

**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
)

**THE MICHIGAN COUNCIL 25 OF THE AMERICAN FEDERATION OF STATE,
COUNTY & MUNICIPAL EMPLOYEES, AFL-CIO AND SUB-CHAPTER 98, CITY
OF DETROIT RETIREES' OBJECTION TO THE CITY OF DETROIT'S
ELIGIBILITY TO OBTAIN RELIEF UNDER CHAPTER 9 OF
THE BANKRUPTCY CODE**

The Michigan Council 25 of the American Federation of State, County & Municipal Employees, AFL-CIO and Sub-Chapter 98, City of Detroit Retirees (the AFSCME retiree chapter for City of Detroit retirees) (collectively, "**AFSCME**") -- the representative of the interests of between at least forty and fifty percent (40-50%) of the about 11,943 retired City of Detroit (the "**City**" or "**Debtor**") non-uniformed employees (the "**Retired AFSCME Employees**"), and about 2,523 active City employees (the "**Active AFSCME Employees**", or about seventy percent (70%) of the active non-uniformed union-represented employees, and together with the Retired AFSCME Employees, collectively, the "**AFSCME Detroit Employees**") -- through its counsel submits this objection (the "**Objection**") to the City's eligibility for relief under chapter 9 of the Bankruptcy Code and opposition to the City's (A) *Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code* [Docket No. 10] (the "**Statement of Eligibility**"); (B) *Memorandum in Support of Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code* [Docket No. 14] (the "**Eligibility Brief**"); and (C) declarations of Kevyn D. Orr [Docket No. 11] (the "**Orr Declaration**", Gaurav Malhotra [Docket No. 12] and Charles M. Moore [Docket No. 13]. In



support of its Objection, AFSCME (a) submits the Declaration of Steven Kreisberg (the “**Kreisberg Declaration**”) and (b) respectfully states as follows:

PRELIMINARY STATEMENT

“The public can comment [on the City’s proposed financial restructuring plan], but it is under the statute, it is my plan and it’s within my discretion and obligation to do it. **This isn’t a plebiscite, we are not, like, negotiating the terms of the plan.** It’s what I’m obligated to do.” -- Kevyn D. Orr, May 12, 2013¹

1. The City’s petition for relief under chapter 9 of the Bankruptcy Code should be dismissed. First, chapter 9 of the Bankruptcy Code violates federalism under the United States Constitution through an unholy alliance permitting federal encroachment on the states’ governance rights over fiscal affairs in exchange for an unlawful extension of state power which denies Michigan citizens their constitutional right to make the rules for their own bankruptcy. Second, Michigan Public Act 436 of 2012, the Local Financial Stability and Choice Act, MCL § 141.1541, *et seq.* (“**PA 436**”) purportedly authorizing the Emergency Manager to file for chapter 9 protection runs afoul of the Michigan Constitution by not explicitly prohibiting the impairment of vested pension rights in bankruptcy, which rights are prescribed in the Michigan Constitution, and further offends the Constitutional rights of individual Detroit citizens to local self-governance. Third, the City fails to establish that it engaged in good faith negotiations with the City’s creditors or that these negotiations were impracticable under section 109(c) of the Bankruptcy Code, and indeed the entire chapter 9 petition was filed in bad faith. Fourth, the City does not qualify for chapter 9 relief because it failed to establish that it is insolvent. Further, the Bankruptcy Court lacks jurisdiction over matters related to the federal constitutionality of chapter 9 of the Bankruptcy Code.

¹ Kevyn D. Orr Interview to Detroit WWJ Newsradio 950/AP, *Detroit EM Releases Financial Plan; City Exceeding Budget By \$100M Annually*, May 12, 2013, available at <http://detroit.cbslocal.com/2013/05/12/kevin-orr-releases-financial-plan-for-city-of-detroit/>.

2. The City, led by its unelected, politically appointed Emergency Manager, Kevyn D. Orr (“**Orr**” or the “**EM**”), hastily commenced this unconstitutional, unlawfully authorized chapter 9 proceeding seeking the haven of bankruptcy to illegally attempt to slash pension and other post-employment benefit obligations and cram such reductions down the throats of current and former City employees such as the AFSCME Detroit Employees. These proceedings were commenced without **any** good faith negotiations with the City’s retirees or unions such as AFSCME, and the chapter 9 filing was a *fait accompli* long prior to the appointment of Orr as the City’s EM – in fact, at a time when Orr was still a partner at the City’s lead counsel’s law firm.

3. This is all against the backdrop of:

- the average non-uniformed employee pension currently at an average of slightly less than \$18,000 per year (according to a June 30, 2012 General Retirement System of the City of Detroit pension valuation report); and
- The AFSCME Retirees and AFSCME Active Employees look to their government pension and City-provided medical benefits for retiree benefits. Unlike private sector employees and retirees with defined benefit pension benefits, whose pension benefits are protected even in bankruptcy by government insurance through the Pension Benefit Guaranty Corporation, or those with multiemployer pension benefits, where even if one employer withdraws or goes bankrupt the vested pension benefits to the retirees continue unchanged by that withdrawal, the AFSCME Retirees and AFSCME Active Employees’ pensions are not backstopped. **Therefore, if this Court allows the chapter 9 proceeding to go forward with the ultimate result of the pension or other retiree benefits being lost, they are lost without a safety net.**

4. In light of recent Supreme Court precedent, chapter 9 of the Bankruptcy Code violates the United States Constitution and should be struck down by an Article III Court with authority to make this crucial Constitutional law determination. Under *Stern v. Marshall*, 131 S. Ct. 2594 (2011), such a decision is plainly outside the realm of authority properly delegated to an Article I tribunal like this Court.

5. However, to the extent this Court disagrees and determines that it has jurisdiction to uphold the Constitutionality of chapter 9 generally, this Court should find that the City is not eligible for relief under chapter 9 pursuant to sections 109(c) and 921(c) of the Bankruptcy Code for the following reasons.

6. *First*, under section 109(c)(2) of the Bankruptcy Code, **as already determined by at least one state court ruling** issued against the Governor prior to entry of the Stay Extension Order [Docket No 166], the purported authorization by the Governor permitting the chapter 9 filing by the EM was and remains an overt act by the Governor and others in violation of the Michigan Constitution, as the filing seeks to impair or diminish the AFSCME Detroit Employees' pension benefits. Additionally, the very law purporting to allow the EM to unconditionally file for chapter 9 protection, PA 436, violates several provisions of the Michigan Constitution, including (i) Article IX, Section 24 because PA 436 does not explicitly prohibit the diminishment or impairment of vested pension rights in bankruptcy; (ii) Article VI, Section 29 because PA 436 delegates power to the EM in excess of that possessed by the legislature; and (iii) Article VII because PA 436 strips power from the electors of each city and village and runs ramshackle over the principles of local self-government firmly embedded in Michigan law.

7. *Second*, despite factual arguments to the contrary in the City's Eligibility Brief, the City has failed to establish that it has negotiated in good faith or that such negotiations were impracticable as required under section 109(c)(5) of the Bankruptcy Code. In fact, AFSCME submits that based on facts AFSCME is aware of now (discussed herein and in the Kreisberg Declaration) and further facts AFSCME expects to develop through discovery, the evidence shows (and AFSCME expects will further show) that the City conducted **no good faith**

negotiations with significant unions such as AFSCME prior to the filing. Rather, the City commenced this proceeding in **bad faith** and in haste in violation of section 921(c) of the Bankruptcy Code, with the sole goal of preventing a “bad” state court ruling (i) upholding the Michigan Constitution and (ii) preventing the City from taking the very inappropriate and unconstitutional journey it now seeks to embark on.

8. If the Court ultimately were to find that the City satisfied the eligibility requirements, the EM will seek (i) to unconstitutionally and illegally abridge pension and other AFSCME Detroit Employee benefits; (ii) to proceed under section 365 of the Bankruptcy Code and illegally seek to reject vested pension and other retiree benefits; and/or ultimately (iii) to propose a chapter 9 plan of adjustment that reduces pension and other benefits but that cannot possibly be better for creditors like AFSCME Detroit Employees than the alternative of staying out of chapter 9 where pensions are guaranteed protection under the state constitution - a clear breach of the chapter 9 “best interests test.” Such an outcome should not be countenanced.

9. Finally, AFSCME reserves the right to argue, following additional discovery, that the City is solvent and does not qualify for chapter 9 relief pursuant to section 109(c)(3) of the Bankruptcy Code, particularly when certain un-monetized assets and other financial considerations which may be revealed through discovery are taken into account. The City’s assertions in the Eligibility Brief that it is insolvent must be highly and independently scrutinized and challenged, including through the efforts of the Retiree Committee, once appointed, and its retained professionals.

RELEVANT BACKGROUND

10. Orr currently serves as the EM of the City under PA 436.

11. The Governor appointed Orr as EM for the City on March 14, 2013, effective as of March 25, 2013. On March 28, 2013, upon the purported effectiveness of PA 436, Orr became, and continues to act as, EM for the City under PA 436.

12. On June 14, 2013, Orr issued a "Proposal for Creditors" which expressly stated that "there must be significant cuts in accrued, vested pension amounts for both active and currently retired persons." The same day, Orr publicly threatened, in an interview with the Detroit Free Press Editorial Board,² that vested pension benefits would not be protected in a chapter 9 proceeding authorized by the Governor pursuant to PA 436, and that any state laws protecting vested pension benefits would "not . . . protect" retirees in bankruptcy court. The EM stated as follows in the interview:

Q You said in this report that you don't believe there is an obligation under our state constitution to pay pensions if the city can't afford it?

A. The reason we said it that way is to quantify the bankruptcy question. We think federal supremacy trumps state law. Which the Ninth Circuit agrees with for now.

A. It is what it is - so we said that in a soft way of saying, "Don't make us go into bankruptcy." If you think your state-vested pension rights, either as an employee or a retiree - that's not going to protect you. If we don't reach an agreement one way or the other, we feel fairly confident that the state federal law, federalism, will trump state law or negotiate. The irony of the situation is we might reach a deal with creditors quicker because employees and retirees think there is some benefit and that might force our hand. That might force a bankruptcy.

² See *Q&A with Kevyn Orr: Detroit's Emergency Manager Talks About City's Future*, Detroit Free Press (June 16, 2013), available at <http://www.freep.com/article/20130616/OPINION05/306160052/kevyn-orr-detroit-emergency-manager-creditors-fiscal-crisis>.

The City has since filed with this Court its *Motion for the Entry of an Order Directing the Appointment of a Committee of Retired Employees* [Docket No. 20], the plain intent of which is to seek to negotiate a reduction or impairment of accrued pension benefits.

A. The Webster Litigation

13. On July 3, 2013, against the backdrop of the threatening statements made by Orr regarding Michigan state law and protected pension benefits, plaintiffs (the “**Webster Plaintiffs**”) Gracie Webster (a City retiree) and Veronica Thomas (a current employee of the City) commenced a lawsuit against the State of Michigan, the Governor and the State Treasurer seeking: (a) a declaratory judgment that PA 436 violated the Constitution of the State of Michigan to the extent that it purported to authorize chapter 9 cases within which vested pension benefits might be sought to be compromised; and (b) an injunction preventing the defendants from authorizing any chapter 9 case for the City within which vested pension benefits might be sought to be reduced. *See Webster v. State of Mich.*, No. 13-734-CZ (Ingham County Cir. Ct. July 3, 2013) (the “**Webster Litigation**”).³

14. In briefing submitted in support of a preliminary injunction and declaratory order against the Governor, the Webster Plaintiffs explained that Article IX, Section 24 of the Michigan Constitution provides that “[t]he accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby;” that there could not be a more clear and plain constitutional mandate; and that Article IX, Section 24 means what it says: accrued pension benefits shall not be reduced.

15. Further, as the Webster Plaintiffs noted, the Official Record of the 1963 Michigan Constitutional Convention makes clear that no governmental entity or its officials can

³ Two additional lawsuits were also filed raising similar issues in addition to the Webster Litigation.

do anything to diminish or impair vested pension benefits: “This is a new section that requires that accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions be a contractual obligation which cannot diminished or impaired by the action of its officials or governing body.” 2 Official Record, Constitutional Convention 1961, p. 3402.

16. The Webster Plaintiffs also noted that PA 436 explicitly recognizes that accrued pension benefits shall not be diminished or impaired outside the bankruptcy context. For example:

- Section 11 of PA 436 requires that an emergency manager develop a written financial and operating plan for the local government and that such plan “shall provide” for “the timely deposit of required payments to the pension fund for the local government.”
- Section 13 of PA 436 authorizes the emergency manager to eliminate the salary, wages or other compensation and benefits of the chief administrative officer and members of the governing body of the local government, but expressly provides that “[t]his section does not authorize the impairment of vested pension benefits.”
- Section 12(m) of PA 436 authorizes an emergency manager under certain circumstances to be appointed as the sole trustee of a local pension board and to replace the existing trustees, and requires that “the emergency manager shall fully comply with . . . Section 24 of Article IX of the state constitution . . .” when acting as the sole trustee.

17. But, in violation of Article IX, Section 24 of the Michigan Constitution, PA 436 fails to similarly forbid the Governor explicitly from authorizing a chapter 9 bankruptcy filing if accrued pension benefits may be sought to be diminished or impaired as a consequence of that filing. Section 18 of PA 436, which purportedly empowers the Governor to authorize a municipality to file for bankruptcy under chapter 9, nowhere prohibits the Governor from authorizing such a filing if accrued pension benefits may be sought to be diminished or impaired. Clearly, the Legislature understood and honored the Michigan constitutional mandate not to diminish or impair accrued pension benefits outside of bankruptcy. Just as clearly, the Legislature omitted any constitutional protection against the impairment or

diminishment of accrued pension benefits when the Governor purports to authorize a chapter 9 bankruptcy filing under Section 18 of PA 436.

18. In other words, if accrued pension benefits may be diminished or impaired, in violation of Article IX Section 24 of the Michigan Constitution, the section of PA 436 purporting to authorize this bankruptcy, Section 18, must be unconstitutional.

19. On July 18, 2013, the same date this chapter 9 case was commenced, the Ingham County Circuit Court for the State of Michigan (the “**State Court**”) entered a temporary restraining order (the “**TRO**”, attached to the Kreisberg Declaration, Exhibit A) enjoining the Governor, the State Treasurer and the other defendants in the Webster Litigation from authorizing a chapter 9 filing and taking any further action “with respect to any filing which has already occurred” including the authorizing of an “unconditional” chapter 9 filing (*i.e.* one in which the EM would represent himself as having authority to modify and/or terminate pension obligations without limit in derogation of the Michigan Constitution).

20. Despite the issuance of the TRO and the State Court’s clear directive to the Governor regarding not authorizing any further filings by the City, the Governor did not seek to prevent the City from filing all of its “first day pleadings.” Indeed, the Governor authorized and the EM directed the chapter 9 filing just minutes before the July 18, 2013 TRO hearing was set to begin (and during a brief delay in the TRO hearing requested by the Governor’s attorney) in order to potentially “cut off” any argument that the filing was not properly authorized (because the Governor knew and the EM expected that the State Court Judge was prepared to grant the TRO).

21. On July 19, 2013, the State Court held a further hearing on the Webster Litigation and entered an Order of Declaratory Judgment (the “**Declaratory Judgment**,”

attached to the Kreisberg Declaration as Exhibit B). The Declaratory Judgment (a) finds PA 436 unconstitutional and of no force and effect to the extent it permits the Governor to authorize the EM to proceed under chapter 9 in any manner that threatens to diminish or impair pension benefits and (b) rules that the Governor must direct the EM “to immediately withdraw the chapter 9 petition ... and ... not authorize any further chapter 9 filing which threatens to diminish or impair accrued pension benefits.” *See* Declaratory Judgment at 3.

