318
Total	**$ 719**	**$ 630**	**$ 474**	**$ 318**

In order of magnitude, the City-specified contributions in the 2nd, 3rd, and 4th decades reflect the estimated 30-year amortization payments on the respective plans' UAALs at June 2023. The DWSD is expected to contribute to GRS roughly $428 million from FY2015-2023, constituting DWSD's allocable share of the remaining GRS UAAL, after considering the pension modifications proposed in the POA. The State of Michigan has committed to contribute the present value of $350 million, approximately $194 million[51], for the benefit of pensioners. The State's contribution, signed into law by Governor Snyder on June 20, 2014, requires the approval of Classes 10 and 11, requires support from the Retirement Systems,

[51] The $350 million contribution is discounted at the 6.75% rate.

cessation of all bankruptcy-related litigation, and the full commitment of other external financing sources dedicated to the pension plans.

In addition to the identified pension funding sources highlighted above, the POA assumes implementation of the DIA Settlement, in which the City, DIA, and certain charitable foundations agree to irrevocably transfer the DIA art collection to the DIA Corporation. The art will be held in perpetual charitable trust within Detroit's city limits, in exchange for future payments of $366 million, pledged by the charitable foundations, and a commitment from the DIA Corporation to raise $100 million. Both DIA Settlement commitments are designated to be paid into the pension plans over the next twenty years.

The following tables illustrate the proposed funding contributions into PFRS and GRS for the fiscal years 2014-2023:

Plan of Adjustment – Proposed PFRS Contributions – FY2014-2023

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
City-specified Contributions											
State	$ -	$ 96.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 96.0**
Foundations	$ -	$ 18.3	$ 18.3	$ 18.3	$ 18.3	$ 18.3	$ 18.3	$ 18.3	$ 18.3	$ 18.3	**$ 164.7**
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Total	**$ -**	**$ 114.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 260.7**

Plan of Adjustment – Proposed GRS Contributions – FY2014-2023

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
City-specified Contributions											
DWSD	$ -	$ 65.4	$ 45.4	$ 45.4	$ 45.4	$ 45.4	$ 45.4	$ 45.4	$ 45.4	$ 45.4	**$ 428.6**
UTGO	$ -	$ 4.4	$ 4.0	$ 4.0	$ 3.9	$ 3.7	$ 3.7	$ 3.6	$ 2.3	$ 2.0	**$ 31.6**
State	$ -	$ 98.8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 98.8**
DIA	$ -	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	**$ 45.0**
Other/City GF	$ -	$ 14.6	$ 22.5	$ 22.5	$ 22.5	$ 22.5	$ 2.5	$ 2.5	$ 2.5	$ 2.5	**$ 114.6**
Total	**$ -**	**$ 188.2**	**$ 76.9**	**$ 76.9**	**$ 76.8**	**$ 76.6**	**$ 56.6**	**$ 56.5**	**$ 55.2**	**$ 54.9**	**$ 718.6**

Plan of Adjustment – PFRS (Class 10)

The POA proposes two alternative restructuring scenarios of the PFRS pension, with the respective depth of the assumed pension cuts being dependent on whether ***both*** Classes 10 and 11 approve the Plan of Adjustment.

PFRS – Scenario A

In the event that both Classes 10 and 11 vote for the POA, with an assumed investment return of 6.75% and a targeted funding rate of 75% in 2023, the POA proposes that PFRS pensioners will receive 100% of their current/accrued pension, but will have their lifetime Cost of Living Adjustments ("COLAs") reduced by 55%. With COLAs estimated to represent approximately 18% of the total PFRS liabilities, the proposed 55% COLA elimination translates into a 9.9% reduction in estimated PFRS liabilities.

PFRS – Scenario B

If either Classes 10 or 11 vote against the POA, and maintaining the assumed investment return of 6.75% and a targeted funding rate of 75% in 2023, PFRS pensioners will still receive 100% of their current/accrued pension, but their lifetime COLAs will be completely eliminated.

Police and Fire Retirement Systems of the City of Detroit
Projection of Liabilities and Assets
Scenario A
Assuming 55% COLA Reduction, 75% Targeted Funded Status, and 6.75% Investment Return[52]

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
City-specified Contributions	**$ -**	**$ 114.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 18.3**	**$ 260.7**
Market Value of Assets	$ 3,071	$ 3,096	$ 3,024	$ 2,946	$ 2,863	$ 2,775	$ 2,681	$ 2,579	$ 2,470	$ 2,354	
Actuarial Accrued Liability	$ 3,624	$ 3,573	$ 3,521	$ 3,464	$ 3,404	$ 3,340	$ 3,271	$ 3,198	$ 3,118	$ 3,035	
Unfunded Liability	$ (553)	$ (477)	$ (497)	$ (518)	$ (541)	$ (565)	$ (590)	$ (619)	$ (648)	$ (681)	
Funded Ratio - BOY		**86.6%**	**85.9%**	**85.0%**	**84.1%**	**83.1%**	**82.0%**	**80.6%**	**79.2%**	**77.6%**	
Expected FY Benefit Payments		$ (285)	$ (283)	$ (284)	$ (284)	$ (283)	$ (283)	$ (284)	$ (285)	$ (283)	**$ (2,554)**
Expected FY Admin Expenses		$ (7)	$ (7)	$ (7)	$ (7)	$ (7)	$ (7)	$ (8)	$ (8)	$ (8)	**$ (66)**
Expected FY Net Investment Return		$ 201	$ 200	$ 195	$ 190	$ 184	$ 178	$ 172	$ 165	$ 157	**$ 1,642**

52 Milliman, Inc. letter, dated April 23, 2014

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Market Value of Assets - Roll Forward											
Market Value of Assets - BOY		$ 3,071	$ 3,094	$ 3,023	$ 2,945	$ 2,862	$ 2,775	$ 2,681	$ 2,579	$ 2,469	**$ 3,071**
City-specified Contributions		$ 114	$ 18	$ 18	$ 18	$ 18	$ 18	$ 18	$ 18	$ 18	**$ 261**
Expected FY Net Investment Return		$ 201	$ 200	$ 195	$ 190	$ 184	$ 178	$ 172	$ 165	$ 157	**$ 1,642**
Expected FY Benefit Payments		$ (285)	$ (283)	$ (284)	$ (284)	$ (283)	$ (283)	$ (284)	$ (285)	$ (283)	**$ (2,554)**
Expected FY Admin Expenses		$ (7)	$ (7)	$ (7)	$ (7)	$ (7)	$ (7)	$ (8)	$ (8)	$ (8)	**$ (66)**
Market Value of Assets - EOY	**$ 3,071**	**$ 3,094**	**$ 3,023**	**$ 2,945**	**$ 2,862**	**$ 2,775**	**$ 2,681**	**$ 2,579**	**$ 2,469**	**$ 2,354**	**$ 2,354**
Actuarial Accrued Liability - Roll Forward											
Actuarial Accrued Liability - BOY		$ 3,624	$ 3,573	$ 3,521	$ 3,464	$ 3,404	$ 3,340	$ 3,271	$ 3,198	$ 3,118	**$ 3,624**
Expected FY Benefit Payments		$ (285)	$ (283)	$ (284)	$ (284)	$ (283)	$ (283)	$ (284)	$ (285)	$ (283)	**$ (2,554)**
Add'l Accrued Liability		$ 234	$ 231	$ 227	$ 224	$ 219	$ 214	$ 211	$ 205	$ 200	**$ 1,965**
Actuarial Accrued Liability - EOY	**$ 3,624**	**$ 3,573**	**$ 3,521**	**$ 3,464**	**$ 3,404**	**$ 3,340**	**$ 3,271**	**$ 3,198**	**$ 3,118**	**$ 3,035**	**$ 3,035**

Plan of Adjustment – GRS (Class 11)

Similar to Class 10, the POA proposes two alternative restructuring scenarios of the GRS pension, with the respective depth of the assumed pension cuts being dependent on whether ***both*** Classes 10 and 11 approve the Plan of Adjustment.

GRS – Scenario A

In the event that both Classes 10 and 11 vote for the POA, with an assumed investment return of 6.75% and a targeted funding rate of 70% in 2023, GRS pensioners will receive 95.5% of their current/accrued pension, will have their lifetime COLAs eliminated, and pensions will be subjected to a maximum of a 15.5% recoupment of their Annuity Savings Fund excess return[53]. The combined impact of these proposed changes represents an approximate 27% reduction in

[53] Not all GRS retirees will be subject to ASF recoupment; only those retirees who ASF annual return, for FY2004-2013, was greater than the plan assets' actual return up to a maximum recoupment of 15.5% of the pensioner's peak ASF balance

GRS's estimated liabilities comprised of 4.5% from reduced pensions, roughly 9% from the Annuity Savings Fund recoupment, and 14% from the eliminated COLAs.

GRS – Scenario B

If either Classes 10 or 11 vote against the POA, and maintaining the assumed investment return of 6.75% and a targeted funding rate of 70% in 2023, GRS pensioners will receive 73% of their current/accrued pension, will have their lifetime COLAs eliminated, and the ASF recoupment will vary from 0.01% to 100% of a retiree's pension, based upon the excess amount of the pension. The combined impact of these proposed changes represents an approximate 50% in GRS's estimated liabilities comprised of 27% from reduced pensions, roughly 9% from the Annuity Savings Fund recoupment, and 14% from the eliminated COLAs.

General Retirement Systems of the City of Detroit
Projection of Liabilities and Assets
Scenario A
Assuming 4.5% Benefit Reduction, 100% COLA Reduction, 70% Funded Status, Annuity Savings Fund Recoupment, and 6.75% Investment Return[54]

[54] Milliman, Inc. letter, dated April 25, 2014

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
City-specified Contributions	**$ -**	**$ 196.2**	**$ 65.3**	**$ 65.3**	**$ 65.3**	**$ 65.3**	**$ 65.3**	**$ 65.3**	**$ 65.3**	**$ 65.3**	**$ 718.6**
Market Value of Assets	$ 2,027	$ 2,106	$ 2,057	$ 2,005	$ 1,951	$ 1,893	$ 1,831	$ 1,764	$ 1,695	$ 1,622	
Actuarial Accrued Liability	$ 2,921	$ 2,866	$ 2,809	$ 2,751	$ 2,688	$ 2,622	$ 2,552	$ 2,477	$ 2,399	$ 2,317	
Unfunded Liability	$ (894)	$ (760)	$ (752)	$ (746)	$ (737)	$ (729)	$ (721)	$ (713)	$ (704)	$ (695)	
Funded Ratio		**73.5%**	**73.2%**	**72.9%**	**72.6%**	**72.2%**	**71.7%**	**71.2%**	**70.7%**	**70.0%**	
Expected FY Benefit Payments		$ (243)	$ (241)	$ (239)	$ (239)	$ (239)	$ (238)	$ (238)	$ (237)	$ (235)	**$ (2,149)**
Expected FY Admin Expenses		$ (9)	$ (9)	$ (10)	$ (10)	$ (10)	$ (10)	$ (11)	$ (11)	$ (11)	**$ (91)**
Expected FY Net Investment Return		$ 135	$ 136	$ 133	$ 129	$ 125	$ 122	$ 117	$ 113	$ 108	**$ 1,118**

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Market Value of Assets - Roll Forward											
Market Value of Assets - BOY		$ 2,027	$ 2,106	$ 2,058	$ 2,007	$ 1,952	$ 1,893	$ 1,833	$ 1,766	$ 1,696	**$ 2,027**
City-specified Contributions		$ 196	$ 65	$ 65	$ 65	$ 65	$ 65	$ 65	$ 65	$ 65	**$ 719**
Expected FY Net Investment Return		$ 135	$ 136	$ 133	$ 129	$ 125	$ 122	$ 117	$ 113	$ 108	**$ 1,118**
Expected FY Benefit Payments		$ (243)	$ (241)	$ (239)	$ (239)	$ (239)	$ (238)	$ (238)	$ (237)	$ (235)	**$ (2,149)**
Expected FY Admin Expenses		$ (9)	$ (9)	$ (10)	$ (10)	$ (10)	$ (10)	$ (11)	$ (11)	$ (11)	**$ (91)**
Market Value of Assets - EOY	**$ 2,027**	**$ 2,106**	**$ 2,058**	**$ 2,007**	**$ 1,952**	**$ 1,893**	**$ 1,833**	**$ 1,766**	**$ 1,696**	**$ 1,624**	**$ 1,624**
Actuarial Accrued Liability - Roll Forward											
Actuarial Accrued Liability - BOY		$ 2,921	$ 2,866	$ 2,809	$ 2,751	$ 2,688	$ 2,622	$ 2,552	$ 2,477	$ 2,399	**$ 2,921**
Expected FY Benefit Payments		$ (243)	$ (241)	$ (239)	$ (239)	$ (239)	$ (238)	$ (238)	$ (237)	$ (235)	**$ (2,149)**
Add'l Accrued Liability		$ 188	$ 184	$ 181	$ 176	$ 173	$ 168	$ 163	$ 159	$ 153	**$ 1,545**
Actuarial Accrued Liability - EOY	**$ 2,921**	**$ 2,866**	**$ 2,809**	**$ 2,751**	**$ 2,688**	**$ 2,622**	**$ 2,552**	**$ 2,477**	**$ 2,399**	**$ 2,317**	**$ 2,317**

<u>Pension Restoration</u>

The Plan of Adjustment incorporates, for both PFRS and GRS, the potential for previously-reduced pension benefits to be restored if the funding levels of the respective Retirement Systems improve to agreed-upon restoration levels at designated timeframes, the fiscal years ending 2023, 2033, and 2043. These pension restoration payments are designed to be variable, in that, they are only distributed to the pensioners if the investment performance of the pension plans is at least three percentage points above the targeted funding levels.

The pension restoration thresholds, for both PFRS and GRS, are perpetually three percentage points above each pension plan's targeted funding level throughout the FY2014-2053 time period. If the funding levels exceeds the plan's restoration targeted funding level, i.e. are more than 3 percentage points above the targeted funding level, monies will be allocated to a "restoration reserve account". Once the restoration reserve account equals at least 10% of the lifetime value of the previously-reduced COLA payments, restoration payments will commence in the following year. According to the POA, restoration payments for PFRS will be conditional until 2023, and until 2028 for GRS. If, as a result of the funds' assets subsequently underperforming the targeted investment levels, which would mean that the returns fall below the 3 percentage point threshold for restoration payments, COLA restoration payments are immediately suspended. Beginning in FY2023 for PFRS and FY2028 for GRS, to the degree the plans' funding levels are in excess of the restoration targeted levels, those specific restoration payments become fixed, or "guaranteed", going forward.

It should be clearly understood, in FY2023 (FY2028 for GRS), FY2033 and FY2043, the ***maximum*** funded level of the GRS and PFRS is the amount shown in the table below. As a result of the negotiations with the parties, the provisions of the

POA relative to the pension settlements ensure that the pension plans at these benchmark dates will never be funded above the restoration funding rate for either the PFRS or GRS plans. If the funding level is above this targeted amount at the benchmark dates, the excess will be swept to a permanent restoration fund such that the funding level will be reduced to the amount shown. In the event that the funding levels at these benchmark dates are below these levels, the City is responsible for this unfunded amount and must fund it in the future. Therefore, as the City considers the average rate of return, it must keep in mind it is "giving away" some of the upside, yet retaining all of the downside.

The following table summarizes both PFRS and GRS's targeted and pension restoration funding levels for the 2014-2043 timeframe (pension restoration payments cease in 2043)[55].

	PFRS		GRS	
	Funding Target	**Restoration Target**	**Funding Target**	**Restoration Target**
2014-2023	75%	78%	70%	73%
2024-2033	81%	84%	70%	73%
2034-2043	84%	87%	70%	73%

Impact on Feasibility

[55] Multiple Milliman, Inc. Pension reports; multiple Phoenix discussions with Jones Day attorneys re: Pension plans

There is considerable debate regarding the selection of the discount rate for calculating liabilities in government sponsored defined benefit (DB) plans. At one end of the debate is the thought that the discount rate of liabilities should equal the expected return on pension assets; at the other end is the thought the liabilities have a very strong contractual and legal requirement and therefore represent a certainty of payment and therefore should be discounted at, or near, the risk free rate. This seemingly academic question has real world consequences when viewing Detroit's POA and its perceived feasibility.

The Nelson A. Rockefeller Institute of Government's recent analysis on this issues - The Blinken Report - dated January 2014, notes[56]:

> *The problem begins with mismeasurement of liabilities and the cost of funding them securely, for financial reporting purposes. The proper way to value future cash flows such as pension benefit payments is with discount rates that reflect the risk of the payments. This is separate from the question of the rate pension funds will earn on their investments.*
>
> ***This bears repeating: The proper rate for valuing pension liabilities on financial statements is separate from the question of what pension funds will earn on their investments. Different rates may be appropriate for valuing liabilities than for assumed investment returns — and we recommend, later, that different rates be used. The major***

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[56] The Blinken Report- Strengthening the Security of Public Sector Defined Benefit Plans, dated January 2014. Donald J Boyd and Peter J Kiernan. *Expert's Note: In the preface of this Report special note is made of the contribution to the analysis and work by Dick Ravitch. Mr. Ravitch is Judge Rhodes' non-testifying consultant in this chapter 9.*

> ***significance of valuing liabilities incorrectly is that it leads to inadequate funding policies, and encourages the mistaken belief that benefits can be greater, services can be greater, or taxes lower while still funding benefits securely. (Blinken Report Emphasis)***
>
> *Because pensions are promises that should be kept, and have strong legal protections, they should be valued using discount rates that reflect the riskiness of expected benefit payments. Unfortunately, the longstanding practice for public pension plans in the United States, developed before modern financial theory, is to use the expected return on pension fund assets to value liabilities, even though there is no logical connection between how much is owed to workers and what assets will earn. This practice is not used by public pension plans in other countries, or by private plans in the United States, or by economists or financial analysts valuing other cash flows. Our nation's public pension plans stand virtually alone, and recent accounting rule changes by the Governmental Accounting Standards Board (GASB) have not addressed this properly. Rates that reflect the expected risk of benefit payments ordinarily are much lower than the rates public pension funds use to value liabilities, and as a result, public pension liabilities are underestimated by at least $1-2 trillion, and the annual costs of funding them securely are underestimated by at least $100-200 billion.*

The City of Detroit, in its POA, has used a rate of 6.75% to discount the liabilities of the pension plans. This rate is lower than the historical rates that PFRS and GRS have previously used and lower than recent investment returns, although recent market returns are heavily impacted by the recovery from the Great Recession. It is also low relative to peers (see previous chart on comparison of Assumed Investment Returns of comparable public plans). In fact, there are few other major government sponsored plans that use a lower rate to discount the liabilities in their pension plans. On the surface, this appears to be a conservative assumption. However, I am not convinced that the City appreciates the opportunity it has to provide stewardship in this area. Highlighting that the City's assumptions are low relative to history, a history that got them to this place, and low relative to their peers - peers who collectively may be underfunded by $2 trillion or more, is not much consolation.[57]

We believe that the selection of a discount rate has relevance as to the feasibility of the Detroit POA, in that, in the future without the benefit to change pension obligations, pension funding requirements become a de facto first priority on cash flows. This results in crowding out other cash flow priorities. The City must be continually be mindful that a root cause of the financial troubles it now experiences is the failure to properly address future pension obligations. Below we address two main concerns regarding the selection of the discount rate for valuing future liabilities in the Plan.

The investment return at 6.75% appears to be based on future investment returns. This rate clearly reflects a rate above the current risk free rate of return and therefore indicates a level of assumed volatility and risk. The argument for using a discount rate that is related to investment returns typically states that using a rate

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[57] Blinken Executive Summary pg. vii.

that is higher than the risk free rate is acceptable due to the long "runway" of a municipal pension. The argument goes: a municipal entity differs from an individual in that, as an individual ages, they typically must moderate their investment behavior towards lower risk investments due to shortening time horizons and, therefore, often lock in losses in down markets. The argument continues: the long time horizon of a municipal pension plan allows it to avoid this phenomenon. Of course, pension plans are not able to defer plan payments during down markets, and therefore, in significant down markets, the loss of principal as a result of making payments to pensioners, without offsetting investment returns, can result in a plan that "locks in" losses. These "locked in" losses create underfunding.

Further, the current POA contemplates Pension Restoration provisions. These provisions essentially allow pension plan beneficiaries to have some opportunity for restoration of lost pension benefits. Post confirmation, until June 2023 for PFRS and June 2028 for GRS, if the pension plans exceed 78% for PFRS or 73% for GRS, despite still being underfunded nearly 22% and 27%, respectively, additional funds can be set aside into a pension restoration fund. The funding levels and the ability of beneficiaries to receive restoration benefits are limited to actuarial and investment return adjustments and not to additional city contributions. However, under this plan, the City can be underfunded in FY2043 and still be in the mode of restoring pension benefits to then existing retirees. Based on the settlement terms and the assumptions made, there does not appear to be recognition that a pension plan, someday, will need to be 100% funded. The City appears to adopt an institutional philosophy of underfunding.

On top of the conceptual argument that funding targets should be set at no less than 100%, before additional commitments are made to increase benefits, a larger concern exists. The City's assumption of a 6.75% rate of return implicitly requires the City to accept risk and volatility. Volatility is, of course, a positive and a negative force. At times, the City should be expected to achieve returns above 6.75% and, at times, the City should expect returns below this level. Over the past 10 years, the Retirement Systems have seen significant variations in their investment returns both above and below the average return. Again, this is the argument for municipal pensions to use investment returns because over the long term, there should be smoothing. Because the City's defined benefit plans are essentially in runoff, they will inevitably experience declining asset levels. In this environment of declining assets and volatility, returns over time are not equally weighted.

Thus, order matters when returns are volatile. It is much better to receive high returns early and low returns later, even though both streams provide the same simple average growth rate. Examples of the impact of timing on returns in a given 10-year period are detailed in the Sensitivity section below. This is not a trivial issue, even though it is quite technical. As pension funds mature and net outflows increase, asset values will be more volatile and more susceptible to the order in which returns occur. In an environment in which expected returns are low in the short term — as the current low-interest-rate, low-inflation environment may be — funds cannot simply balance low returns in the short term with high returns later; they will need much higher returns later because investible assets will be lower than they otherwise would have been.[58]

As example from the Blinken report: *Blinken Report Footnote #96*

> *Consider a pension fund that has net outflows equal to 4.5 percent of assets, with benefits and contributions both growing 7 percent annually (roughly consistent with recent experience). If it earns 4 percent on investments for five years, followed by 12 percent for five years, its assets at the end of ten years will be nearly 13 percent lower than if the returns come in the opposite order, even though annual average return is 7.9 percent either way. [(1.04^10 x 1.12^10)-1 = (1.12^10 x 1.04^10)-1 = 7.93%.] If the fund earns 4 percent for ten years followed by ten years of 12 percent, its assets after twenty years would be 90 percent less than if returns had come in the opposite order. These calculations assume no change in contributions to amortize asset shortfalls in the early years. Amortization would narrow the difference between the two sequences of returns.*

[58] Blinken pg 25.

Further exacerbating this issue, the City is agreeing to give up part, or maybe all, of its upside investment returns by virtue of the pension restoration benefits, but it is retaining all of the downside risk. If the funds' assets participate in a bull market in the first ten years of the POA, and the pension plans move to a funded level of 88%, the City would provide significant restoration benefits. If this bull market was then followed by a five year bear market, all of the restoration benefits paid during the bull market would serve to exacerbate the unfunded level of the pension plans and the City could be responsible for considerable funding risk.

It appears that the combination of a need to continue to invest in assets with risk and volatility in order to achieve investment returns and the restoration benefit to the pensioners, even at a level of low plan funding, acts as a one sided collar. That is, the City gives away much of the upside in investment earnings, while retaining all of the downside investment risk.

Legality of POA's Proposed Pension Cuts

Numerous parties in this bankruptcy, namely employees, retirees, Retirement Systems, and certain labor unions, have argued that the City is not legally able to impair accrued pension benefits as they are protected under Article IX, Section 24 of the Michigan State Constitution of 1963. These same groups were granted permission to appeal the Bankruptcy Court's eligibility ruling to the U.S. Court of Appeals for the Sixth Circuit. To the degree that these parties are successful in their appeal of the Bankruptcy Court's eligibility ruling, the City's chapter 9 could be dismissed or may be unable to effectuate reductions in accrued vested pension benefits.

<u>Sensitivity Analysis</u>

The Society of Actuaries issued a *Report of the Blue Ribbon Panel on Public Pension Funding* in February 2014. The Blue Ribbon Panel recommended stress tests measuring the effect of investment returns over a 20-year period that are three percentage points above and below those used in calculating standardized plan contributions[59]. The panel believes that +/- 3% points represents "plausible stresses" based on its review of prior market returns[60].

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[59] The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

[60] The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

In response to my request for a sensitivity analysis for the pension plans assuming various average rates of return for the FY2014-2023 period and the aforementioned scenarios of 1) a bear market 5-year period followed by a bull market 5-year period and 2) a bull market 5-year period followed by a bear market 5-year period, the City's actuary has analyzed the PFRS plan.

As illustrated below, if the PFRS plan averages a 6% rate of return (75 basis points lower than the assumed rate of return) over the nine years ending June 2023, the plan is forecasted to be only 70% funded in June 2023, resulting in an additional $236 million of unfunded liability versus the POA projections. That unfunded variance expands to $527 million if the PFRS plan averages a 5% rate of return during this time period. Finally, if PFRS is negatively impacted by a bear market/bull market cycle (as opposed to the inverse) with five years averaging 0% followed by five years averaging 10%, the pension plan would have $342 million more in unfunded liabilities during the 10-year period in question.

PFRS Average Rate of Return Scenario Analysis[61]

Average Rates of Return July 2014 - June 2023	Estimated Funding Status June 2023	Estimated Projected Unfunded Liability June 2023	Estimated Projected Unfunded Liability Variance
3.00%	43%	$ 1,717	$ 1,036
5.00%	60%	$ 1,208	$ 527
6.00%	70%	$ 917	$ 236
6.75%	**78%**	**$ 681**	**$ -**
8.00%	92%	$ 252	$ (429)
0% - 1st 5 years; 10% - 2nd five years	53%	$ 1,439	$ 758
10% - 1st 5 years; 0% - 2nd five years	64%	$ 1,097	$ 416

We have requested sensitivity analysis for GRS consistent with the PFRS sensitivity analysis highlighted above. At the time of this Report's release, we have not been provided the GRS sensitivity analysis.

Recommendations on Reporting Requirements

The City of Detroit will be bound by numerous reporting requirements and financial oversight when it emerges from bankruptcy. Going forward, these intended protocols are designed to assist the City in managing its cash flow and liquidity relative to its POA commitments and its future budgets. In addition, it will be important for the City to report its financial condition to various constituencies on a regular basis.

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61 Milliman, Inc. letter; dated July 9, 2014

Timely, accurate financial reporting relating to the City's pension plans will be an essential tool as the retirement systems manage the plans' assets and liabilities and make critical decisions regarding future estimated rates of returns and annual funding requirements. At the end of June 2012, the Governmental Accounting Standards Board ("GASB") issued standards intended to reform how state and local governments report the financial status of their pension funds and how they finance them. GASB 67 defines how government pension funds must report finances related to pension activities. GASB 68 pertains to state and local government reporting of activities associated with pension finances.[62] Both GASB standards are effective in FY2015 and will enhance the City's financial disclosures relating to its pension plans.

As the asset features and credit quality of the pension plans' investments evolve over time, so, too, will the reporting corresponding to those investments. The City's pension plans should establish a baseline level of financial reporting that will be accurate and illustrative of the condition of the pension plans at any point in time. The Society of Actuaries' report recommended that actuarial funding reports should contain, for at least the previous ten years, information presenting the relationship of benefit payments, funding liabilities, and assets to payroll; the relationship

[62] Governmental Accounting Standards Board

between the recommended contribution to payroll and to the sponsor's budget or revenue source; and the ratio of contributions made to the total recommended contribution.[63]

Additionally, to understand current risk levels, three benchmarks should be disclosed:

1) The expected standard deviation of investment returns of the asset portfolio on the report date;
2) The plan liability and normal cost calculated at the risk-free rate, which estimates the investment risk being taken in the investment earnings assumption; and
3) A standardized plan contribution for assessing the aggregate risks to the adequacy of the recommended contribution.[64]

Further, we recommend that the City disclose the gross liability and the UAAL by year on an undiscounted basis. This will allow third parties a better understanding of the changes in the liabilities from year to year.

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[63] The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

[64] The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

Section K - Human Capital and Leadership

Detroit's fifty year decline was caused by changing demographics, economics and the failure of elected officials to respond effectively. The downward spiral finally resulted in the City filing for Bankruptcy. Beyond the financial crises, the City has suffered from a deterioration of the efficiency and effectiveness of its City's workforce, as measured by the cost of service delivery versus the benefit the citizens received from those services.[65] Inadequate investment in human capital and poor leadership during the decline served to exacerbate the situation.

At its core, this chapter 9 is a fundamental change project. The City, through the guidance of its bankruptcy advisors, has fundamentally changed the City's balance sheet and reduced its long term obligations. The Emergency Manager has begun the even harder task of reshaping the operations of the City for the benefit of the taxpayers. The Mayor, and other elected and appointed officials, will need to continue this part of the change project. Human capital and leadership are two of

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[65] Docket # 14, page 29 of 106, Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

the most important components to any successful restructuring[66]. I believe the success, or failure, of Detroit's revitalization will hinge on the people employed by the City and the officials elected by the residents in the coming years. The skill level, on average, of City workers is low and outdated. Civil service requirements and historical collective bargaining agreements work against a merit or performance based employment culture in most municipalities and Detroit is no exception. Lack of even modest technology and up-to-date systems, as is the case with the City, ensure that employees will not perform at competitive levels to their peers in the private sector or even in municipalities that are efficient.

Impact on Feasibility

As I noted in my definition of feasibility, the second assessment prong of feasibility is "will and skill". Leadership, political and intestinal fortitude define "will" and talent and training equate to "skill".

For example, in order to arrest the downward trend of revenue, City employees must do a better job of collecting the taxes and fees that are currently due – that is skill. Better systems and more experienced management will be required

[66] I have written on this topic previously. See American Bankruptcy Journal, March 2014, "The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story"

to accomplish that goal. It was evident to me and my team that there are City employees who are knowledgeable, have good ideas about improving the operations and want to learn and advance. There are also employees who don't grasp that their job is to provide a service to the taxpayers versus the taxpayers owing them a job. This is a cultural malady that will have to change if Detroit is to be successful. Leadership that is focused on outcomes of service delivery and operating efficiency will be required, as will standards for personal and departmental performance.

Current Workforce Issues

The City employs more than 9,000 people and as a result of the RRIs expects add to almost 700 net new positions. After accounting for attrition, this is a significant mobilization. Further, my discussions with the leaders in the City indicate a universal understanding that increasing the average talent base of the employees is a cornerstone for success of the Plan and the City. This topic was acknowledged at the outset of the case and continues to present challenges to the City's management team. Throughout my team's discussions with City leaders and department managers, the issue of human resources has been a regular topic of discussion.

Throughout our discussion in the finance and accounting functions it has been noted:

> *"Many qualified and experienced employees have left their jobs over concerns about the long term prospects of their positions; Difficulty in replacing employees with qualified personnel because salary structure is no longer reasonable and competitive. This weakness has been partially mitigated by hiring employees outside the official system using Professional Service Contracts (PSC's), consultants and contractors."*

Exacerbating the problem of historic skill level are the changes made to compensation prior to, and as a result of, the bankruptcy. Prior to the Bankruptcy,

> "*the City has also implemented a 10% reduction in the wages to majority of the workforce in the addition to furlough days of 10% to a majority of the non-uniform employees. Medical and prescription drug plan designs have been changed to reduce the costs associated with healthcare and increase the percentage of contributions from active employees."* [67]

The POA eliminates future accrual of the defined benefit retirement plan and replaces with what is arguably a less generous hybrid pension plan. The Plan eliminates certain OPEB benefits, specifically, post-retirement healthcare and replaces with what is arguably a less generous VEBA plan.

Beth Niblock, the City's CIO, noted this concern in her Expert Report, *"(a)ttracting and maintaining a highly skilled workforce is a challenging task,*

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[67] Declaration of Gaurav Malhotra in Support of the City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

particularly given the current and proposed compensation rates set forth in the Projections."[68]

There is little doubt that total compensation includes not only direct pay, but the benefits conferred to employees in the current time frame plus those that are expected to be conferred to the employee in the future. Individuals may possess differing views as to relative value of each category of pay; however, they do place some value on the deferred benefits.[69] With all of these changes to compensation, it is unclear what the impact will be on retention and recruitment. While there are studies to suggest, and perhaps some experience in Detroit to confirm, that the elimination of post-retirement healthcare may offset the impact of the pension changes as a retention tool. Current employees, when they retire, will not have the benefit of receiving healthcare benefits prior to Medicare eligibility. Therefore, employees may be more likely to stay in their positions with the City.

While the specific impact of the compensation changes on retention is unknown at this time, the impact on current employees and future employees may be different. For current City employees, the City has necessarily lowered the

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[68] Report of Beth Niblock, Chief Information Officer for the City of Detroit-Expert report submitted in support of the City's POA – page 15.

[69] Are Public Pensions Keeping up with the Times? Richard W. Johnson, Mathew Chingos and Grover Whitehurst page 47."

overall economic value of City employment and changed the perception of the long term value in having worked for the City, once an employee leaves or retires. For future employees the economic and long term value analysis will be based on the individual's perception of alternative employment opportunities. The City is currently working with the consulting firm of Fox Lawson to complete a compensation review so that the City may have more than anecdotal evidence as it proceeds with the recruitment and staffing. We understand that the results of this study are not available and therefore were not considered when the City developed the POA projections.

In addition, the City has acknowledged the issue of skill development by including in the RRIs significant funding for employee training. The City has included an annual employee training budget of $2,000 for each non-uniformed employee through 2017 and $1,500 per year thereafter. The total RRI allocation to training over a 10 year period is $54.4 million. While no actual allocation of training dollars has been made, I believe that this is a strong indicator of the City's commitment to helping its current employees develop the skills they need to contribute to the success of the City and to maintain competitive skills within its employee base.

Throughout our meetings with City leaders and the advisors to the City, it has been noted that if compensation is a barrier to hiring the skilled talent required, the

City will likely adapt to this by hiring fewer but more skilled employees. I believe this approach can partially mitigate feasibility concerns regarding the City's ability to implement the Plan. Presently, the City is squeezed from both sides of the labor market: in order to do even the simplest routine task, the City has hired consultants yet maintains full time employees who should be able to manage those tasks but are not sufficiently trained to do so.

A significant challenge to acquiring the talent the City so desperately needs is the state of the Human Resources department. The Human Resources department is in need of an overhaul – recently, it has taken over six months to hire a new employee for an approved opening. As a result, department heads "work around" the department and find ways to recruit and hire employees more efficiently. The Mayor is well aware of the need for leadership in this key area.

Given the large number of recruits envisioned in the POA, a new approach to talent acquisition is needed. Consultants are in place to assess the skills needed to revamp key departments such as accounting and IT and the current leadership of those departments is experienced and capable. In fact, many of the Mayor's direct reports are experienced operational managers with successful employment histories. Overhauling the human resource function will be critical to a successful restructuring.

Leadership and Cultural Change

If the City is to counteract the vortex of underachievement that has defined Detroit, City leadership must make a long term, concerted effort to maintain the momentum needed to ensure effective City services. The Emergency Manager has made progress on the macro changes required and I believe the Mayor is developing a culture based on performance metrics and accountability and some of the *status quo* is going by the wayside.

I have confidence in Mayor Duggan. My opinion of feasibility is favorably influenced by my view of Mayor Duggan as a leader and an operational executive. I am encouraged by the manner in which he leads many of the City's departments given the real power is still held by the Emergency Manager. The Mayor has created simple metrics around which he can measure the performance of his department heads daily and/or weekly. This is a commendable workaround as the accounting and information systems, as noted elsewhere, are abysmal. While ultimately the City will need to address the core reporting system, the use of this simplistic metrics based approached is effective and understandable. When one is at the vortex of underachievement, having a few very simple and actionable goals can make a huge difference in the overall performance of the organizations. Having periodically attended the Mayor's Cabinet meetings, I know that if ambulance response times do not decrease more rapidly, it will be evident to all and managers will be held accountable; this level of accountability can change the City for the better.

In the long term, the City's leadership is subject to the democratic process. There is clearly risk that future elected leaders stray from principals in the POA, but I am choosing to rely upon the combination of the electoral process and the oversight function implemented as part of the Grand Bargain legislation to keep future City leaders focused on strong stewardship.