22. To the extent there was any authorization for the chapter 9 filing, the State Court clearly ordered that the Governor revoke it to the extent it was intended to lead to the diminishment or impairment of accrued pension benefits. However, subsequent to the issuance of the Declaratory Judgment, on July 25, 2013, this Court granted the City’s motion to extend the automatic stay, which, *inter alia*, stayed pending appeals of the Declaratory Judgment (and other similar state court proceedings). *See* Docket No. 166.

B. The City’s Pre-petition Machinations And Subsequent Meetings (But Not Negotiations) With Creditors Such As AFSCME

(i) The City’s Bankruptcy Was Discussed Prior To The EM Was Even Hired

23. In emails that surfaced following the City’s chapter 9 filing going back to January 2013, long prior to any alleged good faith negotiations with creditors (more about this point below), secret discussions were being held between Detroit and officials in the Governor’s office and the City’s legal counsel suggesting that the best course for the City would be to send it through chapter 9 bankruptcy. These emails expose Orr’s and the City’s charade of pre-petition “negotiations” (in reality, one-sided meetings) in the month prior to the City’s chapter 9 filing. In fact, all along the clear goal was for the City to end up in chapter 9.

24. For example, Orr communicated as early as January 2013 regarding his proposed appointment as EM and discussed with his law firm at the time how to go about

leading the City into chapter 9. In an email (attached to the Kreisberg Declaration, Exhibit 1) dated January 31, 2013, Orr's colleague at the firm stated in an email to Orr that the "ideal scenario would be that [Michigan Governor] Snyder and [Detroit Mayor] Bing both agree that the best option is simply to go through an orderly Chapter 9. This avoids an unnecessary political fight over the scope/authority of any appointed Emergency Manager appointed and, moreover, moves the ball forward on setting Detroit on the right track." *Id.*⁴.

25. Orr's colleague then stated his own reservations about whether an emergency manager would be useful outside of bankruptcy where his "ability to actually do anything is questionable given the looming political and legal fights" *Id.* In contrast, he observed in an earlier email, "[m]aking this a national issue . . . provides political cover for the state politicians" and gives them an "incentive to do this right" because "if it succeeds, there will be more than enough patronage to allow [them] to look for higher callings—whether Cabinet, Senate, or Corporate." *See* Kreisberg Declaration, Exhibit 2.⁵

26. Others involved in the discussions prior to the chapter 9 filing included the Governor's Transformation Manager, Richard Baird ("**Baird**"). In an email also dated January 31, 2013, Orr, in anticipated of a conversation he was to have with Baird "in a few minutes" about whether to accept the EM position, observed that PA 436 "is a clear end-around the prior initiative" to repeal the previous Emergency Manager statute, Public Act 4, "that was rejected

⁴See also Matt Helms, *Detroit bankruptcy, Kevyn Orr's doubts discussed weeks before EM was hired, e-mails show*, <http://www.freep.com/article/20130722/NEWS01/307220086/Kevyn-Orr-Detroit-bankruptcy-emails> (last visited on August 19, 2013).

⁵See also Matt Helms, *Detroit bankruptcy, Kevyn Orr's doubts discussed weeks before EM was hired, e-mails show*, <http://www.freep.com/article/20130722/NEWS01/307220086/Kevyn-Orr-Detroit-bankruptcy-emails> (last visited on August 19, 2013).

by the voters in November.” See Kreisberg Declaration, Exhibit 3.⁶ According to Orr “although the new law provides the thin veneer of a revision it is essentially a redo of the prior rejected law and appears to merely adopt the conditions necessary for a chapter 9 filing.” *Id.*

27. In a further email dated January 31, 2013, Orr indicated that Baird wanted Orr to be hired as the EM and his firm to represent the City (regardless of whether Orr took the EM job), and that Orr indicated that he would be glad to work together with the City, even if not as EM, indicating that “I [Orr] and the firm are committed to working in lockstep with the [C]ity.” See Kreisberg Declaration, Exhibit 4.⁷

(ii) No Good Faith Negotiations Took Place Following The Appointment Of The EM With Parties Such As AFSCME Prior To The City’s Chapter 9 Filing

28. As indicated above, the die was cast for the City’s inevitable chapter 9 filing prior to the March appointment of Orr as EM. Following Orr’s appointment, the City and Orr maneuvered to establish the veneer of formal pre-petition creditor negotiations, when in reality, Orr and the Governor knew all along that the non-interactive meetings would be held on a *pro forma* basis so the City could attempt to establish alleged good faith negotiations.

29. The facts belie the notion of any pre-filing negotiations, whether in good faith or otherwise. Indeed, the City itself admitted both in letters and at the meetings held in the month or so prior to the filing that the City was only interested in one-way discussions, not negotiations.

⁶ See also Matt Helms, *Detroit bankruptcy, Kevyn Orr's doubts discussed weeks before EM was hired, e-mails show*, <http://www.freep.com/article/20130722/NEWS01/307220086/Kevyn-Orr-Detroit-bankruptcy-emails> (last visited on August 19, 2013).

⁷ See also Kate Long, *Who is representing Detroit?* <http://blogs.reuters.com/muniland/2013/07/25/who-is-representing-detroit/> (last visited on August 19, 2013).

30. On June 14, 2013, the City held a meeting of representatives of the City's creditors (the "**June 14 Meeting**") to present the City's comprehensive restructuring plan/ "Proposal for Creditors" (the "**Restructuring Plan**", attached to the Kreisberg Declaration as Exhibit C). Even prior to these meetings, Orr confirmed that the City's discussions of its Restructuring Plan would not involve any negotiations, explaining that "it is under the [PA 436] statute, it is my plan and it's within my discretion and obligation to do it. **This isn't a plebiscite, we are not, like, negotiating the terms of the plan.** It's what I'm obligated to do." See Kevyn Orr Interview to Detroit WWJ Newsradio 950/AP, *Detroit EM Releases Financial Plan; City Exceeding Budget By \$100M Annually*, May 12, 2013, available at <http://detroit.cbslocal.com/2013/05/12/kevin-orr-releases-financial-plan-for-city-of-detroit/> (emphasis added).

31. On June 17, 2013, Steven Kreisberg, AFSCME's director of collective bargaining and health care policy, submitted a letter requesting from the EM various categories of information, assumptions, and data for AFSCME to honestly review all the information presented and begin good faith negotiations. See Kreisberg Declaration, Exhibit 5. AFSCME made this request prior to a scheduled June 20, 2013 meeting with unions (including AFSCME) representing the City's non-uniform employees regarding the City's pensions. At that meeting, the City represented that the meeting was "not a negotiation." See Kreisberg Declaration, ¶ 17. Furthermore, the letter inviting AFSCME to the June 20 meeting characterized the purpose of the meeting as being to "review" the Restructuring Plan (not negotiate it) and to have AFSCME "learn" about the Restructuring Plan. Kreisberg Declaration, Exhibit 6.

32. In a letter dated June 27, 2013 to an AFSCME local union, the City indicated that it was posting certain information to a data room and was looking forward to the unions'

“feedback” (again not negotiation) with respect to the EM’s retiree benefits restructuring proposal. *See* Kreisberg Declaration, Exhibit 7.

33. In a follow up letter to the City dated July 2, 2013, Mr. Kreisberg again reiterated his request for information and data, including the backup data supporting the City retiree benefits proposal (support for which previously consisted of only a one-page financial summary). AFSCME requested relevant information and the opportunity (in conjunction with a meeting scheduled with the City’s unions on July 10-11) to begin meaningfully engaging “in a good faith negotiation of these issues.” *See* Kreisberg Declaration, Exhibit 8.

34. In a response letter to Mr. Kreisberg on July 3, 2013, the City advised that it would not meet separately with AFSCME, and that the July 10, 2013 scheduled meeting with the unions would be a “discussion” (again not a negotiation). *See* Kreisberg Declaration, Exhibit 9. Similarly, in an email dated June 28, 2013, the City confirmed that it wanted to meet on July 10, 2013 to “discuss” its “developing pension restructuring proposal,” clearly implying that the proposal itself was not even complete yet. *See* Kreisberg Declaration, Exhibit 10.

35. At the July 10, 2013 meeting, the City announced at the inception that the meeting would be a discussion but not a negotiation. *See* Kreisberg Declaration, ¶ 18. At a similar meeting held with AFSME and certain and other unions held on July 11, 2013, again there was no negotiation.

(iii) The City’s Bad Faith Refusal To Negotiate With Unions Such As AFSCME Has Continued Following The City’s Bankruptcy Filing

36. The City’s pattern of bad faith refusal to negotiate any of its proposals regarding pensions or health insurance benefits changes has continued postpetition.

37. For example, on August 2, 2013, the City convened a meeting of local union representatives and discussed active health insurance. *See* Kreisberg Declaration, ¶ 19.

However, during that meeting, the City specifically advised those in attendance (including AFSCME representatives) that the meeting was not a negotiation. *Id* at ¶ 20. Mr. Kreisberg sent a follow up letter to the City on August 6, 2013 requesting good faith bargaining, and referenced cost savings estimates which AFSCME previously proposed in prior negotiations with the City before the development of the Emergency Manager's initial financial restructuring plan in May. *See* Kreisberg Declaration, Exhibit 11. In an August 8, 2013 response, the City advised that it would not engage in collective bargaining with AFSCME, but rather simply "discuss any feedback they may have regarding its health care restructuring plans." *See* Kreisberg Declaration, Exhibit 12.

38. On August 14, 2013, the City held a follow up meeting with AFSCME on the subject of active medical benefits but did not accept any counterproposals or suggestions, but simply responded by further explaining its current intention with respect to active medical benefits.

39. Given Orr's repeated statements to the media about the City's willingness to bargain with its unions, AFSCME has been surprised by the City's unwillingness to negotiate, pre or postpetition. While AFSCME has repeatedly stated its desire to move forward with constructive negotiations with the City on behalf of all AFSCME Detroit Employees, AFSCME cannot negotiate with an employer that is unwilling to come to the table for arms-length talks.

ARGUMENT

I. THE CITY'S PETITION VIOLATES THE UNITED STATES CONSTITUTION

A. CHAPTER 9 VIOLATES THE FEDERAL STRUCTURE OF GOVERNMENT

40. Chapter 9 of the Bankruptcy Code is an unconstitutional violation of federalism because chapter 9 allows Congress to set rules controlling State fiscal self-management – an

area of exclusive state sovereignty – as part of an unholy alliance in which the State receives in exchange powers in excess of those it would otherwise possess under the law. The losers here are citizens, such as the AFSCME Employees, who, particularly as creditors of the State, benefit from the State and Congress acting within their constitutionally defined roles so that the State remains accountable during the trying process of a municipal debt adjustment.

41. The Supreme Court recognized this violation explicitly in 1936 when the Court declared the first federal municipal bankruptcy statute unconstitutional for the following two independent reasons: (1) the goal of a municipal bankruptcy is to enable state governments to unconstitutionally escape their debts, but states cannot accomplish the “end” of an unconstitutional act simply “by granting any permission necessary to enable Congress to do so”; and (2) municipal bankruptcy represents an incursion by Congress into the “sovereignty of the State” and its political subdivisions, which renders them “no longer free to manage their own affairs” independent of “interference” by Congress, yet the Constitution does not permit Congress to “pass laws inconsistent with the idea of sovereignty.” *Ashton v. Cameron County Water Improvement Dist. No. 1*, 298 U.S. 513, 530-32 (1936).

42. *Ashton* applies with equal force to chapter 9 as it did to the first federal bankruptcy statute. Chapter 9, like the municipal bankruptcy statute struck down in *Ashton*, is designed to empower municipalities – whose “fiscal affairs are those of the State, not subject to control or interference by the National Government,” *id.* at 528 –to “change, modify or impair the obligation of their contracts” in ways not permissible outside of bankruptcy. *Id.* at 530-31. As *Ashton* recognized, that municipalities may not, unlike states, be immune from suit under the 11th Amendment is entirely unrelated to the question of whether their essential role in the federal system of government has been unconstitutionally diminished by an act of Congress.

Ashton, 298 U.S. at 531. The Supreme Court recently reaffirmed this distinction in *Printz v. United States*: “[T]he distinction in our Eleventh Amendment jurisprudence between States and municipalities . . . is peculiar to the question of whether a governmental entity is entitled to Eleventh Amendment sovereign immunity, [and does not] apply [] to the question of whether a governmental entity is protected by the Constitution's guarantees of federalism, including the Tenth Amendment.” 521 U.S.898, 531 n. 15 (1997) (citations omitted).

43. To take just one extremely salient example, the City seeks to reduce its retiree health care obligations *permanently* in bankruptcy, which the Michigan Court of Appeals has held it could not do under state or federal law. *See AFT Michigan v. State*, 297 Mich. App. 595, 825 N.W.2d 595 (2012). This point is uncontroversial: the entire purpose of bankruptcy is to adjust debts which would otherwise be binding outside of bankruptcy. Under chapter 9, for the privilege of skirting the laws governing its debts outside of bankruptcy, the State submits to the rules enacted by Congress for a chapter 9 filing and thereby cedes sovereign control over some of its own fiscal affairs to the federal judiciary during the bankruptcy process.

44. Neither of the justifications provided by the Supreme Court less than two years after *Ashton* when it upheld Congress’s next, substantially similar, municipal bankruptcy statute in *United States v. Bekins*, 304 U.S. 27 (1938) – (1) that the contracts clause of the federal constitution makes the passage of a state law adjusting municipal debts impossible and thus the need for a federal law providing for municipal bankruptcy pressing, and (2) that a State has a right to consent to federal intrusion into its own fiscal affairs – remains valid. This is because intervening Supreme Court precedent holds that states can fashion their own municipal reorganization statutes but cannot consent to any derogation of their sovereign powers.

(i) A Federal Municipal Bankruptcy Statute Is No Longer Necessary To Accomplish An Adjustment Of Municipal Debts

45. As a threshold matter, the Supreme Court has held since *Bekins* that states *can* pass legislation to adjust municipal debts in a financial emergency. *See Faitoute Iron & Steel Co. v. City of Asbury Park*, 316 U.S. 502 (1942). In doing so, the Supreme Court scoffed at the presumption that the federal government could “completely absorb” from a State a power “so peculiarly local as the fiscal management of its own household.” *Asbury Park*, 316 U.S. at 508-09. *See also United States Trust Co. of N.Y. v. New Jersey*, 431 U.S. 1 (1977) (recognizing that state legislation adjusting a state’s contractual obligations may not violate the contracts clause under certain circumstances). For this reason alone, *Bekins*, which relied heavily on the Supreme Court’s perception that some mechanism was needed to permit states to adjust their debts during the “[e]conomic disaster” of the Great Depression, 316 U.S. at 53-54, is no longer binding.

(ii) The Supreme Court’s Development Of Constitutional Federalism Doctrine Has Effectively Overruled *Bekins*

46. Over the past two decades the Supreme Court issued a series of opinions clarifying both the importance of the federal system of government to *individual* liberty and, concomitantly, the inability of a state to consent to an affront by Congress to that federal system. The fountainhead of these cases is *New York v. United States*, 505 U.S. 144 (1992). There, Justice O’Connor, writing for the majority, explained at length that any statute exercising federal control over a power which “is an attribute of state sovereignty” – as is the case here with respect to a state’s management of the fiscal affairs of its political subdivisions, *see Ashton, supra* – is “necessarily” an exercise of “a power the Constitution has not conferred on Congress” and therefore unconstitutional. 505 U.S. at 156. “The States ‘form distinct and

independent portions of the supremacy, no more subject, within their respective spheres, to the general authority than the general authority is subject to them, within its own sphere.’” *Alden v. Maine*, 527 U.S. 706, 714 (1999) (quoting *The Federalist* No. 39, p. 245 (C. Rossiter ed. 1961) (J. Madison)). Thus the Supreme Court’s duty, Justice O’Connor has explained, is to “invalidate[] measures deviating from” the federalist “form of government” set forth in the Constitution, however “formalistic” the result may appear in light of “the era’s perceived necessity.” *New York*, 505 U.S. at 187.