Collective Bargaining Agreements

My team has not been privy to the negotiations between the City and its unions, or the resulting term sheets. The City's financial advisors have indicated that the economic issues addressed in the collective bargaining agreements ("CBAs") negotiated during the bankruptcy have been appropriately included in the POA projections. Based on discussions with long standing and former City officials and employees, I believe the more significant workforce issues are centered on the restrictive work rule provisions that have caused labor inefficiency, higher costs and inability to change outdated processes. I do not know if, or to what extent, any of these issues have been addressed in the recently negotiated CBAs. While I believe that the Emergency Manager's desire to negotiate 5 year contracts has been beneficial in mitigating the risk associated with adverse arbitration awards in the future, I remain concerned that the City has missed an opportunity to make long term changes in its business processes and ability to manage through unforeseen events.

Section L - Blight

Detroit's Blight History

The City of Detroit, due to its shrinking population[70], depressed economy, and sagging property values, has experienced a metastasizing urban blight condition over the past several decades. Depending on which statistics are referenced, this City of approximately 139 square miles contains roughly 380,000 land parcels, of which 84,000 parcels (or 22%) have been identified as currently exhibiting blight characteristics or having indicators of future blight.[71] These blighted parcels are geographically disbursed throughout the City, resulting in a ripple effect throughout most neighborhoods which further stretch the City's limited resources. An expanding blight crisis within Detroit is not just a land and property issue; rather, this epidemic has an exponential impact on the City's efforts with regards to public

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[70]From roughly 1.8 million residents in the 1950's to the current estimate of under 700,000

[71] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

safety, education, job growth, property tax revenue, and the City's efforts to attract new residents and businesses.

As recently as 2010, under Mayor Bing's administration, the City of Detroit began a coordinated effort to tackle the City's growing urban blight, with an initial goal of razing 10,000 vacant structures, roughly 13% of the vacant structures within the City, at that time. The City reached approximately 50% of its stated blight removal goal by 2013, but lacked the necessary funding to continue its targeted efforts. Demolition expense estimates for blighted residential structures have ranged between $8,500 - $12,000 per structure, depending on the size of the building and the degree of blight and neglect. In addition to the incremental costs, the City's protracted payments to the demolition contractors have resulted in reducing the number of contractors willing to provide demolition services.

Current Blight Initiatives

Mayor Duggan has made blight eradication a top priority and has attempted to coordinate Detroit's multiple public and private organizations in an effort to streamline funding and execute a strategy toward this critical effort. To that end, the Duggan administration has created the Department of Neighborhoods and empowered the Detroit Land Bank Authority ("DLBA") to aggressively move forward with multiple blight initiatives, including:

- Nuisance Abatement
  - Legal process of the City taking proactive legal remedies to seize abandoned properties within Detroit via the transfer of title to the DLBA (after the owner has been given the opportunity to bring the property "up to code")
- Enhanced Intake Process
  - DLBA performs a cost-benefit analysis to assess the estimated costs to restore a property as compared the assumed demolition expense
- Disposition
  - DLBA has been initially successful in selling viable houses via open houses and online auctions

In addition to the City's blight efforts, the Detroit Blight Removal Task Force ("Task Force") recently released its Blight Removal Task Force Plan that articulated the Task Force's efforts since it was founded in September 2013 and its view on the City's blight efforts. The Task Force, in partnership with Data Driven Detroit and Michigan Nonprofit Association, created the Motor City Mapping ("MCM") project that created a database cataloging the physical condition, tax status, and other pertinent information of all 380,000 parcels of land in Detroit. Also, these partners developed the Maximizing Community Impact ("MCI") software tool designed to identify neighborhoods where targeted funding could stem blight expansion. Going forward, the Task Force's mission – as it pertains to the City's blight – is to focus on removing blighted structures and cleaning vacant parcels. The Task Force estimates it will cost the City approximately $850 million to execute the Task Force's demolition strategy[72].

While the City's blight action plan and the Task Force's recommendation appear to be directionally aligned, the City's overall mission to stabilize neighborhoods may result in the DLBA pursuing deconstruction efforts in lieu of demolition, where it makes more sense. If the DLBA is able to resell or recycle some of the building components of the blighted structures and create valuable job opportunities in the process, that approach may make better fiscal sense than an across-the-board demolition strategy.

Plan of Adjustment – Blight Proposals

The City's POA includes a Blight Reinvestment Initiative that proposes to allocate $420 million of funding towards blight removal over the course of the next nine years. The projected funds dedicated for blight removal have changed in each iteration of the City's POA projections and funding has been allocated to other POA obligations. The forecasted annual blight RRI is as follows:

[72] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014.

($ millions)

City of Detroit's POA Proposed Blight Expenditures

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Blight Expenditures	$ 2	$ 100	$ 46	$ 40	$ 43	$ 48	$ 52	$ 45	$ 25	$ 19	**$ 420**

Funding for the intended blight removal efforts is forecasted to come from a variety of public and private sources, namely $52 million from the federal government's allocation of its Hardest Hit fund, $20 million from the Fire Escrow fund[73], various private sector contributions, with the balance coming from the City's annual cash flow. I have been told that the funding source for blight is flexible and is currently not necessarily dedicated only for this purpose. The Exit Financing contemplated appears to be the primary source for this funding.

Assuming the City can generate, or raise, the entire $420 million dedicated for Blight removal over the next nine years, at an average demolition expense of $11,000 per structure[74], the POA only allocates enough funding to remove about 50% of the structures designated by the Task Force blight removal.

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[73]It is not clear how the City intends to access these funds for its general blight initiative, as we understand the funds in escrow are designated for the demolition of particular properties destroyed by fire.

[74]Phoenix assumed an average demolition expense of $11,000 per structure, within the $8,500-$12,000 range proffered in the Disclosure Statement and in Phoenix's conversations with the DLBA.

I am not troubled by this apparent discrepancy between what the Task Force believes is required to eradicate blight and what the City is proposing. At some point during the next ten year period, assuming the City can dedicate sufficient funding to the blight initiative in the next few years, I believe that blight removal can become more self-sustaining by incorporating private capital or cost neutral solutions. If the City is initially successful in its blight remediation efforts, private owners and investors will see an economic opportunity to allocate private capital to take advantage of the revitalization efforts. It should be noted that, of the 79,000 structures (excluding lots) that are included as blighted or indicating blight, almost half have the lesser designation of 'structures with indicators of future blight'.[75] It is likely that some portion of these structures might create realistic opportunity for private investors.[76]

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[75] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

[76] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224- the Blight task force estimates that 80-90% of the properties with blight indicators marked for 'further analysis' will eventually require demolition.

Blight Summary

Quantifying the near- and long-term economic impact of a successful City of Detroit blight removal initiative is difficult due to the absence of a calculable immediate return on the City's investment. The City's POA forecast, embedding the positive cash flow impact of the proposed RRIs, assumes increased income tax revenues of $204 million and property tax revenues of $110 million in the ten year period ending June 2023. While other RRIs impact the reasonableness of these incremental revenue assumptions, the relative impact of the blight removal initiative cannot be overstated.

In order to maximize the benefits of the blight removal program, the City must ensure that the funding is committed and supported in the longer term. For better or worse, blight has an emotional impact on the perception of what Detroit is and can be. I believe that the blight initiatives are immensely important to creating and sustaining a positive trajectory for the City's revitalization efforts. With substantive, long term commitments to address blight, I believe that many of the external factors, including home ownership and job creation required to abate the City's decline, can be addressed. Conversely, a start and stop approach, will likely result in ineffective investment and do little to reverse the spread of blight throughout Detroit. This trend would ultimately constrict the City's liquidity and make Detroit a less desirous location for new residents and employers. To effectively address blight, the City needs to achieve economies of scale. The Task Force estimates that through economies of scale, the average cost per structure may be reduced by 17%. Put differently, with proper planning and investment, the City's blight investment can produce 17% greater impact for the same money.[77]

Finally, continued coordination between the City, the State of Michigan, the Federal government, DLBA, and various private constituencies will be critical to the long-term success of the blight initiative. Perpetual updating of MCM, and effective utilization of the MCI software tool to identify the neighborhoods that will benefit the most from allocation of the limited blight funding, will be important to the success of this most critical City initiative.

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[77] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224

Section M – Post Confirmation Oversight

As noted in my definition of feasibility, I believe that the determination of feasibility stretches far into the future, although to impact feasibility, issues that extend further into time must be more significant. Beyond the strictly financial issues, one of the most significant issues impacting feasibility involves post confirmation oversight and governance. Ultimately, the City of Detroit will be largely run by an elected mayor and an elected city council. There are obvious inherent limitations to understanding how the City will be run without knowing who will occupy these critical positions. In the end, the success of the POA will largely rest on the will of these elected officials and whether the will to make the fundamental change is inherited by future leaders.

While the democratic process necessarily creates this limitation, the State of Michigan has created a framework that will provide a level of consistent oversight for the City. If implemented correctly, this oversight will institute financial accountability in the City's operations and greatly improve the ability to address small problems before they become significant factors to long term viability.

Public Act 181 of 2014 establishes a 9 member commission, the Financial Review Commission (FRC), with fairly broad oversight power over the City. Powers to be granted to the FRC include:

- Ensure the City is complying with the POA
- Review and approve the City's consensus revenue
- Require the City to submit 4 year financial plans
- Review, approve and modify proposed and amended operational budgets of the City
- Require relevant information from the City
- Review and approve requests by the City to issue debt
- Approve the appointment and termination of the City's CFO
- Approve collective bargaining agreements
- Approve all contracts that exceed $750,000

I strongly believe that the appointment of the FRC improves the prospect of the City continuing to improve its fiscal health and therefore, provides some level of assurance to me regarding feasibility. I do note, that the FRC is populated by 9 non-compensated members. What we have learned about the City's finances, reporting and operations compels me to caution that the task the FRC is undertaking is not only challenging, but will require substantial time. Therefore, I believe that the positive prospects associated with the implementation of the FRC would be improved if the FRC hires permanent staff. My belief is that an executive director level professional with qualifications similar to a CFO would significantly improve the oversight functions associated with the FRC. I understand that the State has appropriated funds for the operation of the FRC and these funds may in fact already be allocated to the above noted purpose.

As noted elsewhere in this Report, the pension plans are very complex. The accounting and actuarial assumptions are difficult to understand; it is even harder to understand how changes in assumptions may changes the City's future financial prospects. Therefore, I believe that it is important for the FRC to require annualized reporting from the City regarding each of the GRS and PFRS systems:

- The undiscounted liability of each of its pension plans.
- A sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel that provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan.

This reporting will allow outside observers to truly understand the nature of the City's continuing legacy pension obligations and insure that the City has foresight to deal with and significant deterioration of the pension UAAL during the time in which the City will not be making any direct cash payments to the pension funds, but the liability could nonetheless grow.

Public Act 182 of 2014 provides for the appointment of the City CFO, the identification of reporting requirements to the FRC and others, among other provisions. We do note that Public Act 181 and 182 requires the following:

> That the City's financial plan include a general reserve fund for each fiscal year to cover potential reductions in revenues or increases in projected expenditures equal to not less than 5% of the project expenditures for the fiscal year.

I do not believe that the City's POA, as currently presented, complies with this requirement. The City has not identified how it intends to come into compliance with this provision.

As noted elsewhere in my Report, the City is unable to produce any reliable reporting in a timely manner. This will impact the FRC in their duties. At present, the City does not conduct monthly financial closes. That is, the City does not produce financial statements during the year. Further, it does not have a system to properly account for encumbrances. At present, the City relies on cash based information for what little information it does use to manage its operations. This cash based system is woefully inadequate for the purpose of running a major city long term. This will be compounded as the City begins to make large scale investments, such as blight remediation, which require the allocation of funding well in advance of the actual cash expenditure. The City has targeted an ERP system as one of its highest priorities in the RRIs. We fully support this initiative. However, it typically requires between 2-3 years, and sometimes even longer, for a full ERP implementation. During this time, the City will be required to continue to rely on ad hoc reporting. It is my observation that Mayor Duggan is using ad hoc operational metrics to gain visibility. Given the lack of alternative options, I applaud this and believe that this can be a reasonable proxy for the immediate term, but it cannot replace the need for quick, integrated, systematic reporting over a longer period.

I have a significant concern regarding the City's intention with regard to the ad hoc reporting currently performed. It is my belief, the City is relying heavily on the cash team on site from E&Y. I understand that 3 full time E&Y personnel are allocated exclusively to cash management and reporting. I further understand that the POA does not have any direct funding allocated to retaining E&Y for this function. Further, I do not believe the City has recruited and trained personnel for this fairly complex and critical role. Failure to address this issue prior to confirmation could have a significant impact on the City's ability to manage cash and provide any level of reporting.

Section N - City of Detroit Unresolved Issues

In the event that the Plan of Adjustment is confirmed, the City of Detroit will continue to be challenged with operational, legal and financial issues critical to the City's long-term viability and its ability to execute the proposed restructuring initiatives, including:

- Bankruptcy Eligibility
- 2005-2006 Certificates of Participation
- Potential Swap litigation
- Impact of Collective Bargaining Agreements negotiations
- Potential City of Detroit Asset Sales
- Exit Financing
- Professional Fees post-bankruptcy

The immediate and long-term impacts to the City if it ultimately receives negative outcomes from any of these key issues cannot be quantified at this time. It is likely, though, that these (and possibly other) issues, both individually and collectively, will consume significant City resources, with regards to both human capital and financial reserves, in the period immediately following the conclusion of these chapter 9 proceedings.

Chapter 9 Eligibility

The central issue before the Court since the beginning of this municipal bankruptcy has been the ultimate determination as to whether the City of Detroit was eligible to be a debtor under chapter 9 of the Bankruptcy Code. At the petition date, the City filed its Statement of Qualifications and supporting memorandum demonstrating its compliance with the chapter 9 debtor requirements. Approximately 110 objections to the City's eligibility were filed, along with the Attorney General for the State of Michigan's argument that the Pension Clause of the Michigan Constitution prohibited the City from impairing its obligations to the City's pensioners.

After three months of multiple hearings and bench trial, on December 5, 2013, the Court entered the Eligibility Order stipulating that the City was eligible to be a debtor under chapter 9 and that its bankruptcy petition was filed in good faith. The objecting parties immediately requested an Order of Relief to the Sixth Circuit Court of Appeals. The Bankruptcy Court subsequently issued a memorandum recommending that the Sixth Circuit deny the appeal request entirely, and, if the Sixth Circuit did grant the appeal, that the appeal should not be expedited and therefore ruled upon prior to the City's Confirmation hearing. On February 21, 2014, the Sixth Circuit Court of Appeals granted the appeal petitions, but stated that the appeals would not be expedited.

At this juncture, the City's bankruptcy confirmation hearing and ultimate resolution is scheduled to occur prior to the Sixth Circuit's appellate hearing and decision. The potential impact of a reversal or modification of the Court's Eligibility Order is unknown at this time. It is conceivable that a reversal of the Bankruptcy Court's Eligibility ruling would completely negate the negotiated advances the City has made to date, specifically relating to employee compensation and pension/benefits reform.

Certificates of Participation

In 2005 and 2006, the City of Detroit, via its Retirement Systems and their related service corporations, issued multiple debt instruments known as certificates of participation ("COPs") totaling $1.47 billion in an effort to reduce the pension plans' combined unfunded liability. At the petition date, three series of COPs were outstanding totaling $1.473 billion:

($ million) COP Series	Amount Outstanding		Interest Rate
2005-A	$	517.6	4.5-4.95%
2006-A	$	153.7	5.989%
2006-B	$	801.6	Floating
	$	**1,472.9**	

Material legal debate currently exists as to whether the City of Detroit was legally able to issue the COP debt instruments. The City is bound by both the Home Rule City Act, which details the level of indebtedness a city may incur, and the Municipal Finance Act, which prohibits a city from issuing a municipal security except in accordance with provisions of the Municipal Finance Act. The 2005-2006 COP debt instruments may have been in violation of either or both of these legal statutes.

On January 31, 2014, the City filed a complaint against the Service Corporations and the Funding Trusts – the non-profit entities established to effect the COP debt issuances – stating the 2005-2006 debt issuances were in violation of state law and that the related COP claims should be disallowed in the chapter 9 proceedings. Contradictory complaints were subsequently filed by the Funding Trusts, COP holders, and the COP insurers citing multiple affirmative defenses to the City's complaint. At this time, hearings on the respective motions have been adjourned indefinitely. To the degree that such legal proceedings result in the COP claims being fully or partially allowed, the City's POA could be materially weakened, and may result in incremental liquidity being required from future tax revenue to satisfy future obligations.

Potential Swap Litigation

As highlighted above, the City previously issued multiple COP debt issuances, the 2006-B series of which contained variable interest rates, thereby exposing the City to a rising interest rate environment. To hedge against this risk, the City entered into variable interest rate swap transactions in a notional amount of $800 million, equivalent to the 2006-B COPs series. The swap contracts were insured by FGIC and Syncora to guarantee the quarterly payments defined in the swap agreements.

In 2009, due to the downgrade of the 2006-B series credit rating, the swap counterparties had the right to declare an early swap termination event which, at the time, would have required the City to make a lump sum payment of $300-400 million to the swap counterparties. In an effort to avoid making such payment, the City pledged certain casino revenues and developer payments as collateral to the swap counterparties. Approximately $0.5 million per day is held in a lockbox until the City makes its $4 million monthly swap payment.

The City's UTGO bond ratings were downgraded in 2012, exposing the City to a subsequent termination event and additional, costly termination payments due to the swap counterparties. In efforts to protect its interest in the collateralized Casino revenues, the City of Detroit entered into multiple mediations and litigation with both the swap counterparties and the swap insurers. The mediation with the swap counterparties resulted in reaching the Forbearance and Optional Termination Agreement that, after significant prodding from the Court, resulted in an agreement for a reduced Optional Termination Payment of $85 million, payable when the City raises the required Exit Financing or in installments within 180 days of the case's Effective Date.

The Court entered a Swap Settlement order on April 15, 2014, which was subsequently appealed by multiple swap insurers contesting the swap counterparties ability to exercise any optional right of termination of the swap contracts without the insurers' written consent (Syncora Guarantee Inc. v. UBS AG, et al., Adv. Proc. No. 13-05395)[78]. The litigation appears to essentially hinge on two primary issues: 1)

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[78] Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

whether the swap insurers have the right to prevent the City from gaining access to its wagering tax revenues (City of Detroit, Michigan v. Syncora Guarantee Inc. et al., Adv. Proc. No. 13-04942)[79], and 2) whether the swap counterparties had the "standing" to enter into the FOTA without the swap insurers' consent. On the first issue, the District Court – in a July 14, 2014 decision - ruled the swap insurers did not have the right to trap the City's wagering tax revenues. That decision, as well as the ruling on the swap counterparties authority to execute the FOTA without the swap insurers' consent, will thus be decided by the Sixth Circuit Court of Appeals. To the degree the insurers' appeal is successful, any clarity of the City's financial exposure to a potential swap termination payment would be lost and would possibly result in the future restricted access to some portion of the vital Casino revenues.

Collective Bargaining Agreements

The City of Detroit, throughout this bankruptcy process, has been negotiating to reach CBAs with its various labor unions representing the City employees. A total of 47 labor unions represent the City's employees, all of which had their CBAs

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[79] Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

expire as of June 30, 2013. The City's employees have been subject to City Employment Terms ("CETs") since the expiration of the respective CBAs. The City estimates that the CETs have resulted in more than $200 million of annualized labor savings.

The City has negotiated many new CBAs with the goal of having them mirror the effective terms of the CETs. Phoenix has recently received the majority of negotiated CBAs, some of which have been fully approved by the State of Michigan, and some of which have been ratified but await the State's approval. Due to the timing of when Phoenix received these CBAs relative to our Report deadline, we have not fully reviewed each of these CBAs. To the degree that the final, agreed-upon terms of the respective CBAs contain aspects that are costlier to the City than the current CETs or contemplated in the projections, the City's liquidity could be negatively impacted. I am further concerned that the newly negotiated CBAs may not have sufficiently addressed the City's historic work rule issues.[80]

[80] I have received assurance from City advisors that all agreed-upon CBAs are included in the projections.

Potential Asset Sales

Concurrent with the City's bankruptcy process, the City and its representatives have been in discussions with multiple constituencies in efforts to ascertain the optimal utilization of certain assets of the City of Detroit, whether that may be the outright sale of certain assets or the proposed leasing and/or partnership of non-core City assets.

The City has been engaged in longstanding discussions pertaining to the Detroit Water and Sewerage Department ("DWSD") with the surrounding counties with regards to the potential formation of a regional water authority. It is conceivable that a new authority could assume operating control of the majority of DWSD assets. To date, the City has not able to reach an agreement on any disposition of the DWSD assets and, as such, the discussions have migrated to bankruptcy-ordered mediation.

In addition to a possible disposition of the DWSD assets, the City has also inquired with interested parties about the possibility of a public-private partnership. Such partnership would entail the operation and management of the DWSD by qualified candidates who have demonstrated the financial and operational capabilities required to execute the DWSD's operations.

The City, via its Auto Parking System ("APS"), owns and manages seven parking garages containing 6,793 spaces and controls roughly 3,400 on-street metered parking spaces. At the request of the City, Miller Buckfire & Co. has been tasked with exploring the potential monetization of the City's parking assets. At this time, no definitive decisions have been made by the City regarding these assets.

Lastly, options related to the City's Coleman A. Young Airport are currently being considered, specifically a possible sale or lease transaction. As the airport is currently a cash drain on the City's budget, the transfer of this asset could be beneficial to the City's overall liquidity.

<u>Exit Financing</u>

The City of Detroit is seeking to enter into a $300 million financing facility ("Exit Facility"), commensurate with the City's anticipated emergence from bankruptcy. Per the POA, an estimated $120 million of the Exit Facility will be used to refinance the City's existing, previously-funded Quality of Life loan. The balance of the Exit Facility is intended to provide the City with liquidity and begin to fund the POA's restructuring initiatives.

Miller Buckfire & Co. has been engaged to solicit respective parties' interest in the proposed $300 million financing. To date, an Exit Financing introductory letter and an Exit Financing Indicative Term Sheet have been released to prospective lenders. Phoenix has no visibility into the receptiveness of the financing sources to the proposed debt offering. To the degree the City is not able to procure the anticipated Exit Financing in the amount or at a reasonable interest rate will materially impact the City's cash flow liquidity at its emergence from bankruptcy. As of the date of this Report, it appears that the assumed interest rate of 6% could be low for a high yield instrument like the proposed Exit Financing.

Professional Fees

According to the Plan, the City intends to establish and fund the Professional Fee Reserve, effectively allocating funds for the accrued expenses of professionals during the Chapter 9 bankruptcy. Those funds have been identified in the City's financial forecast.

The services provided by these professional advisors – both legal and financial – are likely to be required by the City after the bankruptcy is confirmed, whenever that occurs. In addition to various litigation matters referenced above, the City's treasury function, as well as multiple, other financial and departmental functions, are largely performed by outside professionals at this time. This results in two primary concerns: first, many of the everyday functions performed by these outside professionals need to be transitioned to City employees, some of whom may not be hired yet; and, second, the interim, post-bankruptcy costs associated with these outside professionals is not in the City's budget at this time. While the City may be able to transition the Finance-related roles to its employees in the short or mid term, the various ongoing litigations will require a significant near-term financial commitment by the City to its retained legal counsel. The estimated, post-bankruptcy professional fees should be included in the City's near-term financial forecasts as they have the potential to be an immediate use of funds.

Section O - Other Risks and Opportunities

The POA and the projections that support the POA have been developed by the City to provide a reasonable forecast and represent a realistic picture of the City's General Fund.[81] Based upon my team's analysis and numerous discussions with the City's advisors, I understand these projections were not developed either to: 1) account for every opportunity the City may have to generate cash flow in the future, or 2) account for every possible downside risk associated with a loss of revenue or an increase to expenses. While I do not disagree with the City's exclusion of certain items, I believe it appropriate to briefly summarize certain risks and opportunities not fully explored elsewhere in this Report.

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[81] Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 3, "These projected revenues and expenditures are reasonable forecasts and represent a realistic picture of the City's General Fund's ability to afford its expenditures and satisfy its obligations under the plan while maintaining an adequate level of municipal services."

Macro-Economic Issues

I believe the City's economic forecasts that informed the projections considered normalized economic conditions. I do not believe the City's projections accounted for any significant economic disruptions similar to those experienced recently during the Great Recession. Depending on the severity, longevity and the direct impact on urban centers, a long term and negative economic condition could cause serious concerns with meeting the Plan requirements.

State and Federal Funding

The POA relies on a number of external funding sources including the State of Michigan and to a lesser extent the Federal government. The State contributes through annual revenue sharing totaling almost $2 billion over the first 10 years of the Plan as well as $194 million as part of the Grand Bargain. Any additional support for Detroit at the State level is not committed and, in fact, revenue sharing could decrease over the life of the Plan.

There is obvious interest by the Mayor in identifying new and recurring support from the Federal government and other grant making bodies. The Plan projections have tended to apply conservative assumptions to the current grants and the availability of additional grants in the future, although it is clear that not all grants assumed in the projections are committed at this time. Any increase in direct Federal support or grants will help to make the projections more achievable.

Impact of Private Parties

Third party funders have made significant commitments to the City. In fact, the Grand Bargain represents a huge commitment by these City benefactors and is already accounted for in the projections. However, there are a lot of small ways that third party benefactors may directly and indirectly impact the future of the City. The work of the Blight Task Force and the Future Cities Initiative are an example of this and cannot be measured in dollars. There would also be an improvement in the feasibility of the POA if a surge in private investment favorably impacts real estate values, employment and other factors that could contribute favorably to the initiatives in the Plan.

There is a downside to third party involvement as well. It can be fickle; a change in priorities or fortune could reduce the level of funding or delay it. The POA calls for $366 million from charities and foundations plus an additional $100 million to be raised by the DIA Corporation as part of the Grand Bargain which will be paid over a 20 year period. Failure of these foundations or benefactors to execute on their commitments will result in further funding requirements from the City of Detroit.

Exit Financing and Access to Capital Markets

The POA contemplates the closing of an Exit Financing that will support the City's investment and liquidity needs. The projections assume Exit Financing will be a $300 million facility with an 11 year term, funded on October 31, 2014, with interest only payments in the first 4 years and equal principal payments made in years 5-11. The interest rate is assumed to by 6%.[82] We understand the City, through its advisors Miller Buckfire & Co., have commenced a process to solicit bids for this financing package. As of the date of this Report, the process is still underway. Mr. Buckfire believes that the Exit Financing process is likely to be successful on the terms outlined.[83] In the event that this financing is unavailable to the City on reasonable terms, is significantly lower in terms of facility amount, or is otherwise different than the assumptions in the POA, it is unlikely the City will have sufficient liquidity to operate and satisfy its obligations.

[82] Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 14.

[83] Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 page 3 Section 2.

In addition, I believe it is likely that the City will desire or require access to the capital markets in the future for potentially many different reasons. Mr. Buckfire believes the significant changes as a result of the POA and the State of Michigan's steps to remedy governance will allow the City to again access the capital markets. [84] The City's inability to access the capital markets beyond the Exit Financing may limit the City's working capital flexibility and its ability to respond to future, necessary changes in delivery of essential services or capital investments.

<u>DWSD</u>

Detroit Water and Sewerage Department is a significant portion of the City's operations, however, it has very little impact on the General Fund. DWSD largely operates independently from other City business units. While DSWD's debt is impacted by the POA, the DWSD operations are not included in the Plan. DWSD does play a significant role in funding the City's pension obligations during the forecast period[85]. In the event of a significant disruption to the DWSD operations, significant loss of customers impairing its financial prospects, or in the event that

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[84] Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 pages 3-5 Sections 3-6.

[85] DWSD is expected to contribute a total of $428 million from FY2015-FY2023.

the DWSD contributions are not made according the POA, this could negatively impact on the outcome of the POA.

Sale of Assets

The POA largely excludes the sale of assets. While the sale of certain assets will have established treatment in the POA, there are significant asset sales that are not contemplated in the POA that could positively impact the projections. These assets might include parking related assets and other real estate. I have no visibility into the value of potential asset sales, but I believe they could produce cash which could improve the City's liquidity or revitalization prospects.

Tipping Point

The concept of the Tipping Point was made popular by author Malcolm Gladwell. He characterizes the tipping point as a moment of critical mass or boiling point where a group of small actions hit a threshold point and create an outsized impact. [86] A tipping point can be either positive or negative. Presently, the City has

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[86] The Tipping Point by Malcolm Gladwell, 2000 published by Little Brown.

momentum and emotional optimism that it can build upon to energize its revitalization. There is no way to stochastically identify this impact and I do not believe the City has included this optimism in its projections. But there is no doubt that it is real.

I believe the City may be experiencing a tipping point that could be either positive or negative. There is a lot of press about support for the City from external parties making significant investment in Detroit. Press accounts suggest percolating interest in real estate and low availability of market rate apartments in small sections of the City. The City is addressing in small ways the quality of life issues, including street lights and blight.

It is beginning to feel like it could be an exciting time to be in Detroit. Tipping points also work in the opposite direction. If the momentum starts to slow in lots of small ways, or if the headlines change from investors buying, to investors selling, or if blight remediation reverses direction, the City could tip backwards. It is a critical point in time for the City of Detroit. My opinion is that it is more likely to tip forward than to tip backwards.

Section P - Conclusions

As noted in the Feasibility Section of this Report, I, along with the Phoenix team, have proffered the following Feasibility Standard for use in determining whether the City of Detroit's Plan of Adjustment is feasible:

> '*Is it likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default*?'

We have further qualified the Standard into two components:

<u>Quantitative</u>

- Are the projections contained in the POA mathematically correct and materially reasonable?
- Are the assumptions that the City has used to develop its projections individually, and when taken as a group, reasonable?
- Is there an adequate contingency included in the projections?

<u>Qualitative</u>

- Does the City have the human resources, or can it likely recruit the human resources, required to meet its obligations under the POA?

- Does the City have the appropriate systems and procedures to monitor its financial performance and to provide early warning signs of variances in performance that might cause the City to fall short of the projections and be unable to meet its obligations under the POA?
- Are there appropriate structures to ensure the City's compliance with the POA and with reasonable government standards of operation?
- Will the City be able to reasonably deliver a minimum level of municipal services?
- Is the City's trajectory sustainable?

The Quantitative Issues

It is my opinion that, except where otherwise noted in my Report, the projections are generally mathematically correct and materially reasonably and therefore fall within the Feasibility Standard I have defined.

It is my opinion that, except where otherwise noted in my Report, the individual assumptions used to build the projections fall into a reasonable range and, that when taken as a group, these assumptions are also reasonable and fall within the Feasibility Standard.

While I have noted issues with the level of contingency in the projections, and feel this must be addressed both as a practical matter and in response to Public Acts 181 and 182 of 2014 controlling law, I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption concerning the level of contingencies, particularly in the early years. While I do not believe a 1% contingency is adequate, I believe that the POA projections, taken as a whole, fall within the range of reasonableness and within my definition of the Feasibility Standard.

<u>The Qualitative Issues</u>

As noted in this Report, I believe that human capital and the City's leadership ability are immensely important for the success of this Plan. Current human resources are lacking and senior leadership, while generally capable is not plentiful. To meet the projections in the POA, the City will need to recruit a significant number of employees with improved skill level and continue to change the culture of performance and accountability, I believe that the City has identified human capital as an issue and is addressing this both formally and informally. I am relying on Mayor Duggan, CFO John Hill, and the other capable executives I have met at the City to execute effectively on the human capital strategy.

As noted in this Report, the City's IT systems and procedures are broken and insufficient. I believe that the City's Mayor, CFO and CIO recognize the critical importance of effective technology and systems to the City's revitalization. Each of these executives has convinced me that correcting the City's IT systems issues is a very high priority. I believe the City has recognized these issues, has identified the magnitude of funding required, and has begun to address both the process and technology issues necessary to bring the systems up to a reasonable standard over the next few years. I do not believe that there is a reasonable alternative that would produce a better, or quicker, result for the City.

I have noted my concern and my personal preference that the CFO report to the Financial Review Commission. I believe this would have provided a greater level of confidence in the City's performance by outsiders, including the capital markets. However, I believe that the existence of the Financial Review Commission provides a reasonable level of oversight to the City and that the CFO is eminently capable and appropriately professional and independent.

The POA and the projections that support the POA are designed to allow the City to continue to improve its level of service to the citizens of Detroit. I believe that the RRIs are reasonable and well considered. If executed, they will allow the City to deliver essential services. It is my opinion that the City is beginning to emerge from the "service delivery insolvency" referenced in Judge Rhodes' opinion concerning eligibility.

By most accounts, there is forward progress being made in the City. I believe the combined efforts of the Emergency Manager and Mayor are addressing service shortfalls. Further, I believe that the expanding efforts of the private sector are also indicative of a City with a positive trajectory. The POA lays out a plan to continue to improve the City services and I believe some of the work done by the Blight Task Force and the Future Cities Initiative will continue to add additional support to the City's positive trajectory.

After extensive interviews with parties knowledgeable about the City and the POA, the review of hundreds of relevant documents and models, and significant independent research and analysis by my team and me, it is my opinion that:

> It is likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default.

As noted in Section C of this Report, I believe that the Feasibility Standard exist on a reasonable continuum, therefore, there are actions that can make the POA "more feasible." Throughout my Report I have noted issues that caused me some level of concern. These are issues that, if addressed, would make the POA 'more feasible.' Without any expectation that my concerns will influence the City or the Court, I will briefly summarize my larger concerns.

It should be noted that this opinion is rendered in an environment where there are many factors that will have influence on the City's conditions post confirmation that are unknown and unknowable. Throughout this Report, I have noted some of these factors, while other factors may not even be recognized today as potentially having an impact. My opinion is necessarily limited by these unknown factors. It should be recognized, that these factors, when known, could have a material impact on my view of feasibility.

Integrated Plan

As noted throughout this Report, there is not one controlling set of projections that will provide a financial road map to the City, its constituents and the Financial Review Commission. I recommend that the City immediately produce an integrated plan, which includes the expected initiatives, deferrals and other items, by department and fund. This will provide a longer term roadmap and assist the Mayor, the Financial Review Commission and other interested parties in understanding how the City is making progress towards the forecast detailed in the Plan. This business plan would also meet the requirements established in Public Acts 181 and 182 of 2014.

Oversight

As noted, I would have preferred an oversight model that included a CFO that did not report directly to the Mayor. This is not a statement about the quality of the current Mayor or CFO but rather my view that an oversight structure should be independent of who is the elected official. Given that the structure included in the Grand Bargain legislation does not include this independent CFO, I believe it is imperative that the Financial Review Commission have some permanent staff. My experience in other similar situations allows me to understand the complexity and sheer volume of information that must be analyzed and evaluated to properly execute the oversight function. The legislation provides for the Commission to hire professionals, which it will no doubt need to do, but it will be less costly and better for the long term effectiveness of the Commission, if it has a least a small permanent staff to support the part time, unpaid oversight board.

Pension Plan

One of the driving forces of the City financial problems was the City's, and the pension plans' trustees, failure to appropriately address the growing, unfunded pension liability. With finite resources, competing needs for dollars and the willingness to push the problem to tomorrow, the pension UAAL continued to grow. This is not only a Detroit problem, but a general municipal finance problem throughout the United States. However, just because it is not *just* a Detroit problem does not mean that Detroit should not make some progress in addressing the macro problems. While the Plan makes progress in addressing this liability, the liability is not fixed. As noted in the Pension section of the Report, there is still risk that the liability could grow significantly. I recognize the difficulty and pain associated with the pension negotiations; and further, I understand the practical nature of the resulting settlements and the City's desire to manage its cash requirements related to pension contributions over the next 10 years. However, this does not fix the liability. The City cannot look away for 10 years and return in FY2023 to find the liability has again become an unmanageable burden. Therefore, I believe it is appropriate that the City be required to annually release the undiscounted liability of each of its pension plans. This will allow outside interested parties to independently evaluate the strength of the plans. Further, I believe that the City should provide a sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel on an annual basis and provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan. This level of reporting is not overly burdensome and will provide some level of sunshine into what is otherwise a very opaque process.

RRIs

The RRIs are one of the positive outcomes of the bankruptcy process. The RRIs provide the backbone of improved services to the citizens of Detroit. I believe that the development of a scorecard to track the implementation of the RRIs is an important tracking mechanism that will enable the City and the Financial Review Commission to understand the RRIs' implementation progress.

Respectfully submitted,

Dated: July 18, 2014

/s/ _***Martha E. M. Kopacz***

Martha E.M. Kopacz

Exhibit 1

Martha (Marti) E. M. Kopacz
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Ms. Kopacz has over 25 years' experience assisting stakeholders in analyzing business operations and reorganization possibilities. She has led or participated in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks and Chapter 11 Trustees. Ms. Kopacz has advised in a broad range of industries including not for profit and public sector, retail, leisure and entertainment, technology and professional services. She was one of the first financial advisors to apply turnaround principles to public sector and not for profit organizations. She has served as an Interim President, Chief Restructuring Officer, Chapter 11 Trustee, Collateral Trustee, and Examiner.