(a) **Chapter 9 Impinges On The AFSCME Employees’ Individual Rights To Federalism By Eviscerating The Accountability Of Michigan To Its Citizens And Creditors**

47. *New York* and its progeny represent a direct rebuff to *Bekins* and other Depression-era cases, which softened the requirements of federalism in moments of perceived peril, by setting forth since then a robust vision of federalism which “divides authority between federal and state governments for the protection of individuals.” *New York*, 505 U.S. at 181. That vision begins with the “incontestable” truth “that the Constitution established a system of ‘dual sovereignty,’” under which the sovereignty reserved to a State and its citizens is “‘inviolable.’” *Printz*, 521 U.S. at 918-20 (quoting *The Federalist* No. 39, at 245 (J. Madison)) (other citations omitted). “Residual state sovereignty was also implicit, of course, in the Constitution’s conferral upon Congress of not all governmental powers, but only discrete, enumerated ones, Art. I, § 8, which implication was rendered express by the Tenth Amendment’s assertion that ‘[t]he powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.’” *Printz*, 521 U.S. at 920.

48. The premise of the federal constitutional structure is that “Congress would exercise its legislative authority directly over individuals rather than over States.” *New York*, 505 U.S. at 166 (citing 1 Records of the Federal Convention of 1787, p. 313 (M. Farrand ed. 1911) (explaining the “rejection of the New Jersey Plan in favor of the Virginia Plan”)). As a corollary, individual citizens possess a vested right in the guarantee of a strongly demarcated separation of power between the state and federal government to ensure that each remains responsible to the citizens for the tasks with which it was charged:

The great innovation of this design was that “our citizens would have two political capacities, one state and one federal, each protected from incursion by the other”—“a legal system unprecedented in form and design, establishing two orders of government, each with its own direct relationship, its own privity, its own set of mutual rights and obligations to the people who sustain it and are governed by it.” [*Printz*, 521 U.S. at 920 (quoting *U. S. Term Limits, Inc. v. Thornton*, 514 U. S. 779, 838 (1995) (Kennedy, J., concurring)).]

49. This structural separation of powers protects individual liberty in myriad ways by creating a “double security as to the rights of the people.” *Printz*, 521 U.S. at 922 (quoting The Federalist No. 51, at 323 (J. Madison)). It ensures that neither branch will accumulate “excessive power,” thereby reducing “the risk of tyranny and abuse from either front.” *Printz*, 521 U.S. at 921 (quotation omitted). The separation of powers principle further “contemplates that a State’s government will represent and remain accountable to its own citizens.” *Printz*, 521 U.S. at 920 (citations omitted). For “[i]f, as Madison expected, the Federal and State Governments are to control each other, see The Federalist No. 51, and hold each other in check by competing for the affections of the people, see The Federalist No. 46, those citizens must have some means of knowing which of the two governments to hold accountable for the failure to perform a given function.” *United States v. Lopez*, 514 U.S. 549, 576-77 (1995) (Kennedy,

J., concurring). *See also United States v. Morrison*, 529 U.S. 598, 615-16 (2000) (citing the bulk of Justice Kennedy's concurrence in *Lopez* and holding that Congress may not "use the Commerce Clause to completely obliterate the Constitution's distinction between national and local authority"). Accordingly, "[t]he Framers thus ensured that powers which 'in the ordinary course of affairs, concern the lives, liberties, and properties of the people' were held by governments more local and more accountable than a distant federal bureaucracy." *Nat. Fed'n of Indep. Business v. Sibelius*, 132 S. Ct. 2566, 2578 (2012) (Roberts, C.J.) (quoting *The Federalist* No. 45, at 293 (J. Madison)).

50. Chapter 9 does unconstitutional violence to the federal structure by obfuscating the system of direct accountability protected by federalism. By outsourcing to the federal judiciary the problem of a state reorganizing its obligations, chapter 9 provides states with unconstitutional – as well as unnecessary, given *Asbury Park* – cover from its citizens by confusing them as to whom to accord "blame" and "credit" for the results. *Printz*, 521 U.S. at 931; *New York*, 505 U.S. at 169. *See also Gregory v. Ashcroft*, 501 U.S. 452, 459 ("These twin powers will act as mutual restraints only if both are credible."). "The resultant inability to hold either branch of the government answerable to the citizens is more dangerous even than devolving too much authority to the remote central power." *Lopez*, 514 U.S. at 576-77 (Kennedy, J., concurring) (citations omitted).

51. In point of fact, on January 31, 2013, Orr's colleague himself touted the deflection of accountability for state and city politicians as a benefit. "Making this a national idea is not a bad thing," he wrote, because "[i]t provides political cover for the state politicians. Indeed, this gives them an even greater incentive to do this right because, if it succeeds, there will be more than enough patronage to allow either [Mayor] Bing or [Governor] Snyder to look

for higher callings—whether Cabinet, Senate or Corporate.” Kreisberg Declaration, Exhibit 2. In a subsequent reply to Orr later that day, Orr’s colleague provided a clear indication of his idea of the “right” way to do “this,” stating: “the ideal scenario would be that Snyder and Bing both agree that the best option is simply to go through an orderly chapter 9.” Kreisberg Declaration, Exhibit 1.

52. This veil over accountability is woven into the very structure of chapter 9. While the City must consent to a chapter 9 filing and retains some control over the chapter 9 process, even before the City proposes a plan the Bankruptcy Judge is able to commandeer the City’s operation in exchange for the protection of the Bankruptcy Code by using its equitable powers, as it already has in this case, to order the City to, *inter alia*, turn over documents and engage in mediation and negotiations which the State would not need to submit to outside of Bankruptcy. *See Mediation Order* [Docket No. 322] (“the Court concludes that it is necessary and appropriate to **order** the parties to engage in the facilitative mediation of any matters that the Court refers in this case,” moreover, the mediator is “authorized to enter any order necessary for the facilitation of mediation proceedings”, including regarding discovery issues).

53. Moreover, Bankruptcy Code section 926 provides that “[i]f the debtor refuses to pursue a cause of action under section 544, 545, 547, 548, 549(a) or 550 of this title, then on request of a creditor, the court may appoint a trustee to pursue such cause of action.” 11 U.S.C. § 926(b). In at least one reported case, *In re Alabama State Fair Authority*, 232 B.R. 252 (N.D. Ala. 1999), the bankruptcy court appointed a trustee to pursue preference actions. Thus, the bankruptcy court has discretion, despite a municipal debtor having made the policy choice to settle a pre-petition debt, to appoint a third-party trustee to ignore the municipality’s decision

and pursue avoidance of such a settlement. With regard to preference avoidance, this is a power an individual creditor could not independently assert under state law.

54. If the City wishes to obtain the true spoils of bankruptcy – a plan of adjustment – it must submit to a much greater degree of federal interference, thus further blurring the line between Congress and the State as to who is to blame for the contents of that plan. This is because, in order for a debtor’s plan to receive approval under chapter 9, it must incorporate priorities of distribution according to the Bankruptcy Code. The tension between chapter 9 and state law rights was highlighted in *In re County of Orange*, 191 B.R. 1005 (Bankr. C.D. Cal. 1996), where the court, on preemption grounds, invalidated California’s law providing for the establishment of a trust with respect to certain securities. Relying on the doctrine of preemption alone, the County of Orange court held that “The California legislature cannot rewrite the bankruptcy priorities.” *Id.* at 1017.

55. If the people of Michigan were to enact their own laws for adjusting municipal debts, those laws might have very different priorities than chapter 9. Chapter 9, for instance, allows administrative expenses under Bankruptcy Code section 503 and gives them priority under Bankruptcy Code section 507(a)(2), and adopts the definition of secured claims from Bankruptcy Code section 506, to name a few. 11 U.S.C. § 901(a). Importantly, in contrast, the people of Michigan might very well decide to treat issues such as claim priority quite differently. For instance, they might choose to place unsecured retiree health claims before administrative expenses, thus benefitting the AFSCME retirees. This is, after all, a state whose constitution explicitly protects pension rights. But once the state accesses chapter 9, the AFSCME employees are denied the right to petition their government to enact a municipal debt

adjustment law of this nature, and the state can shirk its responsibility to the voice of its citizens by blaming injustice on the claim priorities, rules, and procedures of the Bankruptcy Code.

56. That the City retains some autonomy over its affairs under chapter 9 is irrelevant, for the mere incursion into territory reserved to the states is sufficient to violate the Constitution. “[W]here, as here, it is the whole object of the law to direct the functioning of the state [government], and hence to compromise the structural framework of dual sovereignty . . . a ‘balancing’ analysis is inappropriate. It is the very principle of separate state sovereignty that such a law offends, and no comparative assessment of the various interests can overcome that fundamental defect.” *Printz*, 521 U.S. at 932.

57. Ultimately, the allocation of state resources as between competing creditors of the City should be determined “by the political process established by the citizens of the State, not by judicial decree mandated by the Federal Government.” *Alden*, 527 U.S. at 751. “When the Federal Government asserts authority over a State's most fundamental political processes, it strikes at the heart of the political accountability so essential to our liberty and republican form of government.” *Id.* While the road to adjusting the City’s debts may be longer if it must first involve “greater citizen involvement in democratic processes . . . in shaping the destiny of” the City’s reorganization process rather than that set forth in chapter 9 as a result of “the political processes that control a remote central power,” *Bond v. United States*, 131 S. Ct. 2355, 2364 (2011), “the Constitution protects us from our own best intentions: It divides power among sovereigns and among branches of government precisely so that we may resist the temptation to concentrate power in one location as an expedient solution to the crisis of the day.” *New York*, 505 U.S. at 187.

58. The unconstitutionality of chapter 9 is further confirmed by its unsuccessful attempt to preserve some independence for state sovereigns within the constraint of the grant of power to Congress by Article I, Section 8 Clause 4 (the “Bankruptcy Clause”) to establish “uniform” bankruptcy laws. Although the bankruptcy code for private debtors may treat debtors differently in different states due to variations in state law and still pass muster as “uniform,” within a state there must be “geographical” uniformity for debtors. *Hanover Nat’l Bank v. Moyses*, 186 U.S. 181, 188 (1902). But by ceding to each state the ability to define its own qualifications for a municipality to declare bankruptcy, chapter 9 permits the promulgation of non-uniform bankruptcies within states – as in Michigan, where Act 436 has wildly divergent effects on different cities, whose authority to declare bankruptcy purports to rest on the discretion of a Governor who can attach whichever contingencies he wishes. *See* MCL 141.1558. It is no surprise that this attempt to elude the demands of federalism thereby fails for this additional reason, for municipal bankruptcy would have been an entirely foreign concept to the framers who modeled much of our federal Constitution on British law which did not then, and still does not today, even contemplate municipal bankruptcy. *See, e.g.,* Janie Anderson Castle, *The People’s Mayor for London?*, 5 J. Loc. Gov’t L. 29, 32 (2002); Annerose Tashiro, *Sovereign Insolvency*, 99 Eur. Law. 5 (2010) (“There is no such thing today anywhere in Europe as a sovereign insolvency regime.”) (advocating implementation of a bankruptcy regime mirroring that of chapter 9 in the EU).

59. It cannot be adequately emphasized that under *Asbury Park* the State has the authority to amend its own laws to allow for its municipalities to adjust their debts without resorting to a coercive federal statute which unconstitutionality obscures accountability and is not a uniform bankruptcy law. It can even, furthermore, seek federal financial assistance to

help meet those debts. *See, e.g., South Dakota v. Dole*, 483 U.S. 203, 207 (1987) (Rehnquist, C.J.) (“[O]bjectives not thought to be within Article I’s enumerated legislative fields may nevertheless be attained through the use of the spending power and the conditional grant of federal funds.” (internal quotation omitted)). What the State cannot do – but what chapter 9 demands – is to submit to federal rules which would not merely incentivize the State’s use of lawful power, but engorge that power at the expense of its citizens’ inviolable right to control the operation of their sovereign by setting the rules by which it adjusts its own debts.

(b) Chapter 9’s Requirement Of State Consent Cannot Cure The Violation Of Individual Rights

60. The Supreme Court squarely held in *New York* that “[t]he constitutional authority of Congress cannot be expanded by the ‘consent’ of the governmental unit whose domain is thereby narrowed, whether that unit is the Executive Branch or the States.” 505 U.S. at 182. Even when such consent is accomplished by statute. *See, e.g., Buckley v. Valeo*, 424 U.S. 1 (1976) (Congress infringed the President’s appointment power via a law signed by the President); *INS v. Chadha*, 462 U.S. 919 (1983) (legislative veto violated the constitutional requirement of presentment even where President signed law with legislative veto provision).

61. The decision in *Bekins* therefore erred in concluding that the then-operative municipal bankruptcy statute was not unconstitutional simply because the statute required the municipality’s petition and plan of composition to be authorized by state law. 304 U.S. at 52. To the contrary, the conclusion in *Bekins* that the only “obstacle” to the exercise of federal bankruptcy over state political subdivisions “lies in the right of the State to *oppose* federal interference,” 304 U.S. at 52-54, is squarely foreclosed by the Court’s subsequent decision in *New York*. Thus the prior rule from *Ashton* – “Neither consent nor submission by the States can enlarge the powers of Congress,” and therefore states cannot “accomplish” an unavailable

“end by granting any permission necessary to enable Congress to do so,” 298 U.S. at 531 – is the correct one.

62. The Court concluded in *New York* that State consent cannot cure an otherwise unconstitutional infringement of state sovereignty for the same reason that municipal bankruptcy violates constitutional federalism in the first place: the design of federalism is meant “for the protection of individuals,” not States. *New York*, 505 U.S. at 181 (“The Constitution does not protect the sovereignty of States for the benefit of the States or state governments as abstract political entities, or even for the benefit of the public officials governing the States.”). State government officers may even have “powerful incentives” to consent to a diminishment of state sovereignty to evade one of the core benefits federalism promises to individual citizens: direct accountability of political officials for actions taken in their clearly demarcated domains of authority. *Id.* at 182-83 (“[I]t is likely to be in the political interest of each individual official to avoid being held accountable to the voters.”). Therefore state consent cannot not be allowed to dismantle the delicate balance of powers protecting the accountability of each dual sovereign to its citizens.

B. AFSCME’S ACTIVE AND RETIRED MEMBERS HAVE INDIVIDUAL STANDING TO ASSERT THAT CHAPTER 9 VIOLATES THEIR INDIVIDUAL RIGHTS TO A FEDERAL SYSTEM OF GOVERNMENT

63. The Supreme Court has squarely held that individuals – and not just states – have standing to challenge that Congress has “exceeded its powers under the Constitution, thus intruding upon the sovereignty and authority of the States.” *Bond v. United States*, 131 S. Ct. 2355 (2011). As also analyzed *supra*, individuals have their “own constitutional interests” to “assert injury from governmental action taken in excess of the authority that federalism defines,” and their “rights in this regard do not belong to the State.” *Id.* at 2363-64.

64. Two aspects of the Court's conclusion in *Bond* are of special relevance to the instant case. First, the Court emphasized that federalism protects not just "the integrity of the [state and federal] governments themselves," but also, distinctly, "the people, from whom all governmental powers are derived." *Id.* at 2464. Individual citizens' interests in pressing federalism complaints include the "liberties that derive from the diffusion of sovereign power," such as (1) "greater citizen involvement in democratic processes" and citizens' consequent ability to use their voices "in shaping the destiny of their own times without having to rely solely upon the political processes that control a remote central power"; and (2) the promise that "laws enacted in excess of delegated governmental power cannot direct or control their actions" and the consequent protection of citizens from the "arbitrary power" caused by giving any one government too much sway over "the concerns of public life." The City's chapter 9 petition threatens AFSCME's members with both of these harms insofar as it (1) shields the City from a democratic process of resolving its fiscal crisis by rejecting the accountability of local politicians responsive to Detroit's citizenry in favor of an unelected federal judiciary, and (2) allows the federal government to concoct rules for the resolution of disputes in an "area of traditional state concern." *Lopez*, 514 U.S. at 580 (Kennedy, J., concurring).

65. Second, the *Bond* Court rejected the argument, pressed by the respondent, that a state's waiver of any interference with its sovereignty should trump objections by individual citizens on Tenth Amendment grounds. *See* Brief for the Amicus Curiae Appointed to Defend the Judgment Below at 25, *Bond v. United States*, 131 S. Ct. 2355 (2011) (No. 09-1227) ("Particularly when the private party's interests are not aligned with those of the State, as may well be true in this very case . . . private party suits have the potential to frustrate and undermine state policies and decisions."). To the contrary, the Court held, a claim that "a law

was enacted in contravention of constitutional principles of federalism . . . need not depend on the vicarious assertion of a State's constitutional interests, even if a State's constitutional interests are also implicated.” *Bond*, 131 S. Ct. at 2365. Whether the State has invited the federal incursion upon State authority is irrelevant. Only whether the individual claimant's injury so much as “*might* not have come about if the matter were left for the [State] to decide” on its own matters to the analysis. *Id.* at 2366.

66. No doubt exists that if the State of Michigan were left to devise its own scheme for adjusting municipal debts – as is squarely within its authority under *Asbury Park* – the State *might* devise a system different from the United States Bankruptcy Code. Under the microscope of “greater citizen involvement” at the local level, the City, fulfilling the promise of federalism to its citizens, would be more directly constrained to create a process responsive to their needs – including, perhaps, the same needs which prompted the passage of the state constitutional amendment protecting the very diminishment or impairment of vested pension rights which the City now seeks to accomplish under the cover of chapter 9. Regardless, because chapter 9 allows the City a process for adjusting its debts which is not identical to the process for doing so under state law – either as it currently exists or as it would exist if the state were to pass its own municipal composition law – AFSCME's members, as debtors of the City, have standing to object to the City's use of chapter 9 on federalism grounds.

C. THIS COURT LACKS JURISDICTION TO DECIDE WHETHER CHAPTER 9 VIOLATES THE UNITED STATES CONSTITUTION

67. This Court lacks jurisdiction to decide whether chapter 9 violates the Constitution. As the Supreme Court recently explained in *Stern v. Marshall*, Article III of the Constitution assigns the job of resolving questions of constitutional law to the “judicial power of the United States.” 131 S. Ct. at 2609. Because bankruptcy judges are appointed under

Article I—unlike judges appointed under Article III, who have life tenure and protection from removal or diminishment of salary – Congress may not grant to bankruptcy judges the right to exercise that power. *Id.*

68. No doubt exists either that the resolution of federal constitutional questions comes under the “judicial power” and is not subject to any exception thereto. *Stern*, building on the Court’s decisions in *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50 (1982), and *Granfinanciera, S.A. v. Nordberg*, 492 (U.S. 33) (1989), held that any narrow “public rights” exception permitting bankruptcy judges to issue certain final orders does not apply to any legal claim “independent of the federal bankruptcy law and not necessarily resolvable by a ruling on the creditor’s proof of claim in bankruptcy.” 131 S. Ct. at 2611. The federal constitutional claims of AFSCME’s members stem from the Constitution, not the Bankruptcy Code, and cannot be resolved by the very claims process whose legality is the subject of the constitutional challenge.

69. Moreover, the instant constitutional challenge to chapter 9 has nothing to do with a federal regulatory scheme. *Stern* is quite clear that the “public rights” exception is limited to claims asserting rights “integrally related to particular federal government action,” *i.e.*, claims challenging action undertaken pursuant to “a federal regulatory scheme” or whose resolution “by an expert government agency is deemed essential to a limited regulatory objective within the agency’s authority.” *Id.* at 2613. Where, as is the case with this purely constitutional argument, the determination of a legal question has nothing to do with the contours of federal regulations or expert agency fact-finding, the argument must be resolved by an Article III judge.

70. At its core, the “public rights” exception is designed to address situations where – unlike here – a party seeks to enforce rights which Congress has created by statute. *See Granfinanciera*, 492 U.S. at 51 (citations omitted). This constitutional challenge to chapter 9 invokes no such public right; “Congress has nothing to do with it.” *Stern*, 131 S. Ct. at 2613. Nor do bankruptcy judges possess any special expertise at resolving constitutional challenges to their own authority. “The experts in the federal system at resolving” constitutional questions such as this one “are the Article III courts, and it is with those courts that [this] claim must stay.” *Id.* at 2615. The words of the Supreme Court in *Stern* apply with equal force here:

What is plain here is that this case involves the most prototypical exercise of judicial power: the entry of a final, binding judgment by a court with broad substantive jurisdiction, on a [constitutional] cause of action, when the action neither derives from nor depends upon any agency regulatory regime. If such an exercise of judicial power may nonetheless be taken from the Article III Judiciary simply by deeming it part of some amorphous “public right,” then Article III would be transformed from the guardian of individual liberty and separation of powers we have long recognized into mere wishful thinking. [*Id.*]

71. Accordingly, and with respect, this Court should immediately refer this constitutional challenge to chapter 9 to the District Court for the Eastern District of Michigan.

II. THE CITY IS NOT ELIGIBLE TO FILE FOR CHAPTER 9 PROTECTION UNDER SECTION 109(C) OF THE BANKRUPTCY CODE

72. The City, as a purported municipal debtor, bears the burden of establishing it is eligible for relief under chapter 9. *See, e.g., In re City of Stockton*, 475 B.R. 720, 725-26 (Bankr. E.D. Cal. 2012) (citing cases); *In re Valley Health Sys.*, 383 B.R. 156, 161 (Bankr. C.D. Cal. 2008); *In re County of Orange*, 183 B.R. 594, 599 (Bankr. C.D. Cal. 1995); *In re Sullivan County Regional Refuse Disposal Dist.*, 165 B.R. 60, 72 (Bankr. D.N.H. 1994). “[A]ccess to Chapter 9 relief has been designed to be an intentionally difficult task.” *Sullivan County*, 165 B.R. at 82; *see also In re Cottonwood Water and Sanitation Dist.*, 138 B.R. 973,

979 (Bankr. D. Colo. 1992) (explaining that, although the Bankruptcy Code, as remedial legislation, is generally broadly construed, “municipal bankruptcies involve significant problems . . . not encountered in the private sector” and raise important constitutional issues, so that “Congress consciously sought to ‘limit accessibility to the bankruptcy court’ by municipalities.” (internal citation omitted)). As a result, “[t]he bankruptcy court’s jurisdiction should not be exercised lightly in chapter 9 cases.” *Sullivan County*, 165 B.R. at 82.

73. As demonstrated below, the City necessarily fails to carry its burden with respect to the following eligibility requirements: (i) valid authorization under Michigan state law (section 109(c)(2) of the Bankruptcy Code); and (ii) good faith negotiations or impracticability of such negotiations (section 109(c)(5) of the Bankruptcy Code). AFSCME also reserves the right to argue (following completion of discovery) that the City does not satisfy the insolvency requirement under section 109(c)(3) of the Bankruptcy Code.

74. Furthermore, the evidence reveals that the City’s bankruptcy petition was filed in bad faith and not motivated by a proper purpose under chapter 9 and should be dismissed pursuant to section 921(c) of the Bankruptcy Code. *See e.g., In re McCurtain Municipal Authority*, 2007 WL 4287604 at *3 (Bankr. E.D. Okla. Dec. 4, 2007) (holding that “the inability to pay debts as they become due depend[s] upon the inescapable quality of the obligation and the certainty that it cannot be met. Mere possibility or even speculative probability is not enough.”) (citations omitted).

A. The City Is Not Authorized By Michigan State Law To Be A Debtor Under Chapter 9

75. The City contends that it is authorized to be a debtor under state law because Section 18 of PA 436, M.C.L. 141.1558, provides that “[u]pon receipt of the written approval [of the Governor], the emergency manager is authorized to proceed under chapter 9,” and

further “empowers the emergency manager to act exclusively on the local government’s behalf in any such case under chapter 9.” *See* Eligibility Brief, p. 10. However, the Governor’s blanket grant of permission to file for bankruptcy under Section 18 of PA 436 violated the Michigan Constitution because it failed to explicitly prohibit the impairment or diminishment of vested pension rights. Moreover, the appointment of the Emergency Manager under PA 436 violates the “strong home rule” provisions of the Michigan Constitution. Where, as here, a state constitution bars the purported state law authorization, a chapter 9 petition must be dismissed. *See In re City of Harrisburg, PA*, 465 B.R. 744 (Bankr. M.D. Pa. 2011) (analyzing Pennsylvania Constitution to determine whether city was authorized to file under chapter 9).

(i) Governor Snyder’s Authorization Of The City’s Petition Under Section 18 Of PA 436 Violated Article IX, Section 24 Of The Michigan State Constitution

76. As a Michigan Circuit Court Judge has already held, Michigan State law forbids authorization of the City’s bankruptcy petition insofar as it seeks to reduce accrued pension benefits in violation of the State Constitution. Yet the Emergency Manager has been very clear that he intends to use this chapter 9 proceeding to do just that. Indeed, the Emergency Manager had made that intent known well prior to requesting the Governor’s permission to file under chapter 9. For instance, on June 14, 2013 he both (a) issued a “Proposal for Creditors” expressly stating that “there must be significant cuts in accrued, vested pension amounts for both active and currently retired persons,” and (b) publicly threatened, in an interview with the Detroit Free Press Editorial Board, that vested pension benefits will not be protected in a chapter 9 proceeding authorized by the Governor pursuant to PA 436, and that any state laws protecting vested pension benefits will “not . . . protect” retirees in bankruptcy court.

77. Article IX, Section 24 of the Michigan Constitution provides: “The accrued financial benefits of each pension plan and retirement system of the state and its political

subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby.” It means what it says: “[U]nder Art. 9, § 24, a retirement benefit *cannot be reduced*.” *Seitz v. Probate Judges Retirement System*, 189 Mich. App. 445, 474 N.W. 2d 125, 128 (1991) (emphasis added); see also *id.* at 127 (“Article IX, § 24 protects those persons covered by a state or local pension or retirement plan from having their benefits reduced.” (citing *Detroit Police Officers Ass’n v. Detroit*, 391 Mich. 44, 69, 214 N.W.2d 803 (1974))).

78. Article IX, Section 24 completely protects the “receipt of pension benefits related to work already performed by” any City employees, whether active or retired – i.e., any pension benefits which have “accrued” and thus become “vested pension benefits” – from being diminished *at all*. *APTE v. Detroit*, 154 Mich. App. 440, 398 N.W.2d 436, 439-40 (1986); *Advisory Opinion re Constitutionality of 1972 PA 258*, 389 Mich. 659, 663 (1973) (holding that “the intention of the people in adopting” Article 9, Section 24 was that “the benefits of pension plans are in a sense deferred compensation for work performed . . . which should not be diminished by the employing unit after the service has been performed.” (quoting 1 Official Record, Constitutional Convention 1961, 770-71)). Vested pensions rights covered by Article IX, Section 24 differ in this important respect from contractual benefits protected solely by Article I, Section 10 of the Michigan Constitution (the State’s “Contracts Clause”), which in a narrow set of cases may not prohibit the State from effecting “a modest, temporary impairment” of those other types of “governmental contracts . . . as a matter of last resort to address a fiscal emergency.” *AFT Michigan v. State*, 297 Mich. App. 597, 602, 825 N.W.2d 595 (2012) (noting that “[a]ll parties agree that . . . accrued financial benefits under Const. 1963, art. 9, § 24 . . . may not be impaired,” but concluding that the retiree health benefits in question were not “accrued financial benefits” within the wholesale protection of Article IX,

Section 24 and thus proceeding to consider whether they could be impaired under the Contracts Clause); *BCBSM v. Governor*, 422 Mich. 1, 22-23, 367 N.W.2d 1 (1985) (“The federal balancing approach has been adopted by our Court for purposes of adjudicating state Contract Clause claims as well as federal Contract Clause claims.”).

79. Governor Snyder violated Article IX, Section 24 – and with it the requirement, set forth at 11 U.S.C. § 109(c)(2), that he be “empowered by State law to authorize” the City to become a debtor – when he failed to condition the City’s chapter 9 petition on the complete preservation of vested pension rights despite the clearly available public information that the Emergency Manager intended to use the Governor’s authorization to diminish constitutionally sacrosanct pension benefits.⁸ Section 18 allows the Governor to “place contingencies on a local government in order to proceed under Chapter 9,” but does not explicitly require that compliance with Article IX, Section 24 be one of those contingencies. In this case, the Governor explicitly chose “not to impose such contingencies.” *See* Docket No. 1 at p. 16.

80. Section 18 is unconstitutional as applied where, as here, the Governor has abused his discretion by purporting to authorize a bankruptcy which “would violate the constitution.” *Taxpayers of Michigan Against Casinos v. State*, 478 Mich. 99, 107-08 & n.3 (2007) (even “broad discretion” granted to Governor by statute to act unilaterally must be exercised “within the limits of the constitution”). Moreover, Governor Snyder’s authorization has itself unconstitutionally caused an “immediate, concrete injury” to Council 25’s members by creating a “contingent liability” that their inviolable rights will be disregarded, causing them to reorder their financial affairs. *See Clinton v. New York*, 524 U.S. 417 (1998) (plaintiffs had standing to challenge constitutionality of executive action which, if left unchecked, would leave

⁸ To the extent the unconstitutionality of the Governor’s authorization turns on the question of whether he was on notice of the Emergency Manager’s intent to unconstitutionally diminish vested pension rights, AFSCME will seek discovery regarding information possessed by the Governor, including any other applicable discovery.

undisturbed potential future harm posing, by virtue of its magnitude, immediate and direct financial consequences to plaintiffs).

81. The strings left unattached to the Governor's sign-off speak volumes because PA 436 is not ignorant of Article IX, Section 24. To the contrary, other sections of the Act explicitly reiterate that accrued pension benefits shall not be diminished or impaired outside the bankruptcy context. *See, e.g.*, MCL 141.1551(1)(d) (requiring that the Emergency Manager's financial and operating plan provide for "[t]he timely deposit of required payments to the pension fund for the local government"); MCL 141.1552(i)(m)(ii) (allowing the Emergency Manager in certain circumstances to serve as the sole trustee of a municipality's pension fund, but requiring that he "fully comply with . . . section 24 of article IX of the state constitution"); MCL 141.1553 (eliminating the "the accrual of postemployment benefits" of local government officers but prohibiting "the impairment of vested pension benefits"). Thus the Governor's contingency-free permission reads like an open invitation to the Emergency Manager to violate the State Constitution in bankruptcy, and therefore is unconstitutional.

82. In the alternative, this Court should hold that any authorization the Governor sought to provide under Section 18 carried with it the implicit contingency that all actions taken pursuant to it by the Emergency Manager, including the proposal of any plan of adjustment under 11 U.S.C. § 943, must comply with the State Constitution, including Article IX, Section 24. In his letter to the Emergency Manager giving unconditional permission to file under chapter 9, Governor Snyder observed that the Bankruptcy Code "contains the most important contingency – a requirement that the plan be legally executable" under 11 U.S.C. § 943(b)(4). Docket No. 1 at p. 16. Because a plan of adjustment which would reduce vested benefits would not be legally executable under the Michigan Constitution – and because, as Governor, Snyder

is forbidden from authorizing any violation of the state constitution – his letter to the EM should, in the alternative, be construed as requiring compliance with Article IX, Section 24.