General Experience

Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more, prepared by others. She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast. She has a deep understanding of the importance of developing assumptions based upon a thorough analysis of relevant data, including historical and prospective information as well as third party, independent data. Ms. Kopacz understands the nuanced area of municipal budgeting. Because municipal entities lack a "standard" in budgeting, forecasting and accounting, great variations occur in the manner in which public entities report financial results and develop forecasts. As such, preparing and evaluating projections for municipalities requires strong business acumen and deep appreciation for the challenges inherent in the forecasting methodology and approach available to the entities.

Relevant Engagements

Ms. Kopacz advised the **Nassau County Interim Finance Authority (NIFA)**, a New York state control board, in their oversight role. In early 2011, NIFA imposed a control period for Nassau County based on a substantial budget deficit. Nassau County has experienced financial difficulties for over a decade despite an annual budget that approaches $3 billion. The structural deficit for 2012 was estimated at $300 million. Ms. Kopacz advised NIFA on the financial requirements underpinning the control period, the nature and size of the likely budget deficit and the reasonableness of the County's forecasts. In addition, Ms. Kopacz and her team conducted and in depth review of the business operations of the County and developed over $300 million of cost reductions and operational improvements, which if implemented would restore Nassau County to a balanced budget in the next few years.

Serving in the capacity of the Chief Restructuring Officer and Interim President, Ms. Kopacz designed, led and executed the out-of-court restructuring of the **Legal Aid Society**, a 135 year old charity with approximately $150 million in revenue serving the legal needs of the needy in New York City.

Accomplishments included: reducing a $20 million operating deficit to better than break even; negotiating workforce reductions, compensation and benefit modifications with the UAW (lawyers' union) and the SEIU 1199 (social workers and paralegals' union) representing approximately three-fourths of the Society's 1400 employees; restructuring pension obligations; consolidating real estate, third party suppliers and infrastructure; and restructuring over $65 million of balance sheet and long term obligations with dozens of creditors and stakeholders, all of which returned the organization to solvency. In addition, Ms. Kopacz led the Society's first ever Strategic Business Planning effort, managed day-to-day operations in conjunction with the Attorney-in-Chief, and received the Society's Pro Bono service awards for 2004 and 2005.

Ms. Kopacz represented **The Educational Resources Institute, Inc. (TERI)**, a large not for profit organization providing college access to underprivileged and underserved populations. TERI's for profit subsidiary was the largest guarantor of private student loans in the country when the securitization market for student loans evaporated. The extensively negotiated plan of reorganization preserved the not for profit mission and return collateral to the original lenders.

Ms. Kopacz worked extensively with the **Archdiocese of Boston** during some of its darkest days. In addition to preparing this socially significant non-profit institution for a contingent bankruptcy filing, she worked with stakeholders to develop a crisis communication plan, arranged interim financing and designed a claims facility to adjudicate tort claims.

Prior Experience

Prior to joining Phoenix Management, Ms. Kopacz founded Brant Point Advisors, a boutique advisory firm. Previously, Ms. Kopacz co-founded and co-lead the U.S. Corporate Advisory and Restructuring Services practice at Grant Thornton LLP and lead the group's public sector initiatives. Earlier in her career she was a Managing Director with Alvarez & Marsal, focused on public sector and not for profit clients, and a Principal with PricewaterhouseCoopers LLP until the practice was sold to FTI Consulting, as which time she was a Senior Managing Director.

Education & Certifications

Masters of Business Administration in Finance and Investments – Kelley School of Business – Indiana University
Bachelor of Science degree in Marketing – Kelley School of Business - Indiana University
Certified Management Accountant
Certified Insolvency and Restructuring Advisor

Affiliations

American College of Bankruptcy – Fellow – Twelfth Class
Turnaround Management Association
American Bankruptcy Institute
International Women's Insolvency and Restructuring Confederation,
Association of Insolvency and Restructuring Advisors
Institute of Management Accountants.

Civic Engagement

Boston 2024 Organizing Committee – Board Member
Legal Aid Society of New York – Board of Advisors
Kelley School of Business - Indiana University – Dean's Council
Graduate School of Business, Sunkyunkwan University – Dean's Council
Inly School – former Board of Trustees

Speaking Engagements and Publications

"Municipal Insolvency and Bankruptcy Part 1: Introduction, Overview and Key Issues" – Rhode Island Bar Association Annual Meeting, June 2012

"Municipal Bankruptcy" – Association of Insolvency and Restructuring Advisors Webinar, February 2012

"The Municipal Restructuring under Chapter 9: Legitimate Option or Scare Tactic?" – American Bankruptcy Institute Winter Leadership Conference, La Quinta, CA, December 2011

"Municipal Insolvencies: Is This the Next Wave?" – Turnaround Management Association Northeast Chapter, Boston, MA, November 2011

"Leadership and Political Will – Fixing States' and Cities' Fiscal Woes" – Heyman Center Series: America's Fiscal Crisis – Depression, Recession or Recovery, Cardozo School of Law, New York, New York, October 2011

"Today's Problems in Municipal Finance – Should Chapter 9 be Extended to States?" – Commercial Finance Association Advocacy Conference, Washington, DC, September 2011

"Turnaround "Apps" for the Public Sector" – Grant Thornton white paper, July 2011

"Chapter 9 Update" – American Bankruptcy Institute Northeast Conference, Newport, RI, July 2011

"Turnarounds in the Public Sector" – Kellogg Turnaround Management Conference, Chicago, IL, May 2011

"Too Big to Fail or Too Big to Bail (Out): a Discussion of the Pros and Cons of Bankruptcy for States" – Grant Thornton white paper, March 2011

"That was Then, This is Now: Financing Your Business in the Current Environment" – Proskauer Grant Thornton Seminar, New York, New York, October 2010

"Navigating Your Portfolio Through Turbulent Waters - Facing The Reality of Being Over Leveraged - And Practical Strategies for Restructuring in Zero Gravity" – Association for Corporate Growth Intergrowth Conference, Miami, May 2010

"Who Has $$ and What Are They Buying?" – Caribbean Insolvency Symposium, Grand Cayman, CI, February 2009

“Gaining Support from All of Your Constituencies” – American Bankruptcy Institute Northeast Conference, Brewster, MA, July 2008

Previous Dates – Guest Lecturer at Harvard Business School, Massachusetts Institute of Technology, Bentley College, Northeastern University, Pennsylvania State University and Indiana University concerning various corporate recovery topics. Panelist or Moderator at industry conferences hosted by Turnaround Management Association, American Bankruptcy Institute, Massachusetts Continuing Legal Education, National Credit Managers Association, Food Manufacturers Association, Barclays Bank among others.

Exhibit 2

Exhibit 2	
#	Document/Source
1	All documents referenced in this report
2	All dockets located within KCC (Kurtzman Carson Consultants) data room in re: City of Detroit, Michigan
3	All documents located within the RR Donnelley Venue data room, located at http://www.kccllc.net/detroit/document/list/3666
4	All documents located within the data room constructed for Phoenix Management to catalog the Jones Day data productions, serviced by AlphaLit data room, located at www.go2edirect.com
5	All information located within the City of Detroit website, located http://www.detroitmi.gov/
6	All communications with City of Detroit personnel
7	All communications with Advisors of the City of Detroit
8	All communications with personnel responsible for the City's pension funds
9	All communications with the advisors of the City's pension funds
10	Emergency Manager Orders
11	Emergency Manager Announcement
12	Emergency Manager Reports
13	All documents released from the state of Michigan in regards to the City of Detroit Bankruptcy
14	American Bankruptcy Journal article titled “The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story”(March 2014)
15	Detroit Blight Removal Task Force publication titled "Every Neighborhood Has A Future… And it Doesn’t Include Blight, Detroit Blight Removal Task Force Plan"(May 2014)
16	Daily Bankruptcy News article titled "$4 Trillion In Hidden Muni Liabilities: SEC Commissioner Gallagher" (May 2014)
17	Journal of Corporate Renewal article titled "Chapter 9 May Be Tough to Swallow for Unions, Retirees" (June 2014)
18	The Society of Actuaries panel titled “Report of the Blue Ribbon Panel on Public Pension Plan Funding”(February 2014)
19	The Brookings Institution publication titled "Are Public Pensions Keeping Up With The Times?"(June 2013)
20	The Rockefeller Institute of Government publication titled "The Blinken Report: Strengthening the Security of Public Sector Defined Benefit Plans(January 2014)
21	BenefitsPro article titled "Public Pensions Hiding Trillions in Liabilities, SEC Commissioner Says"(June 2014)
22	Goodwin Proctor article titled "Visionary Schemes Need Not Apply: The Chapter 9 Plan Feasibility Requirement" (June 2013)
23	WSJ article titled "Detroit’s Bankruptcy Revival " (April 2014)
24	Elizabeth Warren, U.S. Senator for Massachusetts press release titled "Rockefeller, Warren Introduce Legislation to Protect Employees and Retirees from Unfair Benefit Cuts"(June 2014)
25	Unionwatch Article titled "GASB Loopholes Created Illusions of Insolvency"(March 2013)
26	New York Times article titled "Panel Seeks Greater Disclosures on Pension Health"(February 2014)
27	The Detroit Free Press article titled "Judge Rhodes spars with Detroit fire union over bankruptcy objection"(July 2016)
28	Dow Jones Financial Information Services publication titled "Balancing Best Interests and Feasibility in Chapter 9"(March 2011)
29	The Detroit Free Press article titled "Monitor finds Detroit's 36th District Court much improved since May 2013"(May 2014)
30	The Detroit Free Press article titled "An energized Detroit Land Bank leads Duggan's blight effort"(May 2014)
31	Detroit News article titled "Clearing neighborhood blight to cost $850M, Detroit group finds"(May 2014)
32	California Policy Center article titled "How New Rules from Moody's and GASB Affect the Financial Reporting of Pensions in Seven California Countries"(March 2013)
33	Journal of Public Economics article titled "Financial incentives and retirement: evidence from federal civil service workers"(March 2008)
34	Boston College Law Review article titled "Some Confirmed Chapter 11 Plans Fail. So What?" (Vol.47)(December 2005)
35	American Education Finance Association publication titled Teacher Pension Incentives, Retirement Behavior, and Potential for Reform in Arkansas"-2010
36	National Association of State Retirement Administrators publication titled "The 80-percent threshold: Its source as a healthy or minimum funding level for public pension plans)(January 2012)
37	C. Scott Pryor publication titled "Who Bears The Cost? The Necessity of Taxpayer Participation in Chapter 9" (June 2013)
38	C. Scott Pryor publication titled "Municipal Bankruptcy: When Doing Less Is Doing Best" (April 2014)
39	A Collier Monograph titled "Debt Adjustments for Municipalities Under Chapter 9 of the Bankruptcy Code"-2012
40	Bankruptcy of Mount Carbon Metropolitan Dist. Bankruptcy No. 91-20215 MSK(November 1999)
41	Bankruptcy of the City of Colorado Springs Spring Creek General Improvement District. Bankruptcy No. 94-15333.(January 1995)

Exhibit 2	
#	Document/Source
42	Detroit Blight Removal Task Force Plan titled, "Every Neighborhood Has a Future . . . And It Doesn't Include Blight," (May 2014)
43	McKinsey & Company Publication titled "Delivering large-scale IT projects on time, on budget, and on value"(October 2012)
44	City of Detroit Triennial Executive Budget 2015-2017
45	Detroit Future City - Detroit Strategic Framework Plan(December 2012)
46	Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
47	Report of John Hill, Chief Financial Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
48	Report of Kenneth Buckfire, of Miller Buckfire & Co; in re: City of Detroit, Michigan Case No. 13-53846
49	Report of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
50	Declaration of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(July 2913)
51	Report of Robert Cline, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
52	Report of Alan Perry, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
53	Report of Caroline Sallee, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
54	Report of Suzanne Taranto, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
55	Report of Charles Moore, of Conway MacKenzie, Inc.; in re: City of Detroit, Michigan Case No. 13-53846
56	Third Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846.. Doc 4271(April 2014)
57	Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846. Doc 4391
58	Opinion Regarding Eligibility; in re: City of Detroit, Michigan Case No. 13-53846. Doc 1945. (December 2013)
59	Order to Show Cause Why Expert Witness Should Not Be Appointed; in re: City of Detroit, Michigan Case No. 13-53846. Doc 3170. (March 2014)
60	Declaration of Kevyn Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 "C" of the Bankruptcy Code. Doc 11(July 2013)
61	City of Detroit: Proposal for Creditors. Prepared by Miller Buckfire & Co., LLC, Jones Day. (June 2013)
62	City of Detroit: Operational Restructuring Summary. Prepared by Office of the Emergency Manager. Conway MacKenzie, Inc. (November 2013)
63	Independent Auditors' Report on Internal Control. Prepared by KPMG LLP. (December 2012)
64	Quarterly Report of the Emergency Manager for the quarterly period of January 1, 2014 through March 31, 2014. (April 2014)
65	Letter from Robert Childree of AGA Financial Management Standards Board. Addressed to David Bean, Director of Research and Technical Activities of Governmental Accounting Standards Board (GASB). Comments on Pension Accounting and Financial Reporting. (July 2009)
66	Email from Mike Duggan of the City of Detroit. Plan of Adjustment Due Diligence. (May 13, 2014)
67	David Whitaker, Director of Legislative Policy Division Staff for the City of Detroit. 2013-2015 Budget Analysis.(May 2014)
68	Treasurers Report for 12/2011 Via: City of Detroit, Michigan Notice of Preliminary Financial Review Findings and Appointment of a Financial Review Team. Doc 11-3.(January 2012)
69	2012 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-4. (March 2012)
70	Treasury Report. Prepared by Andrew Dillon, Michigan State Treasurer. Doc 11-6(December 2012)
71	2013 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-7.(February 2013)
72	Kevyn Orr, Emergency Manager for the City of Detroit. Recommendation Pursuant to Section 18(1) of PA 436. Doc 11-10(July 2013)
73	Governor Rick Snyder. Authorization to Commence Chapter 8 Bankruptcy Proceedings. Doc 11-11(July 2013)
74	City of Detroit: Alternative Plan of Adjustment Proposal. Prepared by Houlihan Lokey. (September 2013)
75	City of Detroit – Restructuring Plan; Mayor's Implementation Progress Report. (March 2013)
76	McKinsey Repot on City of Detroit. As posted on the City of Detroit website (May 2011)
77	Report prepared by: Sekely, C.(Conway MacKenzie, Inc.), Redmond, C.(Pierce Monroe & Assoc., LLC), Hutchings, C. (Municipal Parking Department). Titled "Revenue Enhancement Actions For Parking Violations Bureau"(December 2013)
78	0%
79	Kevyn Orr, Emergency Manager, City of Detroit. "Order No. 24: Order to Amend Chapter 55 of the 1984 Detroit City Code"(April 2014)
80	Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (
81	Order Appointing Expert Witness. Docket #4215
82	Notice Regarding Interviews of Expert Witness Applicants, Docket #4068

Exhibit 2	
#	Document/Source
83	Docket # 4216, Order Appointing Non-Testifying Consultant
84	Transcript of Hearing, April 18, 2014(April 18, 2014)
85	Milliman Letter Re: City of Detroit Active Health Plan Projections (November 2014)
86	NASRA Issue Brief: “Public Pension Plan Investment Return Assumptions”; April 2014; original source: U.S. Census Bureau
87	Milliman, Inc. letter(April 17, 2014)
88	Milliman, Inc. letter(April 20, 2014)
89	Milliman, Inc. letter(April 23, 2014)
90	Milliman, Inc. letter(April 25, 2014)
91	Milliman, Inc. letter(May 7, 2014)
92	Milliman, Inc. letter(July 2014)
93	Milliman, Inc. letter(November 2, 2013)
94	Milliman, Inc. letter(November 3, 2013)
95	Milliman, Inc. letter(July 9, 2014)
96	The Blinken Report- Strengthening the Security of Public Sector Defined Benefit Plans, dated January 2014. Donald J Boyd and Peter J Kiernan
97	The Society of Actuaries “Report of the Blue Ribbon Panel on Public Pension Plan Funding”; February 2014
98	Governmental Accounting Standards Board
99	Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code. Docket No 14(July 2013)
100	State of Michigan Enrolled House Bill No. 5566 (June 2014)
101	State of Michigan Enrolled House Bill No. 5567(June 2014)
102	State of Michigan Enrolled House Bill No. 5568(June 2014)
103	State of Michigan Enrolled House Bill No. 5569(June 2014)
104	State of Michigan Enrolled House Bill No. 5570(June 2014)
105	State of Michigan Enrolled House Bill No. 5573(June 2014)
106	State of Michigan Enrolled House Bill No. 5574(June 2014)
107	State of Michigan Enrolled House Bill No. 5575(June 2014)
108	State of Michigan Enrolled House Bill No. 5576(June 2014)
109	State of Michigan Enrolled House Bill No. 5600(June 2014)
110	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 9, 2013)
111	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 20, 2013)
112	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(December 11, 2013)
113	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(March 31, 2014)
114	Comprehensive Annual Financial Report, City of Detroit FYE June 30, 2012
115	City of Detroit, IT Optimization Discussion Document (August, 2013)
116	FAB Financial Subcommittee Meeting (January 2014)
117	ERP Needs Assessment: City of Detroit. Prepared by Plante Moran
118	ERP Cost Analysis
119	HR Technology Assessment, City of Detroit (December 2013)
120	Plan of Adjustment (May 2014)
121	Plan of Adjustment (July 2014)
122	PVB Revenue Enhancement White Paper (December 2013)
123	NASRA Issue Brief titled "Public Pension Plan Investment Return Assumptions" (April 2014)
124	"The Tipping Point" by Malcom Gladwell (2000)
125	Yale Law Journal Publication titled "The New Minimal Cities" (March 2013)

Exhibit 3

Exhibit 3				
Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
4/22/2014	Marti Kopacz	Bob Fishman - Shaw Fishman	Call	Discuss procedures
4/22/2014	Marti Kopacz	Neal Munshi - Reporter at Financial Times	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Tom Hals- Reporter at Reuters	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Chris Christoff- Reporter at Bloomberg	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Steve Buchanan - Reporter at NYTimes	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Seth Brumby - Reporter at Debt wire	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Pat Halligan- Reporter at The Deal	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	In regards to the contact info for the City's Advisors and CFO
4/23/2014	Marti Kopacz	Judge Rosen	Meeting	Case Background
4/23/2014	Marti Kopacz	Peter Hammer	Call	In regards to the city history
4/23/2014	Marti Kopacz	Eugene Drinker	Call	Schedule tour
4/23/2014	Marti Kopacz	Stephen Lerner - Squire Sanders	Call	In regards to representation
4/24/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Email	Scheduling emails for meeting with public safety unions
4/25/2014	Marti Kopacz	Gregory Clash - Municipal Credit Consultants	Email	Offer of service on project team
4/25/2014	Marti Kopacz	Arthur O'Reilley - Honigman	Email	Scheduling Meeting with DIA
4/25/2014	Marti Kopacz	Robert Gordon - Clark Hill	Email	Scheduling with Pension System
4/28/2014	Marti Kopacz	Richard Levin - Cravath	Email	In regards to the DIA meeting
4/28/2014	Marti Kopacz	Heather Lennox - Jones Day	Email	In regards to work space
4/29/2014	Marti Kopacz, Bob Childree, Brian Gleason	Rodney Sizemore, Mark Diaz, Mark Young, Jeffery Pegg, Barbara Patek, Chris Legin, Elise Osbourne, Jim Moore, Donna Lato,Stacy Carin	Meeting	General discussion of Police and Fire Union issues, positions on the POA
4/29/2014	Marti Kopacz	Sharma Liveria - Sandler	Email	Schedule meeting
4/29/2014	Marti Kopacz	Robert Duffy - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	David Parker - Goldin & assoc.	Email	Schedule meeting
4/29/2014	Marti Kopacz	Albert Koch - Alix Partners	Email	Schedule meeting
4/29/2014	Marti Kopacz	Scott Davido - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	Eunice Hayes - City of Detroit	Email	Schedule meeting
4/30/2014	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Eugene Drinker, Attorney and Jeri Stroupe, Office of Economic Development at Wayne State	Bus Tour	Tour of the city
4/30/2014	Marti Kopacz	Thomas Mayer - Kramer	Call	To get contact info for COPs and insurer contact
4/30/2014	Marti Kopacz	Vincent Marriott-Ballard Spahr	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Alfredo Perez - Weil	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Ryan Bennett- Kirkland & Ellis	Email	Schedule Meeting
5/1/2014	Marti Kopacz, Bob Childree	Kevyn Orr , Sonya Mays, Stacy Fox - Emergency Manager	Meeting	Discuss City, Kevyn's role, long-term risks culture, behavior
5/1/2014	Marti Kopacz	Robert Gordon, JosephTurner, Ronald King - Clark Hill, Michael VanOverbeke - VanOverbeke, Michaud	Meeting	Case Background
5/1/2014	Marti Kopacz	Scott Davido - FTI	Call	Scheduling
5/1/2014	Marti Kopacz	Alfredo Perez, client and colleagues - Weil Steve Spencer and John Popehn - Houlihan	Call	Case Background
5/2/2014	Marti Kopacz	Kenneth Buckfire - Miller Buckfire	Meeting	Case Background
5/2/2014	Marti Kopacz	Heather Lennox- Jones Day	Call/email	Protocol for meeting with City employees and advisors
5/2/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Jones Day request for JD attorney participation in City contacts
5/5/2014	Marti Kopacz	Michael Imber & team- Alvarez & Marsal	Call	Access to A&M insights and work product
5/5/2014	Marti Kopacz	Ryan Bennett, Steve Hackney- Kirkland & Ellis	Call	Case Background
5/7/2014	Marti Kopacz	Judge Rosen- US District Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Sheila Cockrel-Former Councilwoman	Meeting	Detroit financial and operational history
5/7/2014	Marti Kopacz, Brian Gleason	Dick Ravitch-Judge's Expert	Meeting	Introductory meeting
5/7/2014	Marti Kopacz	Gene Gargaro, Graham Beal, Annemarie Erickson-DIA	Meeting	Art disposition; grand bargain feasibility
5/7/2014	Marti Kopacz	Bob and Susie Bluestein, Gerald Rosen, Kevyn Orr, Mike Duggan, Richard Ravitch, Rip Rapson, Tom Lewand, Victoria Roberts, Gene Drinker, Gene Gargaro (plus spouses)-Various	Dinner Party	Introduction to Detroit
5/8/2014	Marti Kopacz, Brian Gleason	Mike Duggan-Mayor of Detroit	Meeting	POA Due Diligence
5/9/2014	Marti Kopacz	Dan Moss-Jones Day	Call	Access to info; Counsel participation in interviews
5/12/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Retention and hearing
5/12/2014	Marti Kopacz	Vince Marriott-Ballard Spahr	Meeting	Case Background
5/13/2014	Marti Kopacz, Bob Childree, Michael Gaul, Kevin Barr	Bob Kline - Ernst & Young	Call	Revenue assumptions
5/13/2014	Marti Kopacz, Bob Childree	Kurt Beckerman, Albert Koch - AlixPartners, Samuel Kohn - Chadbourne & Park LLP , Guy Neal , Sidley	Meeting	POA, projections, EM,Areas of opportunity Labor, DWSD, Discuss Alix Partners' work product and insights
5/13/2014	Marti Kopacz	David Prager, Jay Goldin-Goldin & Assoc.	Call	Case Background and their work product
5/13/2014	Marti Kopacz	Dan Moss-Jones Day	Call	Document control procedures for our requests to E&Y, CM, MB and City
5/13/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Expert witness procedures
5/13/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Supplemental Order

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Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
5/14/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr	Juan Santambrogio and Gaurav Malhotra - Ernst & Young	Call	10 year - 40 Year plan
5/14/2014	Marti Kopacz, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Stephen Lerner and Scott King - Squire Sanders	Call	Instructions re: document control; access to E&Y working model
5/14/2014	Marti Kopacz, Brian Gleason	Mike Duggan & staff-City of Detroit	Meeting	Attend Cabinet meeting
5/14/2014	Marti Kopacz, Brian Gleason	Rip Rapson, Laura Trudeau-Kresge Foundation	Meeting	Detroit Future Cities, Grand Bargain due diligence
5/15/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Call	Engagement Update
5/19/2014	Marti Kopacz	James Craig and Lesley Warmuth -Chief of Police and Pepper Hamilton	Meeting	Background interview re: Police Department
5/19/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Meeting	Pensions
5/20/2014	Marti Kopacz	Dan Dirks and team-DDOT Director	Meeting	Background interview re: Transportation Department
5/20/2014	Marti Kopacz	Stacy Fox-Deputy EM	Meeting	Information Requests Outstanding
5/20/2014	Marti Kopacz	Chuck Moore and Glenn Kushiner-Conway Mackenzie	Meeting	Pensions
5/20/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding
5/21/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan and Cabinet-City of Detroit	Meeting	General POA discussion
5/22/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding; Letter to Judge
5/22/2014	Marti Kopacz	Gaurav Malhotra -Ernst & Young	Call	Returning my emails re: Information Request Outstanding and letter to the Judge
5/23/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Follow up on his conversations with Jones Day re: info requests
5/27/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Prep for hearing on Wednesday
5/28/2014	Marti Kopacz, Brian Gleason	Richard Ravitch-Judge's Expert	Meeting	Report development discussion
5/29/2014	Marti Kopacz, Brian Gleason, Kevin Barr	Mike Imber, Nancy Zielke, Bill Roberti - Alvarez & Marsal, Marianna Marysheva - Martinez, Joe Nichols, David Lawrence - FTI Consulting, Ryan Bennett, Noah Ornstein - Kirkland & Ellis, Jennifer Rothschild - Rothschild, Steven Spencer, John Popehn, Michael Lin, John Pepehn, Daniel Mn - Houlihan Lokey, Alfredo Perez, Kelly DiBlasi, Dana Kaufman - Weil	Meeting	Review other financial advisors' inquiries and learnings
5/29/2014	Marti Kopacz	Erica Ward-Land Bank Authority	Call	Blight
5/30/2014	Marti Kopacz	Melissa Smiley-City of Detroit	Call	Blight
6/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Judge Rhodes, Jones Day, and Squire Sanders	Call	Bankruptcy discovery transmission issues
6/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Stephen Lerner - Squire Sanders	Call	Bankruptcy discovery transmission issues
6/3/2014	Marti Kopacz	Richard Ravitch - Judge's Expert	Call	Catch up on case developments
6/3/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Update on document requests
6/3/2014	Marti Kopacz	Erica Ward - Detroit Land Bank Authority	Call	Blight
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Kevin Hand & Glenn Kushiner - Conway Mackenzie, Gaurav Malhotra, Juan Santambrogia & Dan Jerneycic - Ernst & Young, Melissa Smiley - City of Detroit, & Jones Day	Meeting	10 yr and 40 yr projections and reinvestment initiatives
6/3/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Call	Schedule meeting with firefighters and police unions
6/3/2014	Marti Kopacz	Chris Leggio - Counsel to Firefighters	Call	Schedule meeting with firefighters
6/3/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler	Email	Schedule meeting with AFSCME
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Jones Day, E&Y, CM	Call	Open Information Request list
6/4/2014	Marti Kopacz, Brian Gleason	John Hill - City of Detroit/EM	Meeting	Follow up on conversation from Mayor's Cabinet meeting
6/5/2014	Marti Kopacz, Brian Gleason	Mary Martin - City of Detroit	Meeting	Discuss Lean initiatives
6/5/2014	Marti Kopacz, Brian Gleason	Gaurav Malhotra - Ernst & Young, Chuck Moore - Conway Mackenzie	Meeting	POA Issues re: Feasibility
6/5/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Representatives of Detroit Land Bank Authority, CM, and Sonya Mays	Meeting	Blight remediation
6/5/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Meeting	Reconciliation of POA and Triennial Budget
6/6/2014	Marti Kopacz	Mayor Duggan, Melissa Smiley, Trish Stein, Tom Lewand - City of Detroit, Michelle - Consultant to Planning and Development Department	Meeting	Budget review meeting for planning department and economic development
6/6/2014	Marti Kopacz	Mike Imber - Alvarez & Marsal	Call	Inquired about report deadline extension
6/6/2014	Marti Kopacz	Chris Gannon - Conway Mackenzie	Meeting	BSEED restructuring initiatives
6/7/2014	Marti Kopacz	Mayor Duggan, Gary Brown, Melissa Smiley, Pam Scales - City of Detroit, Dan Dirks and team - DDOT - City of Detroit, Beth Niblock - ITS - City of Detroit, Ron Brundidge and team - DPW - City of Detroit, Beau Taylor and team - DLP - City of Detroit, Norman White and team - Parking - City of Detroit	Meeting	Budget reviews and POA reconciliation
6/9/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Scheduling status
6/9/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Judge Rhodes, Jones Day, E&Y, CM, and Squire Sanders	Call	Bankruptcy discovery transmission issues

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Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
6/10/2014	Marti Kopacz	Mayor Duggan, Melissa Smiley, Pam Scales, Law Department team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
6/10/2014	Marti Kopacz	Brenda Jones, Stephen Grady - City Council	Meeting	Plan of Adjustment
6/11/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Chief Craig and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
6/11/2014	Marti Kopacz, Brian Gleason	Judge Rosen - US District Court, Mediators - Various, Jones Day, E&Y, CM - Advisors to the City, Richard Ravitch - Judge Rhodes' Consultant, Stephen Lerner - Squire Patton Boggs (via phone)	Meeting	Feasibility for the POA
6/11/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Meeting	Departmental meetings - DPD and DFD
6/12/2014	Marti Kopacz	Mark Diaz and team - DPOA, Barbara Patek - Counsel to DPOA, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Police Department
6/12/2014	Marti Kopacz, Brian Gleason	Kevyn Orr - Emergency Manager, Stacy Fox - Office of the EM, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Status of Assignment
6/12/2014	Marti Kopacz	John Hill - City of Detroit, Representatives of E&Y and CM, Leslie Warmuth - Pepper Hamilton, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Review Finance, Accounting and IT issues
6/14/2014	Marti Kopacz	Heather Lennox - Jones Day, Gaurav Malhotra - Ernst & Young	Call	New POA date and projections update
6/14/2014	Marti Kopacz	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Status on Report completion
6/16/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Work on Report sections - Pensions and Post Confirmation Issues
6/17/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler, Stephen Kreiser - AFSCME, Richard Ravitch - Judge Rhodes' consultant	Meeting	Union issues
6/17/2014	Marti Kopacz, Brian Gleason	Kenneth Buckfire, Jim Doak and team - Miller Buckfire	Meeting	Update on Asset Dispositions and Exit Financing
6/18/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs, Geoff Stewart and others - Jones Day	Call/email	Document production; "Big Issues" Meeting; projections v.11
6/19/2014	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	John Naglick, Glenn Kushiner, Dan Jerneycic, E&Y, Rick Drum, Accounting, Renee Shorts, budgets	Call	Round table conference call to discuss state of the monthly reporting that the City is generating, and ability to do post emergence reporting against budget. Post call with Bob Childree
6/19/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr, Stephen Lerner	Juan Santambrogio and Gaurav Malhotra - Ernst & Young, Chuck Moore and Glenn Kushiner - Conway Mackenzie, Jones Day Team	Meeting	"Big Issues" Meeting and feasibility assessment
6/19/2014	Marti Kopacz	Noah Ornstein - Kirkland & Ellis	Call	Inquiry re: confirmation issues for creditors
6/20/2014	Marti Kopacz, Brian Gleason	Melissa Smiley - City of Detroit	Call	New projections and impact on Mayor's Budget Reviews
6/24/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Brad Dick and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review Meeting for GSD
6/24/2014	Marti Kopacz	Mike Imber - Alvarez & Marsal	Call	Inquiry re: contingency provisions in HB 5567
6/24/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Discuss financial requirements in Grand Bargain legislation
6/25/2014	Marti Kopacz	Melissa Smiley - City of Detroit, Dan Jerneycic - Ernst & Young	Call	Utility cost estimates in POA projections
6/25/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Information Requests
6/26/2014	Marti Kopacz, Brian Gleason	Prof. Scott Pryor - Regent University	Call	Ch. 9 feasibility article
6/27/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Future utility costs
6/30/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Dan Dirks and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review for DDOT
7/1/2014	Marti Kopacz, Michael Gaul, Kevin Barr	Daniel Jerneycic - Ernst & Young, Chris Gannon - Conway Mackenzie	Call	40 year revised draft projections discussion
7/2/2014	Marti Kopacz, Michael Gaul	Melissa Smiley - City of Detroit	Call	New Projections Pending
7/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Call	Departmental meeting - DFD
7/3/2014	Marti Kopacz	Mayor Cabinet Members - City of Detroit	Meeting	Mayor's weekly status meeting
7/9/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant, Peter Kiernan - Shiff Hardin	Meeting	Revised projections and impact on feasibility
7/9/2014	Marti Kopacz	Steven Hackney - Kirkland & Ellis	Call	District Court decision on wagering revenues
7/10/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs, Geoff Stewart - Jones Day	Call/email	Outstanding information requests
7/10/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	DWSD
7/14/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs, Geoff Stewart - Jones Day	Call	Status call re: scheduling and report due date
7/16/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Report development discussion
7/17/214	Marti Kopacz	Stacy Fox-Deputy EM	Call	Requesting draft of report
7/17/214	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Requesting draft of report

Exhibit 3				
Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
4/29/2014	Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Barbara Patek	Meeting	Debrief on meeting with Fire and Police Unions
4/30/2014	Al Mink, Bob Childree	John Hill CFO	Meeting	Discussed John Hills vision for the Finance and Accounting function and the major issues he believes the Department faces
4/30/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Daniel Jerneycic - Ernst & Young	Meeting	10 Year Plan Development
5/1/2014	Al Mink, Bob Childree	John Naglick, Finance Director	Meeting	Issues facing the Finance department, specifically those departments reporting to John Hill. John walked us through his view of the status of each of the departments reporting to him.
5/2/2014	Michael Gaul, Kevin Barr	Kevin Hand, Chris Gannon and Glenn Kushiner - Conway Mackenzie	Meeting	General Restructuring and Reinvestment discussion/development
5/5/2014	Al Mink	Michael Jameson, Deputy Finance Director	Meeting	Meeting to discuss his views of the issues facing the departments reporting to John Hill.
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	Discussed finance department and begin to get into details. Discussed more specifics on each of the departments
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	Discussed their views of finance department and begin to get into details. Discussed more specifics on each of the departments
5/5/2014	Michael Gaul	Kevin Hand, Chris Gannon and Glenn Kushiner - Conway Mackenzie	Meeting	General Restructuring and Reinvestment discussion/development
5/6/2014	Al Mink, Bob Childree	Donald Settles, Risk Manager, Glenn Kushiner, Conway	Meeting	Overview and details of the Risk Management department. Discussed the existing structure, and restructuring alternatives being investigated including potentially outsourcing the Third party administration of Workers Comp and engaging a third party insurance policy to cover auto
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Glenn Kushiner	Meeting	Accepted reassessment plan, impact on forecasted revenues, and restructuring of the Assessors department
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Chief Assessor	Meeting	Property tax process, organization, issues, problems
5/6/2014	Al Mink, Bob Childree	Glenn Kushiner and Chris Gannon - Conway Mackenzie	Meeting	DWSD, CFO restructuring, Plante Moran's role
5/7/2014	Michael Gaul, Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Fire and Rec Departments
5/7/2014	Kevin Barr	Chris Gannon and Emily Petrovski - Conway Mackenzie	Meeting	Ombudsperson and Mayors Office
5/7/2014	Al Mink, Bob Childree	Boysie Jackson, Director Purchasing and Glenn Kushiner - Conway Mackenzie	Meeting	Procurement processes, issues, contracts, personal services contracts, RFP process, people, POA,risks
5/7/2014	Al Mink, Bob Childree	Pam Scales, Budget Director and Glenn Kushiner	Meeting	Budget process, Staffing, organization, POA staffing, and issues
5/8/2014	Al Mink, Bob Childree	Boise Jackson purchase director, Glenn Kushiner	Meeting	Over view of the Purchasing department including restructuring initiatives, processing of contracts, approvals for expenditures
5/8/2014	Al Mink, Bob Childree	Glenn Kushner, Pam Scales, Budget Director	Meeting	the development of 2015 Budget submission to Council using the Budget in the plan of adjustment. Also discussed challenges in reporting against budget.
5/8/2014	Kevin Barr	Chris Gannon and Danielle Iafrate - Conway Mackenzie	Meeting	Police Department
5/8/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Blight
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	General Services Department
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	36th District Court and DDOT
5/8/2014	Al Mink, Bob Childree	Glenn Kushiner - Conway Mackenzie	Meeting	Conway's role, scope of work, issues
5/8/2014	Al Mink, Bob Childree	Eric Higgs	Meeting	Financial reporting, CAFR, Reporting post bankruptcy reconciliations , staffing issues
5/8/2014	Al Mink, Bob Childree	Leighton Duncan and Glenn Kushiner	Meeting	Treasury functions, revenue collections outsourcing, organization, retention,
5/8/2014	Al Mink, Bob Childree	Mark Lockridge, Auditor General	Meeting	audits, internal controls, findings, organization , functions, issues
5/8/2014	Michael Gaul	Juan Santambrogio - Ernst & Young	Call	10 year - 40 Year plan
5/9/2014	Al Mink, Bob Childree	Leighton Duncan, Project Manager, Treasury, and Glenn Kushner.	Meeting	Discussed status of Treasury department functions and restructuring.
5/9/2014	Al Mink, Bob Childree	Glenn Kushner	Meeting	Discussed Conway activities; restructuring activities in departments and helping to implement changes.
5/9/2014	Al Mink, Bob Childree	Eric Higgs, Chief accounting officer, Glen Kushner.	Meeting	Discuss the current activities of the Accounting department and the issues.
5/9/2014	Al Mink, Bob Childree	Mark Lockridge, Auditor General, Glenn Kushiner	Meeting	Mark is going to provide us with audit reports on the Accounting and finance functions he has conducted in recent years.
5/9/2014	Kevin Barr	Chris Gannon - Conway Mackenzie	Call	Planning & Development, City Council and Building & License
5/9/2014	Kevin Barr	Kevin Hand - Conway Mackenzie	Call	Airport
5/9/2014	Kevin Barr	Danielle Iafrate - Conway Mackenzie	Call	Law
5/9/2014	Al Mink, Bob Childree	Sonya Mays, Dan Sutton, Nakia Johnson, Chris Gannon - Conway Mackenzie	Meeting	Grants Management…projects, plans, timeframes,
5/12/2014	Al Mink	Glenn Kushiner	Meeting	Review global 10 year forecast spread sheets and then focused on the restructuring spreadsheets for each of the finance and accounting functions

Exhibit 3				
Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
5/12/2014	Al Mink	Michael Swartz, Plante Moran, Adam Rujan, Plante Moran, Laurie Zyla, Plant Moran, Glenn Kushiner, Chris Gannon, Sonya Mays, Nakia Johnson	Meeting	Discuss status of new ERP proposal. Discuss with Michael Swartz, Plante Moran's contribution to the Year End Closing process. Discuss issues with doing monthly financial statements.
5/12/2014	Al Mink	Glenn Kushiner, Beth Niblock, CIO and Charles Dodd.	Meeting	Overview of current status of Department and the vision for implementation of an integrated ERP System.
5/13/2014	Al Mink	Glenn Kushiner	Meeting	10 year reorganization budget spreadsheets for the finance and accounting departments.
5/13/2014	Al Mink, Bob Childree	Chris Gannon, Sonya Mays, Nakia Johnson	Meeting	Development of the new Grants administration department.
5/13/2014	Al Mink	Glenn Kushiner	Meeting	Review organization Chart.
5/14/2014	Al Mink	Glenn Kushiner	Meeting	Review of Finance and Accounting pre-reorganization organization charts
5/14/2014	Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Juan Santambrogio, Gaurav Malhotra and Daniel Jerneycic - Ernst & Young	Call	Pension and OPEB Conversation
5/19/2014	Al Mink	Glenn Kushiner	Meeting	Meeting to discuss centralization of Accounting and Finance
5/19/2014	Al Mink	Dan Jerneycic, an Juan Santambrogio E&Y	Meeting	Discuss E&Y Cash Flows and Cash flow procedures. Also discuss EM reports and discuss post emergence monthly reporting
5/19/2014	Al Mink, Kevin Barr	Juan Santambrogio, Daniel Jerneycic and Nick Bugden - Ernst & Young	Meeting	Cash Forecasting
5/20/2014	Al Mink	Glenn Kushiner	Meeting	Review Data Requests
5/21/2014	Al Mink, Bob Childree	Tanya Stoudemire, Income Tax Manager and Glenn Kushiner	Meeting	Over view of the Income Tax Department, initiatives and plans for Restructuring
5/21/2014	Al Mink	Niki Timmons	Meeting	Review process for submitting and following up on past due real real-estate submissions to Wayne County
5/21/2014	Al Mink, Bob Childree, Kevin Barr	Juan Santambrogio and Daniel Jerneycic - Ernst & Young	Meeting	Cash Forecast vs. 10 Year Plan variance
5/21/2014	Bob Childree, Michael Gaul	Executive Director of GRS/PFRS, RS legal counsel, RS actuary, and RS financial advisor	Meeting	POA treatment re: Retirement Systems
5/27/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss Payroll and Governance
5/28/2014	Al Mink	Joel Kowalski	Meeting	CAFR audit. Review with him the 2012 management letter from KPMG
5/28/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Nick Bugden - Ernst & Young	Call	Detailed 10 Year-40 Year Working Model Review
5/28/2014	Kevin Barr	Kevin Hand and Glenn Kushiner - Conway Mackenzie	Call	Deferred Reinvestments
5/29/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss payroll
5/30/2014	Michael Gaul	Jones Day personnel	Call	Bankruptcy discovery transmission issues
5/31/2014	Michael Gaul	Brian Leatherman - Jones Day	Call	Bankruptcy discovery transmission issues
6/2/2014	Al Mink, Bob Childree	Niki Timmons, Leighton Duncan, Glenn Kushiner	Meeting	Discuss Wayne County payments
6/2/2014	Al Mink, Bob Childree	Kyle Herman, Miller BuckfireKarl Sankey (not present), Leighton Duncan, Niki, Jeff Addison- Conway Mackenzie, Peter Baywold-Conway Mackenzie	Meeting	Wayne County Property tax issues, process
6/3/2014	Al Mink, Bob Childree	Ursula Holland, Michael Hall, Glenn Kushiner	Meeting	Payroll systems and procedures
6/3/2014	Al Mink	Devin Patel, Jeffrey Addison from Conway, Geoffrey Stewart, Chris DiPompeo, Jones Day, Sheshian Swamnathan, E&Y	Meeting	Discuss Cash Reporting
6/3/2014	Al Mink, Bob Childree	Mike Hall, Ursula Holland , Glenn Kushiner Conway Mackenzie	Meeting	Payroll
6/3/2014	Al Mink, Bob Childree	Jeff Addison, Devin Patel - Conway Mackenzie, Jeff Stewart, Dan Jerneycic - E&Y	Meeting	Cash flows, reconciliations, disburesements, A/P , encumbrances
6/3/2014	Michael Gaul	Representatives of Detroit Land Bank Authority	Call	Required funding for Blight remediation
6/4/2014	Al Mink, Bob Childree	John Hill, John Naglick and Glenn Kushiner	Meeting	Finance Reorganization, CFO position, ERP, Payroll, monthly reporting
6/4/2014	Al Mink, Bob Childree	Lena Willis, Boysie's deputy	Meeting	Encumbrances, A/P
6/4/2014	Michael Gaul	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/5/2014	Al Mink	John Naglick, Glenn Kushiner	Meeting	Continue discussion on finance and accounting issues
6/5/2014	Al Mink	Larry King, Kevin Hand	Meeting	Work being performed on Accounting Organization
6/5/2014	Al Mink, Bob Childree	Larry King and Chris Gannon - Conway Mackenzie	Meeting	Finance reorganization, Job descriptions, Hr
6/5/2014	Al Mink, Bob Childree	John Naglick and Glenn Kushiner	Meeting	Financial reporting,
6/6/2014	Michael Gaul, Kevin Barr	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/10/2014	Bob Childree, Michael Gaul, Brian Gleason	Robert Gordon, Joe Turner, Michael , Ron King	Call	Retirement systems
6/10/2014	Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Evan Miller, Alexander Blanchard - Jones Day	Call	Pensions and OPEB
6/10/2014	Michael Gaul	RS legal counsel	Call	Pension governance
6/11/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Fire Dept. Review
6/12/2014	Michael Gaul	Tina Tolliver - DPD	Meeting	DPD RRI's
6/13/2014	Kevin Barr	Nick Bugden and Juan Santambrogio - Ernst & Young	Call	10 Year model
6/13/2014	Michael Gaul	Erica Raleigh - Data Driven Detroit	Meeting	Data gathering re: Detroit

Exhibit 3				
Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
6/17/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Call	Fire Dept. Review
6/26/2014	Kevin Barr	Daniel Jerneycic and Shavi Sarna - Ernst & Young	Call	Utilities

Exhibit 4

Phoenix Management Services, Inc.
In re: City of Detroit, Michigan, Debtor
Case No. 13-53846
Open Information Requests as of July 18, 2014

REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	STATUS
OUTSTANDING REQUESTS			
Jones Day	6/10/14	Any stochastic or sensitivity analyses undertaken by City advisors or advisors to the Retirement Systems relevant to use of a 6.75% investment return assumption for GRS.	
Ernst & Young	5/21/14	Comparison of the Revenue and Expenditures as reported on E&Y's Actual Cash Flow reports for the fiscal years 2012 and 2013 against the completed CAFR	
Ernst & Young	5/29/14	Pension: All pension plan sensitivity analyses; including, those that look at how changes in investment returns impact unfunded level	Received for PFRS; not received for GRS
Ernst & Young	5/29/14	Pension: Sensitivities on how different pension return rates impact the pension restoration provisions in the plan If none exist, please run Pensions UAAL calculation at 3%, 5%, 6%, and 8% assumed rate of return	Received for PFRS; not received for GRS
Ernst & Young	5/30/14	Actuary reports/analysis that provide detailed support behind yearly contributions to pensions for active employees in the 40 Year Plan	
Ernst & Young	5/29/14	Modified version of 10 Year Plan that fully integrates CM's Restructuring Initiatives within the departmental budgets – including the department-level detail of Restructuring deferrals	

REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	STATUS
Ernst & Young	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Conway MacKenzie	5/22/14	Reconciliation of 10 Year Plan and City's Triennial Budget	
Conway MacKenzie	5/27/14	Status of Fox Lawson review of White Book; anticipated changes to pay grades and classification post-petition; estimated Plan impact of said changes	
Conway MacKenzie	5/27/14	Total budget - by line item - for each department in Finance, Accounting and IT if Centralized Governance was approved. How much City wide the ten year plan envisions spending on IT, Accounting and Finance?	
Conway MacKenzie	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Ernst & Young/CM	7/9/14	City employee headcount by department– as of 6/30/14; gross payroll cost (excluding OT) for FYE 6/30/14; annualized gross payroll run rate (excl. OT) as of 6/30/14	

Exhibit 6B

Excerpts of July 31, 2014 M. Kopacz Deposition Transcript

- MARTI KOPACZ - VOLUME 1-

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

DATE: July 31, 2014
TIME: 9:12 a.m.

VOLUME 1

VIDEOTAPED DEPOSITION OF MARTI KOPACZ, held at the offices of Squire Patton Boggs, 30 Rockefeller Plaza, New York, New York, pursuant to Order, before Hope Menaker, a Shorthand Reporter and Notary Public of the State of New York.

- MARTI KOPACZ - VOLUME 1-

A P P E A R A N C E S

GEOFFREY S. STEWART, ESQ.
CHRISTOPHER DiPOMPEO, ESQ.
ALEXANDER BLANCHARD, ESQ.
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Appearing on behalf of Syncora

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- MARTI KOPACZ - VOLUME 1-

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SHANNON L. DEEBY, ESQ.
Clark Hill, PLC
151 South Old Woodward Avenue
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Birmingham, Michigan 48009
Appearing on behalf of the Retirement Systems for the City of Detroit

- MARTI KOPACZ - VOLUME 1-

JENNIFER K. GREEN, ESQ. (Via Telephone)
Clark Hill, PLC
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SAM J. ALBERTS, ESQ.
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Appearing on behalf of the Retiree Committee

ALLAN S. BRILLIANT, ESQ.
Dechert
1095 Avenue of the Americas
New York, New York 10036
Appearing on behalf of Macomb County

- MARTI KOPACZ - VOLUME 1-

is a spreadsheet that Jones Day has updated as we went along.

Have you seen versions of Exhibit 3 before?

A. I have not.

Q. You have not. Are you aware that versions of it were given to members of your team as the project went along?

A. I'm not sure I understand that question.

Q. Do you know whether anyone from your team has seen this document or versions of it?

A. Not that I know of.

Q. Okay. Let's go to Exhibit 4 of your -- of your report. Do you have Exhibit 4 before you?

A. I do.

Q. And what does Exhibit 4 set forth?

A. Exhibit 4 sets forth the open information requests as of the date of my report.

Q. Okay. Your report was, what, the 25th?

A. July 18th.

Q. July 18th. Have some of these

- MARTI KOPACZ - VOLUME 1-

materials since July 18th been provided to you?

A. I don't think so. I don't think so.

Q. Okay. Do you know for a fact that all of these materials, in fact, exist?

A. I do not know that.

Q. Has the absence of these materials affected your analysis in any way?

A. The -- some of the requests here I would still like to receive.

Q. Sure.

A. Because it would -- obviously, I asked for it because I thought it was -- would be helpful and it would be more information.

I reached my opinion on the information I had so, you know, I don't know how to answer that. In the sense of yes, I'd still like to have them, but --

Q. Sure.

A. -- I didn't have it and I was still able to reach an opinion.

Q. In other words, you were able to work around the absence of these materials?

A. I did.

Q. Okay. Exhibit 3 of your report

- MARTI KOPACZ - VOLUME 1-

contains a list of all the meetings that you and others at Phoenix held. Am I correct on that?

A. This is the contact log that the Judge asked me to keep. I, in turn, then asked my team to keep a contact log as well.

Q. Okay.

A. So, it's -- there really are kind of two sections to it. One is all of the contacts that I was involved in and then the second part of it is contacts that team members had that I wasn't involved in.

Q. Okay.

A. And it could -- it could be phone calls, it could be e-mails. Most of them are face-to-face meetings.

Q. Sure. You began your work shortly after your appointment on April 22nd?

A. I began my work on April 22nd, yes.

Q. And certainly continued it up until the time you submitted your report?

A. I did.

Q. And have you continued working since then?

A. Other than to prepare for this

- MARTI KOPACZ - VOLUME 1-

deposition, no.

Q. Okay. During the period of time between April 22nd and July 25th, how many meetings do you believe that you personally had in connection with this project?

A. More than 50.

Q. And who in general -- you met with the mayor, did you not?

A. I met with the mayor.

Q. And John Hill who is the city CFO?

A. I did.

Q. And the emergency manager?

A. Yes.

Q. And counsel for various creditors?

A. Yes.

Q. Okay. And members of the City Council?

A. Yes.

Q. Members of the city government?

A. Yes.

Q. And those are just some categories.

What other categories of person have I not mentioned in summarizing the persons with whom you met?

- MARTI KOPACZ - VOLUME 1-
analysis or projections, what-ifs, that sort of thing, whereas a forecast is something that's a little more rigorous, a best -- the best guess, if you will.
Q. So would it be fair to say, and I'm not going to spend a lot of time on this, this morning, that the base case scenario from EY is a forecast, but the restructuring analysis is a projection?
A. I don't know that I would say that.
Q. Okay. And I'll use the terms interchangeably myself.
A. Thank you.
Q. You raise the -- use the phrase "mathematically accurate."
I assume that means whether the calculations that were done produced the results that mathematics requires?
A. Yes.
Q. In other words, no errors in calculation?
A. Correct.
Q. Okay. You used the phrase "reasonableness" when you speak about assumptions.

- MARTI KOPACZ - VOLUME 1-
What do you mean when you use the phrase "reasonableness"?
A. That the assumption is neither too conservative or too aggressive.
Q. Okay. Is reasonableness a synonym in this context for reliable?
A. No.
Q. Okay. In other words, that a reasonable assumption is one that is in the middle of the continuum of possible assumed facts?
A. I think I can agree with that, yes.
Q. Okay. Did you try to place it a particular place on the continuum?
A. No.
Q. You also listed qualitative factors as well, and I'll come back to those.
A. Yes.
Q. And they're part of your feasibility analysis too?
A. They are.
Q. Sometimes you've used the term "material" in your report?
A. Yes.
Q. What does the term "material" mean as

- MARTI KOPACZ - VOLUME 1-
you've used it here?
A. Material is a term that indicates whatever the value or the variable is could have an impact, positive or negative. It is not -- it's not de minimis.
Q. Okay. Do you associate any percentage level with the term "material"?
A. I do not.
Q. Have you heard, for example in the accounting world, they sometimes speak of materiality as being 1 percent of assets or 5 percent of income?
A. I think it depends on the context.
Q. But it's not how you've used it, one way or another?
A. Not how I've used it, no.
Q. Now, I'm going to ask you about forecasting now.
A. Sure.
Q. Let me go back to Exhibit 1 of your report. This is your -- for want of -- I'll call it your CV although --
A. It's not really.
Q. -- it's not really a CV. What would

- MARTI KOPACZ - VOLUME 1-
you call it? Just a back -- description of your background?
A. Yes.
Q. Okay. Why don't we just call it Exhibit 1?
A. Exhibit 1 is good.
Q. Under "General Experience," you've written about your -- about your experience with financial projections and I'm going to read parts of this, and I'm going to ask you questions about it.
First sentence you've written -- by the way, did you write this part of your report or was it written for you by others?
A. No. This is the -- this is the same document that was attached to my proposal. It's just in a different format, but the --
Q. Sure.
A. -- the -- the information is generally the same and I think there's some added -- there may be some added verbiage around speaking engagements, publications and the like.
Q. Sure. Is it accurate however?
A. Yes, it is.

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Q. So the first sentence says, "Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more prepared by others."

This has been in connection with your work at Phoenix and elsewhere?

A. Yes.

Q. And by "projections," you mean forecasts as well as projections as we just discussed?

A. Yes.

Q. And just as a general matter, when you, yourself, have prepared projections, what kind of assignment did you have that asked you to prepare projections?

A. Generally, it would be in the context of representing a client that was financially or operationally troubled, potentially involved in a formal or informal restructuring or Bankruptcy Court proceeding.

Q. Okay. And then you write you "critiqued dozens more prepared by others."

Would that be in a comparable -- comparable setting?

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A. Yes.

Q. Okay. And then you write -- or this exhibit says, "She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast."

Okay. And what engagements asked you to do that work?

A. That -- the first time I ever testified on forecasting and assumptions was in a matter called HealthCo -- HealthCo. It was a case that -- and I believe it's in, we go back to my proposal to the Court, it's listed and it will tell you, but it was a bankruptcy case that involved a failed leverage buyout transaction that the trustee believed was a fraudulent conveyance.

Q. Okay.

A. And my engagement, I represented the Lazard Freres who had been the investment banker and Coopers & Lybrand, at the time the accountants, who were being sued and my job was to put myself back in the position at the time that that transaction was done and evaluate the

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reasonableness of the projections that were made then.

Q. And this leads me to ask you a question.

I take it that a good deal of your work in your career has involved entities that are one way or the other involved in bankruptcy or insolvency matters?

A. Yes.

Q. Have you, as a practice, represented one side more than the other side; in other words, creditors more than debtors or debtors more than creditors in this work?

A. I don't think -- I think it's very balanced for the most part.

Q. And you've also been involved in municipal insolvencies?

A. I have been involved in municipal -- troubled municipal situations.

Q. Okay. And what are some examples of those?

A. The one that I was involved in most significantly and for the longest period of time was Nassau County here in New York.

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Q. Okay. But you've had others too?

A. Yes.

Q. Okay. Back to Exhibit 1, further down it's written, "Ms. Kopacz understands the nuanced area" -- "area of municipal budgeting."

Do you see that -- budgeting.

A. Yes.

Q. Okay? What -- what do you mean when you say "nuanced area"?

A. Municipal budgeting and government accounting are significantly different than what most of us become familiar with in the private sector. It involves fund accounting. It involves appropriations and encumbrances and concepts that we don't have in the private sector.

Q. When you say "incumbrances," what do you mean?

A. Encumbrances is a manner by which government on paper sets aside funding for particular projects or services or goods.

Q. Okay. And the next sentence says, "Because municipal entities lack a 'standard' in budgeting, forecasting and accounting, great variations occur in the manner in which public

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entities report financial results and develop forecasts."

When you say they "lack a standard," what do you mean by that?

A. They -- private entities are for the most part required to adhere to generally accepted accounting principles. There are the government version of accounting principles allow for a great deal of variety and individual variation in terms of how municipal entities report revenues, expenses, capital expenditures, and the like.

Q. Do municipalities typically approach these issues in the same manner?

A. No.

Q. So how does one go about understanding how any particular municipality has handled its accounting?

A. You have to do a detailed analysis of whatever the revenue, the expense and the accounting for that is.

Q. You did that here in the case of the City of Detroit?

A. In -- in some cases, yes.

Q. Okay. You certainly got to the point

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where you felt you understood how Detroit did its forecasting and budgeting, correct?

A. Is that -- are you talking before the bankruptcy or during the bankruptcy?

Q. No, during -- during your -- your work.

A. Right. In terms of those forecasts and budgets --

Q. Yes.

A. -- as they relate to the plan?

Q. Yes.

A. Yes, I do.

Q. Okay. Now, you mentioned that you met with financial advisors, including Ernst & Young and Conway MacKenzie?

A. Yes.

Q. As between the two, how have they divided up the work of being advisors to the City?

A. It's my understanding that Ernst & Young was responsible for the ten-year baseline plan, the 40-year plan and, at a functional level, is responsible for the cash management for the City. And that Conway MacKenzie developed the restructuring and reinvestment initiatives, what

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we call the RRIs and looked at the operational aspects of the City.

Q. So, when you're looking at financial forecasts, for the most part, you were looking at the work of Ernst & Young?

A. No. I looked at all of them together.

Q. Okay.

A. Right.

Q. The baseline forecast was just Ernst & Young?

A. Yes, my -- that's my recollection, yes. It was just Ernst & Young at the time.

Q. Okay. And then when the RRIs and other things were involved, that's when Conway MacKenzie input became part of the forecast?

A. Part of the 40-year forecast, yes.

Q. Now, let me just break this down so that as we go down the road we can go more quickly. And I apologize for the elementary approach here.

Could you just describe for me as a series of steps how one goes about preparing a forecast in your experience?

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A. To prepare -- in preparing a forecast?

Q. Correct.

A. Okay. Generally, the -- the first thing you do is estimate revenues.

Q. Uh-huh.

A. Then you estimate expenses.

Q. Uh-huh.

A. And in order to get those estimates, you have to make assumptions and you have to have a base -- a baseline. You have to decide when you're going to start it and when you're going to end it.

Q. And then when you project -- and you start with known numbers, correct?

A. You generally will look at actual results for prior periods.

Q. And is there some mathematical means then of taking the actual results and, from the actuals, extrapolating the numbers in the years to come?

A. Sometimes that makes sense. Sometimes that doesn't make sense.

Q. And is it -- is it possible to --

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would it be possible for you to tell me when it does make senses and when it does not make senses?

A. I can give you an example.

Q. Sure.

A. If you had an ongoing operation, and you were selling widgets to someone, right, and that customer bought, you know, a hundred dollars worth of widgets every year for the past ten years, unless something suggested a contrary behavior, you would probably project that they're going to buy a hundred dollars worth of widgets. Okay?

On the expense side, if you're manufacturing those widgets in a production plant and it costs you 80 cents to make a widget, right, but then you're building a new plant and all of a sudden your costs are going to go down to 65, you wouldn't be using the continuation of the historical cost to make a going-forward projection.

Q. Now, is it sometimes the case as you extrapolate forward, instead of having a constant value, you're dealing with a value that is expected to increase in some manner or decrease in

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some manner year to year to year; in other words, either in the linear or nonlinear function?

A. Yes, it is.

Q. Okay. And what do you do when you're faced with that type of a forecast?

A. You have to look at the basis for why the change is going to occur and evaluate it with the information you have as to, you know, does that new assumption make sense.

Q. Now, when you dealt with looking at the forecasts for the City of Detroit, did you find that those extrapolations required forecasting that was not a constant value for either revenue or expense year to year in the years that were coming?

A. In some cases, yes.

Q. So how did you determine what the appropriate coefficient was year to year to increase or decrease the projected amount?

A. The -- the example that I can give you is the baseline is -- for example, the baseline projections include ongoing pension expense.

Q. Okay.

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A. Ongoing interest expense. Obviously, as the City worked through its bankruptcy and its plan, it became clear that those weren't going to get paid, so those numbers changed in line with what the settlements were. So I didn't really have to make -- it was a number that was in the ten-year that didn't need to be there, so it just came out.

Q. So that came out.

Let me take the example though of a revenue item. I don't -- we'll just make it income tax.

As you looked at the forecasts of income tax revenue in the years to come, it was not a constant number, correct?

A. Correct.

Q. And it went up or down as the years went on, correct?

A. Yes.

Q. And it went up or down for various reasons, such as incomes and other factors such as that, correct?

A. Yes.

Q. How did you determine whether a

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forecast of income in future years -- income tax revenues in future years was or was not a reasonable forecast?

A. I looked at historical information. I looked at the outside -- the statewide information from various parties, and I and my team interviewed the team at Ernst & Young who did the analysis and the development of these projections.

Q. Fair to say you didn't simply accept the credibility of the Ernst & Young assumptions?

A. I did not.

Q. Or the Ernst & Young calculations?

A. I did not.

Q. You did your own checking of them?

A. I did.

Q. And then used your own knowledge base to reach a conclusion about the quality of Ernst & Young's work?

A. I -- I didn't reach a conclusion about the quality of Ernst & Young's work. I reached a conclusion on the reasonableness of those assumptions.

Q. Okay. And -- and by the way, the

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process you just described for me, we used the example of income tax.

A. Yes.

Q. Would it -- would you give the same answer if I asked about other types of taxes of revenue items in terms of your general approach?

A. Yes.

Q. And in terms of various items of expense in terms of your general approach?

A. Yes.

Q. Okay. Now, let me, if I could, just ask you about some of the opinions that you reached.

A. Uh-huh.

Q. And on Page 200 of your report you speak of some of the qualitative issues.

A. Yes. I have quantitative issues on 200.

Q. I'm sorry. Quantitative, sorry. Advancing age and failing eyesight has -- has undermined me. Yeah, on quantitative issues.

A. Yes.

Q. The first paragraph you write, "It is my opinion that except for otherwise noted in my

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report the projections are generally mathematically correct and materially reasonably and, therefore, fall within the feasibility standard I have defined."

Do you see the language I read?

A. Yes.

Q. I notice there's a typo. Did you mean to write "materially reasonable" instead of "materially reasonably"?

A. Yes. Thank you.

Q. It's all right. It's basically what lawyers are trained to do is look for typos. I went to law school imagining myself in front of the U.S. Supreme Court; instead I've become a glorified proofreader.

All right. Now, when you say the generally mathematically -- the projections you're speaking about are the City's 10 and 40-year projections?

A. That's correct.

Q. And we already -- go ahead. I'm sorry.

A. And the -- and the RRI projections.

Q. And I've already asked you about the

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phrase "mathematically correct."

A. Uh-huh.

Q. What do you mean when you say "materially reasonable"?

A. I believe the projections taken as a whole are reasonable.

Q. And then the next paragraph says, "It is my opinion that, except where otherwise noted in my report, the individual assumptions used to build the projections fall into a reasonable range and that, when taken as a group, these assumptions are also reasonable."

Can you tell me why you were able to reach that conclusion?

A. Because we reviewed and looked at every line item, every cell of every model.

Q. And how big was this model?

A. The -- the E&Y model is, my recollection, I think about a -- over a hundred sheets -- over a hundred Excel spreadsheets.

Q. Okay.

A. The Conway model is actually about 30 models together and each of those models is multiple Excel spreadsheets. Clearly, Kevin Barr

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on my team probably knows exactly how many pages there are, but it's hundreds.

Q. And you looked at every one of those worksheets --

A. He did -- he did. I didn't.

Q. And every -- every cell of every worksheet?

A. He did.

Q. On Page 37 of your report, you refer to -- you state at the bottom, there's a carryover sentence having to do with the fact that the City does not have an aggregated forecast to use.

Can you tell me what you meant by an "aggregated forecast"?

A. Can you show me the sentence?

Q. It's the carryover. It says, "while the respective -- "

A. Ten-year 40-year.

Q. Yes. And then it carries over and the language I was referring to is the top of the next page.

It says, "The City does not have an aggregated forecast to use as a fiscal road map going forward."

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Q. Would your answer be the same if I ask you whether that had to be provided for in today's contingency?
A. Yes.
Q. And just so we don't spend all day on pensions, there were other issues identified as well in your report having to do with pensions, correct, besides --
A. Yes.
Q. And your answer would be the same that, although that is a potential cost to the City in future years, it is not something that would have to be reflected in the contingency today?
A. Correct.
Q. Okay. Let's look, if we could, then I'll move on and almost be done, on Page 200 and 201?
A. 200 and 201.
Q. The bottom --
(Whereupon, a brief discussion was held off record.)
BY MR. STEWART:
Q. Anyhow, 200 to 201, you've written in

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the carryover sentence, and I'm going to start in the middle of it, "I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption concerning the level of contingencies particularly in the early years."
And fair to say that the aggressive assumption on contingencies is the 1 percent?
A. Yes.
Q. And the conservative assumptions would be what?
A. I think the -- I think there are reasonably conservative assumptions on the revenue side.
Q. Uh-huh.
A. I think there are -- there are some reasonably conservative assumptions relative to the total head count in the early years in terms of the people employed by the City.
Q. Anything else?
A. Not off the top of my head.
Q. And when you use the phrase "conservative assumptions," what do you mean?
A. Conservative would mean -- a

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conservative assumption would be something that would either cause a reduction in the value of the revenue or an increase of the value of the expenses.
Q. Have you attempted to quantify the conservative assumptions in the City's projections?
A. I have not.
Q. You then go on the say, "While I do not believe a 1 percent contingency is adequate, I believe that the POA projections taken as a whole fall within the range of reasonableness and within my definition of the feasibility standard."
Do you see that?
A. That's correct.
Q. And are you saying that, although the 1 percent contingency is not enough, the other conservative assumptions offset any shortcomings?
A. I'm saying taken as a whole -- the projections with all of the conservative and aggressive assumptions taken as -- as a whole are reasonable.
Q. Okay. Let me ask you about sensitivity analyses now.

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A. Okay.
Q. And you have about a half dozen of them in your report, correct?
A. I haven't counted them.
Q. Okay. Well, nor are we going to itemize them all here, but they seem to be about that many. And let me just go to the first one, which is on Page 48, 49. And this is the sensitivity analysis about income taxes.
A. Okay.
Q. And the analysis is described on Page 48 and the table is on 49.
A. Uh-huh.
Q. Is it fair to say that this is the mathematical exercise of the simply showing what a 1 percent change results in if no other constants change?
A. That's correct.
Q. In fact, a change in taxable income could affect other constants, right?
A. It could.
Q. And if so, the sensitivity analysis would have to be altered to take into account those other changes; is that right?

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A. Generally, a sensitivity analysis is done around a single variable.

Q. Okay.

A. Right?

Q. And all of the sensitivity analyses -- analyses you have done have been done around a single variable, right?

A. Yes.

Q. And when it predicts a -- the effects of a 1 percent change, it would be that absolute number whether the 1 percent is up or whether the 1 percent is down, correct?

A. Yes. Yes.

MR. STEWART: That is all I have.

MR. HACKNEY: This might be a good time for a break. I'm going to move all my stuff over there.

MR. STEWART: Sure.

THE VIDEOGRAPHER: Okay. The time now is 11:04 a.m. We're going off the record.

(Whereupon, there was a brief recess in the proceedings.)

THE VIDEOGRAPHER: Time now is

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11:12 a.m., and we're back on the record.

EXAMINATION BY MR. HACKNEY:

Q. Ms. Kopacz, we've met before but --

A. We have.

Q. -- I'll introduce myself again. My name is Steve Hackney and I represent Syncora in the City of Detroit bankruptcy case. It's ice to see you again.

A. Nice to see you again.

Q. Let me ask you some open-ended questions at the start here.

I first want to confirm that you're not intending to offer opinions other than the ones that are contained in your report, correct?

A. That is my intention, yes.

Q. Okay. And you have disclosed the bases for your opinions as well as the facts and data that you considered in your report, correct?

A. Yes.

Q. What are the limitations of the EY forecasts in your view? And I'm going to get some terminology down here, which is to say when I refer to the EY forecast at large, I mean all of them. So I mean the -- the baseline forecast

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without RRIs. I mean the forecast with RRIs. I mean the 40-year forecast. So when I refer to the forecasts at large, I'll call them the EY forecasts. Does that work for you?

A. And that includes the Conway position?

Q. It does.

A. Okay.

Q. Because you have to -- to have a name for them and ultimately EY assembled them.

A. Right.

Q. And so -- I mean, I can call them whatever you want, put it another way --

A. Okay.

Q. -- but if there's a time where you want to say well, Steve, I need to talk about this instead of this, let me know. Okay?

And, as a general rule, if I ask you a question that doesn't make sense, as I am wont to do, will you please let me know so that I can rephrase it?

A. Yes.

Q. If you -- do you understand that if you answer my question, I'm going to assume that

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you understood my question?

A. Yes.

Q. So going back to it, what are the limitations of the EY forecasts that are included in the plan in your view?

A. The limitations? I'm struggling with the word "limitations."

Q. Okay.

A. As I said in an answer to Mr. Stewart's question, the projections in the City's plan are -- were created for specific purpose and they are not what we would typically expect to see as a set of projections for a plan of reorganization in a Chapter 11 case. So, they're just -- they're -- it takes more effort to understand what they are and what they aren't.

Q. Going back to that, I wanted to make clear that you are specifically disclaiming any opinions on whether the -- whether the plan is in the best interests of creditors, correct?

A. That was not in my scope.

Q. And you don't have any opinions on that?

A. I do not have an opinion.

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Q. And you did not attempt to -- to determine whether the -- the City might do better than the -- the forecasts such that there would be more to distribute to creditors, correct?

A. Yes. And I -- I think at some point in my report I said there are -- there are things that I didn't -- that I very clearly didn't do, and I didn't -- I didn't look at best interest of creditors. It was outside of my scope, and I didn't look to see if there was a way in which the City could generate more cash, and I didn't look at any of the alternative plans.

Q. And just to be clear, to the extent the City is purporting to use the projections to satisfy the best interests of creditors test, you do not have an opinion that the projections are appropriate for that purpose, correct?

A. I don't have any opinion around best interest at any level.

Q. Okay. But I have to tie it to the forecasts as well, correct? You're not saying these forecasts satisfy the City's burden in connection with the best interests of creditors?

A. I -- no. I don't have any -- I don't

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have anything to say about that.

Q. Okay. I guess -- let me go back to the subject of limitations and give you an example to help inform my question a little bit.

So you're aware that the City has what I'll describe as troubled data systems with respect to the collection of financial records?

A. Yes.

Q. You're also aware that the forecast is, in some respects, based on historical financial records?

A. Yes.

Q. So, an example of a limitation would be that if the City has historical financial records that are of questionable validity, that that could be a limitation on the accuracy of the forecast. So I'm using this as an example of something that could be a limitation. I'm not saying that it is or it isn't, but I'm trying to inform my question to you more to help put some meat on the bones so to speak.

A. The City has accurate financial information once a year when it completes its -- its annual audit and gets its annual financial

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stuff, right? And at that point in time, when KPMG signs off and it files its CAFR, then -- CAFR, C-A-F-R, comprehensive annual financial report, those are numbers that have been vetted, if you will.

Q. The negative implication of your question is that in between CAFRs, the City does not have reliable financial records, correct?

A. They have ad hoc records.

Q. They are definitely ad hoc.

A. Yes.

Q. Are they reliable?

A. Some may be and some may not be.

Q. Okay. You did not have sufficient time to audit the records of the City, correct?

A. No, and it wasn't in my scope.

Q. Okay. So you have not made a determination as to whether the financial information upon which the projections are built, to the extent that they're not derived from a CAFR, are based on reliable financial records, correct? You haven't made that determination.

A. Can you repeat the question, please?

MR. KANE: I was distracting her with

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the microphone.

MR. HACKNEY: That's okay. It's a long one, but I think it was the best way to ask it, so it may be better to have it read back.

(The question requested was read back by the reporter.)

THE WITNESS: That didn't help me. Can we try again?

BY MR. HACKNEY:

Q. Yeah. So, I think -- let me try and summarize what you've said.

I believe that you have testified that you believe the CAFRs are reliable financial information sets, correct?

A. Right. I -- the CAFRs are based on financial information that has been tested and vetted and upon which KPMG has opined. Okay?

I may quibble with some of the accounting that's in there just because I have a view of certain things. Okay? But at least at that point in time, if we're looking at, for example, the CAFR in June of '12, which was the basis for the original baseline by E&Y, if they

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said they had 10,002 employees and they paid them $386 million, I think those are probably very good numbers.

Q. Okay. So, I think we're on common ground when we say to one another the CAFRs are in your view reliable financial information sets, correct?

A. Right.

Q. We then talked about the -- in the interim between --

A. Right.

Q. -- between the CAFRs, I think your testimony was to the effect of some information may be reliable and some may not be reliable, correct?

A. Yes.

Q. That's part of the problem that Detroit is facing now, right, it's difficulty with its an assembly of financial information?