83. AFSCME and its members must not be made to wait to raise a § 943(b)(4) argument until the moment a plan is proposed – though of course they reserve the right to do so – because of the harm being suffered by the AFSCME Detroit Employees *now* as a result of their credible fear that the Emergency Manager will force them to accept the unconstitutional impairment or diminishment of their vested pension rights - the threat of which he is attempting to use as leverage against them *now*. Thus, if this Court plans to find the City eligible to file for bankruptcy under chapter 9, it should hold on the record *now* that any plan proposed by the City will have to comply with Article IX, Section 24 because the Governor could not have given permission to file under chapter 9 without including the implicit contingency that the City's plan of adjustment not reduce vested pension benefits. Otherwise creditors with vested pension rights will continue to suffer an unconstitutional injury throughout the course of this bankruptcy as a result of the threats of the Emergency Manager , and the Court will be virtually powerless to prevent that harm unless and until the City proposes its plan of adjustment. To prevent that harm *now*, the Court at the very least should clarify, as a preliminary condition of eligibility, that these bankruptcy proceedings cannot reduce vested pension benefits. *Cf. Seitz*, 189 Mich. App. at 456 (declining to “throw out” a pension-reform statute in its entirety where none of the plaintiff state court judges could show that they would receive reduced pension benefits under said statute, but clarifying that the state was required “to honor its obligations” not to enforce the statute wherever doing so would in fact result in a reduction to a retired judge's vested pension rights). *See also Lansing School Educ. Ass'n v Lansing Bd. of Educ.*,

487 Mich. 349, 372 n.20; 792 N.W.2d. 686 (2010) (declaratory judgment appropriate under Michigan law to accomplish a “sharpening of the issues raised” (quotation omitted)).

84. Whatever its route – either by holding that the Governor violated Article IX, Section 24 by granting the City blanket permission to file under chapter 9 despite knowing full well that the Emergency Manager plans to use chapter 9 to cram down unconstitutional pension reductions, or that the Governor’s permission carried with it the implicit condition that Article IX, Section 24 not be violated in bankruptcy– this Court must, when applying state law, hold the Governor to the truism that he cannot take actions “that would violate the constitution” even where he is acting with “broad discretion” delegated to him by statute. *See Taxpayers of Michigan Against Casinos, supra*.

(ii) PA 436 Violates The Strong Home Rule Provisions Of The Michigan Constitution

85. “Michigan is strongly committed to the concept of home rule,” a structural state-local federalism under which “[t]he charter of a city stands as its ‘constitution,’” and “once adopted by a vote of the electors, a city’s charter may be amended only by a vote of the electors.” *Bivens v. Grand Rapids*, 443 Mich. 391, 400-01 (1993) (quotations omitted) (striking down local ordinance which conflicted with local charter because local government could not “effectively amend the charter without subjecting the amendment to the scrutiny and approval of the local electorate”). This “strong home rule” regime reflects a bedrock principle of state law, which has been true for each of Michigan’s three Constitutions beginning with the Constitution of 1850 and continuing through the current Constitution of 1963: all officers of cities are to “be elected by the electors *thereof*, or appointed by such authorities *thereof*,” not by the central State Government. *See Brouwer v. Bronkema*, 377 Mich. 616, 652, 141 N.W.2d 98 (1966) (quoting *People ex re. Le Roy v. Hurlbut*, 24 Mich. 44, 65 (1871) (Cooley Court)).

86. In blatant disregard of this constitutional mandate, PA 436 – pursuant to which the Emergency Manager contends he has authority to file under chapter 9 on behalf of the City – strips the local electorate of its constitutional right to select its own officials, as well as to “frame, adopt and amend its charter” under Article VII, Section 22; to approve, by a two-thirds majority, any local act of the state legislature under Article IV, Section 9; and to be subject to administrative authority only where that authority is guided by standards created by the legislature and subject to due process of law, see *BCBSM v. Governor*, 367 N.W. 2d 1, 51 (Mich. 1985). For each of these reasons, PA 436 offends the “strong home rule” of Detroit, and the Emergency Manager is not lawfully authorized to file for bankruptcy on behalf of the City or to act as its representative during chapter 9 proceedings

(a) PA 436 Violates The Right Of The People Of Detroit To Select Their Own Local Officers And To Structure Their Own Government Via Charter

87. In one of its first cases interpreting the meaning of Michigan’s current Constitution, the Michigan Supreme Court reaffirmed the hallmark holding of the legendary Cooley Court: city residents have the state constitutional right to select their own local representatives. *Brouwer*, 377 Mich. at 651-61. As Justice Cooley held in his seminal *Hurlbut* opinion – the wellspring of the so-called “Cooley Doctrine” of local government, see David J. Barron, *The Promise of Cooley’s City: Traces of Local Constitutionalism*, 147 Univ. Penn. L. Rev. 487 (1999) – the right “to choose in some form the persons who are to administer the local regulations” is a right of local electors so basic to the “traditions, practice and expectations” of Michigan that it undergirds the State’s Constitution even in the absence of express constitutional language to that effect. *Hurlbut*, 24 Mich. at 29-33.

88. Having lived under the Cooley doctrine for 90 years at the time of Michigan’s most recent constitutional convention, the framers of the 1963 Constitution would have

understood *Hurlbut* as an even more foundational constitutional norm than Cooley himself. Indeed, the framers sought, in adopting the strong home rule regime which as now set forth in Article VII, to continue the “trend . . . toward strengthening inherent local government powers” which Justice Cooley “led” when he set forth the “rule” of local self-government in *Hurlbut*.¹ Official Record, Constitutional Convention 1961, 1052-53. As a result, Article VII provides that “[t]he legislature *shall* provide by general laws for the incorporation of cities and villages,” Art. VII, § 21; that under those general laws, “the electors of each city and village *shall* have the power and authority to frame, adopt and amend its charter,” Art. VII, § 22; and that “[t]he provisions of this constitution and law concerning counties, townships, *cities* and villages *shall* be liberally construed *in their favor*,” Art. VII, § 34. (Emphases added.)

89. PA 436 offends Article VII in myriad ways. First, it effectively adopts a new charter for Detroit which substitutes the *unelected* Emergency Manager for the Mayor *and* City Council collectively – including by granting the EM the power to, *inter alia*, issue orders directing the mayor and city council; set the local government budget unilaterally; enter into, and break, contractual agreements for the City, including CBAs, loans, and property transfers; seize control of the pension fund from its trustees; and, most relevant here, act “exclusively on the local government’s behalf in . . . chapter 9.” *See* MCL 141.1549(2) (“Upon appointment, an emergency manager shall act for and in the place and stead of the governing body and the office of chief administrative officer of the local government.”); MCL 141.1550(1) (“An emergency manager shall issue to the appropriate local elected and appointed officials and employees, agents, and contractors of the local government the orders the emergency manager considers necessary[.]”); MCL 141.1552 (EM may amend local government budget; make

contracts; terminate CBAs; enter loan agreements; transfer property); MCL 141.1558 (EM directs bankruptcy).

90. It is a direct violation of *Hurlbut* and *Brouwer* that the EM serves in the role of mayor and city council without being selected by Detroit.

91. Moreover, despite the existence of detailed procedures in the Detroit Charter concerning the method of passing local laws and the interplay of authority between the local legislative and executive officers, the EM may even exercise, according to PA 436, all authority of the mayor and city council *simultaneously* “concerning the adoption, amendment, and enforcement of ordinances or resolutions of the local government” and “[t]ake any other action or exercise any power or authority of any officer, employee, department, board, commission, or other similar entity of the local government, whether elected or appointed, relating to the operation of the local government.” MCL 141.1552(1)(dd-ee).

92. To the drafters of the current Michigan Constitution, PA 436 would appear to parody Article VII. The provisions of Article VII directing the legislature to provide for the incorporation of cities to be governed by charters written by the cities’ voters is “mandatory,” and even before the 1963 Constitution – which *increased* the home rule powers of cities – it was well-established that, in executing that mandate, ““under the Constitution the legislature [does] not have the power to change the law as embodied in the charter [of a local government] without a ratifying vote of the village electors.” *Utica State Sav. Bank v. Village of Oak Park*, 279 Mich. 568, 273 N.W. 271, 274 (1937) (state statute retroactively ratifying all contracts for purchase of lands by local governments could not ratify land contract which was unlawful under local charter). This is because “the power vested in the [local] electors by the Constitution” to amend their own charter necessarily requires that “the Legislature does not

have the power to alter or amend a [local] charter without the approval of the [local] electors.” *Id.* at 577. Nor does the Legislature have the power to enter into contracts on behalf of the local government. *Id.* at 578. Yet PA 436 purports to empower Emergency Manager to assume all the powers of the local charter – including the ability to bind a city by contract for generations to come – without the core structural accountability for those powers baked into the charter in the form of local elections and separation of powers.

93. While it cannot be denied that the state possesses a robust role in demarcating the limits within which a municipality may structure the form of its government via charter, PA 436 swallows whole the rights reserved to local electors in Article VII to execute, within limits, their own vision of local government. For instance, typically “municipal officers can bind a municipality only if they are empowered to do so by the city charter.” *Manning v. City of Hazel Park*, 202 Mich. App 685, 691; 509 N.W. 2d 874 (1993). The Emergency Manager, however, possesses no such constraint under the terms of PA 436, which grants him his extreme powers “notwithstanding any charter provision to the contrary.” MCL 141.1552(1). Under PA 436, therefore, the Emergency Manager not only violates the charter by purporting to act with all of the power of the entire municipal government simultaneously as a matter of procedure, but also by doing so in direct violation of any substantive limitation that charter places on the local government. In effect, each time the Emergency Manager takes an act which contravenes the City Charter – a charter which, to be clear, has not formally been repealed – he decrees an amendment to that charter. But, as discussed *supra*, Detroit’s citizens have a constitutional right to be the ones to amend their own charters. Here too PA 436 egregiously violates Article VII.

94. Article VII does not permit such a scorched earth approach to local democracy. The Emergency Manager's purported statutory authority to act for the City is antithetical to Article VII, and therefore the Emergency Manager was never authorized by state law to file the City's chapter 9 petition. As fundamentally, the "City" has therefore not *voluntarily* filed a petition under Section 301 as incorporated by Section 901(a) of the Bankruptcy Code.

**(b) PA 436 Purports To Delegate Authority To The
Emergency Manager In Excess Of That Possessed By
The Legislature**

95. Section VII is not the exclusive mechanism protecting the "home rule" rights of local electors in the Michigan Constitution. Municipalities are further protected by Article IV, Section 29, which forbids the legislature from passing a local act both (a) "in any case where a general act can be made applicable, and (b) "until approved by two-thirds of the members elected to and serving in each house and by a majority of the electors voting thereon in the district affected." "The requirement of a 2/3 vote of both houses and a majority vote in the area affected protects localities against arbitrary action." *Advisory Opinion on Constitutionality of 1975 PA 301*, 400 Mich. 270, 287, 254 N.W. 2d 528 (1977) (quoting 2 Official Record, Constitutional Convention 1961, p 2415).

96. PA 436 allows the Emergency Manager to adopt local ordinances and take purely local legal acts which would otherwise be assigned to the local government. *See* MCL 141.1552. Before the EM takes a local act of this nature, however, neither he nor the legislature makes any determination whether a general act could accomplish the same purpose; seeks the approval of two-thirds of the legislature; or submits the proposed act to the local electors for ratification. PA 436 therefore delegates to the EM power that the legislature simply does not possess. For even assuming *arguendo* that PA 436 is a general as opposed to local law, it contemplates the future passage of limitless local ordinances without the prophylactic

mechanisms built into Article IV, Section 29 to preserve “the settled purpose of the framers of the [Constitution] and of the people who adopted it to forever insure to the people the right to control their affairs purely local.” *Attorney General v. Lacy*, 180 Mich. 329, 337, 146 N.W. 871 (1914) (striking down local law passed by legislature).

97. The legislature cannot delegate power beyond that which it possesses. “That the Michigan Legislature may legislate absent constitutional limitations does not mean that it may wield legislative power in a manner other than that carefully prescribed by the Michigan Constitution.” *Blank v. Dep’t of Corrections*, 462 Mich. 103, 119, 611 N.W.2d 530 (2000). Yet PA 436 does just that, subjecting Detroit’s citizens to purely local acts – including the instant chapter 9 petition – taken by a central authority without the protection of Article IV, Section 29. In this case that local legislation includes not only this illegal bankruptcy, but all of the legislative acts undertaken by the Emergency Manager leading up to and in support of the chapter 9 petition, the extent and content of which will be further developed in discovery and at trial.

(c) PA 436 Unconstitutionally Delegates Legislative Authority To The Emergency Manager Because It Lacks Adequate Standards To Guide The Emergency Manager’s Actions In Bankruptcy, Which Are Not Subject To Judicial Review

98. Even assuming *arguendo* that the legislature had the authority to delegate its illegally asserted control over local self-governance, that delegation must still have included (1) “sufficient standards and safeguards” to “direct[] and check[] the exercise of delegated power,” as well as (2) “due process requirements” ensuring judicial review of the delegated action. *BCBSM v. Governor*, 367 NW 2d 1, 51-52 (Mich. 1985). PA 436 lacks both with respect to the Emergency Manager’s control of the City during bankruptcy.

99. First, PA 436 provides no standards whatsoever to the Emergency Manager – other than any “contingencies” which the Governor, and not the legislature, may have, but did not in this case, designate – for how to exercise the City’s affairs under chapter 9. MCL 141.1558. Thus the Emergency Manager is unfettered, for example, to enter into settlements resolving claims by creditors – settlements which, under Section 7-5-203 of the Detroit City Charter, are legislative acts of the City which must be approved by the City Council – without following any guidelines provided by the State. While the Bankruptcy Court may apply its own *federal law* constraints in the course of approving, or not, such settlements – though the authority of a bankruptcy judge to do so is questionable in light of federalism principles, *see infra* – there is simply no *state law* standard to refer to evaluate whether the Emergency Manager, in entering the settlements, is effectively legislating in bankruptcy within the intent of the legislature. “This complete lack of standards is constitutionally impermissible.” *BCBS*, 367 N.W. 2d at 55, and therefore the Emergency Manager is not authorized under state law to carry out the Legislature’s attempted delegation of authority under chapter 9.

100. Second, and relatedly, even assuming *arguendo* that PA 436 does contain standards constraining the absolute power of the Emergency Manager to act for the City under chapter 9, those standards are not subject to the requisite judicial review. As a result of the automatic stay, the Emergency Manager’s actions during chapter 9 can only be litigated to the bankruptcy court, which itself lacks authority to decide freestanding state-law claims. *See* 11 U.S.C. §§ 902(a), 362 (automatic stay); *Stern v. Marshall*, *supra* (Article I judge prohibited from deciding independent state law claims unhinged from bankruptcy). But the City can arguably enter into settlements with creditors under chapter 9 *without* receiving approval from the Bankruptcy Judge, even if a competing creditor requests judicial review. *See In re City of*

Stockton, California, Case No. 12-32118-C-9 (Bankr. E.D. Cal. Feb. 5, 2012) (“11 U.S.C. § 904 gives a chapter 9 debtor freedom to decide whether to ignore or to follow Rule 9019 compromise-approval procedure[.]”). The Emergency Manager thus acts in a legal vacuum, accountable neither in state court nor federal court for exercising the legislative power delegated to him by the State. The Michigan Constitution does not permit such insulation.

B. The City Failed To Participate In Any Good Faith Negotiations With Creditors Prior To Filing For Bankruptcy As Required For Eligibility Under Chapter 9

101. The City cannot meet its burden under section 109(c)(5) of the Bankruptcy Code of proving that it conducted good faith negotiations with its creditors or that such negotiations were impracticable.

102. Congress enacted the “negotiation” requirement of section 109(c) to prevent capricious filings of chapter 9 petitions, and Courts do not “view lightly the negotiation requirements of 11 U.S.C. § 109(c)(5).” *See In re Villages at Castle Rock Metro. Dist. No. 4*, 145 B.R. 76, 85 (Bankr. D. Colo. 1990); *In re Town of Westlake, Tex.*, 211 B.R. 860, 867-68 (Bankr. N.D. Tex. 1997) (suggesting that section 109(c)(5) requires that a municipality have an intent to negotiate with creditors it intends to impair). “The ‘creditor protection’ provided by section 109(c)(5). . . insures that the creditors have an opportunity to negotiate concerning a plan on a level playing filed with the debtor before their rights are further impaired by the provisions of section 362 of the Code.” *Sullivan County*, 165 B.R. at 78-79).

103. In *Cottonwood Water*, the Court explained the good faith negotiation requirement under section 109(c)(5) of the Bankruptcy Code as follows:

Congress consciously sought to limit accessibility to the bankruptcy court by municipalities [by requiring] . . . the municipal entity, before rushing to . . . Court, to first seek to negotiate in good faith concerning the treatment the creditors may be expected to receive under a plan to be filed under section

941 of the [Bankruptcy] Code. . . . The ‘creditor protection’ provided by section 109(c)(5) . . . insures that the creditors have an opportunity to negotiate concerning a plan on a level playing field with the debtor before their rights are further impaired by the provisions of section 362 of the [Bankruptcy] Code.

138 B.R. at 979.

104. Accordingly, the burden is on the City to demonstrate (i) that it engaged in good faith negotiations with its creditors concerning the possible terms of a plan or (ii) why it was unable to engage in such negotiations. ASFSCME respectfully submits that the City cannot demonstrate any negotiations with creditors such as AFSCME, let alone “good faith” negotiations, and further given that the City conducted no pre-petition negotiations with significant creditors such as AFSCME, the City should not be heard to argue that negotiations were impracticable.

(i) The City Failed To Negotiate With Creditors Such As AFSCME

105. The City claims it satisfies the section 109(c)(5)(B) requirement for negotiating with its creditors prior to the bankruptcy filing by negotiating with creditors, including unions such as AFSCME, via several meetings held with its unions where the City discussed its restructuring proposals and took certain questions. *See* Eligibility Brief, pp. 53-61(citing, *inter alia*, Orr Declaration, ¶¶ 90-96). What the City fails to mention is that, as discussed extensively above and as indicated by Orr himself prior to the scheduling of these meetings, it was made clear throughout these series of 3 or 4 relatively short meetings that the meetings were “discussions” and the City was not willing to conduct **any** negotiations. The City has argued that the EM “openly invited the City’s creditors to contact the City and its advisors to begin negotiations.” Eligibility Brief, p. 55. In fact, the City rebuffed negotiations, which require concessions from both sides and collaboration between the debtor and its significant

creditors. The City (acting through Orr) simply was not interested in negotiations (and as Orr indicated regarding the Restructuring Plan, “[t]his isn’t a plebiscite, we are not, like, negotiating the terms of the plan”).

106. *In re Ellicott School Building Authority* is directly on point. There, the debtor held three public meetings with large creditors regarding its proposed restructuring, although creditors were advised that the economic provisions of the proposed plan were not negotiable. 150 B.R. 261, 266 (Bankr. D. Colo. 1992). The court held that even though the debtor conducted three public meetings explaining its proposed plan of restructuring to bondholders, it did not negotiate in good faith because it indicated that the economic terms of its proposed plan were non-negotiable. *Id.* (debtor must be open to negotiating the substantive terms of a proposed plan); *cf. Int’l Ass’n of Firefighters, Local 1186 v. City of Vallejo (In re City of Vallejo)*, 408 B.R. 280, 289 (9th Cir. B.A.P. 2009) (finding that the city did not satisfy section 109(c)(5)(B) because it “never negotiated with Unions or any of its creditors over the possible terms of a plan of adjustment.”); *Sullivan County*, 165 B.R. at 78-79 (“The ‘creditor protection’ provided by section 109(c)(5) . . . insures that the creditors have an opportunity to negotiate concerning a plan on a level playing field with the debtor before their rights are further impaired” (citation omitted)).

107. The City’s a “take it or leave it” Restructuring Plan proposal that was not really open to any negotiations (good faith or otherwise) should be rejected as the court did in *Ellicott School*. The City failed to engage in any negotiations with its significant creditors such as AFSCME regarding the Restructuring Plan. Flatly refusing to conduct any negotiations (despite repeated requests by AFSCME both prior to and subsequent to the City’s bankruptcy filing) falls far short of the standard required under section 109(c)(5) of the Bankruptcy Code.

108. The City has publicly proclaimed its willingness to negotiate, yet it and its representatives' (i) statements that the meetings held to discuss the Restructuring Proposal were not negotiations and (ii) continued bad faith refusal postpetition to hold negotiations (despite requests from AFSCME to jump start negotiations) makes it more than clear that the City has conducted no good faith negotiations with AFSCME and similarly situated creditors.

(a) Even Assuming That The City Engaged In Negotiations, Such Negotiations Did Not Relate To A Plan That Is In The Best Interests Of Creditors As Required By Section 109(c)(5)(B)

109. While AFSCME submits that the City did not engage in any good faith negotiations with creditors such as AFSCME prior to the City's chapter 9 filing, even assuming this Court were to find otherwise, the City also has not satisfied section 109(c)(5)(B) of the Bankruptcy Code because the plan or terms of a plan being negotiated must be a plan that can be effectuated in chapter 9. *See Sullivan County*, 165 B.R. at 78 (debtor failed to meet burden of showing that it negotiated in good faith because the plan that was proposed was not a plan that could be effectuated in chapter 9); *Cottonwood Water.*, 138 B.R. at 979 (finding that "in order for this Debtor to be entitled to the entry of an order for relief, it must be prepared to show that it engaged in good faith negotiations with its creditors concerning the possible terms of a plan to be effected pursuant to section 941 of the Bankruptcy Code.").

110. Here, the proposed Restructuring Plan is patently unconfirmable because the plan seeks to unconstitutionally wipe out guaranteed vested pension benefits pursuant to a plan that would presumably be crammed down on creditors, including those City retirees and employees that participate in the various pension and other retirement benefit plans. Given that creditors owed pension obligations have absolute rights to such obligations under Michigan law as set forth extensively above, and one of the main goals of this proceeding is to modify vested

pension and other retiree benefits, the City has no ability to confirm any plan of adjustment modifying such rights. *See* 11 U.S.C. §943(b)(4) (stating that the Court shall confirm a chapter 9 plan only if “the debtor is not prohibited by law from taking any action necessary to carry out the plan.”).

111. Additionally, the Restructuring Plan is not in the “best interests of creditors” and thus could not be confirmed pursuant to section 943(b)(7) of the Bankruptcy Code. The “best interests of creditors” test in the context of a chapter 9 case does not compare treatment under a plan of liquidation, but rather to other alternatives to creditors to the plan. *See, e.g., In re Sanitary & Improvement Dist., #7*, 98 B.R. 970, 974 (Bankr. D. Neb. 1989); (“Section 943(b)(7) [with respect to the best interest of creditor’s provision] ... simply requires the court to make a determination of whether or not the plan as proposed is better than the alternatives.”); *In re Mount Carbon Metropolitan Dist.*, 242 B.R. 18, 34 n.50 (Bankr. D. Colo. 1999) (“The ‘best interest’ requirement of § 943(b)(7) is generally regarded as requiring that a proposed plan provide a better alternative for creditors than what they already have.”) (citing 4 Collier on Bankruptcy, 943.03[7] (Lawrence P. King, ed., 15th ed.1999)).

112. Had there been no chapter 9 filing by the City, pension creditors could not be impaired under the Michigan Constitution, and thus any impairment of such rights under a plan would violate Michigan law and be patently non-confirmable. Accordingly, because the Restructuring Proposal proposes to unconstitutionally wipe out guaranteed vested pension benefits, the proposal cannot satisfy the requirements of good faith negotiations over a plan that could be effectuated in chapter 9.

113. Orr failed to consider before filing for bankruptcy protection or since the filing, an equitable argument for the pension fund beneficiaries that creditors extending debt after

funding concerns surfaced should be subject to equitable subordination/fraudulent conveyance under Bankruptcy Code sections 510(c) and 544(b)/548(a).

114. Further, under Bankruptcy Code section 928(b), Orr should be exploring whether certain other creditors should bear the burden of some of the City's operating expenses during bankruptcy process, before benefit cuts are implemented.

(ii) Negotiations With Certain Categories Of Creditors Such As AFSCME Were Not Impracticable

115. The City alleges that it alternatively qualifies for eligibility under section 109(c)(5)(C) of the Bankruptcy Code because negotiations were impracticable.

116. As with the other eligibility requirements, the burden of proving impracticability rests with the City. *See In re Pierce County Housing Authority*, 414 B.R. 702, 713 (Bankr. W.D. Wash. 2009); *Vallejo*, 408 B.R. at 289 (citing *Valley Health*, 383 B.R. at 161). Courts considering section 109(c)(5)(C) define the ordinary meaning of "impracticable" as "not practicable; incapable of being performed or accomplished by the means employed or at command; infeasible.'" *See, e.g., Vallejo*, 408 B.R. at 298 (citing *Valley Health*, 383 B.R. at 163). Whether negotiations were impracticable is fact specific and depends upon the circumstances of the case. *See Vallejo*, 408 B.R. at 298.

117. The City alleges that negotiations were impracticable because, in part, the City had (i) numerous series of bonds and indebtedness held by multiple holders and (ii) approximately 20,000 retirees not represented by any formal agent or committee and other potential involuntary creditors. Furthermore, the City claims that the refusal of certain creditor constituencies to engage in good faith negotiations rendered negotiations impracticable.

118. In fact, AFSCME believes that the exact opposite is true here. The City predetermined that its pre-bankruptcy negotiations (which, as discussed above, were not

negotiations) would fail. As discussed extensively above, the Governor and his staff plotted for several months prior to the hiring of Orr as EM to bring in Orr, as an experienced bankruptcy counsel, to lead the City on a clear path towards a chapter 9 filing, and any negotiations were a façade – the City went through the motions of pre-petition meetings but, as is evident from its pre-petition conduct *vis a vis* AFSCME, never had any intention of negotiating outside of bankruptcy.

119. While the City alleges that it has over 100,000 creditors, it is clear that the main creditors the City had to negotiate with were the unions, its retirees, and the bond trustees.

120. The City itself has in the past negotiated for retiree health benefits and pension benefits outside of a chapter 9 proceeding. It is a red herring to say that negotiating medical benefits or pensions is impractical *per se*.

121. While courts have made clear that impracticability can be demonstrated by the volume of creditors to negotiate with, in no case AFSCME is aware of did a court find that negotiations were impracticable where the Debtor did not even attempt to negotiate pre-petition with its largest creditors such as AFSCME (and after repeated requests to do so). In *Ellicott School*, the court determined that the debtor holding “public meetings to which all bondholders were invited” showed that negotiations were practicable.

122. AFSCME is not suggesting that pre-petition negotiations could have bound everyone or must have involved all of the City’s thousands of creditors. Rather, some level of negotiation with principal creditors could have led the City to a non-bankruptcy solution. By

way of analogy, section 109(c)(5)(B) of the Bankruptcy Code contemplates pre-bankruptcy negotiations with creditors that municipality intends to impair, not all creditors.⁹

123. Given the City's lack of negotiations with creditors such as AFSCME and similar union representatives that could have negotiated regarding the largest portion of the City's unsecured debt, the City's arguments that negotiations were impracticable should be rejected.

C. The City's Petition Should Be Dismissed Under Section 921(c) As Filed In Bad Faith

124. The City's bankruptcy petition is subject to dismissal pursuant to section 921(c) of the Bankruptcy Code because the filing was in bad faith. Section 921(c) of the Bankruptcy Code provides that "[a]fter any objection to the petition, the court, after notice and a hearing, may dismiss the petition if the debtor did not file the petition in good faith or if the petition does not meet the requirements of this title."

125. "Good faith is not defined in the Bankruptcy Code." *In re McCurtain Mun. Auth.*, No. 07-80363, 2007 WL 4287604, at *4 (Bankr. E.D. Okla. Dec. 4, 2007). Courts have determined, however, that the primary function of the good faith requirement in chapter 9 is to "ensure the integrity of the reorganization process by limiting access to its protection to those situations for which it was intended." *Sullivan County*, 165 B.R. at 80 (citation omitted); *see also In re City of Stockton, California*, 493 B.R. 772, 794 (Bankr. E.D. Cal. 2013) ("Section 921(c) 'good faith' serves a policy objective of assuring that the chapter 9 process is being used in a manner consistent with the reorganization purposes of the Bankruptcy Code"); *Villages at Castle Rock*, 145 B.R. at 81 (describing good faith as requirement that "prevents

⁹ Importantly, the City describes in the Orr Declaration that of the City has nearly \$12 billion in unsecured debt, but 75% of that (approximately \$9.2 billion) relates to accounting liabilities for post-employment benefit or underfunded pension liabilities.

abuse of the bankruptcy process by debtors whose overriding motive is to delay creditors without benefiting them in any way or to achieve reprehensible purposes”) (internal quotation marks and citation omitted).

126. While good faith in the chapter 9 context is not defined in the Bankruptcy Code, courts have looked to discussions of good faith in the chapter 11 context to determine whether a chapter 9 petition has been filed in good faith. *McCurtain Mun. Auth.*, 2007 WL 4287604, at *4 (referencing chapter 11 good faith standards to determine whether chapter 9 petition was filed in good faith) (quoting *Villages at Castle Rock*, 145 B.R. at 81); *County of Orange*, 183 B.R. at 608 (observing that “courts have ... applied to chapter 9 cases the judicial reasoning that developed in chapter 11 cases” regarding good faith); *Sullivan County*, 165 B.R. at 82 (examining and applying chapter 11 good faith requirements to chapter 9 petition)).

127. In the chapter 11 context, courts have explained that the requirement of good faith

prevents abuse of the bankruptcy process by debtors whose overriding motive is to delay creditors without benefitting them in any way or to achieve reprehensible purposes. Moreover, a good faith standard protects the jurisdictional integrity of the bankruptcy courts by rendering their powerful equitable weapons . . . available only to those debtors and creditors with ‘clean hands.’

In re Little Creek Dev. Co., 779 F.2d 1068 (5th Cir. 1986).

128. Relevant considerations regarding good faith under chapter 9 include “whether the City’s financial problems are of a nature contemplated by chapter 9, whether the reasons for filing are consistent with chapter 9, the extent of the City’s pre-petition efforts to address the issues, the extent that alternatives to chapter 9 were considered, and whether the City’s residents would be prejudiced by denying chapter 9 relief.” *Stockton*, 493 B.R. at 794.

129. Here, a review of the various relevant factors considered by courts when analyzing good faith under section 921(c) lead to the inescapable conclusion that the City's chapter 9 case was filed in bad faith and with unclean hands.