A. Yes.

Q. So my question is that to the extent that the forecasts in the plan are based on information that was developed after the 2012 fiscal year CAFR, you have not made an assessment

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of whether that financial information is reliable, correct?

A. Individually that is correct. Yes.

Q. Okay. And isn't it true that the fiscal year 2013 CAFR just came out last week?

A. That is correct.

Q. So that wasn't available to the forecasters at EY in connection with their forecast, correct?

A. Parts of that -- information that is contained in the CAFR is available throughout the year. So, for example, the City has a good handle on cash, so it can tell you how much cash it has and how much cash it has to pay, right?

What its future obligations may be for some construction project that's going on, it probably can't tell you.

Q. Okay. So there were parts of the 2013 CAFR that may have been available to E&Y --

A. Yes.

Q. -- and parts that were not?

A. Correct.

Q. And they -- the same parts were available to you and not, correct?

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A. Yes.

Q. Okay. Now, with respect to the forecasts that are included in the plan, what is the base year for those forecasts?

A. The base year for the original ten-year was 2012 and then it was updated for information that was known in 2013 and it has been subsequently updated for information that is known in 2014, which is the year we just finished.

Q. So let's get terminology straight, because I would get this turned around.

But isn't it true that fiscal year 2013 ended on June 30th, 2013?

A. Correct.

Q. Okay.

A. And that's the first baseline.

Q. And you understand that when the first baseline forecast was being built it was prior to the end of fiscal year 2013?

A. Yes.

Q. And so, in that forecast, the base year was clearly fiscal year 2012, correct?

A. Up to -- yes, and updated for what was discernable and knowable before that

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projection was made.

Q. So I understand that the projection involves updating --

A. Yes.

Q. -- things, but when I talk about the base year, that's not something that you update, correct?

A. Correct.

Q. The base year is the historical base, correct?

A. Correct. Yes.

Q. So, when we get to the forecasts that are included in the instant plan, the most recent set of those was dated July 2nd, correct?

A. Correct.

Q. And that's of 2014?

A. Correct.

Q. What was the historical base year for the forecasts that are in the plan?

A. It's -- it's still the baseline plan, the ten-year plan, updated for the updated RRIs, updated for the new 40-year.

Q. But based off of fiscal year 2012?

A. The baseline was 2012.

Q. Right.
A. Right.
Q. But what about the ten-year restructuring forecast? Is that base year 2012? Base year 2013?
A. The ten-year restructuring forecast, I think of that as the 40-year plan. The ten-year that's within the 40-year?
Q. Yes.
A. I think that has been largely up dated for '13.
Q. Okay. So is the base year for the 40-year that includes the 10-year --
A. Yes.
Q. -- fiscal year 2013?
A. It's '12 adjusted for what they knew about '13.
Q. Okay. So it's --
A. It's a hybrid.
Q. -- it's a bit of a hybrid?
A. It is.
Q. Okay. And is that typical in forecasting?
A. Is it typical in forecasting? It is

typical if forecasting goes on for a long period of time as this has. And think about it. They've been -- they've been doing these forecasts for a long, long time, and so they keep updating them. But originally, it started with the baseline which was predicated on '12 -- of 2012.
Q. Okay. And so to the extent the forecast for 2013 was superseded by actual results, your testimony is that the forecast was updated to take account of the actual results that had already happened?
A. To the -- to the extent that -- yes, there are -- there are updates. Because there are -- I'm trying to think, I think there are six sets of projections, right? We only focused on the May 5th and the July 2nd, but there were other sets of projections before that that existed, you know, from that. So, all of those have changed and incorporated both new actual results and new assumptions.
Q. And the new actual results post-fiscal year 2012 are ones that were derived from something other than the CAFR, correct?
A. As the CAFR was filed last week, yes,

had to be.
Q. Yeah. It had to be.
A. By definition, had to be.
Q. Are there problems with the forecasts that are in the plan in your view?
A. Problems? I -- I don't -- there's not problems with them in the sense of where they end up, right? I, again, have been really critical of how confusing they are.
Q. I was going to say that it seems to me that when a forecast is confusing, and I'm one of the people that shares your view that they're confusing, that strikes me as a problem with the forecast. I think a forecast should not be confusing, but that's me and I wanted to ask whether or not the confusing nature of the forecasts was a problem from your point of view?
A. It -- it caused my team to spend an enormous amount of time in understanding and checking the model, right? It -- it -- I think the -- the word I'd use in here or a word I used at one point in time was it was tedious.
Q. Isn't it fair to say that it -- it took an enormous amount of time just to understand

the model?
A. We -- yes. I -- I believe that I have a good understanding of all the models. You know, members of my team have a -- an incredibly intimate understanding of those models. But that required a significant effort on our part, but we understand them now.
Q. How long would you say it took you and your team to reach the point where you could say, okay, I now have an understanding of the model?
A. About the -- by the time we got the July 2nd numbers, we had a really good understanding of the May 5th numbers.
Q. Okay. So, you were retained on or about April 22?
A. April 22nd. We got the working models on the E&Y stuff Memorial Day.
Q. Which was April 30 or something like that?
A. May something or other, right?
Q. Okay.
A. And, you know, within a couple of weeks of actually getting the working models, we

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were in -- in pretty good stead with understanding the May 5th, and then we got the July 2nd and went through a similar process with that; albeit, you know, we already knew how they worked so it was easier to do those.

Q. So would you say by the end of May that you believe your team had achieved a good working understanding?

A. No. By the end of -- by the end of June.

Q. Oh, by the end of June?

A. By the end of June.

Q. And you --

A. We didn't get the working models until the end of May.

Q. Okay. You had less than --

A. May something or other.

Q. You had less than 90 days to do your work in this case, correct?

A. Yeah, whatever it's been.

Q. So May, June, July -- April 22 to May -- July 18 I think.

A. Yes.

Q. Did you have sufficient time to do

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your work?

A. I feel like I did. I mean there's still a couple of things that, as I said in to response to Mr. Stewart, questions that I intend to do going forward. But for the most part, I am satisfied with our ability to evaluate what all the information that was available and meet with the people that were available and do what we needed to do.

Q. With respect to the forecasts?

A. With respect to the forecasts.

Q. Now, with respect to the restructuring and reinvestment initiatives, you're not offering the opinion that they will achieve the goals that they're held out to achieve, correct?

A. No. No.

Q. And you haven't conducted a comprehensive review of the City's department from an operational standpoint to understand how the restructuring and reinvestment initiatives map on to needs of each department, correct?

A. I have not redone -- I have not redone the work that Conway has done. That's for

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sure, right?

Q. And my question was, you haven't done a comprehensive review to test whether Conway is correct in either the assessment of operational needs or its conclusion regarding whether the RRIs will solve the operational needs, correct?

A. That's correct.

Q. What -- what revenue streams are not included in the plan forecasts?

A. The Grand Bargain revenue streams.

Q. Okay. Those are not included in the forecasts?

A. Well, they're in the forecasts, but they're not in the -- they're in the plan forecast, but they're not in the City's budget because those monies don't -- they don't flow through the city when they come in.

Q. Understood. Okay. So the Grand Bargain forecasts are not -- not --

A. So the --

Q. -- in -- the Grand Bargain proceeds are not in the City's forecasts, correct?

A. They're in the plan, but they're not in -- I -- I may have confused myself.

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They're not in -- they're not what we would consider to be part of the City's budget.

Q. Understood.

A. Right. But they're in the plan as a sources of funds.

Q. Okay. So, let me -- let me put -- let me turn the question around, which is what revenue streams did you not study?

A. I don't think that there was any revenue stream of a recurring nature that we didn't study.

Q. Well, what about something like DWSD? Did you undertake an analysis to determine whether in the future the City's general fund might obtain revenue from what is currently known as DWSD?

A. We did not do that.

Q. Okay. So you have no opinions on that one way or the other?

A. I do not.

Q. You are generally aware that there is this concept that the DWSD may change the structuring in which it's housed in a way that yields an additional revenue stream to the general fund?

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MR. KANE: Objection. You can answer.

BY MR. HACKNEY:

Q. Just -- are you aware of the concept?

A. I'm aware that there's discussion around that, yes, and that DWSD is an enterprise fund.

Q. Other than that, DWSD was outside your scope?

A. DW -- other than the pension funding transfer from DWSD to the general fund, I did not look at DWSD.

Q. What about, did you study the likelihood and magnitude of potential asset sales?

A. I met with people in the City and with the City's advisors to talk about potential asset sales, yes.

Q. Are potential asset sales included in the plan forecasts as a potential source of revenue?

A. No.

Q. Okay. So, is it fair to say that, because they're not in the forecasts, you don't have an opinion on the likelihood of revenue that

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will arise from asset sales in the future?

A. That's correct.

Q. Okay. What are the uncertainties that exist over the next ten years that could impact the forecasts?

A. I think we went through them, right, in the report? The risk and opportunity.

Q. So, yeah -- to the -- to the extent there are uncertainties, if I want to know what your view on that is, I should read your report?

A. You should. And it's the section on risk and opportunity.

Q. Do you agree that changes to the law is an uncertainty that could impact the forecast?

A. Changes to what law?

Q. Any law.

A. That impacts the City? It could.

Q. Changes to the tax law could certainly impact the forecast?

A. Yes.

Q. Did you study the likelihood of changes to tax law?

A. Generally, no.

Q. The macroeconomic condition of the

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United States could impact the City over the next ten years, correct?

A. It could.

Q. Did you conduct a separate analysis of that question?

A. No.

Q. What kinds of information were you unable to examine regarding the forecasts?

A. I -- the -- the exhibit here of what the open requests I was not able, I obviously haven't -- they're still open requests, so I haven't looked at that.

Q. Anything else other than that that was something that you would have liked to have had but you didn't?

A. Not that I'm recalling.

Q. What about information regarding grants? Did you undertake an assessment of what grants the City is or is not likely to get in the future?

A. Only as it relates to the departmental reviews, not a broad review of grants that are available that it doesn't apply for, no.

Q. What are the assumptions that area in

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the forecasts regarding what grants the City will get?

A. It -- again, there's an exhibit in here that identifies the grants and the totality of the grants, but they -- they're fire and safety, public safety and transportation primarily.

Q. And did you undertake any assessment of the likelihood that they would get those grants?

A. No, I mean in terms of -- no. I mean there -- I assumed -- I looked at the grants that they're assuming they're going to get and I agreed that it looks like they're going to get those grants.

Q. On what basis?

A. On the fact that they've applied for those, like the SAFER grants for the fire department, those sort of things.

Q. So the extent of your confirmation was to confirm that they had, in fact, applied for the grants?

A. No. My -- my analysis of that was to get comfortable that the grants that were in the

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Q. Have you ever seen another municipality do a comprehensive general fund forecast over a 40-year period -- a gen -- comprehensive general fund forecast over a 40-year period?
A. Forty years.
Q. Yeah.
A. No.
Q. So, the two that are in the plan, the 10-year and the 40-year, are the first you've ever seen a municipality do, correct?
A. That I've ever seen? Yes.
Q. Have you ever seen a municipality do a forecast when it was undergoing this level of change?
A. Personally? No.
Q. Ma'am, have you ever been qualified in a court of law as an expert before?
A. I have.
Q. Okay. And tell me how many times that's happened to you?
A. We should go back and look at my testimony list, right? Probably -- I don't think it's in there. I think it's in my proposal. I

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referenced it.
MR. KANE: I've got some copies of it if you want it.
BY MR. HACKNEY:
Q. Okay. I missed that.
A. Yeah. More than two, probably less than five, ten. Something like that.
Q. Okay. So that means that's where a Court has said Ms. Kopacz is an expert and I'm going to allow her to testify on Subject X?
A. Right.
Q. And it's somewhere between two and five?
A. That's what I'm thinking.
Q. What were the subjects of your testimony?
A. Generally, it's all been insolvency and restructuring oriented. So whether or not, you know, an entity was solvent or insolvent. Whether or not -- it's all -- I mean, my career has been spent in restructuring, so it's all in that context.
Q. A very typical restructuring expert testimonies that I come across in my practice, an

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example would be valuation. Have you been qualified as an expert in valuation?
A. I don't think so. I don't think so.
Q. You talked about solvency.
A. Yes.
Q. Have you ever been qualified as an expert in whether an entity is or is not solvent?
A. Yes.
Q. Have you ever offered expert testimony as to whether or not a plan was feasible?
A. I don't think so in terms of that narrow definition of feasibility.
Q. Okay.
A. Right?
Q. Have you ever offered expert testimony in a Chapter 9 case?
A. No. No.
MR. KANE: Other than this one?
BY MR. HACKNEY:
Q. Other than this one -- other than today?
A. Yeah.
Q. Have you ever offered expert

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testimony on whether a plan satisfies the best interests of creditors test?
A. No.
Q. Other than expert testimony on insolvency, do you remember any -- any other areas where you testified as an expert?
A. Yes. And I have testified -- I have testified on behalf of clients in a variety of bankruptcy hearings and confirmation hearings and I -- to be honest with you, I don't really know if that's expert or fact or some sort of mix of the two. All right? I -- very few times in my career have I been hired exclusively as an expert. I've generally been the financial advisor, the chief restructuring officer or had some other role before I got to the witness stand.
Q. And it does create some complexity because sometimes an FA will be a witness to facts that happen in the bankruptcy.
A. Yes.
Q. And then they will also have the expertise to render opinions, as we lawyers think of them, in connection with their testimony. So I under -- understand what I think you're alluding

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to, which is it can sometimes be hard to distinguish. Is that what you're saying?

A. It is. And -- and I've -- like I said, I've testified on projections and reasonableness and solvency and ordinary course and -- all that.

Q. Have you ever worked in connection with a Chapter 9 bankruptcy other than this one?

A. No.

Q. Just to tie it up, have you testified as an expert in a deposition or at trial in the last four years?

A. Live testimony?

Q. Yup.

A. Yup, the answer to that --

Q. I don't want to dead ones.

A. -- the answer is no. Okay? There are --

Q. Well, I guess you could do depositions on written questions I guess, if that's what you meant.

MR. KANE: Are you done answering?

THE WITNESS: I am done answering.

BY MR. HACKNEY:

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Q. So you've not testified, to the best of your recollection, as an expert in a deposition or at trial in the last four years, correct?

A. That's correct -- I -- that's correct. I'm thinking hard.

Q. Okay. Maybe I'll just ask to confirm that the report doesn't identify any and so I assumed that there weren't any, but maybe just to confirm to be safe.

MR. KANE: I've got the application that's of record in the -- the court case already that includes expert testimony experience, so I can get that at a break either now or later. But it was already of record.

MR. HACKNEY: It's not urgent. If -- I don't know if you remembered whether there was one in the last four, but it --

MR. KANE: To be honest, I don't remember.

MR. HACKNEY: -- you're saying it would be there. Yeah.

MR. KANE: It would be there.

MR. HACKNEY: That's fine.

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THE WITNESS: Yes.

BY MR. HACKNEY:

Q. So, Ms. Kopacz, you have an impressive record in the restructuring industry. I've spent a lot time on the Internet reading it.

I won't go into all of your different experiences just other than to say I was impressed by them; But I do want to sort of clarify the boundaries of your expertise so that we know where you are holding yourself out as an expert and where you're not. Okay?

You are not an actuary, correct?

A. I am not.

Q. And you don't hold yourself out as an expert in actuarial science, correct?

A. Correct.

Q. You are not offering opinions as to what the appropriate discount rate is or assets or liabilities of a pension system, correct?

A. That's correct.

Q. Now, you are not an economist, correct?

A. That is correct.

Q. And you are not holding yourself out

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as an expert in economics, correct?

A. That's correct.

Q. And you are not opining on the macroeconomic factors that are or are not likely to impact the City of Detroit in future years, correct?

A. That's correct.

Q. You are not a statistician, correct?

A. That's correct.

Q. I think when you ask someone if they're a statistician that every single person is happy to say that they're not, other than statisticians.

MR. KANE: Other than baseball.

MR. HACKNEY: Well, and we won't get started on that. Maybe now she's going to say that she is. You might be an expert on baseball statistics.

BY MR. HACKNEY:

Q. You don't hold yourself out as an expert in statistics, correct?

A. I do not.

Q. You have not conducted statistical analysis of the forecasts to determine, for

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example, whether they fall outside the standard of deviation for mean analysis, correct?

A. I have not attempted to calculate a standard deviation for the forecasts; that is correct.

Q. And you have not applied statistical science to the forecasts?

A. That's correct.

Q. Now, you are not a real property appraiser, correct?

A. That's correct.

Q. And you don't hold yourself out as an expert in property appraisal, correct?

A. That's correct.

Q. You have not conducted any studies to determine the reasonableness of the City's property tax appraisals, correct?

A. Correct.

Q. Do you agree that the assessed value of the City's property tax base is an important consideration to any analysis of property tax revenues?

A. Repeat -- say that again.

Q. You bet.

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Do you agree that the assessed value of the City's property tax base is a key consideration to any analysis of property tax revenue?

A. I -- yes, in the sense that you need to know what the assessed value is.

Q. And also, what it's likely to be in the future, right?

A. You have to make an assumption around it, yes.

Q. Yeah. Because the assessed -- do you understand the nomenclature difference between "assessed value" and "taxable value" in Michigan?

A. A little bit.

Q. Okay. There are differences between the two terms.

A. Yes.

Q. I'd like to find a way to not get caught up in them, so maybe I'll --

A. Why don't we just say property values?

Q. Yeah. Yeah. At a general level, the property value's actually itself is a different term from assessed value.

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A. It is.

Q. So it's just a horrible thing all around. But the -- the assessed value is important to forecast of property tax revenue because it represents the base against which the millage rate is applied against which the collection rate is applied from which you get an understanding of what property tax revenues may be.

A. That is correct. I agree with that.

Q. Okay. Now, you interviewed Mr. Evanko the City's assessor; isn't that right?

A. I did not. One of the members of my team did.

Q. So you have not had a chance to speak with him?

A. I did not.

Q. Who did?

A. We'd have to go back on the contact log.

Q. Okay.

A. To know who all was present in that meeting.

Q. And by "speak with," I meant even on

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the phone.

A. I have not spoken with him, no.

Q. Did you e-mail with him?

A. I did not.

Q. What did your team tell you about what Mr. Evanko thought?

MR. KANE: About what?

THE WITNESS: About what?

BY MR. HACKNEY:

Q. Anything. I will make a loose prediction that it related to property tax assessments, but I don't mean to limit my question. I'm looking for my team -- my guys talked to Evanko and they came back and told me X.

A. They thought he was very capable.

Q. Yeah. Okay. Did they tell you what he thought about future property tax valuation -- property -- future assessed property values in the City?

A. I'm not real -- I'm not recalling a conversation that I had with my team on that specifically.

Q. Do you understand that property tax assessed values are equalized within a

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jurisdiction?
A. Yes.
Q. And then do you understand that that jurisdiction's property tax values are then equalized with other jurisdictions?
A. When you mean "other jurisdictions"?
Q. Meaning other jurisdictions outside that city -- that municipality. Do you understand that there are multiple levels of equalization as you go up towards the state level?
A. I'm not sure I'm aware of that process outside of Detroit.
Q. Okay.
A. Okay?
Q. Are you aware of that process to the extent it relates to Detroit? Meaning -- let me ask it another way.
Do you know that the tax roll in the City ultimately goes through an entity at Wayne County that then looks at the City's tax roll and looks at other municipalities and then determines an equalization factor to determine whether the City of Detroit is over or under-assessed compared to other municipalities?

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A. Generally, yes. Specifically, no.
Q. Okay. Meaning you have a general sense that that happens, but you don't have a specific understanding?
A. I don't know how it does it.
MR. KANE: Wait for him -- wait for him to stop asking a question before you start answering.
MR. HACKNEY: That's okay. It's mainly for her benefit, so that she can go one and one.
MR. KANE: And your benefit to make sure you know what the question fully is.
BY MR. HACKNEY:
Q. And do you know what an equalization factor of 1.0 means?
A. I do not.
Q. Do you know what Detroit's equalization factor was over the prior 15 years?
A. I do not.
Q. Okay. You are also not trained in the social science of urban planning; is that correct?
A. That's correct.

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Q. And you're not holding yourself out as an urban planning expert, correct?
A. That's correct.
Q. You're not opining on whether or not the restructuring and reinvestment initiatives involve the an application of urban planning disciplines to the City of Detroit, correct?
A. Correct.
Q. What are the key variables when it comes to assessing future income tax revenue for the City of Detroit?
A. For the City of Detroit? It occur -- it occurs at three levels. There's a rate for residents, a rate for nonresidents and a rate for businesses.
Q. And so within those levels, what are the key variables that you have to study?
A. We have to look at for -- for the people, for the residents and the nonresidents, we have to look at the number of people employed and what the wage rates are. Okay? For the corporations, it's -- it's corporate income.
Q. So you look at the number of people that are working, average wage or income levels?

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A. Correct.
Q. And then the tax rate, correct?
A. Correct.
Q. And then you also have to assess the rate of collection, correct?
A. Yes.
Q. Any other variables that you can think of that go into forecasting future income tax revenues other than those?
A. No. That just they're slightly different for the corporations.
Q. Understood. Understood.
Now, let's take something like average income data, which I think is -- is presented as a -- as a different concept from wage data in the forecasts, correct?
A. We're going to need to --
Q. Take a look?
A. Yeah.
Q. Okay. Let me -- let's take a step back and look -- think of the concept of income in a broad way that includes salaries or wages. Okay? I might be mistaken.
You haven't independently assessed

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the average income data for the City of Detroit, correct?

A. That's correct.

Q. Okay. You relied on data that was given to you by Ernst & Young?

A. That's correct.

Q. Okay. And you haven't taken steps to assess the accuracy of that data, correct?

A. That's correct.

Q. And with respect to the level of unemployment in the City, you also relied on data that was given to you by Ernst & Young, correct?

A. Yes.

Q. But you did not attempt to independently verify that data --

A. I'm not --

Q. -- correct?

A. -- sure. I'm not sure what independent information we had on employment -- on unemployment.

Q. Okay. You may have. You may not have. You just don't know?

A. Yes.

Q. Is it true that unemployment in the

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City of Detroit bottomed out in 2010?

A. I don't know that.

Q. Isn't it true that year over year since 2010 unemployment has decreased?

A. I don't know that.

Q. Do you know how the City's current unemployment rates compare to last year's unemployment rates?

A. I don't.

Q. Let me ask you some questions about the wagering revenues.

What is the tax rate that's applied to the wagering revenues?

A. It's in my report. It's 10.95? We can look it up.

Q. Did you conduct any independent analysis of the gaming market in the City of Detroit?

A. I did not.

Q. Okay. So you didn't do an independent study to understand, for example, the impact that the Toledo casinos will have on the casinos in the City of Detroit; is that correct?

MR. KANE: He'll direct you to this

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if he wants you to look for the specific page.

MR. HACKNEY: Yeah, that's okay.

THE WITNESS: Yeah. No.

BY MR. HACKNEY:

Q. I am correct when I say that, right?

A. Correct.

Q. And you also did not conduct any sensitivity analysis around casino gaming revenue, correct?

A. Whatever's in here is what we did.

Q. Okay. So if you did sensitivity analysis, it's in your report, correct?

A. That's correct.

Q. If it's not in your report, it's because you didn't do it?

A. That's correct.

Q. What is the utility user's tax?

A. It is a tax that the City of Detroit assesses on telephone, cable, utility charges to residents in Detroit.

Q. Now, when it came to historical data about utility user tax revenues, you relied on what was given to you by Ernst & Young; is that

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correct?

A. That's correct.

Q. You did not attempt to independently assess that data, correct?

A. Correct.

Q. And to the extent you conducted sensitivity analysis around the utility user's tax, it will be in your report?

A. We did not.

Q. You did not? I --

A. Did not.

Q. It's not a memory test, but it's fine.

Let's talk a little bit about your experience -- your personal experience forecasting municipal revenues -- or I'm sorry, doing municipal forecasts of both revenues and expenses. Okay?

A. Okay.

Q. So tell me about the times that you've had the opportunity to do it personally.

A. I have not directly worked for a municipality in projecting revenues or expenses.

Q. Okay. What do you mean by

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"directly"?

A. Well, I've -- I worked extensively for the Nassau County Interim Finance Authority, which is the state control board that oversees the finances in Nassau County here in New York. So, the -- that -- that is -- again, it's not the county itself. It's the control board that oversees the county.

Q. Understood. Okay.

A. Right.

Q. Now -- so let's try and -- let's try and break it down a bit.

You personally have never done a municipal forecast, correct?

A. That's correct.

Q. You have worked with municipal forecasts in connection with your work for Nassau County, correct?

A. Correct, and other entities in municipalities.

Q. Okay. That was my next question, which is other than Nassau County, what engagements have you had where you worked with a municipal forecast understanding that you're not

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the one who created it?

A. In -- I had an engagement where I've been retained by seven transit authorities.

Q. One engage meant?

A. Yes, it was interesting. New York, Chicago, Boston, San Francisco, Minneapolis. I'm trying to think. Oh, Dallas was part of that group, right. So I worked with their forecasts and their budgeting and planning system.

Q. Oh, I see.

A. Right.

Q. And that was limited to just their enterprise funds?

A. I -- I -- to be honest with you, I don't know if they were just enterprise funds or general funds, but it would have been departmental level budgeting and projecting.

Q. Can I describe your work for those -- those transit authorities as looking at their operations and at the forecasts that related to them and trying to understand how they could improve operations in order to improve the forecast? Is that a generally accurate description?

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A. It could be -- you could generally say that, but yes.

Q. Okay. Is it fair to say that in -- in that retention you weren't studying the accuracy of the forecasts. You were trying to help the transit authorities improve?

A. No. In that situation we were dealing explicitly with the revenue side of transit businesses and advertising income and, you know, pricing that.

Q. Okay. So you were trying to understand the accuracy of the forecasts of the transit revenue?

A. And the -- and the potential to transit revenue.

Q. I see. Okay. So it was kind of a mixture of trying to understand, first, whether you agreed with forecast and then, second, trying to understand whether doing things like advertising might improve --

A. No. It had to do with long-term contracts for advertising revenue to those transit authorities relative to the person who -- the entities that had contracted with them for the

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advertising revenue.

Q. Okay. So, we have NIFA, right, which is the Nassau County --

A. Yes.

Q. I learned all about NIFA. And then we've got transit authority retention?

A. We've got the transit authority.

Q. Any other municipal retentions where you've worked with a municipal forecast?

A. In the -- in the Legal Aid Society case, because the vast majority of the Society's revenue comes from New York City or New York state, okay, in terms of we worked with those municipal entities relative to our own budgets.

Q. I see. So because they get money from the state --

A. Right.

Q. -- you worked with --

A. And the City and has to be appropriate and legislated, yes.

Q. And does that mean that you worked with the state and city forecasts because had you to understand them in order to prepare a forecast for the Legal Aid Society?

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A. We had to understand what the possibility of funding was from state and the City, okay, and how the City's budget process worked and how we got appropriated our monies.
Q. But in that context, you were not assessing the accuracy of either the state or city forecasts?
A. That's correct.
Q. Okay. And in the Nassau County retention, were you assessing the accuracy of the Nassau County forecast?
A. Yes.
Q. Okay. So you were -- part of your job was to evaluate the Nassau County forecast to determine whether you agreed with it?
A. Yes.
Q. Okay. That's helpful.
What is the methodology that a municipality typically employs when preparing a forecast for its general fund?
A. I'm not sure there's a typical.
Q. Okay. So, I noticed in your CV that you said one aspect of municipal -- I think you said, we can get it out, but it was something like

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municipal accounting and budgeting is that there is no standard.
A. Correct.
Q. Do you remember saying that in your CV?
A. Yes.
Q. What did you mean by that?
A. Well, there's no -- government accounting -- there's something called the Government Accounting Standards Board, okay, that would like to believe that it creates standards analogous to generally accepted accounting principles. But there is a great deal of variability in what the GASB prescribes in terms of municipal accounting procedures, right? And there is no standard for budgets. Okay? There is no accounting standard that covers budgets. Accounting covers historical recording of revenues and expenses.
Q. So, you're not aware, as you sit here today, of any either government agencies or -- or associations that have promulgated methodologies for forecasting municipal revenues?
A. There are. Okay? Either it's things

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like the Government Finance Officers Association. There are trade associations. There are quasi-oversight committees that -- panels and groups that are trying to promulgate a set of standards for municipalities in these areas, but there's nothing that is as uniform and acknowledged as we have with generally accepted accounting principles and the way that the SEC oversees that.
Q. Okay. So have you reviewed the publications of the Government Finance Officers Association?
A. I saw them.
Q. Okay. It's fair to say that you didn't review them in connection with this case, correct?
A. No, that's correct.
Q. Okay. So, have you ever reviewed An Elected Officials Guide to Revenue Forecasting, which is a publication by the GFOA?
A. I may have.
Q. I'll show you what it looks like. It looks like this.
A. I would probably have looked at it

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online. I would probably not have looked at it in a hard copy like that.
Q. It's fair to say you didn't rely on it though, correct?
A. I did not.
Q. Have you ever seen this book? Revenue Analysis and Forecasting. It's by Barry Blom and Salomon -- Barry Blom and Salomon Guajardo?
A. No. That I know I have not seen.
Q. Okay. Do you know what the different types of qualitative forecasting methods are that are specified by the GFOA?
A. Not off the top of my head, no.
Q. And do you know what the quantitative methodologies are that the GFOA specifies?
A. Not off the top of my head, no.
Q. So, for example, do you know what naive forecasting is? I didn't make that up?
A. You didn't make that up?
Q. No.
A. No.
Q. Okay. Do you know what Delphi forecasting is?

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A. No.

Q. What about judgmental forecasting?

A. No.

Q. Consensus forecasting, do you know what that is?

A. Consensus generally means that everybody agrees on It. It's -- it's the way that Michigan does its revenue forecasting and Detroit does it.

Q. That's using multiple people to check one another, correct?

A. Yes.

Q. And then do you know what expert forecasting is in the qualitative context?

A. No.

Q. Fair to say that you have never consciously applied these methodologies in your own forecasting work?

A. That's correct.

Q. And you did not in connection with the City's forecasting?

A. That's correct.

Q. Now, let me ask you some questions about the -- the quantitative types.

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Have you ever heard of econometric forecasting?

A. Yes.

Q. Okay. You did not perform any econometric forecasting, correct?

A. That's right.

Q. Neither did the City, right?

A. I'm not going to answer for the City.

Q. Oh, you don't know whether they did or they didn't?

A. I'm not -- again, I didn't do any, but I didn't -- I haven't seen any, so...

Q. Sorry. Maybe I'm not asking my question the right way.

In connection with the City's forecasts, you're unaware of anyone associated with the City performing an econometric forecast?

A. Like I said, I'm not aware of it, but I don't know.

Q. Okay. So I'm not trying to -- I'm not trying to sharp shoot you, but one of your jobs here was to understand everything about the forecasts, so --

A. Yes.

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Q. To -- when you say I'm not aware of someone doing it, your expectation is that it wasn't done?

A. That's correct.

Q. Okay. And similarly, have you ever heard of regression analysis?

A. Yes.

Q. You didn't perform any regression analysis with respect to the City forecasts?

A. That's correct.

Q. And to the best of your knowledge, neither did the City, correct?

A. Not that I'm aware of.

Q. Okay. Are you aware of -- of what's called a time series forecast?

A. Yes.

Q. You didn't perform any time series analysis of the City's forecast, correct?

A. That's correct.

Q. And to the best of your knowledge, neither did the City?

A. Not that I'm aware of.

Q. Okay. And then you're aware of a concept of trend analysis, correct?

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A. Yes.

Q. You didn't perform trend analysis with respect to the City's forecasts?

A. That I would say we did.

Q. Okay. That is something you would say that you did do?

A. Yes.

Q. And did the City do that?

A. I believe the City did that.

Q. Okay. Now, have you reviewed the National Advisory Council on State and Local Budgeting and their publications?

A. I have not.

Q. Do you agree that forecasting is a highly subjective area?

A. Yes.

Q. And, as such, it's subject to the biases of the person doing the forecast, correct?

A. Yes. And -- and -- but I would qualify biases as neither good nor bad.

Q. Understood. It's not a -- it's not meant to be a negative word like -- like racial bias.

A. Right.

Q. It's meant to be a word that says your own personal viewpoint can have an impact on your forecast?
A. That's correct. I agree with that.
Q. And do you -- as a restructuring professional, do you understand the idea that the City here has an incentive to have a very conservative forecast?
MR. KANE: Objection. You can answer.
THE WITNESS: I --
BY MR. HACKNEY:
Q. Thinking about it from the stand -- just as a restructuring professional and drawing on your experience, do you understand the general concept that the City has an incentive to have a conservative forecast because then it can say to creditors, I have nothing more to give you, but if it does better than the forecast, it will have more cushion later.
MR. STEWART: Objection.
THE WITNESS: I'm struggling --
MR. STEWART: Did you get my objection to the question?

THE WITNESS: I'm not under -- I'm -- I'm struggling with incentive.
BY MR. HACKNEY:
Q. Okay. Let's turn it around then.
You didn't consider or analyze what the biases of the City forecasters were, correct?
A. Correct.
Q. Okay.
MR. HACKNEY: Ma'am, there is just five minutes left on tape, and one of the things I like to tell people is that a deposition is not akin to being stretched out on the rack. So, if you would like to take a lunch break, this could be a good time.
THE WITNESS: I would like to take a break.
MR. HACKNEY: Okay. Absolutely.
THE VIDEOGRAPHER: Thank you. The time is now 12:17 p.m. We're off the record. This is the end of Disk Number 2.
(Whereupon, a lunch break was taken from 12:17 p.m. to 1:20 p.m.)
THE VIDEOGRAPHER: The time now is approximately 1:20 p.m. We're back on the

record. This is the beginning of Disk Number 3.
BY MR. HACKNEY:
Q. Ms. Kopacz, welcome back.
A. Thank you.
THE VIDEOGRAPHER: Do you have your microphone on?
MR. HACKNEY: I don't. Neither of us do.
MR. KANE: Let the record reflect I have mine on.
MR. HACKNEY: Teacher's pet.
(Whereupon, a brief discussion was held off record.)
BY MR. HACKNEY:
Q. Okay. Ms. Kopacz, so do you agree that in order to minimize the impacts of subjectivity, it is important for a forecaster to utilize a reliable methodology?
A. Never thought about it.
Q. Okay. Having thought about it for the first time, do you agree?
A. I don't know. I don't know.
Q. How about put it this way: Do you

agree that it's important for a forecaster to use a reliable methodology?
A. Yes.
Q. What methodology did the City use?
A. I'm not understanding the question.
Q. Okay. Methodology is one of those words that's kind of hard. It -- the more you try define it, the more you can roll around in it.
Do you have a general understanding of the concept of a methodology?
Let's try and get on common ground in terms of what the word means and then we can try and ask the questions.
A. Okay.
Q. So, when I talk about forecasting methodology, what does that mean to you?
A. Approach.
Q. Okay. Okay. And so what approach did the City utilize in compiling its forecasts?
A. There's not -- I'm struggling because I think the way you're using it is as if there's a professional standard for methodology. There are like -- like we were talking about generally accepted accounting principles. There aren't --

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there's no -- there are no standards like that for forecasting. There are approaches that people use, but I don't think there's any -- there's no check-the-box sort of standard for forecasting.

Q. Okay. So you're not able to point to a forecasting methodology that exists and say whether the City employed that forecasting methodology or not, correct?

A. That's correct.

Q. And that's because to the best of your knowledge, you're not aware of a standard forecasting methodology for municipal forecasts like these, correct?

A. Or -- yes, that's correct.

Q. And you took a lot of time to learn what the City did, right?

A. Yes.

Q. What you're not able to say is how what the City did compares to what people typically do when compiling a municipal forecast, correct?

A. Yes.

Q. Because to the best of your knowledge, there is no typical?

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A. Every municipal forecast I've seen is different.

Q. Okay. So, following on this line, it's fair to say that you can't subject the City's analysis to peer review, correct?

A. I'm not sure I would say that.

Q. You might be able to, you might not be able to; you just don't know?

A. I don't know who the peer would be.

Q. Okay. You can't compare it to industry standards, correct?

A. In -- "industry standards" being?

Q. Municipal forecasting industry.

A. Promulgated by whom?

Q. Anyone.

A. Again, I don't -- I guess the answer would be no.

Q. 'Cause your view is that there aren't any industry standards?

A. That's correct.

Q. So of course you can't, right?

A. Yes. Yes.

Q. Did you attempt to compare the City's approach to literature on the subject of municipal

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forecasts?

A. No.

Q. Could you have done that?

A. I think we've got to go back and decide -- define again what we're talking about.

I'm talking about the projections in the plan of adjustment. Okay? There are no standards that govern projections in a plan. Whether that's a plan of adjustment, a plan of reorganization or anything like that. Okay?

The -- the quote, standards, and I -- and I put that in the finger quotes because I think what you're trying to talk about is the City budget or something -- again, like I said, I don't -- there aren't standards that you would go to to say how do you prepare these projections for the plan of adjustment.

Q. Okay. And there's not literature either?

A. In the sense of?

Q. Scholarly literature on the subject of municipal forecasts of revenues and costs?

A. I believe that there are -- there are people that write on what would be good municipal

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finance practices; what would be good pension forecasting practices; what would be good actuarial -- I mean, there's lots of professional literature on any topic that you want to find, but that's not what we're talking about here.

Q. Let's give an example. There's literature from the GF0A of which you are aware, correct?

A. And with all due respect none of it covers a situation like a Chapter 9.

Q. No, it covers municipalities, right?

A. It covers municipality.

Q. And for example, you didn't attempt to take the City's forecasts and compare them to the methodologies identified by the GFOA?

A. No, no.

Q. I'm correct when I say that?

A. You are correct.

THE VIDEOGRAPHER: Counsel, excuse me. You're rubbing against your mike. I'm sorry for the interruption.

BY MR. HACKNEY:

Q. Are the City's forecasts amenable to statistical testing?

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A. I don't know.

Q. Okay. Now, I think we talked about earlier the fact that you haven't done any?

A. That's correct.

Q. Any statistical testing, correct?

A. Correct.

Q. Is it fair to say that the City's forecasts are -- and I'm talking about the ones in the plan of adjustment, you understand that, right?

A. Okay.

Q. The City's forecasts are principally the product of the judgment of the City forecasters?

A. I don't know who that is.

Q. You don't know --

A. What are -- tell me who those people are.

Q. Well, I was talking about the forecasters that are the subject of your expert opinion.

A. Right.

Q. So those forecasts are principally the product of the judgments of the forecasters.

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Do you agree with that?

A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes.

Q. But the assumptions are ones that they use their judgment to determine, correct?

A. I believe that's correct, yes.

Q. Who are the forecasters on the revenue side for the City?

A. Ernst & Young.

Q. Yeah, I meant the people.

A. Bob Kline and his team.

Q. Who else?

A. I -- I would -- I would have to -- we could look and see who we talked about, but I remember Bob.

Q. Okay.

A. And there are a couple of women who worked with him.

Q. Do you remember Caroline Sally?

A. That's sounds familiar.

Q. Okay.

A. But, yes.

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Q. And then Gaurav Malhotra?

A. No.

THE REPORTER: I'm sorry.

MR. HACKNEY: Gaurav Malhotra.

And general spellings I can definitely give them you at a break.

Q. You remember Gaurav?

A. Absolutely I remember Gaurav.

Q. I didn't hear your answer, I'm sorry.

A. I said Bob Kline and his team, okay --

(Cell phone interruption.)

THE VIDEOGRAPHER: I'm sorry that shouldn't happen.

MR. HACKNEY: That's okay. That's a good ringer.

A. Bob Kline and his team, who are a division of Ernst & Young in some way, shape or form, were the professionals that worked on the revenue projections.

Q. On the revenue projections?

A. Correct.

Q. I see what you're saying.

Okay. So, are you distinguishing

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Gaurav from Bob Kline's team --

A. Bob --

Q. Is it Bob Kline or Ron Kline?

A. Bob. Bob. I think so.

Q. Mr. Kline.

A. Mr. Kline.

Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team.

A. Gaurav is the Ernst & Young partner responsible for the Detroit engagement.

Q. Got it.

A. Okay? Gaurav has work groups, right, from various parts of Ernst & Young working for him on this.

Bob Kline is the Ph.D. economist that has a group of people also working for him that worked on the revenue projections.

Q. And the cost projections principally came from Conway MacKenzie; is that right?

A. No. No. It depends on which --

Q. I see?

A. The RRIs came from the Conway MacKenzie.

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Q. The historical call cost expense came from whom?
A. The historical costs came from the City. The cost projections came primarily from Ernst & Young, a group of people that worked for Gaurav.
Q. I see. Okay.
So if I was thinking broadly about the forecasts in the go-forward years, if I was thinking about revenue forecasts, I'm thinking about Mr. Kline's team?
A. That's how I think of it, yes.
Q. If I'm thinking about cost projections that don't entail RRIs, I'm thinking about Mr. Malhotra's team?
A. Right. And he has specific people that are responsible for specific parts of the cost projections that work for him.
Q. Understood.
Then if I'm thinking about RRIs and their impacts on either costs or revenues, I'm thinking about the Conway MacKenzie team?
A. Generally that's correct.
Q. And is this, by the way, part of the

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reason that you found the forecasts confusing is because they were the product of actually three different groups of forecasters?
A. It's not that there are different people involved. It is that they were never harmonized and concatenated in a way that they're all in one kind of place.
Q. What is the experience of Mr. Kline and his team when it comes to forecasting municipal revenues?
A. I don't know.
Q. Okay. Did you make any effort to assess that?
A. I did not.
Q. Was that important to you?
A. I looked at -- I used all the information that was available to me and all the people that were available to me and -- got satisfied with the projections in the plan as being reasonable revenue projections.
Q. Were you working under the assumption that Mr. Kline and his team had substantial experience forecasting municipal revenues?
A. I did not make that assumption, no.

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Q. You hadn't thought about it one way or the other?
A. No, I did not make a determination one way or the other.
Q. Okay. Did you ever meet them in person?
A. I did not.
Q. You spoke to them on the phone?
A. I did.
Q. And what was the experience of Mr. Malhotra's team when it came to forecasting municipal expenses?
A. I don't know.
Q. And what was the experience of the Conway MacKenzie team when it came to projecting the costs or revenues associated with a municipal restructuring?
A. I don't know.
Q. Now, when you were assessing the reliability of the assumptions that are in the forecasts, did you independently seek to develop your own assumptions first and then compare so that you could then compare them to the City's assumption and see how they compared?

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A. No.
Q. Okay.
A. Generally not.
Q. So what you did, instead, was you first understood what the City's assumption was and then you tested the reasonableness of that assumption, correct?
A. Generally that's correct, yes.
Q. Okay. Why didn't you, for example, kind of in order to avoid just, you know, the impact that even seeing their assumption can have on you, why didn't you say, What do I think wages will be year over year for the next ten years, and do the work independently and then see how it mapped?
A. Generally two reasons, time. When I was appointed I had, I think, 62 days originally between when I was appointed and when my report was due.
Q. Yeah.
A. Okay. Secondly, I learned very quickly the condition of the historical records of the City, and realized that in order to get done with my assignment, I was going to have to rely on

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the assimilation of data that the other professionals had acquired. And that included the creditors' professionals, as well.

Being the last person at the dance, so to speak, I needed to rely on not only on Ernst & Young and Conway, but Alvarez and FDI --

Q. Yeah.

A. -- and Houlihan, to help get us to the best data that was out there.

Q. So let me see if I can summarize, the time that you were allotted which we discussed and which I've told you I'm of the view wasn't very much, but it was what it was, but the time that you were allotted did not allow you to either independently verify the data or independently generate your own assumptions?

A. I -- I wouldn't go so far as to say we didn't independently verify because we did, specifically on the revenue projections and things surrounding those, we did seek other third-party sources of data. So --

Q. There were instances where you sought some form of corroboration?

A. Separate and apart from the City.

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Q. But in general, you'd agree with my statement that you didn't have sufficient time to independently verify all of the data on which the forecasts are built in order to develop your own assumptions?

MR. KANE: Objection. Go ahead and answer.

A. Yes.

Q. You agree with me?

A. Yes.

Q. Your reliance materials only list the City's CAFR for 2012 specifically by name?

A. Uh-huh.

Q. Is that the only CAFR that you reviewed?

A. We did not get the CAFR, the '13 CAFR until after my report was filed.

Q. Understood.

So we've had a conversation about the '13 CAFR and how some of the information in it may have been known to you --

A. Right.

Q. -- and other parts of the information may not have been?

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A. Right.

Q. Let's put that to one side, now let's go backwards in time.

Did you review any CAFRs other than the 2012 CAFR?

A. I did not.

Q. And whether your team did or not, you don't know?

A. I don't know.

Q. Do you -- is it your opinion that none of the prior year CAFRs prior to 2012 have any relevance to the City's financial projections?

A. Like I said, I didn't look at it. Don't know if my team did or not.

Q. So, do you think they are relevant or not?

A. I don't know.

Q. You don't know. They might be, they may not be?

A. They weren't part -- they weren't part of the basis for my opinion.

Q. Okay. But I'm asking about the relevance of them?

A. I don't know.

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Q. You don't know what the relevance is?

A. Yes.

Q. Would you agree -- let's go back to our word methodology which you've used to describe as approach.

Methodologies is an important word in the legal setting, that's why lawyers are always asking about methodology.

But would you agree that the City did not employ a uniform approach in constructing the forecasts?

A. Yes.

Q. Would you also agree that the City didn't apply a uniform methodology in constructing the forecasts?

A. I don't like the word methodology.

Q. Okay. You're more comfortable with approach?

A. I'm more comfortable with approach.

Q. But can you describe what the approach was?

A. It depends on -- it depends on which model we're talking about. The original baseline E & Y model, the Conway models, or the E & Y

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10-year, 40-year model. It depends on what the line item that is being projected is, okay?

And there are different approaches used for estimating both revenues and expenses depending on which one you're talking about and who did it.

Q. And then are there different approaches even within categories like did they employ a different approach to estimating different types of revenue?

A. Yes. Well, revenue -- revenue in terms of the E & Y models, no. Okay. There are differences in approaches, for example, to salaries and wages, depending on whether it's a Conway model or whether it's an E & Y model.

Q. Did you say in your expert report that you found the City's model to be convoluted?

A. And confusing.

Q. Yeah. Did you also say convoluted?

A. Yes.

Q. Okay. I will put my hand up and agree with you on that.

MR. KANE: Objection.

MR. HACKNEY: For now?

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MR. KANE: What?

BY MR. HACKNEY:

Q. So we've talked a lot about -- we've talked about industry standards and -- but have you ever seen another city employ the approach for its forecasts that was employed here?

A. No, because as we've established, I've never seen another city like this doing forecasts for a plan of adjustment.

Q. True, but you have seen other cities doing forecasts, right?

A. Budgetary forecasts, yes.

Q. Yeah. Have you ever seen any of those cities employ a methodology or an approach, sorry, like this one?

A. No.

Q. When it comes to forecasting revenue, do you believe that the forecasting technique that you employed depends on the nature of the revenue source that's being forecasted?

A. Can you explain that?

Q. Sure. So do you understand that there are -- certainly understand that there are different types of revenue, right? You understand

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that?

A. Yes.

Q. Income tax revenue is a different type of revenue from wagering revenue, right?

A. Yes.

Q. Do you understand the idea that there are -- there are -- that revenue is often divided into two board categories of whether it's deterministic on the one hand or volatile on the other?

A. I would agree there are different types of revenue that have the different bases for -- around which you would estimate. But I would want you to define those words before I would agree or disagree with them.

Q. Deterministic I use in the sense that it means predictable and volatile means unpredictable.

A. Yes.

Q. Have you ever -- do you understand the idea that you can classify revenue streams as being either predictable or unpredictable?

A. I would think that is the analyst's choice of how they want to describe them,

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generally.

Q. Yes. Right. And did you undertake a revenue portfolio analysis in this case?

A. A revenue portfolio analysis? Don't know what a revenue portfolio analysis is.

We looked at all the revenues that were presented in the plan of adjustment projections.

Q. So I guess can I say that to the extent you undertook a revenue portfolio analysis, you didn't do so consciously?

A. I wouldn't -- I don't think -- that sounds like a term of art, it doesn't sound like something that you would think about.

Q. That's -- that sounds like a term of art from the world of revenue forecasting?

A. It's somebody's -- it's somebody's term of art, but it's not my term of art.

Q. Okay. Did you make an independent assessment for yourself as to whether or not the City's revenue streams could be classified as either predictable or unpredictable?

A. I looked at each revenue stream and assessed whether I thought the City's forecast or

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future?
A. I agree with that, yes.
Q. That's a possible approach?
A. Yes.
Q. Correct?
A. Uh-huh.
Q. But separately, you can use a statistical method like a time series forecast in order to forecast future property revenues, correct?
A. You could, yes.
Q. Let's describe those for purposes of my question as two different methodologies, okay?
A. Okay.
Q. You never attempted to look at the City's approach to any of the revenue streams and say, they are using the wrong methodology, correct?
A. That's correct.
Q. Now, within their methodology, what you did do is you looked at the assumptions that went into the methodology the City adopted and determined the reasonableness of those assumptions, correct?

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A. That's correct.
Q. Okay. And I take it as a corollary of that, you don't have an opinion as to whether the City utilized the correct methodology, not assumptions, in forecasting the revenue that it forecasted, correct?
A. I accepted the methodology, whatever that may be, that the City used and evaluated the result of that methodology, plus the inputs and the assumptions.
Q. Okay. You did not attempt to critique whether they employed the correct methodology, correct?
A. I don't know that there is a correct methodology, so --
Q. Okay.
A. -- the answer is I don't know.
Q. So, you don't know if there is one so you couldn't have critiqued it, right?
A. I think that's correct.
Q. Okay. Now, have you -- you know that the City's forecasts in one form or another, they go back to the prefiling period 2013, correct?
A. In terms of their preparation?

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Q. Well, so let me -- I didn't ask that very well.
So, do you understand that there was a -- that there was a ten-year forecast in the June 2013 proposal to creditors?
A. Yes.
Q. And do you understand that that proposal to creditors included a forecast both with and without the RRIs?
A. I don't recall.
Q. Okay. Let me put it more generally.
Do you remember that there was a forecast for what happens if there's no bankruptcy and then there was a forecast for what happens if there is a bankruptcy, or if there are restructuring initiatives?
A. My recollection of the June '13 projections that were provided to creditors was -- was this is the projection of what will happen. Okay? What is going to happen to this city in terms of its obligations in the future.
So this was -- right -- and again, I don't know about --
Q. You don't remember --

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A. -- multiple -- I don't remember multiple versions.
Q. Okay. So, I'll tell you my recollection of it was there was a so-called steady state five-year forecast, but there was also a ten-year forecast where they also presented in an aggregate level the RRIs and then the delta was amounts available for distribution of creditors.
But if that doesn't ring a bell --
A. My recollection of that projection was that this is what's going to happen to this city if nothing else changes.
Q. Let's go up a level and I'll try to not get bogged down in some of the specifics, but let's do it this way:
You -- you agree that when the forecasts -- that the forecasting process had already begun prior to the bankruptcy, correct?
A. Yes.
Q. And the forecasting process that has resulted in the forecasts that are in the plan has continued throughout the bankruptcy, correct?
A. Yes.

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Q. And so as a result of the passage of time, as we sit here today, there are now actually historical results that we have that are historical as of today, that can be compared to what was once a forecast, correct?
A. That's possible, yes.
Q. I take it you have not done that?
A. I have not done that.
Q. So you haven't attempted to validate what the prior forecasts against subsequent historical information that's come in?
A. No, I have not.
Q. Okay. You have not -- I want to talk briefly about taxes, okay?
You did not include -- you did not conduct analysis of whether the City can increase taxes, correct?
A. That's correct.
Q. Both from the standpoint -- you didn't analyze whether it legally can increase taxes, correct?
A. Correct.
Q. You also didn't analyze whether economically if it did increase taxes, what would

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happen to the City, correct?
A. Correct.
Q. And you're offering opinions on tax policy in this case, correct?
A. I am not.
Q. Now, is it correct -- I want to talk about property value, okay?
Is it correct that the average assessed value per parcel in the City of Detroit decreased by 37 percent between 2008 and 2013?
A. I'm not familiar with that data point.
Q. Do you know -- do you agree that there was a substantial decrease in the assessed value per parcel in the City of Detroit between 2008 and 2013?
A. I don't know what "substantial" means but I can say, yes, I am aware that property value -- assessed property values decreased.
Q. What would you define "substantial" as?
A. I don't know.
Q. I mean, you can do whatever you want.
A. Property -- assessed property value

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decreased.
Q. Do you know how much it decreased?
A. I don't.
Q. I take it you don't know what the City's assessed property values are as you sit here today?
A. I do not.
Q. And you haven't engaged in an independent effort to determine what the assessed value should be, correct?
A. That's correct.
Q. Now, is it reasonable to assume that the assessed value per parcel in the City of Detroit will fall by an additional 50 percent between -- over the next seven years?
A. I am not --
MR. STEWART: Objection.
A. I have no way to know that.
Q. You have no way to test that assumption?
Let's start -- you did not test that assumption, correct?
A. That's correct.
Q. Okay. There is a way to test the

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assumption, though, correct?
A. I don't know.
Q. Okay. Do you understand that the City's forecasts include assumptions about future assessed value per parcel?
A. I don't know -- I know that the City's projections include estimates for property taxes going forward, right.
Q. Yes.
A. I don't know what their per parcel estimates have been.
Q. Okay. I take it you made no effort to validate any assumptions regarding assessed value per property?
A. That's correct.
Q. Or in the aggregate, correct?
A. Or in the aggregate?
Q. Meaning to the extent the City aggregated assessed values across the City and made assumptions about that, you did not test those assumptions, correct?
A. Correct.
Q. Now, do you know what Mr. -- do you know that the City reassessed its properties in

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Decem -- December of 2013?
A. I believe it's in the process of assessing a lot of properties, right.
Q. So I want to distinguish between these two concepts, so I'm going to ask you about them separately, though, because you're right, there is a citywide appraisal, and you're right, it is ongoing. Put that here for a second, mentally, okay?
A. Okay.
Q. Now, are you aware there was a reassessment in December of 2013?
A. Vaguely, yes.
Q. So "vaguely" means?
A. I was aware of it --
Q. You are --
A. Anecdotally I am aware of it, yes.
Q. Okay. You did not -- do you know the impact of that assessment on taxable value in the City of Detroit?
A. I don't.
Q. Do you know the approximate impact of it?
A. I don't.

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Q. Do you know what impact it had on the forecasts?
A. I know that property tax forecast -- property tax revenue forecasts declined between the May 5th and the July 2nd projections.
Q. Do you know why it declined?
A. It declined as a result of -- Ernst & Young's view that the assessed value was going down.
Q. Was going to go down or had gone down?
A. I don't -- I don't have a precise time recollection on that.
Q. Do you know whether the citywide reappraisal has begun?
A. I don't know.
Q. Do you know when it will -- it is estimated to conclude?
A. I don't.
Q. Do you know anyone in the City of Detroit who is more knowledgeable about the assessed values of property in the City of Detroit than Mr. Evanko, the chief assessor?
A. I don't know.

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Q. Is it fair to assume that he is the most knowledgeable person in the City of Detroit?
A. I don't know.
Q. That's not a question you've considered?
A. It is not.
Q. Do you believe that Mr. Evanko's opinions regarding the effect of the citywide reappraisal will have on property values are relevant to determining future property values?
A. Could you repeat that question?
Q. Yeah. So do you believe Mr. Evanko, who is the City's only Level 4 assessor, right?
A. Uh-huh.
Q. Yes?
A. Yes.
Q. Sorry. That's okay. I do that all the time.
Do you agree that Mr. Evanko's coast views about the impact of citywide reappraisal that we were just talking about, that the impact that that will have on taxable value in the City of Detroit is an important data point to consider?
A. Yes.

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Q. If Mr. Evanko told you that he has no idea whether that citywide reappraisal will cause taxable values to be lower or higher, would you consider that an important data point?
A. I -- I'm -- I would consider what he said to be relevant. Okay? So I don't know what he said so I can't really say whether I think I agree or don't agree. I would think that the City's assessor would be an important person to consider as somebody who is looking at this.
Q. Understood. So do you understand that the Ernst & Young forecasts project the taxable value will decrease by 9 percent as a result of the citywide reappraisal?
A. I understand that as part of their assumption, yes.
Q. What is the basis for their assumption?
MR. DiPOMPEO: Objection.
A. Their assessment in consultation with the City.
Q. Okay. But like what -- they talk to people that told them that?
A. That is my assumption, yes.

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Q. That's your assumption about their assumption?
A. Yes.
Q. Okay. Have you independently verified the reasonableness of that particular assumption?
A. I have not.
Q. Do you believe -- this get -- so do you believe it's reasonable to assume that taxable value in the City of Detroit will decrease over the next -- by 9 percent, as a result of the citywide reappraisal where the City's senior assessor says that he doesn't know whether taxable value will go up or down.
MR. STEWART: Objection.
A. I don't know.
Q. You don't know if that's reasonable or not?
A. Yes, I do not know if that's reasonable or not.
Q. It's not something you've considered before today?
A. That's correct.
Q. One of the interesting things about

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when you are feasibility expert is we were talking earlier about the notion of there being a hurdle and your job being to assess whether the City will get over that hurdle, right?
A. Correct.
Q. Do you remember that testimony?
A. Uh-huh.
Q. Isn't it true that if the City adopts an assumption about taxable value which is that in the future it's going to go down by 9 percent, as it did, right? Correct?
A. We can look at it.
Q. If you want to double-check it, that's totally fine.
Do you want to?
Take a look at Page 59.
A. About Page 59, there is a typo on Page 59 about two-thirds of the way down, there are two numbers, FY 215, 2015, followed by another FY 2015. The second FY 2015 should be 2016.
Q. Okay. So what this is saying is that because of the citywide reappraisal, there's going to be a 9 percent drop in real property assessments in fiscal year 2015 and then another

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three to four percent drop in fiscal year 2016, right?
A. That is --
Q. What it should say?
A. -- the -- yes, it should say '16.
Q. That's what you meant it to say?
A. That is what I meant it to say.
Q. Now, if the available evidence shows that -- and Ms. Kopacz, this is kind of a -- this almost goes to your own methodology, so consider this for a second.
If the available evidence shows that there's unlikely to be any drop in taxable value in either 2015 or 2016, would you still consider this a reasonable assumption because it's conservative?
You see the point of my question? Which is I'm trying to tease out a little bit what you were thinking about when you were testing assumptions.
Consider a situation where the available evidence actually suggests that there will not be any drop in real property assessments, okay? But the City employs a methodology that

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says that there will be a nine percent drop in 2015 and a three to four percent drop in 2016, okay?
Isn't it true that based on your task as the feasibility expert, you could still find that assumption to be reasonable. Correct?
MR. KANE: Hold on a second. So there's a lot in there so, one, I will object on vagueness. But I'm not trying to interfere, I just want to clarify.
Are you asking her to assume that the available evidence shows that?
MR. HACKNEY: Yes.
MR. KANE: Okay. So he's asking you to assume --
MR. HACKNEY: It's a hypothetical?
MR. KANE: That's all I want --
A. It's an assuming there's evidence to say that property values won't decline.
Q. That's right.
A. And that this forecast says they will decline, right?
Q. Right.
A. That is a positive contributor to my

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assessment of feasibility.
Q. Okay. So do you understand how whether or not the -- in that hypothetical, where the available evidence shows -- predicts that there won't be a drop in real property assessments, but the forecasters project a drop, do you understand that the reasonableness of that assumption depends very much on how you are looking at the question?
MR. STEWART: Objection.
A. And the question is?
Q. Do you understand that the reasonableness of the assumption depends on what you're evaluating the forecast for?
MR. STEWART: Objection.
A. I only evaluate it for purposes of feasibility, okay. And therefore, if the projection relative to property tax revenue is conservative, right, then I consider that to be a good thing relative to my feasibility assessment. Okay?
Q. You said exactly what I was driving at. Isn't it true the more conservative the City gets, the happier you become about the

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reasonableness of their assumption, in terms of evaluating feasibility?
MR. STEWART: Objection.
A. Consistent with the standard that I laid out, okay, the reasonableness of the projections, okay, are going to be influenced by both assumptions that I find to be aggressive and assumptions I find to be conservative. Okay? There are instances of both of that, those -- in these projections.
Q. If the assumptions were all conservative, it would be more likely that you'd find feasibility than if some were conservative and some were aggressive. Do you agree?
A. I think in totality the answer is yes.
MR. STEWART: Objection.
Q. Okay. In fact, your test for reasonableness means as long as an assumption is not exceptionally conservative, it is reasonable, correct?
MR. STEWART: Objection.
A. I'm not sure -- I'm not sure I know what exceptionally conservative is.

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Q. Okay. So --
A. Go ahead.
Q. Okay. So I'm not going to sharp shoot you, so don't take this wrong way.
A. That's okay.
Q. I'm going to read from your report. Let's take a step back, okay?
A. Okay.
MR. KANE: What page are you on?
MR. HACKNEY: This is Page 18.
Q. You're talking about reasonableness here, okay?
A. Reasonableness. And we're in -- I know where we are. We're in the definition of feasibility.
Q. That's right.
A. Yes.
Q. So, of course, I'm looking here at -- it's like the -- sort of second, third of the big paragraph.
"Of course at the outer edges of 'reasonable,' values become unreasonable either because they are exceptionally conservative or wildly aggressive," right?

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A. Yes.
Q. Those are the terms you used in your report?
A. I did.
Q. What I want to establish is when we think of Marti Kopacz's definition of reasonableness, we should see a continuum, right?
A. Correct.
Q. And on one of end of the continuum we should see exceptionally conservative, correct?
A. Yes.
Q. And on the other end of the continuum, we should see wildly aggressive?
A. Correct.
Q. And as long as the assumption falls between those two points, it fits your definition of reasonable?
A. Yes, as long as it's not exceptionally conservative or wildly aggressive, right. In other words, it's not in -- it's in that middle of those ranges, right, then I'm -- I am going to accept that it's reasonable.
Q. But wouldn't an exceptionally conservative plan be highly feasible?

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Q. On assessed values?
A. Could be.
Q. Okay. But you would agree that to the extent you're basing your assumption, a person is basing their assumption that the reappraisal will have an impact on assessed values, do you agree that the reappraisal has to conclude before it can have the impact?
A. I would agree with that.
Q. And do you know when the reappraisal will conclude?
A. I don't.
Q. Would you agree -- let's talk about tax collection for a second, if we could, shift gears here.
A. Okay.
Q. Do you agree that the -- Detroit's tax collection enforcement mechanism has been broken for a number of years?
A. The percentage of tax that the City collects relative to the amount of tax that's due is poor.
Q. And I want to focus on the enforcement mechanism which is the tax collection

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efforts that's go into either property or income taxes, okay?
Would you agree that that enforcement mechanism has been dysfunctional for a number of years --
A. It has been --
Q. -- in Detroit?
A. It has been ineffective, yes.
Q. Do you agree that fixing the enforcement mechanism alone will have an improvement on the level of tax delinquencies in the City?
A. I believe it would, yes.
Q. In fact, you've expressed that opinion, haven't you?
A. I have expressed that opinion. Well that point of view, right.
Q. Yes.
A. Little O.
Q. Now, I hope I didn't ask this before and if I did I apologize. But you did not attempt to construct your own forecasts, correct?
A. Correct.
Q. Why didn't you?

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A. Because there would never have been enough time and the availability of information to do that, okay, would -- again, there wouldn't have been the time, the money, the anything to do that so...
Q. If you had had enough time -- have you ever heard of like in a scientific realm when they do double blind --
A. Yes.
Q. -- studies? Have you ever heard of that?
A. I have.
Q. You know that double blind study is where there's the drug that is being tested and then there's a placebo and the double blind is that the people don't even know what they're taking and then the researchers don't know who's taking what, right?
A. Right.
Q. Do you understand that the concept of using a double blind methodology is to protect against the types of biases that can actually even creep into things like pharmaceutical statistics?
A. Yes.

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Q. Do you agree if you'd had enough time, it would have been preferable for you to be able to construct your own forecast first and then compare it to the City's?
A. Oh, I think that's idealistic.
Q. It's -- it's idealistic?
A. Yeah.
Q. Given my idealism, would you agree that would have been preferable?
A. I'm not sure it's preferable or not. I mean, it would have been interesting. It would have been very interesting.
Q. You didn't have enough time to do that?
A. I wasn't asked to do that.
Q. And how much time would you have needed to construct a forecast?
A. I don't know.
Q. How much time did Ernst & Young and Conway MacKenzie need?
A. I don't know.
Q. Did they have adequate time?
A. I don't know.
Q. Would you -- do you -- is it your

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opinion that there is a material risk that the City will not achieve the forecasts set forth in the plan?

MR. STEWART: Objection.

A. A material risk that the City will not achieve the -- I don't -- again, I don't know what "material" means.

Q. I want to use your definition of material that you discussed earlier with Mr. Stewart.

A. If I -- yes, if I thought there was a material risk that they wouldn't meet these projections, I would not have an opinion that the plan is feasible.

Q. Okay. So to turn that around on you, it is your opinion that there is not a material risk that the City will fail to achieve its projections, correct?

A. I believe that the City has a reasonable likelihood of meeting the commitments it's laid out in the plan and delivering essential services.

Q. Okay. And using your definition of materiality, though, I want to confirm, you do not

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see a material risk that the City will fail to live up to the plan's forecasts, correct?

A. Again, I don't -- the City can meet its obligation -- I believe the City can meet its obligations in the plan of arrangement and deliver services, okay, within the confines of the projections.

I don't believe for a minute that the projections will come in exactly as they've been forecast.

Q. I understand. But in the aggregate, you would not have rendered your opinion if you believed a material risk of failure existed, correct?

A. That is correct.

Q. When it comes to evaluating the City's obligations, the ability to meet its obligation, Ms. Kopacz, in order to get your seal of approval, would you agree that you needed really to confirm that the actual results would not turn out to be materially worse than the forecasted results; that's what you're assessing, right?

A. I'm not assessing future actuals. I

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am assessing --

Q. There isn't any such thing, I think, but I know what you mean.

MR. KANE: Sounded to me like you were in the middle of a sentence. So if you were finished, if not, wait for him to --

Q. That's all right. I didn't mean to be rude and interrupt. I didn't mean to be, I apologize.

A. I didn't take it as that.

Q. Let me put it this way; that is, in order to get your seal of approval, you needed to find that in your opinion the City's likely results will not be materially worse than the forecasted results?

A. In the aggregate -- and I don't know how say it any differently than I've said it before or in my report, okay, I think the projections are reasonable. I think the City can meet its commitments in the plan. I think it can deliver services in the future.

Q. You do not perceive a material risk of the City failing any of those; else you would not have opined it's feasible?

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A. If I thought the City couldn't pay its commitments, couldn't meet its commitments or it couldn't deliver services, I would have said -- I would have found -- I would have had the opinion that the plan was not feasible.

Q. Now, let me ask you another hypothetical question which is pretend that you conducted -- constructed your own forecasts.

A. Okay.

Q. Okay? Same time period, same subject matter as the forecasts that are in the plan. If you found that the City's forecasts were 50 percent more conservative than yours, would you have still found the City's forecast to be reasonable, using your definition of reasonableness?

A. I don't know.

Q. Are you able to give me a percentage deviation from the hypothetical forecast that you constructed at which point you would say that the City's forecasts were unreasonable?

A. I don't think I could.

Q. All right. Let me direct you to your report in Section F.

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the Great Recession?

A. The Great Recession, right. Yes.

Q. Yes? And that's sort of an homage to the fact that it was -- it was so serious, right? It was almost like the Great Depression, right?

A. I don't know where -- I don't know where it comes from, but yes, it's been long.

Q. So how -- how -- how can we know that taxable incomes as an economic matter shouldn't be expected to grow at the 3.4 percent rate for a decade?

A. We don't.

Q. Okay. So how do we test your finding that .46 percent is reasonable?

A. It's not unreasonable.

Q. How do we test that?

A. I don't know that we do.

Q. Do you know of a way that we could test that opinion?

A. I don't know that we can.

Q. Do you see that taxable income growth for nonresidents is 3.5 percent, correct?

A. 3.5 -- yes, 3.4 versus -- yes, 3.5.

Q. Is it true that the -- the taxable

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income growth is fairly consistent between residents and nonresidents in the City in your experience?

A. It has been. Uh-huh.

Q. It has been?

A. It has been.

Q. And yet, in the presentation, wouldn't you agree that the forecast for City residents year-over-year income growth is more conservative than the historical evidence suggests in terms of disparity from nonresidents?

Let me put it to you another way.

A. Yes, please.

Q. Do you see that in the three prior years taxable income growth for residents versus nonresidents was something like 97 percent of what nonresidents saw?

A. Can you tell me where you're getting the data --

Q. Whatever 3.4 is over 3.5?

A. -- where are you getting the data?

Q. So if you put 3.4 over 3.5, and think of 135th, okay, being about 3 percent?

A. Uh-huh.

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Q. Nonresident -- or I should say resident taxable income growth over the prior three years was about --

A. Has been a little bit less.

Q. -- 97 percent of nonresident growth, right?

A. Well, I think you're -- I think you are trying to be very precise with a number that is an average of a lot of other -- of a variety of numbers. So, but yes, if you want to take 3.4 over 3.5 it will be --

Q. About 97 percent, right?

A. If that's the math, yes.

Q. And then -- but when you look at .85 percent for City residents in the forecast on average over the next ten years, and you compare it to 1.18 percent, do you see that that's more on the order of three-quarters?

A. But that doesn't -- I mean, again, that doesn't concern me. I'm looking at '14, '15, '16, I'm looking at that nonresidents, working in the City of Detroit, okay, versus City residents in the City of Detroit, I would expect nonresidents' income to grow faster than

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residents --

Q. Why?

A. -- based on this general economic -- you've got so many more residents at the poverty level in the City versus the suburbs.

Q. Why didn't it do that in the prior three years?

A. Could be as a result of number of people working.

Q. How would the number of people working impact the average growth of the income of people that were working?

A. No, no, no. The -- the --

Q. Let me -- let me ask it again.

So, you would agree that in the prior three years, 2011, 2012, 2013, there was not a significant differential between the year-over-year income growth of residents versus nonresidents?

A. I would agree with that, yes.

Q. In the projections, however, there is a material difference that's presented.

A. I'm not sure I would agree with you that there's a material difference. There is a

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A. This is tax -- this is municipal income tax. Okay?

MR. KANE: Go ahead. Finish your answer.

BY MR. HACKNEY:

Q. Okay. I understand -- okay. Let me take a step back.

Are you saying that the .85 percent versus the 1.18 percent are findings of two different sets of assumptions that impact taxable income growth; one of those assumptions being wage growth and the other assumption being employment growth?

A. Yes.

Q. Okay. In order to discuss this differential then, are you saying that you have to drop down to the level of wage growth --

A. Yes.

Q. -- and employment growth --

A. Yes.

Q. -- and talk about those things?

A. Yes.

Q. Okay. Okay. Understood. That's helpful to me. One last question though.

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The historical taxable income growth of 3 -- 3.4 percent, are those inflation adjusted numbers or are they nominal dollars?

A. I would say they are nominal dollars. I mean, they're -- they're not -- they're not adjusted -- they're -- they're actuals.

Q. Do you know where that number comes from?

A. Do I know as I sit here today? No.

Q. Okay. Do you know whether the Michigan State Department of Treasury presents income growth numbers in inflation adjusted or nominal dollars?

A. I don't recall.

Q. Okay. Let's drop down, like you said, and talk about wage growth then.

A. Okay.

Q. Okay? Do you see that average wage growth on Page 42 in the ten-year plan without RRIs. Do you see that section?

A. Uh-huh. Yes.

Q. Do you see that the ten-year plan estimates that for both City residents and nonresidents average wage growth of 1.25 percent

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for fiscal year 2014 through fiscal year 2023?

A. Yes.

Q. As far as I can tell, in your report, you do not present a comparable historical number for that.

A. I don't.

Q. Are you aware of one?

A. Am I aware of one? No.

Q. Okay.

A. Not that I recall.

Q. Do you know what the basis for this 1.25 percent assumption is?

A. No.

Q. Okay. So let's get back to kind of our two step.

Somebody at Ernst & Young decided to use 1.25 percent, correct?

A. Correct.

Q. You don't know why they decided that, right?

A. Not as I sit here today, no.

Q. Okay. Now, you do know that you have found that this estimate appears reasonable, correct?

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A. Correct.

Q. And let me -- let me quibble were you a little bit.

What's the difference between when something is reasonable and when something appears reasonable? Is there a difference in your opinion?

A. I would say is reasonable you can only make after the -- after event, right? It appears reasonable.

Q. Okay.

A. Looking at it prospectively.

Q. So what was your basis for -- your conclusion that 1.25 percent average wage growth between fiscal year 2014 and 2023 appears to be a reasonable assumption?

A. The 1.25 over a ten-year period, where you had historically both a decrease in taxable income and an increase in taxable income appears to me to be a reasonable, long-term projection of the overall average increase.