130. First, the City's filing came several minutes prior to a Michigan State Court issuing a TRO enjoining the Governor from authorizing the filing. The State lawyers at the hearing on the TRO asked for a short delay when they realized that an adverse ruling was forthcoming with respect to the City's ability to authorize any chapter 9 authorization which did not proscribe the reduction of pension benefits violated the Michigan constitution. During that recess, the City filed for chapter 9 protection. Thus, the City commenced this proceeding "in the dark of night" to avoid a ruling it viewed as not in its favor. Such a filing is the antithesis of the careful, deliberative decision to file required under chapter 9, as "[t]he legislative history indicates that the strict hurdles to filing Chapter 9 were implemented to ensure that it was considered by a municipality only as a last resort." *Pierce County*, 414 B.R. at 714 (citation omitted) (noting debtor decided to file a chapter 9 petition only after several years of failed negotiations and attempts at mediation); *cf. Valleo*, 408 B.R. at 295 ("The evidence needs to show that the 'purpose of the filing of the chapter 9 petition not simply be to buy time or evade creditors.'"). The City simply filed to evade what it viewed as an imminent negative state court ruling. The City simply does not have "clean hands".

131. Additionally, as discussed extensively above, the City did not reasonably consider any alternatives to chapter 9, was preparing for a chapter 9 filing months before any creditor meetings to discuss restructuring options even started, and refused to negotiate with major creditors such as AFSCME as required. Simply put, the predetermined filing was done in bad faith and should be dismissed.

D. AFSCME Reserves The Right To Argue, Following Discovery, That The City Is Solvent

132. The Bankruptcy Code does not offer relief to a city simply because it is suffering economic difficulties. *See, e.g., In re City of Bridgeport*, 129 B.R. 332, 339 (Bankr. D. Conn. 1991) (although City projected \$16 million budget deficit, it was not insolvent, and “financial difficulties short of insolvency are not a basis for chapter 9 relief”); *In re Hamilton Creek Metro. Dist.*, 143 F.3d 1381, 1386 (10th Cir. 1998) (debtor not eligible for relief simply because it was severely economically distressed).

133. In order to carry its burden on insolvency, the City must prove either that it is “(i) generally not paying its debts as they become due unless such debts are the subject of a bona fide dispute; or (ii) unable to pay its debts as they become due.” 11 U.S.C. § 101(32)(C). The test under the first prong requires current non-payment of obligations, but the test under the second prong is prospective, looking to the debtor’s future inability to pay. *Bridgeport*, 129 B.R. at 336-37. Solvency is measured as of the petition date. *See, e.g., In re Town of Westlake, Texas*, 211 B.R. 860, 866 (Bankr. N.D. Tex. 1997) (citing cases).

134. The purposeful refusal to make a few payments comprising a relatively small part of the City’s budget does not satisfy the definition of “insolvent” under 11 U.S.C. § 101(32)(C)(i). *See, e.g., Uecker & Assocs. v. Tenet Healthsystem Hosps., Inc. (In re West Contra Costa Healthcare Dist.)*, No. 06-41774 T, 2010 Bankr. LEXIS 994, at *8 (Bankr. N.D. Cal. Mar. 26, 2010) (failure to pay \$1.3 million out of \$10-\$11 million total operating expenses did not mean the debtor was “generally not paying its debts”)

135. While the City alleges that it was forced to suspend certain payments to “conserve its dwindling cash”, such allegations are highly factual and need to be further probed through proper discovery.

136. Furthermore, the City has not demonstrated it was unable to pay its debts as they came due as of the petition date under 11 U.S.C. § 101(32)(C)(ii) for several reasons.

137. First, the City “deliberately budget[ed and] spen[t] itself into insolvency (so as to qualify under § 101(32)(C)(ii)), when other realistic avenues and scenarios [were] possible.” *Town of Westlake*, 211 B.R. at 867. Second, “[t]he mere fact that a municipality has adopted a budget that reflects a cash flow shortfall is not independently sufficient to meet the requirement of the ‘unable to pay’ test.” COLLIER ON BANKRUPTCY ¶ 900.02[2][c][i] (16th ed. 2011). Such a budget “must be evaluated in light of past and current practices, the practices of similar municipalities, and the extant facts and circumstances.” *Id.*

138. Here, the City’s past and current practices, as well as current facts and circumstances, not only show that the City has many available (but unexplored) options to enable it to pay its debts as they become due, but also that the City simply may have less than a reliable handle on its finances. Thus, the information provided in the City’s current budget may (upon completing of proper discovery) be “insufficient credible proof” of insolvency. *Town of Westlake*, 211 B.R. at 867; *see also Bridgeport*, 129 B.R. at 338 (requiring concrete proof “that [the city] will be unable to pay its debts as they become due in its current fiscal year or, based on an adopted budget, in its next fiscal year” and noting that “[o]bviously, it is necessary for cities to make informed financial projections”).

139. The City’s current financial difficulties currently are actually less severe than in some prior years, and AFSCME preliminarily believes (subject to discovery) that there may be numerous other available means to solve the City’s current financial difficulties and generate sufficient funds to pay its debts coming due in the coming fiscal year. These include enhancing revenues by aggressively collecting obligations owed, aggressively pursuing repayment of

millions of dollars in loans owed to the general fund (including through the hiring of more employees in the City's collections area), and taking further steps to reduce costs. AFSCME recognizes that all parties (including current and former employees) will be required to sacrifice, but reasonable concessions from all significant creditors would easily bring the City closer to stability.

140. Given the highly fact intensive inquiry related to insolvency and the lack of any discovery available on these issues to AFSCME, AFSCME reserves the right to make additional arguments about the City's insolvency (or lack thereof) pending the completion of discovery.

CONCLUSION

For the reasons set forth herein, AFSCME respectfully requests that this Court issue an order dismissing the City's chapter 9 petition and granting such other and further relief as is just and proper under the circumstances.

Dated: August 19, 2013

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Exhibit 1

From: CN=Daniel T Moss/O=JonesDay
Sent: 1/31/2013 4:10:58 PM
To: Kevyn Orr/JonesDay
Subject: Re: Fw: D

That's true too - but it may be one of the less bad alternatives among the many other bad alternatives. Is her idea that the Bloomberg Foundation would fund part of this exercise? If so, that too only echoes the liberal talking points (as outlined in those news articles) of a fascist takeover of a local government by the right (not that Bloomberg is a right-winger, but, nonetheless, he is big business). I can't see that being a politically popular solution to an already plagued arena of options.

It seems that the ideal scenario would be that Snyder and Bing both agree that the best option is simply to go through an orderly Chapter 9. This avoids an unnecessary political fight over the scope / authority of any appointed Emergency Manager appointed and, moreover, moves the ball forward on setting Detroit on the right track. Appointing an Emergency Manager, whose ability to actually do anything is questionable given the looming political and legal fights, would only serve to kick the can down the wrong path and unreasonably delay any meaningful resolution of Detroit's problems.

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Exhibit 2

From: Daniel T Moss/JonesDay
To: Kevyn Orr/JonesDay
Date: 01/31/2013 10:52 AM

CONFIDENTIAL

Subject: Re: Fw: D

Making this a national issue is not a bad idea. It provides political cover for the state politicians. Indeed, this gives them an even greater incentive to do this right because, if it succeeds, there will be more than enough patronage to allow either Bing or Snyder to look for higher callings—whether Cabinet, Senate, or Corporate. Further, this would give you cover and options on the back end to make up for lost time there.

Dan T. Moss

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Please consider the environment before printing this e-mail.

Exhibit 3

From: CN=Kevyn Orr/O=JonesDay
Sent: 1/31/2013 3:45:47 PM
To: CN=Corinne Ball/O=JonesDay@JonesDay
CC: "Stephen Brogan" <sjbrogan@jonesday.com>
Subject: Re: D

CB,

Thank you for thinking about alternative ways to skin this cat. But I don't think we should look at this right now for at least two reasons. First, the state already has EMs appointed in five cities and four school districts. I wouldn't want it to seem like I have a special deal. Second, in thinking about the EM position I went back and looked at the SIGTARP legislation and the federal law authorizing the creation of the D.C. Control Board in 95. Both gave those managers tremendous powers, but neither was subject to questions about the authority of the Congress to enact them and the President's authority to sign them into law. By contrast Michigan's new EM law is a clear end-around the prior initiative that was rejected by the voters in November. The new EM law gives local governments four choices to fix their financial emergency:

Consent Agreement, in which local leaders remain in charge but must meet certain conditions in an agreement negotiated with the state (Detroit is already under a CA and it sounds like it's not working);
A state appointed EM that has broad authority over local finances;
Chapter 9 bankruptcy with the Governor's approval; and
Mediation, in which the local government and interested parties meet with a neutral party to resolve financial issues, such as employee contracts (this is essentially required to file a Chapter 9 petition).

So although the new law provides the thin veneer of a revision it is essentially a redo of the prior rejected law and appears to merely adopt the conditions necessary for a chapter 9 filing. The news reports state that opponents of the prior law are already lining up to challenge this law.

Nonetheless, I'm going to speak with Baird in a few minutes to see what his thinking is. I'll let you know how it turns out. Thanks.

Kevyn

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Exhibit 4

From: CN=Kevyn Orr/O=JonesDay
Sent: 1/31/2013 5:23:09 PM
To: CN=Stephen J. Brogan/O=JonesDay; CN=Corinne Ball/O=JonesDay@JonesDay
Subject: Re: D

I had a good conversation with Rich Baird this morning. I explained that although I was interested in the job, there are a number of reasons (not wanting to leave the firm and familial constraints) that made it impractical for me to do so. He suggested that I give it some additional consideration and if, upon reflection, I could say that there was a glimmer of hope that I would take the job, then I should at least take the next step of meeting the Governor, Lt. Governor and the rest of the team. We agreed to get back in touch next week. He also mentioned that irrespective of whether I take the job, as far as he's concerned, he liked our presentation and is pulling for us to represent the city. I then reiterated that even if I did not take the EM position, I and the firm are committed to working in lockstep with the city and I would be more than willing to undertake any role in this respect.

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Exhibit 5



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June 17, 2013

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kyle.herman@millerbuckfire.com

Dear Mr. Herman:

In accordance with the instructions of the Detroit Office of the Emergency Financial Manager (EFM), I request the following information:

1. A copy of the preliminary actuarial analysis, to include a full description of all assumptions relied upon, used to support the revised cost estimates and funding condition of the PFRS and GRS pension systems. Data should show projected normal cost for each plan and the proposed UAAL amortization payment as a percent of payroll.
2. The basis for the cost estimates of retiree health care (OPEB) including a description of all assumptions relied upon (including eligibility for benefits under the plan and benefits under the plan), the annual net OPEB obligation, and projected pay-as-you-go funding requirements for the next ten years.
3. A description of the proposed retiree health care plan that will rely upon Medicare Advantage and the Exchange Marketplace under the Affordable Care Act and the basis for the estimated annual City cost of between \$27.5 million and \$40 million. To the extent eligibility for benefits is revised from the assumption in item 2 above, please describe the new eligibility criteria.
4. A description of all assumptions, data, and documents relied upon to support the following revenue projections:
 - a. Municipal income tax
 - b. Wagering taxes
 - c. Property taxes
 - d. State revenue sharing
 - e. Utility users' and other taxes
 - f. "Other revenue" (page 52 of the Proposal to Creditors)

American Federation of State, County and Municipal Employees, AFL-CIO

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1044-13
12/12

Mr. Kyle Herman
June 17, 2013
Page 2

5. A description of all projected services and investments included in the "Reorganization (Capital investments and Professional fees)" budget line item in the ten year Restructuring Scenario (page 97 of the Proposal to Creditors). Detail related to the development of major initiatives (for example, investments on technology) should be provided as well. Documents and other supporting data that support the cost projections should be provided as well. If the identity of vendors has been established, please provide that information.

I am assisting AFSCME locals and AFSCME Council 25 with issues related to the Proposal. We have been asked to meet with the EFM's representatives on Thursday. Accordingly, information related to items 1 through 3 should be provided prior to our meeting and the remaining information as soon as possible. I appreciate your cooperation. Feel free to call me at (202)429-1237 or email skreisberg@afscme.org if you have any questions or are in need of clarification.

Sincerely,



Steven Kreisberg
Director of Collective Bargaining and
Health Care Policy

SK:tem

Exhibit 6

JONES DAY

77 WEST WACKER • CHICAGO, ILLINOIS 60601.1692
TELEPHONE: +1.312.782.3939 • FACSIMILE: +1.312.782.8585

June 14, 2013

VIA E-MAIL

Ed McNeil
Assistant to the President
AFSCME, MI Council 25
600 W. Lafayette, Ste. 500
Detroit, MI 48226
emcneil@miafscme.org

Re: Retiree Benefit Restructuring Meeting

Dear Mr. McNeil:

As a follow-up to my letter dated May 20, 2013, a meeting has been scheduled for Thursday, June 20, 2013, at 10:00 a.m. at the Coleman A. Young Municipal Center, 2 Woodward Ave., 13th Floor Auditorium, Detroit, Michigan 48226 to review the restructuring plan for retiree benefits developed by Emergency Manager Kevyn Orr. On behalf of the Emergency Manager, I am inviting the American Federation of State, County and Municipal Employees, Michigan Council 25 to attend this meeting to learn about the City's restructuring plan. Due to space limitations, we are requesting that only two representatives from each union or retiree association attend the meeting. This meeting is not open to the general public or to the media, and no video devices, phone cameras, or other recording devices will be permitted in the auditorium. Please arrive at least 30 minutes before the start of the meeting to allow enough time to register. Proof of identification and your affiliation is required and will be checked prior to entering the meeting.

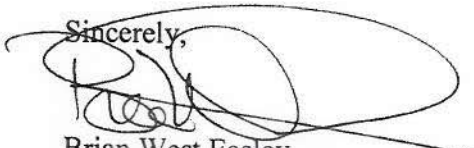
Please confirm in writing (including names, contact information, and affiliation) the two representatives of your union or association that will be attending the meeting no later than Tuesday, June 18, 2013. To the extent one or both of your representatives will need to be released from work to attend the meeting, please note this in your response and we will coordinate with the City's labor and employee relations department to ensure such employees are excused from work to attend the meeting.

We appreciate the willingness of the American Federation of State, County and Municipal Employees, Michigan Council 25 to participate in these discussions and look forward to your input with respect to these important issues.

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JONES DAY

June 14, 2013
Page 2

Sincerely,

Brian West Easley

cc: Mr. Kevyn Orr
Mr. Lamont Satchel
Mr. David Birnbaum

Exhibit 7

JONES DAY

77 WEST WACKER • CHICAGO, ILLINOIS 60601-1692
TELEPHONE: 312-782-3939 • FACSIMILE: 312-782-8585

June 27, 2013

VIA E-MAIL

James Williams
President
AFSCME, Local 207 – Non-Supervisory Unit
600 W. Lafayette, Ste. L-106
Detroit, MI 48226
afscme207@sbcglobal.net

Re: City of Detroit Restructuring

Dear Mr. Williams:

Thank you for participating in the June 20, 2013 informational meetings pertaining to the City of Detroit's (the "City's") proposals to restructure the City's retiree medical and pension obligations. We appreciated your questions and input and look forward to discussing these issues with the American Federation of State, County and Municipal Employees, Local 207 – Non-Supervisory Unit in the coming weeks.

The City recognizes that representatives of active and retired employees will need access to additional information to analyze the restructuring proposals outlined in the June 20 meetings. Information relevant to these proposals will be made available in the on-line data room established for creditors and other stakeholders. If you do not yet have access to the data room, please contact Dan Merrett (dmerrett@jonesday.com/ (404) 581-8476), who will provide you with further instructions.

To the extent you will need additional information beyond that provided in the data room to analyze and provide input with respect to the City's retiree benefits restructuring proposals, please forward requests for such information directly to my attention. We will make every effort to make responsive and relevant information available in a timely manner.

The City is very much looking forward to the unions' feedback with respect to the City's retiree benefits restructuring proposal. As we repeatedly stated during the meeting, to the extent that your organization has additional ideas about restructuring retiree benefits in a manner consistent with the City's financial limitations, the City will consider any such ideas. Please let me know if you would like to set up a time to further discuss these issues.