Q. Are you aware of any way to test that conclusion?

A. To test that conclusion?

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Q. To test the reasonableness of your assumption?
A. I don't know how you would test the assumption until after it happens.
Q. Okay. But if the -- if the Court wants to test your finding that this is a reasonable assumption, you're not aware of a way it can test it, correct?
A. No, I am not.
Q. Okay. So what is your basis, though, for finding that 1.25 percent is a good average?
A. I looked at all of the information that was available, okay, about all of these topics, all of these assumptions, both the revenue side and the expense side. I looked at the recent tax history. I talked to the people who made the assumptions, asked them questions about how they came up with this assumption or that assumption or what they did and, you know, how much if you changed this, how much would that change. Okay? And concluded that, in totality, the estimates contained in the projections provide a reasonable basis for forecasting what the City is going to do from an economic perspective during the life of

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this -- these projections.
Q. Understood.
A. And I didn't -- you know, again --
Q. You didn't -- did you not consider whether any individual assumption was reasonable standing by itself? You only considered them in the aggregate?
A. I looked at all of the individual assumptions.
Q. You did?
A. I did. Okay?
Q. Okay. So let's talk about this one.
A. Right.
Q. What's your basis for your opinion that 1.25 percent appears reasonable?
A. This -- it is reasonable because it is not either too low or too high when you look at all the surrounding data points.
Q. What are those data points?
A. It is the prior experience in terms of what's been collected over time, all that, right? It's looking at information that comes from the state.
Q. Okay.

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A. I know we looked at some federal estimates, right?
Q. So what was the prior experience with income with average wage growth?
A. I would have to go back and look at the historical information that we looked at at the time to be able to answer that today because I don't recall.
Q. But do you have like workpapers that show that?
A. There would be documents that we looked at that showed that. I'm sure.
Q. Okay. And they'll be -- they'll be somewhere on Exhibit 2?
A. Tell be somewhere on Exhibit 2 or they'll be somewhere in the -- in the data room.
Q. Okay. And what did they show? You can't remember the specifics, but what time period did they show?
A. I can't remember. I remember that income taxes went down and income taxes have started to grow back.
Q. Okay. Was it aggregate income tax data that you reviewed?

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A. I don't recall.
Q. Do you remember when we were looking at taxable income growth you had some historical comparisons that you showed here in your text, right?
A. That's correct.
Q. But here you didn't present any, correct, in the body of your report?
A. There are other data points shown on Page 47.
Q. Aren't those forecasted data points?
A. They are forecasted data points.
Q. Okay. Did you rely on any historical -- so is -- are these the data points that you relied upon these forecasts?
A. These are forecasts made by other forecasting entities that we looked at to analyze and assess the forecasts for wage growth and on Page 48 for employment growth that the City used.
Q. Okay. So, for example, in the ten-year without reinvestment scenario, do you see that box on Page 47?
A. Yes.
Q. First of all, was your basis for

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were?

A. I am not seeing that here.

Q. Do you know separate and apart from the presentation here?

A. I don't.

Q. Let's go down to employ -- sorry. Let's go down to Employment Growth. Do you see that the number of city residents that are employed is forecasted to increase .15 percent?

A. Can you tell me where we are?

Q. Yes. It's on Page 46 right down below "Employment Growth with RRIs. It's in the prose section, the number of city residents employees forecasted to increase .15 percent. Do you see that?

A. Over a ten-year period, yeah.

Q. Yes. For the fiscal year period.

While the nonresidents' average annual employment is anticipated to increase .21 percent. Do you see that?

A. Yes.

Q. Now, in -- this is one of those sections in your report where you are just narrating what the assumptions are, correct?

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A. That is correct.

Q. You did not make a finding in your report that these two assumptions were reasonable specifically, correct?

A. Correct.

Q. Do you -- did you make a specific finding that these two assumptions were reasonable?

A. I did not.

Q. Is it -- am I correct in reading your report that if there is a section that describes -- like this one, that describes what the City's assumptions are, but does not include your specific seal of approval as to finding that the specific assumption being discussed, that I should infer that you did not make a specific finding about that assumption?

A. I did not make a specific finding about 2.16 or any of that sort of thing. What I did is, as I said before, I looked at all the information that was available to us, historical, projections, talked with people who did this, looked at other people who make projections about these things. I did the sensitivity analysis that

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said what if they're off by a percentage point one way or another, what does that do? Okay? And in totality of looking at all of that stuff, I concluded that this is a reasonable assumption for, in this case, municipal income tax.

Q. Well, wait. I would rephrase that and see if you agree with how I rephrase it.

You included that in the aggregate all of the assumptions were reasonable, correct?

A. Correct.

Q. You did not make a specific finding or conclusion about whether this assumption on Page 46 regarding employment growth was reasonable, correct?

A. That is correct. I looked at a what-if scenario, the -- the estimate was off. Now, how -- if -- if that estimate is off, right, by some amount, does that have a -- what kind of an impact does that have on the overall projection for income tax?

Q. Okay. So speaking to your expertise in terms of what your training and experience renders you capable of doing, you are capable of assessing whether or not a forecasted increase of

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.15 percent in City resident employment is a reasonable assumption, correct?

A. Could I do that? Absolutely.

Q. Yeah. You could have done it, but you did not do it.

A. I did not.

Q. Okay. Is that a reasonable assumption?

A. I believe that that assumption is reasonable in light of the -- the totality of what the income tax and revenue assumptions are.

Q. What is the basis for EY's .15 percent assumption in City resident employment increase?

A. You'd have to ask them.

Q. What is the basis for your conclusion that this assumption --

A. Right.

Q. -- is reasonable?

A. Again, as I said, I did not -- in this case, I looked at this assumption. It did not appear unreasonable to me. Okay? And when I factored in the result of all of these estimates in terms of coming up with the revenue assumptions, and I did the sensitivity analysis, the result of what the city is projecting in terms of municipal taxable income and all the other individual revenue items is reasonable.

Q. Do you agree that you're not able to give me an opinion regarding the reasonableness of this assumption on a stand-alone basis?

A. That is correct.

Q. Okay. Take a look at Page 48 where you have another one of your comparable metrics.

A. Uh-huh.

Q. Do you see that?

A. I do.

Q. Do you see that the -- so there are comparable metrics here from the Michigan Department of Treasury and the Michigan Senate Fiscal Agency. Do you see that?

A. I do.

Q. And do you know whether those metrics are statewide metrics or City of Detroit metrics?

A. My recollection and I -- I was trying to find it in the report, my recollection is that these are statewide estimates.

Q. I see. So these are -- are

respective entities estimations of employment growth statewide for the fiscal years denoted, right? That's your belief?

A. That's my recollection. It is not the clearest recollection I have.

Q. Okay. Now, do you see that you did the sensitivity analysis on Page 49?

A. Yes.

Q. Do you remember when you were testifying with Mr. Stewart that you described this as an arithmetical exercise that tells you what every 1 percent change in annual taxable income growth amounts to in terms of dollars?

A. Yes.

Q. You did not do an assessment of the likelihood that taxable income would be 1 percent lower or higher though, correct?

A. That's correct.

Q. Okay. Did you ever -- I know that you presented multiple sensitivity analyses for different types of revenue and cost in this opinion; isn't that right?

A. Yes.

Q. Did you ever take the sensitivity

analyses and say, Now I'm going to link them all together and I'm going to assume that taxable income growth is down a percent, property tax is down a percent, gaming revenue is down a percent, and utility users' tax revenue is down a percent and then step back and look to see what impact it had on whether the City can achieve the forecasts?

A. I did not do that analysis.

Q. Okay. So do you agree that this sensitivity analysis tells you what a 1 percent change is worth when it comes to municipal income tax revenue?

A. Yes.

Q. It doesn't tell you how likely a 1 percent deviation is.

A. Correct.

Q. And you did not conduct that analysis, correct?

A. I did not.

Q. Take a look at -- I'm going to move into the state revenue sharing if I could. Take a look at Page 50. You give a general introduction into state revenue sharing on Page 49.

A. Right.

Q. And you talk about the constitutional revenue sharing function and then the discretionary EVIP portion -- E-V-I-P portion. Do you remember that?

A. I do.

Q. And then you start with the constitutional portion on Page 50. Do you see that?

A. I do.

Q. Do you understand that constitutional state revenue sharing in Michigan is driven by a municipality's percentage of the state's total population?

A. I do.

Q. So you understand that forecasting the constitutional portion of state revenue sharing requires you to forecast the population of the municipality, correct?

A. It -- it does.

Q. Now, isn't it true that in every instance in your -- in the City's forecasts, the City made a determination that the presence of the RRIs would have an impact on the forecasts, correct? So, for example, wage growth without

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RRIs was lower than with RRIs, correct?
A. That's correct.
Q. Okay. With respect to the population assumptions in the forecasts, is it correct that the ten-year projections assume that there will be a 12.3 percent decline in Detroit's population over the next ten years?
A. That is the SEMCOG estimate and that's what the City used.
Q. So the City relied on SEMCOG, correct?
A. Correct.
Q. Do you -- you did not make a specific finding in this section as to whether that population assumption was a reasonable one. Do you agree?
A. I accepted that as a given.
Q. Okay. You accepted it as a given. You did not otherwise test its reasonableness, correct?
A. I did not.
Q. Okay. Do you know -- have you read SEMCOG's report?
A. I did not personally read it.

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Someone on my team did.
Q. Okay. Somebody looked at it. Do you remember if they told you when it was done?
A. I don't recall.
Q. Do you know whether the SEMCOG authors were considering the idea that there might be in excess of a billion dollars pumped into the City of Detroit during the very ten-year period they were studying?
A. I don't know one way or another.
Q. Would you expect that if a city like Detroit puts a billion dollars into itself in the form of restructuring reinvestment that it would have an impact on its population level?
A. That's what everyone is hoping.
Q. Okay. Do you know whether the City adjusted its population estimates with respect to constitutional revenue sharing to take account of the impact the RRIs might have on its population estimate?
A. The answer is I don't know, and they would also have to estimate the change in population in the state because Detroit gets -- it's -- if both the Detroit population and the

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state population are moving in the same direction, it wouldn't necessarily change the percentage of revenue sharing that Detroit gets. If they're changing in opposite directions, it would have -- it could have an effect.
Q. Right. Right. Because the ratio wouldn't change in the former instance.
A. Correct.
Q. But if putting a bunch of money into Detroit pulled population from the surrounding municipalities into Detroit without otherwise changing the larger state's population, that could have an impact on Detroit's population as a percentage of state population?
A. That could, yes.
Q. This is not something you thought about?
A. No. I mean it's not something I attempted to quantify.
Q. Okay. You didn't study or evaluate the assumptions regarding population?
A. Correct.
Q. Now, take a look at Page 51. Now you're going into statutory payments. Okay?

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A. Yes.
Q. These are the -- this is the EVIP portion of state revenue sharing, right?
A. Yes.
Q. Now, do you see here that the ten year -- you say, "the ten-year projections assume that the City continues to receive 100 percent of its possible state allocation or approximately 140 million annually for the entire 2014 to 2023 time period," correct?
A. Yes.
Q. Now, you did this make a specific finding as to the reasonableness of this assumption, correct?
A. No. I relied on the fact that the City has received a hundred percent of its possible EVIP allocation over the recent past years.
Q. Has it?
A. It has.
Q. Over what time period?
A. I'd have to -- I'd have to look at that, but it's been overlooked -- over the years that that EVIP has existed.

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Q. Okay. Because that didn't come in until Governor Snyder?
A. It was a governor Snyder thing.
Q. Okay.
A. Yes.
Q. But did you independently assess whether on a go-forward basis it's likely that the City will continue to receive a hundred percent?
A. My assumption is that if the state believed that Detroit had met the requirements to receive EVIP previously, given the change in the administration and all of the RRIs around accounting and systems, that it is highly likely that it's going to get its EVIP going forward.
Q. Well, for example, like in Category 3, Unfunded Actual Liability Plan relates to the level of your unfunded liabilities and whether you're doing a good job to reduce them, right? That's a component of whether you get EVIP?
A. It is -- you are to produce a plan.
Q. Okay. Is it -- let's see if we can summarize your testimony on this in a way that's -- that's accurate.

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Is it fair to say that you basically made a single assumption that whatever went into getting EVIP payments that Detroit would be better at it going forward?
A. Yes.
Q. And it's on the basis of that assumption that you concluded that Detroit is likely to receive 100 percent of its EVIP payments going forward?
A. Correct.
Q. But you did this test the assumption beyond that level?
A. Correct.
Q. Now, there's another sensitivity analysis on Page 52. Do you see that?
A. Yes.
Q. And do you agree that this is an arithmetical analysis of the impact of a 5 percent change in the E -- no, in -- in -- yes, it's the impact of a 5 percent change in the state revenue sharing numbers on the general fund, right?
A. It's a sensitivity analysis of a 5 percent change in the -- in the -- of fact of a population change on the statutory revenue

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sharing.
Q. But the statutory revenue sharing is the EVIP payments, right?
A. Yes.
Q. And those are independent of population?
A. It is, but it is -- statutory is an independent of population and the constitutional will change in 2021.
Q. Let's break it down.
You did two different things in this sensitivity analysis, right?
A. Yes.
Q. The first thing you did is you said what's the -- what's the impact of a 5 percent change downward in population on the constitutional portion?
A. Yes.
Q. You separately said what's the impact of just a 5 percent reduction in the statutory portion?
A. Yes.
Q. And you presented it here in this box, right?

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A. That's correct.
Q. Okay. Now, you did not take undertake an assessment of the likelihood that there would be a 5 percent reduction in the population in the City, correct?
A. Correct.
Q. And you did not undertake an assumption of whether or not there would be a 5 percent reduction in statutory payments, correct?
A. Correct.
Q. So you're not presenting the likelihood that this will occur; you're presenting the impact if it does occur?
A. Correct.
Q. And you have not considered the likelihood that this will occur, correct?
A. That is correct.
Q. But isn't it true that the forecast, when you talk about a 5 percent reduction are you talking about -- oh, that's based on the 2010 census figure, correct?
A. Yes.
Q. So you're saying I'm going to

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evaluate what will happen if there's a 5 percent reduction in the population compared to the 2010 census in 2022 as a result of 2020 census?
A. Okay. If the population declines -- how do I say this very precisely?
If the -- if Detroit's population percentage of constitutional payments declines as a result of its share of statewide population by 5 percent, then the constitutional payments will decrease by the amount shown here.
Q. Oh, I see. So, when it says on the top of Page 52, "the analysis below estimates the impact of a 5 percent change in the 2020 census forecasted population: That's not quite right. It means --
A. Yes.
Q. -- if it -- if there's a change that has the net impact of being 5 percent less as a percentage of the state as a whole?
A. Yes.
Q. Okay. Am I right in the way I've reformulated what you meant?
A. I think you are. The measurement won't occur until 2021.

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Q. Okay.
A. And then there will be a new percentage allocated to Detroit for state constitutional revenue sharing for the next ten years.
Q. Okay.
A. Okay? And that is an assumption that has been made and this sensitivity says what if that's off.
Q. Okay.
A. What if that -- what if that changes by 5 percent? That's what this says.
Q. So if do you know what's supposed to -- what is projected by SEMCOG or others to happen to the state's population around Detroit, meaning excluding Detroit?
A. I don't recall.
Q. Now, you remember SEMCOG says that Detroit's will go down by 12.3 percent --
A. Right.
Q. -- correct?
A. Correct.
Q. Do you agree that if the rest of the state's population goes up at all -- well, I guess

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that doesn't follow, does it?
A. No.
Q. What -- what percentage as a ratio of Michigan's population does a 12 percent decrease in Detroit's population represent if the rest of Michigan's population stays constant?
A. I don't know.
Q. Okay. Let's talk about the wagering taxes if we could.
A. Sure.
Q. And by the way, you nailed that percentage right on the nail head there. It was 10.9 percent. Remember, you said that earlier?
A. Plus one.
Q. Okay. And then you see here that -- yeah, so when you were -- when you were analyzing wagering receipts, you assume that the tax rate would be constant, correct?
A. That's correct.
Q. And so you're -- the focus then was on what are the casino gross receipts against which the rate is applied, right?
A. Yes.
Q. Now, you see that the ten-year

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projections assume two-and-a-half percent year-over-year declines in fiscal year 2014, a one percent decline in 2015, a half a percent increase in fiscal year 2016 and '17, and a one percent increase thereafter through 2023, correct?
A. Yes.
Q. You did not make an independent finding as to that assumption, as to its reasonableness, correct?
A. Correct.
Q. Similarly, with the sensitivity analysis on Page 54, do you agree that that is an arithmetical exercise that's designed as to present what the impact of a one percentage point change in the gross receipts assumption is?
A. Yes.
Q. And what it is is it's about $16.3 million over the ten-year period, right?
A. That's correct.
Q. But you didn't undertake an assumption of the likelihood that that would happen, correct?
A. That's right.
Q. And just to save time, that's true

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for all the sensitivity analyses that you did, correct?
A. Yes.
Q. You presented the arithmetical equation, but you did not undertake an assessment of the likelihood of the event, correct?
A. That's correct.
Q. Now, did you see -- on Page 55, do you see that there is discussion around sales and charges for services?
Do you see that?
A. I do.
Q. You note in the pros that's below the table some changes that will happen around the -- the public lighting authority replacing the public lighting department.
Do you see that?
A. I do.
Q. That's presented in the fairly dramatic decrease in revenue that the PLD line item observes during that ten-year period, right?
A. Yes.
Q. So that, you're describing why that's happening there, right?

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A. Yes.
Q. Why that is forecast to happen, right?
But with respect to the other numbers, the other revenue categories other than PLD, your narrative says that the balance of these revenue categories are assumed to remain relatively constant over the time period, correct?
A. That's correct.
Q. And you did not make an independent assessment of whether that assumption was a reasonable one, correct?
A. Let's -- the -- the reason I think that this is reasonable is this is the baseline. Okay? There are a variety of changes, if you will, that will occur pursuant to the RRIs in some of these departments that you see in the revenue assumptions with the RRI. And this, you know, this goes to my desire to have a single set of projections built by department for the City.
So, you know, an easy example is fire. Right. These are these are ambulances charges and false alarm things. Okay? Because of changes in that department that are envisioned

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with the RRIs and the investment and the reconfiguring of that, you will see revenue enhancements in the fire department but they sit over in the RRI model.
Q. I see. So what you're saying is, separate and apart from the benefits that the RRIs drive on the sales and charges for services front, which is presented separately with them, it is reasonable to assume that sales and charges for services will not otherwise increase.
So you're effectively --
A. Yes.
Q. -- saying, I'm going to take the preliminary forecast which keeps them constant --
A. Right.
Q. -- but I'm comfortable with that because I know in the presentation of RRIs, there are revenue enhancements that include sales and charges for services; is that right?
A. It is. And the one --
Q. Okay.
A. -- thing that fundamentally changes in the baseline is the transfer of the lighting, okay, to the -- to the authority.

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Q. Which we talked about.
A. Right.
Q. Absolutely. Sorry. I meant with that caveat, I apologize.
A. Yes.
Q. Okay. So, the -- if we wanted to test the reasonableness of the City's assumptions regarding increases in sales and charges for services, what we really have to do is get under the hood of the RRIs and their likely impact on sales and charges for services?
A. You really have to combine them on a departmental level basis and then look at them.
Q. Right. We could build off these things if we added them all together --
A. Correct.
Q. -- and then looked at them?
A. Correct.
Q. Now, you didn't make that presentation, correct? In your report?
A. In our report I did not, no.
Q. And the City hasn't made that presentation either, correct?
A. That's correct.

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Q. So it's interesting. So in every other instance, though, where -- where the EY forecasters were forecasting revenue, they considered the impact of the RRIs, right, to the best of your knowledge?

A. Clearly with income tax and property tax.

Q. Oh, right. Good point. Good point.

A. They do it both ways.

Q. Yes. Fair -- fair correction.

But is it your understanding that when -- when they were forecasting --

A. Not wagering taxes.

Q. Right.

A. Not wagering taxes and not sales and services tax. Income, not taxes income.

Q. Yes. But is it your understanding that the EY forecasters did not consider the impact of restructuring reinvestment initiatives on sales and charges for services?

A. The Bob Kline group didn't do sales -- didn't do the categories we're talking about right now; sales and charges for services.

Q. Okay.

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A. That was done by somebody in on Gaurav 's direct team.

Q. Okay. So, take a look at Page 59. We're going to move on to property values here, okay?

A. Yes. We did this.

Q. So, yeah, we definitely touched on these. But I guess I want to confirm that you didn't make any independent findings regarding whether a one percent, 1.7 percent decline in real property values during the period was a reasonable assumption, correct?

A. Correct.

Q. And you didn't make any findings with respect to whether the personal property increased by .9 percent was a reasonable assumption during that period, correct?

A. That's correct.

Q. And it's also correct that you didn't test the assumption of a 4.8 percent renaissance zone increase during that period, correct?

A. That's correct.

Q. We did talk about the nine percent, I'm sorry, we actually skipped forward to this

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page, didn't we?

On the collection rates, do you notice that the City has assumptions regarding different collection rates that bleed from Page 59 to 60?

A. I do.

Q. And it's also fair to say that you didn't make independent findings regarding whether their property tax collection assumptions were reasonable, correct?

A. That's correct.

Q. Then, similarly, on the utility users tax on Page 62, do you see that?

A. I do.

Q. The forecast -- the forecasted amount is forecast to be approximately two percent of general fund revenue, correct?

A. Yes.

Q. Fair to say you did not test the assumptions around the specific utility user tax revenue assumptions by the City forecasters, correct?

A. Correct.

Q. So, let me ask you a question about

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the feasibility of the POA, if there's no exit financing.

In your opinion, you assumed that there would be. Do you remember that?

A. I did.

Q. Let's engage the hypothetical where Mr. Buckfire fails to obtain exit financing. How does that impact your finding of feasibility?

A. If there is no replacement source of funding?

Q. Yes.

A. Then I would conclude that the plan is not feasible.

Q. Why is that?

A. Because the -- going back to my definition of feasibility, it is both a quantitative and a qualitative assessment. I think the reinvestment initiatives, the RRIs, are important to the City's ability to deliver municipal services, to pay the commitments in the plan and the City does not have the surplus, the structural surplus in the next couple of years to execute on the RRIs without the exit financing.

Q. What is the basis for your assumption

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kind of supplements what -- what the City spends.
So a perfect example of that is when Roger Penske and Dan Gilbert bought police cruisers. That's unheard of. The private citizens write checks to governments to do things that governments should do.
Q. So, let me -- with these first two, you get an e-mail that -- you have an e-mail exchange with Mr. O'Reilly.
Was it merely to schedule your meeting with the DIA folks?
A. It was.
Q. We can talk about that later when we hit it on this log. I take it you didn't have any other interaction with Mr. O'Reilly?
A. I don't know Mr. O'Reilly, no.
Q. What did Mr. Levin write to you about the --
A. I actually think that I reached out to Mr. Levin first. I mean, they're all the same date, so it's kind of hard.
Q. These are you e-mailing people?
A. Yes. And I think, because I know Mr. Levin, I reached out to him and he said really

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the person you need to talk to is Mr. O'Reilly.
Q. Got it. Take a look down on April 30th. Do you see that you do a bus tour of the City with Mr. Driker and Jerry Stroop?
A. Yes.
Q. How long did that bus tour go on for?
A. About three hours, three and a half hours.
Q. And do you remember what Mr. Driker described during that bus tour, if anything to you?
A. We -- on that bus tour was my team as out there, there was Mr. Driker and his wife, and Jerry Stroop from Wayne State and the bus we were on was courtesy of the president of Wayne State.
And we did Mr. Driker's the good, the bad, and the ugly in Detroit.
Q. Can you remember what was discussed on that bus tour?
A. I mean, we -- we went to Bell Isle --
Q. Mainly pointing out areas saying this is Bell Isle, this is the art institute?
A. We went to Bell Isle. We went to the art institute. We did the midtown stuff. We

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looked at blight. We looked at the waterfront. We looked at the old Packard building. We looked at the Michigan train station.
Q. Anything else you can recall from that tour?
A. No, not really.
MR. HACKNEY: We're about near the end of this tape so it might be a good time to take an afternoon restroom break and we can try and push through the rest of this here.
THE WITNESS: Okay.
THE VIDEOGRAPHER: Thank you. The time now is approximately 4:27 p.m. We're going off the record. This is the end of Disk Number 4.
(Whereupon, there was a brief recess in the proceedings.)
THE VIDEOGRAPHER: The time now is 4:39 p.m. We're back on the record. This is the beginning of Disk Number 5.
BY MR. HACKNEY:
Q. Ms. Kopacz, welcome back.
A. Thank you.

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Q. Ma'am, I'd like to save some time because I questioned you fairly extensively about the revenue assumptions and with respect to the cost assumptions, I'm happy to go through each one of them like we did before. But I was wondering if I could establish something that I thought emerged fairly consistently on the revenue assumption which was, to the extent a description regarding a particular cost assumption doesn't include a specific finding by you regarding the reasonableness of that cost assumption, is it fair for the Court to infer that you did not make a specific finding about that cost assumption and that you treated it merely as part of your aggregate opinion?
A. Generally, I think that is a correct statement.
THE VIDEOGRAPHER: Can you please put your mike on and then maybe repeat your answer. Thank you.
THE WITNESS: I said generally I believe that is a correct statement.
BY MR. HACKNEY:
Q. Okay. Ma'am, are you aware that --

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you know what the COPs are, the certificates of participation?

A. Generally, yes.

Q. Do you know that the COPs -- that the City soon to invalidate the COPs?

A. I'm aware of that, yes.

Q. Do you know that the COPs assert that if the COPs are invalidated, that the pension funds have to give back the approximately billion-four that was raised?

A. I've heard you say that before.

Q. And do you know -- I know you and I have talked about this and I've tried to describe sort of the general lay of the land, we've had a conversation on that subject, right?

A. We have.

Q. I mean, separate and part from me like -- do you know the fact that there have actually been claims filed or that the COPs have indicated that they would file these types of claims in the litigation or is it just based on what I told you?

A. It's based on what you told me. I didn't do any independent research.

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Q. So your kind of understanding of the COPs invalidity case is based on the conversation that you had and I had about that subject?

A. Yes.

Q. Let me just ask you a freestanding question, then, which is assume hypothetically that at some point in the future, it could be a year after the bankruptcy plan is confirmed or three years, something in the order of one to five years, assume that the pension systems are ordered to disgorge a billion-four back to the COPs. Okay?

Have you made a determination as to whether the City would be feasible in that instance?

A. I have not.

Q. In your opinion, you are assuming that that has not come to pass; is that correct?

A. Correct.

MR. LERNER: Let me interrupt. Your question is the City's feasible.

MR. HACKNEY: Is the City's plan feasible. Fair amendment. Is the City's plan feasible.

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Q. And I think my question was did you consider whether the City's plan was feasible in that circumstance?

A. No.

Q. Okay. As you sit here today, do you believe the City's plan would be feasible if that were to come to pass; that the City had to -- that the pension systems had to disgorge a billion-four?

A. I don't know.

Q. Okay. Do you believe that that's a sufficiently material issue as it relates to the City's potential pension obligations, that it could impact your opinion?

A. It is -- it is an issue. I've identified it in my report, along with a lot of other issues that are unresolved, that, depending on how they ultimately resolve themselves and what position, condition the City's in, could --

Q. Oh, I see. I didn't take your -- I saw the disclosure on that, but I actually read the disclosure to say that if the COPs were determined to be valid, it might impose higher obligations on the city, not addressing the

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situation where they're determined to be invalid but they get disgorgement back.

A. We can read it.

Q. That's okay. It says what it says.

Let me try to -- let me put it this way, though: If you knew today that there was a high probability that the pension systems would disgorge $1.4 billion and that the City would have the obligation to make up the difference, would you find the plan feasible?

A. I would have to talk with the City about how they intended to make up that deficiency or modify the plan.

Q. Certainly if you modified the plan to take account of it, that could be a way it could become feasible. But under this plan's forecast, would the City be feasible if it had an additional $1.4 billion obligation thrust upon it?

A. I don't know, but probably not.

Q. Okay. And it's not something you've evaluated?

A. It is not.

Q. Okay. Going back to this the chart here. If you look down at May 7th.

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A. Uh-huh.
Q. Do you have that in front of you, ma'am?
A. I do.
Q. Do you see that you had a call with Judge Rosen? Do you see that?
A. I did.
Q. And what did you and Judge Rosen discuss on that call?
A. I called Judge Rosen because I was having difficulty accessing some information and that the City's counsel had requested to participate in all meetings and interviews that I had and I was honoring the order that the Judge had entered in April appointing me not to have any ex parte communication.
And I didn't know where to turn and I called Judge Rosen and I said, this is what I'm faced with and he said, you have my permission to call Judge Rhodes.
Q. I see. So Judge Rosen gave you permission to call Judge Rhodes?
A. He said it's okay. He said, for something like this, you can call him. And that's

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what I did.
Q. Okay. So did you talk about anything else other than that?
A. No.
Q. Okay. So -- so that went in an unexpected direction for me.
So were you -- were you saying, I want to talk to Judge Rhodes about it or did he say --
A. No.
Q. -- you've got to talk to Judge Rhodes?
A. I said I -- I've got these issues, I don't know how to handle them. Right. And he said -- and I said, I know I'm not supposed to talk to the Judge. And he said, in this instance you need to call the Judge and ask him what he wants you to do about it.
And at that point -- I never, ever did talk to him at that juncture, but he said "send me a letter."
Q. Judge Rhodes did?
A. Judge Rhodes said "send me a letter." So that was my first letter that I sent to the

- MARTI KOPACZ - VOLUME 1-

Court and --
Q. Let me -- sorry. Let me catch up to you before you go ahead of me. I'm sorry, I didn't mean to interrupt you. I didn't mean to be rude. I'm just trying to keep it organized chronologically.
Did Judge Rosen say that he had talked to Judge Rhodes and that Judge Rhodes said it was okay or was Judge Rosen just saying that unbidden, as far as you could tell?
A. Judge Rosen said, you -- again, I think you need to touch base with Judge Rhodes on this.
Q. Okay.
A. And even though you're not supposed to have ex parte communication, you need to call his office, explain the situation, and get direction on how he wants you to handle that.
Q. Okay. And so, then did you just say, okay, I will do that?
A. Yes.
Q. Okay. Did you say how do you know, Judge Rosen, what Judge Rhodes wants me to do?
A. He --

- MARTI KOPACZ - VOLUME 1-

Q. You're in a tough spot, I'm just curious --
A. Judge Rosen said, If he gets mad at you, tell him I said it was okay.
Q. Okay. Well, that's fair enough. I'm not making fun of you, you were in a -- what was the problem you were having that militated the call?
A. There are really two things, we were having trouble getting the working models. Okay. And counsel had requested to participate in all of my interviews.
Q. Was that bogging you down a bit in terms of setting them up?
A. It was just -- it was raising the whole issue of, you know, what sort of openness I would have. And again, it wasn't going to affect the questions I asked. Right. But it might affect what people were telling me.
Q. Interesting. Okay.
Now, so then you -- okay, so I'm assuming you got off the phone with Judge Rosen and you called Judge Rhodes?
A. I called Judge Rhodes.

- MARTI KOPACZ - VOLUME 1-

not identified by name on here is a spouse. You didn't leave any sort of principals off, so to speak.

A. No, I did not.

Q. Okay. And what did you talk about? How long did the dinner party go and what -- what did you all talk about?

A. I would say the dinner party was a couple of hours. It was a -- it was really an occasion for Mr. Ravitch and I to meet all of these people because other than Judge Rosen and Mr. Driker and I had just met Mr. Gargaro that day, the rest of those people I had never met and I don't think that, other than Judge Rosen and the Bluesteins, I don't think Mr. Ravitch knew any of these people. So it was just a -- it was a welcoming dinner, if you will.

Q. So, let me ask you a question.

Were you concerned at all as an independent expert about the informality, so to speak, of kind of breaking bread with, for example, Kevyn Orr?

A. Not at all.

Q. No? Why not?

- MARTI KOPACZ - VOLUME 1-

A. Why would I be? I mean it's not going to impact my view of the plan whether or not I've had a meal with these people.

Q. Did you have -- did you take meals with any -- anybody else other than this? This is I think one of the only dinner parties I saw.

A. There were -- there were a couple of different dinner parties. I've had -- I've had breakfast with people. I've had -- I don't generally do lunch.

Q. Who was the other dinner party with?

A. There was another -- there was another -- there was another dinner party somewhere. It may be listed as a meeting, but it was after that -- it was -- it was June 11th.

Q. The one where it's with Judge Rosen?

A. Judge Rosen and that whole group of people. Steven was on the phone. He wasn't there. But basically this group left and went to dinner.

Q. On June 11th?

A. On June 11th.

Q. Was that a meeting that started in Judge Rosen's chambers?

- MARTI KOPACZ - VOLUME 1-

A. Yes, it was.

Q. And then after it was revolved, everybody went out to dinner?

A. Everyone went to the Bluesteins' country club. They hosted again.

Q. Okay. Do you remember how many people were at that dinner?

A. Dozen. Maybe.

Q. So, what do you remember Judge Rosen talking about at the May 7th dinner party back on in 2014? He's a fairly voluble -- I won't characterize him, but he's a dynamic person. I -- I haven't met him in person, but I've seen his press conferences --

A. I'm trying to remember.

Q. -- he's not somebody who I -- I view as a shrinking violet, and I was wondering whether he had conveyed to you his views?

A. I'm not -- I'm trying to remember how the seating was because there were -- like the May -- at the May 7th, there were two large tables, one in their dining room and one on their -- on their patio or screened-in porch, and I remember the mayor was on my right. Mr. Ravitch

- MARTI KOPACZ - VOLUME 1-

was on my left and Kevyn was across from me and Tom Lewand was over there. And to be honest with you, I can't remember who was at the rest of my table versus who was at the other table.

Q. But you know -- was Judge Rosen at the other table?

A. I think he may have been at the other table. I don't know.

Q. And so were people basically talking about the case and how it was going and the City and --

A. Not really. The -- the conversation was a lot more social and informal. I mean, I learned about, you know, where Kevyn Orr went to college and, you know, what Mike Duggan had done with his life and how Tom Lewand got to the City. I mean, that was the discussion, right?

Q. Okay. It was sort of getting to know the people more than it was talking about the substance of your assignment or the case? More polite sort of?

A. It was -- Yes. Yes. You know, and I think, you know, Dick was -- Dick Ravitch was -- was -- we were having all kinds lots -- of

- MARTI KOPACZ - VOLUME 1-

A. What he thinks his assignment is.

MR. GLEASON: You need to fix your microphone.

THE WITNESS: Thank you.

Q. So we've gone through a bunch of communications with him. Was there -- was there ever a meeting or a call where he drove it, he drove the call, he drove the meeting, he said, Marti, I want to meet with you, or Marti I needed to call you?

Or were all the meetings or calls ones where you said, Dick, I need to talk to you?

A. No, if I hadn't talked to Dick in a week or so, I would usually get a call from Rita, his assistant, who would say I have Mr. Ravitch for you and he'd say, how are you?

Q. And he would check in on how you were doing?

A. Yeah. He would check in.

Q. Okay. He would definitely check in with you to see how you were coming along?

A. Yes.

Q. So some of these meetings or calls were initiated by him and some were initiated by

- MARTI KOPACZ - VOLUME 1-

you?

A. Yes.

Q. Okay. So, June 3rd, 2014, you have one with him where you catch up on case developments. Was that just such a call where he might have called you --

A. And, again, I don't know if he called me or I called him.

Q. Okay. Do you remember what you talked about?

A. I don't.

Q. Okay. Now, take a look on the next page, if you could, at June 11, 2014. This is the -- this is the meeting that then moves into the dinner party that you talked about.

Remember that?

A. Yes.

Q. What was -- what was the subject -- what was the occasion for and the subject of the meeting in Judge Rosen's chambers?

This is kind of like -- this is a big group of people --

A. It is a big group of people.

Q. -- all of a sudden get together.

- MARTI KOPACZ - VOLUME 1-

A. At some time prior to this, okay, my team's relationships with Ernst & Young and Conway got frayed okay? And there were, this was basically all of the parties being called to chambers to be instructed to play nicely in the sand box.

Q. So did Judge Rosen initiate this meeting?

A. Judge Rosen initiated this meeting.

Q. So he called you and said I want to clear the air?

A. Yes, you're not playing we will continue sand box with the other children.

Q. He said that to you?

A. Yes generally that's, that's he didn't, he didn't use those words but it was like we need to have a conversation now. By the time we get to this meeting of which there was already this kind of dinner party plan, that same with Mr. Ravitch --

Q. There was already the plan for the dinner party?

A. This was, actually, that night was to be this group and E & Y and Conway didn't

- MARTI KOPACZ - VOLUME 1-

participate in the dinner. But that was to be the dinner in which I was going to -- and Mr. Ravitch were meeting with Dan Gilbert. All right. He canceled last minute. So we all went anyway.

But, yes, it was -- that was -- that was the way that I got on his calendar was for the Blustein's to throw a dinner party.

Q. So what happened at the meeting that was called because there was -- whatever, tempers were flaring or whatever?

A. Yes. By the time we got to the meeting, we had already worked out our issues and our differences.

Q. And so everyone was kind of like, we're good?

A. We're good. And we talked -- at that point in time we talked a lot about where my thinking was on the feasibility standard.

Q. In this meeting with Judge Rosen?

A. Uh-huh.

Q. What did Judge Rosen say during this meeting?

A. I'm not sure that Judge Rosen said a whole lot. It was mostly a dialogue with Jones

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- MARTI KOPACZ - VOLUME 1-
Day and me and the advisors about, you know, how broad or narrow feas -- my assessment of feasibility was and should be.
Q. Was there a dispute about that?
A. I think there was, yes.
Q. And who was the dispute between and what were the contours of it?
A. I think generally the dispute was between the City and me in terms of things like the time frame. Right. And you know, where -- where I was coming out on my thinking about certain topics.
Q. Okay. Like what topics -- so let me see if I can set it up in a way that is fair and accurate.
Were you in communications with the City, communicating to them concerns that you had about the plan?
A. Yes.
Q. And was the City, in response, saying that's not your job to have those types of concerns, and so we think you're -- you're straying from what you are supposed to do, you're just supposed to take this plan and say whether

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- MARTI KOPACZ - VOLUME 1-
this plan is or isn't feasible, you're not supposed to change this plan, or words to that effect. I wasn't there so --
A. Yeah. I don't think it was that cut and dry, if you will. Right.
Q. Okay. It was a debate about scope, though, right?
A. There was a debate about scope. There was also debate about -- I mean, at this point in time I am still very, very troubled by the lack of -- this is before the July 2nd projections, there's $160 million worth of RRI deferrals in the May 5th projections, and nobody's told me where those go. Okay?
So those are -- I'm having those kinds of discussions and disagreements, if you will, with the City as to whether or not that is an important issue for me or not an important issue for me.
MR. KANE: When you just said "at this point in time" you're referring to his questions about the meeting --
THE WITNESS: I'm talking about in this time --

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- MARTI KOPACZ - VOLUME 1-
MR. HACKNEY:
Q. And you're saying now you know the answer to that question --
A. Now, I know the answer to the question because we have the July 2nd projection.
Q. That answered the question.
A. That got to the point where the deferrals are actually -- have been pushed back into the 40-year projections.
Q. They have been pushed outside the ten-year period into --
A. No, no. They're in the -- they're -- they're at a more granular level so that you can look at how the RRI money is going to be spent. Okay?
So those are the kinds of issues that I was having with E & Y and Conway and the City.
Q. And did those issues get discussed -- oh, I see.
So then -- okay. So did the conversation kind of morph in this meeting in Judge Rosen's chambers to one that was originally going to be about are remember getting along well --

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- MARTI KOPACZ - VOLUME 1-
A. Yes.
Q. -- to one that was about, What is your role?
A. Right.
Q. And then was there a subsequent conversation held on that?
A. I think we worked it out. I mean, we ultimately had a -- we agreed to have a -- what we refer to as the big issues meeting here in New York. We had it in this room with the City, to go through what I consider to be the issues and in essence it almost looks like the table of contents to my report. Right?
Q. In terms of --
A. Feasibility.
Q. Did you go down the list of things that you thought was a big issue to the findings of feasibility? Is that what you mean?
A. Yes. We talked general -- we talked about what I thought was important to my feasibility assessment. And I listened to the City as to whether or not they thought those were big issues.
Q. And so, did -- in this meeting on

Exhibit 6C

Order Appointing Expert Witness [Docket No. 4215]

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re: City of Detroit, Michigan, Debtor. ______________________________/	Chapter 9 Case No. 13-53846 Hon. Steven W. Rhodes

Order Appointing Expert Witness

1. Under Fed. R. Evid. 706(a), Martha E. M. Kopacz of Phoenix Management Services, Boston MA, is hereby appointed as the Court's expert witness.[1]

2. The Court's expert witness shall investigate and reach a conclusion on:

   (a) Whether the City's plan is feasible as required by 11 U.S.C. § 943(b)(7); and

   (b) Whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable.

3. Unless the Court orders otherwise, the matters in paragraph 2 above are the only matters that the Court's expert witness is authorized to investigate, reach a conclusion on, or testify about.

4. All interested parties and their professionals shall fully and promptly cooperate with the Court's expert witness and shall promptly comply with any requests for information made by the witness.

5. The Court's expert witness shall have no *ex parte* communications with the Court, except that the witness may submit a written request to the Court for assistance as needed in carrying out her responsibilities, or for guidance. Such a request shall be submitted to the Court as an attachment to an email sent to christine_sikula@mieb.uscourts.gov. Upon receipt of such a request, the Court will arrange for its filing on the docket of the case and will promptly determine the appropriate process to address the matter.

6. By the deadline for the parties' expert witnesses to serve their reports on other parties, the Court's expert witness shall serve her report (in such manner as may be agreed by the parties or directed by the Court), along with copies of any document cited in the report or otherwise considered by the witness in preparing the report, excluding documents previously produced in discovery among the parties and publicly-available professional literature. (Currently, this deadline is June 24, 2014.)

[1] The resume of Ms. Kopacz is attached to this order.

7. After filing the report required by paragraph 6 above, but by the deadline for other expert depositions, the Court's expert witness shall be available for a consolidated deposition by any interested parties. (Currently, this deadline is July 15, 2014.)

8. The report of the Court's expert witness shall be admitted as evidence at the hearing on confirmation of the City's plan only as provided by the Federal Rules of Evidence, unless otherwise agreed by the parties or ordered by the Court.

9. The Court's expert witness shall be available to testify in person at the hearing on confirmation of the City's plan without the need for subpoena or other process, at such time as may be agreed by the parties or ordered by the Court. (Currently, the confirmation hearing is scheduled to commence on July 24, 2014.)

10. Until the conclusion of her responsibilities under this order, the Court's expert witness shall not accept any retention or engagement that might result in a conflict of interest in this case.

11. The Court's expert witness shall file an interim fee and expense application on a monthly basis during the course of this appointment, with contemporaneous time records attached to the application. These applications shall be filed within 14 days after the close of the each calendar month.

12. The City shall promptly pay the expert witness's fees and expenses as approved by the Court.

13. The Court's appointment of the expert witness shall not be deemed to preclude *Daubert* or other challenges under the Federal Rules of Evidence to the admissibility of all or any of the expert witness's opinions at the hearing on confirmation of the City's plan.

14. The Court's expert witness shall maintain a contemporaneous log of all contacts relating to this case, whether initiated by the witness to others or by others to the witness. This log shall disclose for each such contact the date, time, means and subject matter of the contact and shall be attached to her report.

15. Except as set forth herein or otherwise ordered by the Court, the Court's expert witness shall treat her investigations and work product as confidential until the conclusion of her testimony at the confirmation hearing.

Signed on April 22, 2014

/s/ Steven Rhodes
Steven Rhodes
United States Bankruptcy Judge

Marti Kopacz, CMA, CIRA

Martha (Marti) E. M. Kopacz
Senior Managing Director
Mobile (617) 840-9155
mkopacz@phoenixmanagement.com

Ms. Kopacz has over 30 years' experience assisting stakeholders in analyzing business operations and reorganization possibilities. She has led or participated in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks and Chapter 11 Trustees. Ms. Kopacz has advised in a broad range of industries including not for profit and public sector, retail, leisure and entertainment, technology and professional services. She was one of the first financial advisors to apply turnaround principles to public sector and not for profit organizations. She has served as an Interim President, Chief Restructuring Officer, Chapter 11 Trustee, Collateral Trustee, and Examiner.

General Experience

Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more, prepared by others. She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast. She has a deep understanding of the importance of developing assumptions based upon a thorough analysis of relevant data, including historical and prospective information as well as third party, independent information. Ms. Kopacz understands the nuanced area of municipal budgeting. Because municipal entities lack a "standard" in budgeting, forecasting and accounting, great variations occur in the manner in which public entities report financial results and develop forecasts. As such, preparing and evaluating projections for municipalities requires strong business acumen and deep appreciation for the challenges inherent in the forecasting methodology and limitations presented by available information.

Marti Kopacz, CMA, CIRA (cont.)

Relevant Engagements

Ms. Kopacz advised the **Nassau County Interim Finance Authority (NIFA)**, a New York state control board, in their oversight role. In early 2011, NIFA imposed a control period for Nassau County based on a substantial budget deficit. Nassau County has experienced financial difficulties for over a decade despite an annual budget that approaches $3 billion. The structural deficit for 2012 was estimated at $300 million. Ms. Kopacz advised NIFA on the financial requirements underpinning the control period, the nature and size of the likely budget deficit and the reasonableness of the County's forecasts. In addition, Ms. Kopacz and her team conducted an in depth review of the business operations of the County and developed over $300 million of suggested cost reductions and operational improvements, which if implemented would restore Nassau County to a balanced budget in the next few years.

Ms. Kopacz served as Financial Advisor in a multi-party representation of seven of the country's largest **Municipal Transit Authorities** in an out-of-court renegotiation of their advertising contracts with a New York based outdoor media company. She advised her transit authority clients on the viability of the company's business plan and played an active role in the advertising contract negotiations with the company. Ms. Kopacz represented her clients in the restructuring of more than $200 million of senior and junior debt with the bank group and private equity sponsor.

Serving in the capacity of the Chief Restructuring Officer and Interim President, Ms. Kopacz designed, led and executed the out-of-court restructuring of the **Legal Aid Society.** At the time, the Society was a 135 year old charity with approximately $150 million in revenue serving the legal needs of the needy in New York City, funded largely by the State of New York and New York City. Accomplishments included: reducing a $20 million operating deficit to better than break even; negotiating workforce reductions, compensation and benefit modifications with the UAW (lawyers' union) and the SEIU 1199 (social workers and paralegals' union) representing approximately three-fourths of the Society's 1400 employees; restructuring pension obligations; consolidating real estate, third party suppliers and infrastructure; and restructuring over $65 million of balance sheet and long term obligations with dozens of creditors and stakeholders, all of which returned the organization to solvency. In addition, Ms. Kopacz led the Society's first ever Strategic Business Planning effort, managed day-to-day operations in conjunction with the Attorney-in-Chief, and received the Society's Pro Bono service awards for 2004 and 2005.

Marti Kopacz, CMA, CIRA (cont.)

Relevant Engagements (cont.)

Ms. Kopacz represented **The Educational Resources Institute, Inc. (TERI)**, a large not for profit organization providing college access to underprivileged and underserved populations. TERI's for profit subsidiary was the largest guarantor of private student loans in the country when the securitization market for student loans evaporated. The extensively negotiated plan of reorganization preserved the not for profit mission and return collateral to the original lenders.

Prior Experience

Prior to joining Phoenix Management, Ms. Kopacz founded Brant Point Advisors, a boutique advisory firm. Previously, Ms. Kopacz co-founded and co-lead the U.S. Corporate Advisory and Restructuring Services practice at Grant Thornton LLP and lead the group's public sector initiatives. Earlier in her career she was a Managing Director with Alvarez & Marsal, focused on public sector and not for profit clients, and a Principal with PricewaterhouseCoopers LLP until the practice was sold to FTI Consulting, as which time she was a Senior Managing Director.

Education & Certifications

Masters of Business Administration in Finance and Investments – Kelley School of Business – Indiana University
Bachelor of Science in Marketing – Kelley School of Business - Indiana University
Certified Management Accountant
Certified Insolvency and Restructuring Advisor

Affiliations

American College of Bankruptcy – Fellow – Twelfth Class
Turnaround Management Association
American Bankruptcy Institute
International Women's Insolvency and Restructuring Confederation
Association of Insolvency and Restructuring Advisors and the Institute of Management Accountants.

Marti Kopacz, CMA, CIRA (cont.)

Civic Engagement
Boston 2024 Organizing Committee – Board Member
Legal Aid Society of New York – Board of Advisors
Kelley School of Business - Indiana University – Dean's Council
Graduate School of Business, Sunkyunkwan University – Dean's Council
Inly School – former Board of Trustees

Speaking Engagements and Publications

"Municipal Insolvency and Bankruptcy Part 1: Introduction, Overview and Key Issues" – Rhode Island Bar Association Annual Meeting, June 2012

"Municipal Bankruptcy" – Association of Insolvency and Restructuring Advisors Webinar, February 2012

"The Municipal Restructuring under Chapter 9: Legitimate Option or Scare Tactic?" – American Bankruptcy Institute Winter Leadership Conference, La Quinta, CA, December 2011

"Municipal Insolvencies: Is This the Next Wave?" – Turnaround Management Association Northeast Chapter, Boston, MA, November 2011

"Leadership and Political Will – Fixing States' and Cities' Fiscal Woes" – Heyman Center Series: America's Fiscal Crisis – Depression, Recession or Recovery, Cardozo School of Law, New York, New York, October 2011

"Today's Problems in Municipal Finance – Should Chapter 9 be Extended to States?" – Commercial Finance Association Advocacy Conference, Washington, DC, September 2011

Speaking Engagements and Publications (cont.)

"Turnaround "Apps" for the Public Sector" – Grant Thornton white paper, July 2011

"Chapter 9 Update" – American Bankruptcy Institute Northeast Conference, Newport, RI, July 2011

"Turnarounds in the Public Sector" – Kellogg Turnaround Management Conference, Chicago, IL, May 2011

"Too Big to Fail or Too Big to Bail (Out): a Discussion of the Pros and Cons of Bankruptcy for States" – Grant Thornton white paper, March 2011

"That was Then, This is Now: Financing Your Business in the Current Environment" – Proskauer Grant Thornton Seminar, New York, New York, October 2010

"Navigating Your Portfolio Through Turbulent Waters - Facing The Reality of Being Over Leveraged - And Practical Strategies for Restructuring in Zero Gravity" – Association for Corporate Growth Intergrowth Conference, Miami, May 2010

"Who Has $$ and What Are They Buying?" – Caribbean Insolvency Symposium, Grand Cayman, CI, February 2009

"Gaining Support from All of Your Constituencies" – American Bankruptcy Institute Northeast Conference, Brewster, MA, July 2008

Previous Dates – Guest Lecturer at Harvard Business School, Massachusetts Institute of Technology, Bentley College, Northeastern University, Pennsylvania State University and Indiana University concerning various corporate recovery topics. Panelist or Moderator at industry conferences hosted by Turnaround Management Association, American Bankruptcy Institute, Massachusetts Continuing Legal Education, National Credit Managers Association, Food Manufacturers Association, Barclays Bank, among others.

Exhibit 6D

Excerpts of July 14, 2014 R. Cline Deposition Transcript

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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

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APPEARANCES:
For the Debtor City of Detroit and the witness:
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Page 3

For Creditor National Public Finance Guarantee Corp.

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For Creditor Financial Guaranty Insurance Company:
PRAVIN R. PATEL, ESQ.
WEIL GOTSHAL & MANGES, LLP
1395 Brickell Avenue
Suite 1200
Miami, Florida 33131

Also Appearing:
Jonathan Perry, Videographer
Marguerette Hosbach, Ernst & Young, via telephone

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I N D E X

R. CLINE

THE VIDEOGRAPHER: This is disk number one of the video deposition of Robert Cline taken in the matter of the City of Detroit, Michigan in the U.S. Bankruptcy Court for the Eastern District of Michigan. Chapter 9, Case No. 13-53846.

We are at the offices of Jones Day, 51 Louisiana Avenue Northwest, Washington, D.C. The time is approximately 9:04 a.m. The date is July 14th, 2014. The court reporter is Marjorie Peters and the videographer is Jonathan Perry, both here on behalf of Elisa Dreier Reporting Company.

Would counsel please introduce yourselves and state whom you represent.

MR. SMITH: Doug Smith for Syncora.

MR. STEWART: Geoffrey Stewart and Sarah Hunger of Jones Day for the City of Detroit and for the witness.

MS. SCHAPIRA: Lisa Schapira from Chadbourne & Parke for Assured Guaranty.

MR. BEELAERT: Jeff Beelaert from Sidley Austin for National.

MR. PATEL: Pravin R. Patel from Weil Gotshal & Manges representing Financial Guaranty Insurance Company.

R. CLINE

THE VIDEOGRAPHER: And would the reporter swear in the witness, please.

ROBERT CLINE,

a witness, having been first duly sworn, was examined and testified as follows:

BY MR. SMITH:

Q. Good morning, Mr. Cline. You have been deposed before; is that correct, or not?
A. I have testified in a court case before.
Q. Okay. Have you ever given a deposition?
A. I don't remember. I have prepared reports. I don't remember whether I actually participated in this type of deposition.
Q. Okay. I'll be asking you a series of questions, and you will let me know if you don't understand any of my questions?
A. I will.
Q. Okay. And feel free to take a break whenever you need to, okay?
A. All right.
Q. The report you filed, your report in this matter, you're acting as an expert in tax policy; is that correct?
A. My responsibility in this project was to do

R. CLINE

revenue estimates for the City of Detroit.
Q. Okay. And what is your area of expertise?
A. For my professional career, I've worked in public finance, the economic aspects of public finance.
Q. Okay. So, you would be an expert in public finance and the economic aspects of public finance; is that correct?
A. My professional career has been doing state tax work, whether it's revenue estimating, tax bill analysis or forecasting.
Q. Okay. You wouldn't hold yourself out as an expert in urban policy, correct?
A. I would not.
Q. And you wouldn't hold yourself as an expert on health benefits?
A. I would not.
Q. You're not an expert on government in general?
A. I'm not.
Q. You're not an expert on blight reduction?
A. No, I'm not.
Q. Not an expert on art valuation?
A. No.
Q. Not an expert on pensions?
A. No.

R. CLINE

Q. Not an expert on government grants?
A. No.
Q. Do you hold yourself out as an expert on casinos or wagering revenue?
A. I do not.
Q. Do you hold yourself out as an expert on state revenue sharing?
A. I've studied state revenue sharing.
Q. In what context?
A. The State of Michigan, I was responsible for various revenue estimates.
Q. And other than that, do you have any experience with state revenue sharing?
A. I do not.
Q. You're not an expert on Detroit's government, correct?
A. I am not.
Q. Not an expert on information technology?
A. No.
Q. Not an expert on transportation systems.
A. No.
Q. Have you ever done forecasting for a city?
A. I have not done forecasting for a city.
Q. And you're not an expert in accounting, are

R. CLINE

you?

A. I am not.

Q. You're not an expert on Chapter 9 bankruptcies?

A. No, I'm not.

Q. You're not a restructuring expert, correct?

A. No.

Q. You're not holding yourself out as a legal expert, correct?

A. No, I'm not.

Q. And you're not a lawyer, correct?

A. I am not.

Q. Have you ever done a tax forecast for a wagering tax before?

A. No, I have not.

Q. And have you ever done a tax forecast for a corporate tax?

A. I have for the State of Michigan, and I did for the State of Minnesota.

Q. Okay. But in the context of corporate tax revenues to a city, you haven't done a forecast?

A. I have not.

Q. You haven't done a municipal income tax forecast before, have you?

R. CLINE

A. I have not.

Q. You haven't done a municipal property tax forecast, have you?

A. I have not.

Q. Have you ever done a tax forecast over a period of -- as long as ten years?

A. I have not.

Q. Okay. Typically, what was the length of time of the forecasts you have done previously?

A. The forecasts were usually tied to the budget cycle, determined by the legislature. You might go out four to six years.

Q. Okay. So, the standard forecast length that Michigan used was four to six years?

A. I would say it was four, in Michigan.

Q. Okay. So, the generally accepted standard length of a forecast in Michigan was four years?

A. That was the forecast tied to the budget cycle. You would do forecasts longer term for other types of projects.

Q. Okay. So, and the longest term forecast you ever performed in the ordinary course of your work as a forecaster was six years; is that correct?

A. I might have done forecasts that went beyond

R. CLINE

that. I don't recall.

Q. Okay. But sitting here today, you can't identify any forecasts you ever did that was longer than six years?

A. I do not remember one.

Q. And I mean, just to get -- make the record clear, the standard forecast for purposes of tax forecasting in Michigan state was four years; is that correct?

A. I believe it is. The budget cycle would be either two years or four years of forecasts.

Q. Okay. So, the standard forecast length in Michigan and the accepted forecast length for tax forecasting is either two or four years; correct?

A. Correct.

Q. And you previously worked as an expert in one case; is that correct?

A. I did.

Q. And is that the only case you worked as an expert?

A. As I can recall, that was the only case where I testified as an expert.

Q. And when you testified as an expert, it wasn't in forecasting, correct?

R. CLINE

A. It was not.

Q. When did you begin your work for Detroit?

A. It would have been in the spring, I believe, of 2013.

Q. Your work in this case, you have prepared some expert opinions for the confirmation hearing, correct?

A. I have -- I don't understand the question.

Q. Okay. Well, you know you filed an expert report.

A. Correct.

Q. You know that, right?

A. Correct.

Q. And you're acting as an expert who is going to testify at the confirmation hearing?

A. I understand that, yes.

Q. Okay. And I'm just wondering, other than your work as an expert in the testimony you're going to give at the confirmation hearing, have you done any other work for the City of Detroit?

A. If you could clarify that question. Are you referring to all of the work I have done as an EY employee for the City of Detroit?

Q. Well, yes. Basically, what I'm trying to figure out is I have a copy of your expert report, and

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R. CLINE

conducted on Detroit income tax, wagering tax, utility users' tax or corporate tax, correct?

A. I am aware of the forecasts the City of Detroit did for those tax sources.

Q. Is that the forecast that you have done, or is that a different forecast?

A. That would be the forecast prepared as the normal budgetary cycle for the City of Detroit.

Q. All right. Did you perform that, or did somebody else perform that?

A. It was done -- my understanding is it was done by the City.

Q. And the City -- what time period do they use as their standard period for forecasting?

A. I believe they go out two years, might be three, but I believe it's a two-year forecast.

Q. You're not aware of any forecast conducted for the City of Detroit that's longer than three years, correct?

A. I'm not aware of any studies of forecasting tax revenues beyond that period of time.

MR. STEWART: You mean by the City of Detroit not for the City of Detroit, right, Mr. Smith?

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R. CLINE

MR. SMITH: No, I mean for.

BY MR. SMITH:

Q. You're not aware of any forecasts for the City of Detroit going out more than three years, whether conducted by the City or any other party, correct?

A. I am not.

MR. STEWART: Excluding his?

MR. SMITH: Yes. We're excluding his.

MR. STEWART: Yeah. That's what I figured. That's why I raised it.

BY MR. SMITH:

Q. Your forecast is anomalous, correct, in terms of the length of time that it goes out, correct?

MR. STEWART: Objection.

THE WITNESS: I don't know what you mean by "anomalous."

BY MR. SMITH:

Q. It means there's no forecast like the one you've conducted here that's ever been conducted for the City of Detroit, correct?

A. I did not say that.

Q. Well, I'm asking you now. There's no forecast like the one you've conducted for the City of Detroit --

A. I don't --

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R. CLINE

Q. -- correct, that's ever been done?

A. I don't know if that's correct.

Q. Okay. Sitting here --

MR. STEWART: Do let him finish his question before you answer, because you're making his life harder, too.

BY MR. SMITH:

Q. Sitting here today, you can't identify any forecasts using the type of methodology that you used for the City of Detroit, correct?

A. No, that's not correct.

Q. What forecast has been done for the City that's used the methodology you used?

A. The methodology that we have used is a fairly standard forecasting methodology that's been used extensively in the City of Detroit and for the State of Michigan and in other cities.

Q. Have you reviewed any depositions in this case?

A. I have not, other than my own.

Q. The -- you say that the methodology used is a standard methodology that's been used before, correct?

A. The methodology we used in constructing the forecasting model is based upon my experience as a

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R. CLINE

revenue forecaster, and I believe it is fairly standard in terms of how State revenue forecasting is done.

Q. Can you point me to any treatise or other publication that lays out the methodology you've used for forecasting in this case?

A. There are a number of publications, books, and articles that discuss revenue forecasting. I can't give you specific references today.

Q. But is there any book or other written publication that specifically lays out the specific methodology that you've used in this case?

A. The methodology that we used in this case is the methodology that I thought followed as a tax revenue estimator in both the State of Minnesota and the State of Michigan.

Q. Okay. And you were doing forecasting for the State, not cities, correct?

A. Correct.

Q. And you never used -- while you were at the State of Minnesota or the State of Michigan, you never forecast tax revenue out to 10 years, correct?

A. I don't know if that's a correct statement.

Q. Sitting here today, you can't identify any instance when you were at either the State of Minnesota

Exhibit 6E

Excerpts of July 15, 2014 G. Malhotra Deposition Transcript

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
- - -
In Re:) Chapter 9

City of Detroit, Michigan,)

Debtor.) Hon. Steven Rhodes
____

The videotaped deposition of GAURAV MALHOTRA
Taken at 51 Louisiana Avenue, N.E.
Washington, D.C.
Commencing at 9:09 a.m.
Tuesday, July 15, 2014
Before: Gail L. Inghram Verbano
Registered Diplomate Reporter,
Certified Realtime Reporter,
Certified Shorthand Reporter-CA (No. 8635)

APPEARANCES:

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Guaranty.

MALHOTRA

A. That is correct.

Q. And what period of time have you been doing that?

A. One of them has been over a year. One of them has been in the last, I would say, six months.

Q. Before you started your forecasting work for Detroit, you didn't have any experience doing a forecast for a city; correct?

A. We did it for Detroit Public Schools, which was another large government sector -- public sector entity. We did not do it for a city.

Q. Okay. So before your work for the City of Detroit, you had never done forecasting for a city specifically; correct?

A. Most of the -- that is correct.

Q. You're not holding yourself out as an expert on Chapter 9 bankruptcy, are you?

A. No, I'm not.

Q. This is the first Chapter 9 bankruptcy you've worked on; correct?

A. Yes, it is.

Q. And you'd agree with me that Chapter 9

MALHOTRA

bankruptcy is extremely rare?

A. I don't want to comment on that.

Q. You're not going to answer that question?

A. Rare in context of what? Is it in context of Chapter 11 or is it in context to other bankruptcies? So you have to give me a relative point to answer that question.

Q. It's very rare for a city -- out of all the cities in the United States, it's very rare for a city to have entered into a Chapter 9; right?

A. Well, there are different state laws that impact the ability of cities to enter Chapter 9 or not. But I would say Chapter 9s are less common than Chapter 11s. I mean, I'm comfortable saying that.

Q. Okay. And it would be a minute fraction of cities that ever have entered Chapter 9; correct?

A. I don't understand minute or not. But I think the number of Chapter 9 filings is limited relative to Chapter 11 filings. I'm comfortable saying that.

MALHOTRA

Q. You're not holding yourself out as an expert in risk management or insurance; correct?

A. Again, I'll ask the same question: Risk management, insurance for what? Because all of these points have specific implications on the City of Detroit and the financial analysis and forecasts for the City of Detroit.

Q. Okay. Well, I mean, you've never done any work in the area of risk management, have you?

A. I've looked at a lot of the expenses that the City of Detroit has been spending on risk management insurance claims over the last three years. So I understand where the City has been spending that money.

Q. Okay. Before your work for the City, you didn't -- you hadn't done any work on risk management; is that correct?

A. No. When it comes to specific other clients and you see where they are spending more and if risk management is -- or self-paying, self-insurance claims is a big component, you have to analyze those costs. So I have looked at them in specific instances where claims are a large part of a spend.

MALHOTRA

But I -- so all I'm asking is, are you asking the question in the context of Detroit or just risk management?

Q. Risk management in general. You wouldn't hold yourself out as an expert in that; correct?

A. I would -- I could only talk about the risk management and insurance claims for the City of Detroit. That's what I would -- that's what I would be comfortable talking about.

Q. Were you involved in putting -- were there some forecasts with the creditor proposal that accompanied that?

A. Which creditor proposal?

Q. The one in, I think -- guess it was 2013, before the bankruptcy.

A. Yes, there were forecasts, and we were a part of pulling those together.

Q. And that was my question.

A. Thank you for the clarification.

Q. You were personally involved in that?

A. I was.

Q. Okay. In your opinions in this case, you're relying on some other experts, such as

MALHOTRA

latest updates are probably the best information we have as of date.

Whether that makes all of those forecasts -- and I think you used the word "inaccurate." That's -- it's just we have better information today than we had earlier.

Q. Okay. Your more recent forecasts would be more reliable than your first forecast; is that fair?

A. I would say, yes, the most recent forecasts are the best picture we would have as of date, yes.

Q. Would it be fair to say that the longer the forecast, the less reliable the forecast?

A. It depends on specific line items and assumptions. But the further you get out there, the -- there is more uncertainty whether each one of those assumptions will play out the way they are in the forecast.

Q. And would you agree that the greater the number of assumptions in your model, the more uncertainty and potential for unreliability there is with the model?

A. No, because --

MALHOTRA

Q. Well, all the other things being held constant, do you agree that the more assumptions that you have in a model, the greater the potential for uncertainty and unreliability?

A. No.

Q. Why is that?

A. Because different assumptions can also offset each other.

Q. Did you rely on any scientific or technical literature in creating your forecast?

A. I'm sorry? What is --

Q. Well, is there any scientific or technical literature that lays out the methodology you used in your forecast?

A. The financial forecast, the way it's been developed is how it's generally developed by all financial advisory firms.

Q. But that's not my question. Is there any scientific or technical literature you can identify for me today that lays out the methodology that you used in creating the forecast for Detroit?

A. I do not know of any scientific methodology. Technical methodology is generally

MALHOTRA

well documented all over about financial advisers, how to create projections, look at the historical performance.

So, yeah, that's generally technical in nature, but not scientific.

Q. But so the -- but is there any treatise or other publication that you can identify for me today that lays out the technical methodology you used for the Detroit forecast?

A. I would say any financial journal that you will pick up, from a financial adviser's standpoint, has tons of articles written on how to build good -- develop reasonable forecasts.

Q. But can you identify one article, sitting here today, that contains the specific methodology you used in the Detroit forecast?

A. I do not recall one off the top of my head, no.

Q. Before the Detroit matter, what was the longest period of time you ever did a forecast of revenues or expenditures for?

A. I would say somewhere maybe between five and ten years.

Q. And you've never done -- I think you

MALHOTRA

testified you'd never done a forecast for a municipality before Detroit; correct?

A. No, I did not testified to that. I testified that I've done it for Detroit Public Schools. I've developed a forecast for Detroit Public Schools.

Q. But for an actual city, municipality, you've never done a forecast before Detroit's; correct?

A. For a city, that is correct.

Q. You did some forecasting for the Detroit Public Schools?

A. That's right.

Q. What was the length of time that you forecast for the Detroit Public Schools?

A. I would have to go back and look. It could have been up to five years. It was probably somewhere in that neighborhood or shorter. I would have to go back and check.

Q. Are your forecasts that you've created in this case based on the business judgment of any City officials?

A. I would say yes.

Q. And yet you -- which City officials

Exhibit 6F

Excerpts of July 24, 2014 C. Sallee Deposition Transcript

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

The videotaped deposition of CAROLINE SALLEE, called for examination pursuant to the Rules of Civil Procedure for the United States District Courts pertaining to the taking of depositions, taken before GINA M. LUORDO, a notary public within and for the County of Cook and State of Illinois, at 77 West Wacker Drive, Suite 3500, Chicago, Illinois, on the 24th day of July, 2014, at the hour of 9:04 a.m.

Reported by: Gina M. Luordo, CSR, RPR, CRR
License No.: 084-004143

or the state government, correct?
MR. STEWART: Just a second. Objection.
BY MR. SMITH:
Q. Now you can answer.
MR. STEWART: You can answer the question.
THE WITNESS: I guess I don't know what the question is.
BY MR. SMITH:
Q. One significant source of revenue for a city is grants from the federal government or state government, correct?
A. I guess it depends on the city and what you mean by significant.
Q. For the City of Detroit, grant money from the state and federal governments is a significant source of funds, correct?
A. I don't know.
Q. You would agree that property tax revenue is a significant sort of revenue for Detroit, correct?
A. What do you mean by significant?
Q. Well, you've used the word significant before, right?
A. I don't know. I don't think I have.
Q. You're saying in your life, you've never

used the word significant before?
A. Well, I use it, but I don't know if I would use it in this context, so what do you mean by significant?
Q. Okay. The property tax revenue would be one of the top revenue sources for the City of Detroit?
A. So for the City of Detroit, when I look at the various tax components, property tax revenue makes up a good portion of the tax revenue that the City receives.
Q. Do you know what the proportion is?
A. So it's around 17 percent.
Q. And what's the proportion of revenue for the city that the state revenue sharing makes up?
A. Off the top of my head, I don't know.
Q. Would it be fair that to say that state revenue sharing is one of the top revenue sources for the City of Detroit?
A. State revenue sharing, when I look at the tax revenue plus the state revenue sharing, state revenue sharing is a good portion of that revenue, yes.
Q. Have you ever forecasted expenditures for a city?

A. Expenditures for a city? No, I haven't.
Q. Before -- before the Detroit matter, did you ever forecast property tax revenues?
A. Yes.
Q. What context did you do that?
A. I would do it for clients related to certain projects, so for example, I would be retained in my old job to look at a new facility and then to forecast the property tax revenue from that.
Q. Okay. But before the Detroit matter, you never forecasted the total property tax revenues a city received, did you?
A. For -- what do you mean the total forecast for a city?
Q. I mean you never forecasted the amount of property tax revenue a city would receive in total before your retention on the Detroit matter, correct?
A. That's correct.
Q. You've never been qualified as an expert by any court; is that correct?
A. That's correct.
Q. Have you ever been retained to do any expert work before in a litigation context?

A. Yes.
Q. And what context was that?
A. Sorry. Let me clarify. Do you mean -- so in my old job, my boss had been an expert on a number of cases, so I would work on his cases. I was not the expert, though.
Q. Okay. So you've done litigation consulting work before, but you weren't personally the expert, correct?
A. That's correct.
Q. When did you begin your work on the City of Detroit matter?
A. I started work in May of 2013.
Q. Have you ever forecasted municipal population levels before?
A. For specific projects in my old job, yes.
Q. Have you ever forecasted -- have you ever done a forecast for municipal revenue sharing for the Detroit matter?
A. No, I don't think so.
Q. And have you ever forecasted what future property assessments would be in a city before the Detroit matter?
A. So in this case, I forecasted taxable value, which obviously, has some relationship with

assessments, and this is the first time that I did that for a municipality, yes.

Q. You're not a lawyer, correct?

A. I am not.

Q. And you're not holding yourself out as a legal expert?

A. What do you mean by legal expert? I'm an expert in this case.

Q. Okay. Are you offering any opinions on the law like as it relates to this case?

MR. STEWART: Objection.

THE WITNESS: I don't think I'm offering opinions on the law. I'm offering opinions on the two things that are in my report.

BY MR. SMITH:

Q. Okay. So other than what's in your report, you're not offering any expert opinions other than that, correct?

A. That's correct.

Q. Okay. And is it fair to say that in your report, you're not -- or anywhere else, you're not trying to offer an opinion about interpreting the law, correct?

A. I'm not offering an interpretation of the law.

Q. Okay. Have you reviewed any depositions in this case?

A. Yes. No, I haven't. Sorry. I've reviewed expert reports. Sorry.

Q. But no depositions?

A. I have not reviewed depositions.

Q. So you didn't review Mr. Evanko's deposition?

A. I have not reviewed Mr. Evanko's deposition.

Q. You know who Mr. Evanko is, though, correct?

A. I do.

Q. Who is Mr. Evanko?

A. Gary Evanko --

Q. Yes.

A. -- is the city assessor for the City of Detroit.

Q. Have you -- you mentioned you had reviewed expert reports. What expert reports have you reviewed?

A. I have read Robert Cline's expert report and Gaurav Malhotra's.

Q. Any other expert reports?

A. Not that I'm aware of, no.

Q. You didn't read Charles Moore's expert report, correct?

A. I have not.

Q. And do you know who he is?

A. I do not.

Q. Do you know --

A. And I read Martha -- what's her last name?

Q. Ms. Kopacz?

A. Yes. Thank you.

Q. You read her report?

A. I did read her report.

Q. And you know that Ms. Kopacz opines that the forecasts Ernst & Young had presented were subjective, correct?

MR. STEWART: Objection.

THE WITNESS: I do not recall reading that, no.

BY MR. SMITH:

Q. Do you recall her doing an analysis where she calculated the effect of a 1 percent increase in property tax collections?

A. I did read her report where she did do the sensitivity analysis, yes.

Q. She found that increasing property tax collections by 1 percent could lead to more than a $20 million increase in revenue, correct?

A. My recollection from her report is that if you assumed that -- if you were able to change the parameter by 1 percent, what would that mean over the long haul, and my recollection is over 20 million in property tax revenue.

Q. Has Ernst & Young done any sensitivity analysis on its forecast to understand what changing the inputs would mean in terms of revenues available to the city?

A. Throughout the process, we would vary our assumptions, change our assumptions and see what the revenue impacts are.

Q. And what assumptions did you change during the process?

A. So for property taxes, we would change the important drivers, so whether it be taxable value or collection rates. Those are the key assumptions that we would change.

Q. And did you increase or decrease taxable value over time, I mean, in changing the assumptions?

A. Well, so do you have a -- I mean, both. I mean, there are times when we would say we would get a new piece of information, and we might adjust our growth rates, and sometimes they would raise