Sincerely,


Brian West Easley

cc: Kevyn Orr, Esq.
Mr. Lamont Satchel

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Exhibit 8



Lee Saunders
President

Laura Reyes
Secretary-Treasurer

Vice Presidents

Ken Allen
Portland, OR

Henry L. Bayer
Chicago, IL

Ken Deltz, RN
San Dimas, CA

Greg Devereux
Olympia, WA

Danny Donahoe
Albany, NY

David R. Fillman
Harrisburg, PA

Michael Fox
Harrisburg, PA

Kathleen Garrison
Latham, NY

Raglan George Jr.
New York, NY

Nacie Harrell
Williamstown, NJ

Johanna Puno Hester
San Diego, CA

Danny J. Homan
Des Moines, IA

Salvatore Luciano
New Britain, CT

John A. Lyall
Worthington, OH

Kathryn Lybarger
Oakland, CA

Roberta Lynch
Chicago, IL

Christopher Mabe
Westerville, OH

Glenard S. Middleton Sr.
Baltimore, MD

Ralph Miller
Los Angeles, CA

Gary Mitchell
Madison, WI

Douglas Moore Jr.
San Diego, CA

Frank Moroney
Boston, MA

Henry Nicholas
Philadelphia, PA

Randy Perreira
Honolulu, HI

Greg Powell
Austin, TX

Lillian Roberts
New York, NY

Eddie Rodriguez
New York, NY

Lawrence A. Roehrig
Lansing, MI

Joseph P. Rugola
Columbus, OH

Eliot Seide
South St. Paul, MN

Mary E. Sullivan
Albany, NY

Brucilo Torres
San Juan, PR

David Warrick
Indianapolis, IN

Jeanette D. Wynn
Tallahassee, FL

July 2, 2013

Mr. Brian West Easterly
Jones Day
77 West Wacker
Chicago, IL 60601

Via Fax: (312) 782-8585

Dear Mr. Easterly:

You have contacted a number of Local unions affiliated with AFSCME for the purpose of offering information and inviting "feedback" on the Emergency Financial Manager's (EFM) proposal to "restructure" retiree benefits. The undersigned, in conjunction with AFSCME Council 25 President Albert Garrett and Council 25's Assistant to the President Ed McNeil will be representing our affiliated Locals in these matters. We are not representing current retirees.

I have followed the procedures and have been provided access to the on-line data room established by the EFM. I have also been in touch with Kyle Herman from Miller Buckfire as instructed by the EFM in his "Proposal to Creditors" on June 14. As I stated in an e-mail message to Mr. Herman, the electronic data room does not have all of the information I have requested of the EFM in a letter dated June 17, 2013 (copy enclosed). To reiterate, I have requested the following:

1. A copy of the preliminary actuarial analysis, to include a full description of all assumptions relied upon, used to support the revised cost estimates and funding condition of the PFRS and GRS pension systems. Data should show projected normal cost for each plan and the proposed UAAL amortization payment as a percent of payroll. Subsequent to June 17, I have been given access to Milliman analysis of the pension system which is partially responsive to my request.
2. The basis for the cost estimates of retiree health care (OPEB) including a description of all assumptions relied upon (including eligibility for benefits under the plan and benefits under the plan), the annual net OPEB obligation, and projected pay-as-you-go funding requirements for the next ten years.
3. A description of the proposed retiree health care plan that will rely upon Medicare Advantage and the Exchange Marketplace under the Affordable Care Act and the basis for the estimated annual City cost of between \$27.5 million and \$40 million. To the extent eligibility for benefits is revised from the assumption in item 2 above, please describe the new eligibility criteria.

American Federation of State, County and Municipal Employees, AFL-CIO

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Brian West Easterly
July 2, 2013
Page 2 of 2

4. A description of all assumptions, data, and documents relied upon to support the following revenue projections:
 - a. Municipal income tax
 - b. Wagering taxes
 - c. Property taxes
 - d. State revenue sharing
 - e. Utility users' and other taxes
 - f. "Other revenue" (page 52 of the Proposal to Creditors)
5. A description of all projected services and investments included in the "Reorganization (Capital investments and Professional fees)" budget line item in the ten year Restructuring Scenario (page 97 of the Proposal to Creditors). Detail related to the development of major initiatives (for example, investments on technology) should be provided as well. Documents and other supporting data that support the cost projections should be provided as well. If the identity of vendors has been established, please provide that information.

To clarify, we are seeking the data relied upon by the EFM as he developed his retiree benefits restructuring proposal. Detailed information related to reorganization and restructuring initiatives consists of a one page financial summary. I am seeking the data relied upon to develop that summary, especially and including, the back-up data associated with estimated expenditures addressing "blight."

In response to your offer to provide "feedback" on the proposed restructuring of retirement benefits, we hereby request to meet with authorized representatives of the EFM on July 10, 2013 at 10:00 a.m. To date, your representatives have provided presentations, and scheduled an additional presentation on pension benefits for the afternoon of July 10, but the EFM has not provided AFSCME with a meaningful opportunity to engage in a good faith negotiation of these issues. That process should start as soon as possible. We suggest we meet at our offices in Detroit, 600 West Lafayette. It would be extremely helpful if you could provide the requested information in advance of the meeting.

Please contact me at (202)429-1237 or skreisberg@afscme.org to discuss these matters, if necessary, and to confirm our proposed meeting.

Sincerely,


Steven Kreisberg
Director of Collective Bargaining and
Health Care Policy

SK/dd

cc: Albert Garrett, AFSCME Council 25 President
Kevyn Orr, Emergency Financial Manager

Exhibit 9

JONES DAY

77 WEST WACKER • CHICAGO, ILLINOIS 60601-1692
TELEPHONE: 312-782-3939 • FACSIMILE: 312-782-8585

July 3, 2013

VIA E-MAIL

Mr. Steven Kreisberg
Director of Collective Bargaining and Health Care Policy
American Federation of State, County and Municipal Employees, AFL-CIO
1625 L Street, NW
Washington, DC 20036-5687
skreisberg@afscme.org

Re: City of Detroit Restructuring

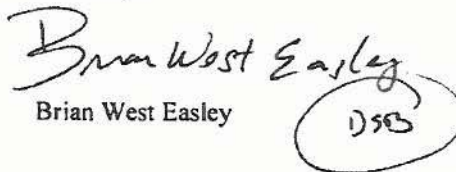
Dear Mr. Kreisberg:

We are in receipt of your letter dated July 2, 2013 in which you, among other things, request a meeting with representatives of Emergency Manager Kevyn Orr on July 10, 2013 at 10:00 a.m. In your letter, you acknowledge that a meeting has been scheduled for July 10, 2013 at 1:00 p.m. to discuss issues related to pension restructuring. However, you suggest that the scheduled meeting will be a "presentation," and state that AFSCME would prefer a meaningful opportunity for discussion.

The meeting currently scheduled for July 10, 2013 will not be a presentation but rather will be a discussion between the Emergency Manager's advisors and a relatively small group of key stakeholders who may include, the GRS and its advisor only team, high level representatives of up to four (4) non-uniform unions, and representatives from the Detroit Retired City Employees Association. The City believes that a discussion between and among these key stakeholders will be most beneficial and efficient for all parties. As such, while we are not available to meet with AFSCME at 10:00 a.m. on July 10, 2013, we encourage AFSCME to attend and participate in the scheduled meeting. Similarly, we are hopeful that AFSCME will attend the meeting regarding retiree health restructuring currently scheduled for 10:00 a.m. on July 11, 2013.

Please confirm whether AFSCME plans to attend the July 10, 2013 meeting at 1:00 p.m. and the July 11, 2013 meeting at 10:00 a.m. and provide the names of your proposed attendees.

Sincerely,


Brian West Easley

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JONES DAY

July 3, 2013
Page 2

cc: Evan Miller, Esq.
Kevyn Orr, Esq.
Mr. Lamont Satchel

Exhibit 10

From: Edward McNeil [<mailto:emcneil@miafscme.org>]
Sent: Friday, June 28, 2013 9:58 PM
To: Steve Kreisberg
Subject: Fwd: City of Detroit -- Pension Restructuring Discussions (GRS)

Sent from my iPhone

Begin forwarded message:

From: David Birnbaum <dbirnbaum@jonesday.com>
Date: June 28, 2013, 4:39:23 PM EDT
To: agarrett@miafscme.org, emcneil@miafscme.org
Cc: Evan Miller <emiller@jonesday.com>, Brian Easley <beasley@jonesday.com>, Heather Lennox <hlennox@jonesday.com>, "David G. Heiman" <dgheiman@jonesday.com>
Subject: City of Detroit -- Pension Restructuring Discussions (GRS)

Mr. Garrett and Mr. McNeil:

Following the presentations made on June 20th, outside counsel for GRS reached out to the City of Detroit for more information on, and to discuss, a pension restructuring proposal. GRS and the City of Detroit have tentatively scheduled a meeting on pension restructuring for Wednesday, July 10th, at 1 pm (location to be determined). The City will be prepared to provide more information on its developing pension restructuring proposal. Because the City expects that the proposal will impact the pension benefits of active participants of GRS, who include your members, the City would like to invite you to this meeting on July 10th, at 1 pm to participate in the discussion. We expect the meeting will last approximately 2 hours. GRS will be sending an advisor-only team (attorneys and financial advisors), and the City believes this is a good way to proceed. Please let us know at your earliest convenience if you will attend and the names of the attendees. We will contact you as soon as practicable to provide details about the meeting location.

Regards,

David



David S. Birnbaum

77 West Wacker Drive, Suite 3500 • Chicago, IL 60601
DIRECT 312.269.4005 • FAX 312.782.8585 • EMAIL dbirnbaum@jonesday.com

Exhibit 11



August 6, 2013

Lee Saunders
President

Laura Reyes
Secretary-Treasurer

Vice Presidents

Ken Allen
Portland, OR

Henry L. Bayer
Chicago, IL

Ken Delitz, RN
San Dimas, CA

Greg Devereaux
Olympia, WA

Danny Donohue
Albany, NY

David R. Fillman
Harrisburg, PA

Michael Fox
Harrisburg, PA

Kathleen Garrison
Latham, NY

Raglan George Jr.
New York, NY

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Williamstown, NJ

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San Diego, CA

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Des Moines, IA

Salvatore Luciano
New Britain, CT

John A. Lyall
Worthington, OH

Kathryn Lybarger
Oakland, CA

Roberta Lynch
Chicago, IL

Christopher Mabe
Westerville, OH

Glenard S. Middleton Sr.
Baltimore, MD

Ralph Miller
Los Angeles, CA

Gary Mitchell
Madison, WI

Douglas Moore Jr.
San Diego, CA

Frank Moroney
Boston, MA

Henry Nicholas
Philadelphia, PA

Randy Parrella
Honolulu, HI

Greg Powell
Austin, TX

Lillian Roberts
New York, NY

Eddie Rodriguez
New York, NY

Lawrence A. Roehrig
Lansing, MI

Joseph P. Rugola
Columbus, OH

Elton Selde
South St. Paul, MN

Mary E. Sullivan
Albany, NY

Braulio Torres
San Juan, PR

David Warrick
Indianapolis, IN

Jeanette D. Wynn
Tallahassee, FL

Mr. Evan Miller
Jones Day
51 Louisiana Av, NW
Washington, DC 20001

Via Email: emiller@jonesday.com

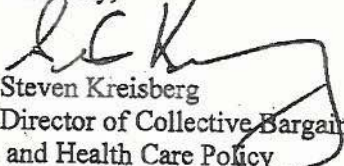
Dear Mr. Miller:

On August 2, 2013 you convened a meeting among local city union representatives to convey, in your capacity as a representative of the City of Detroit, an "Active Employee Health Insurance Proposal." During that meeting, you specifically advised those of us in attendance that the meeting was not a "negotiation" but you requested "feedback" on the proposal. At the meeting, it was brought to your attention that the City of Detroit Coalition Unions (CDCU), led by AFSCME Council 25 Assistant to the President Ed McNeil, had engaged in health benefit negotiations in 2011-12 and had achieved an agreement with the city for health care concessions valued at \$60 million annually (at that time). That agreement was never implemented.

In accordance with Michigan Public Employment Relations Act (MERA), MCL 423.201 et seq., AFSCME Council 25, on behalf of the CDCU, hereby demands bargaining in good faith on the City's August 2 health insurance proposal. We see no exemption under Chapter 9 of the bankruptcy code or the Emergency Financial Manager law (Public Act 436) from the City's duty to bargain in good faith with the exclusive representatives of city employees over terms and conditions of employment.

Ms. Samantha Woo from Jones Day has contacted Mr. McNeil to schedule a meeting with him, yourself and Brian West Easterly to discuss active employee health benefits. Attached for your reference is a summary of the CDCU proposal, including cost savings estimates, from the previous negotiations. We suggest we convene a meeting between you and Ed McNeil who will be accompanied by Richard Mack, on August 13, 2013 at 2:00 p.m. to discuss this matter. Msrs. McNeil and Mack were the CDCU's lead negotiators in 2011-12. Please respond to the undersigned at (202) 429-1237 or skreisberg@afscme.org or to Ed McNeil at (313)964-1711 or emcneil@miafscme.org.

Sincerely,


Steven Kreisberg
Director of Collective Bargaining
and Health Care Policy

SK/gm

American Federation of State, County and Municipal Employees, AFL-CIO

TEL (202) 429-1000 FAX (202) 429-1293 TDD (202) 659-0446 WEB www.afscme.org 1625 L Street, NW, Washington, DC 20036-5687

DRAFT - SUBJECT TO CHANGE

**EXHIBIT A
MEDICAL CONCESSIONS**

		Union	Management ¹
<u>PPO plan:</u>			
Employee premium contribution	20% for all plans	\$ 8,100,000	\$ 8,100,000
Plan deductible	\$250/\$500	\$ 10,310,000	\$ 10,310,000
Insurance maximum	\$1,000/\$2,000	\$ 9,006,000	\$ -
Insurance maximum	\$1,500/\$3,000	\$ -	\$ 9,480,000
Office visit & urgent care co-pay	\$15	\$ 656,667	\$ -
Office visit & urgent care co-pay	\$25	\$ -	\$ 1,970,000
Emergency room co-pay	\$100	\$ -	\$ 610,000
Hospital co-pay	\$100	\$ -	\$ 520,000
Rx drugs - CVS Caremark plan		\$ 28,175,445	\$ -
Rx drugs - 3 tier co-pay structure	\$5/\$15/\$30	\$ -	\$ -
Rx drugs - 3 tier co-pay structure	\$10/\$20/\$30	\$ -	\$ 10,500,000
Rx drugs - Pharmacy Initiatives		\$ -	\$ 11,000,000
<u>HMO plan:</u>			
Health Alliance Plan changes ²	various	\$ -	\$ 3,715,000
<u>Other changes:</u>			
Eliminate BCN		\$ 2,950,000	\$ 3,100,000
Eliminate Total Health		\$ -	\$ 900,000
Eliminate US Health		\$ 1,190,000	\$ 1,190,000
Dental - convert all plans to Dencap		\$ -	\$ 1,215,000
Dental/Vision employee contribution	20% for all plans	\$ -	\$ 2,977,000
Adjustment for Weiler class retirees	45% of retirees	\$ -	\$ (16,527,924)
Total savings		\$ 60,388,112	\$ 49,059,076
<u>Incremental changes to reach \$60m target:</u>			
Plan deductible (PPO)	\$750/\$1500	\$ -	\$ 3,744,633
Insurance maximum (PPO)	\$2,500/\$5,000	\$ -	\$ 3,744,633
Health Alliance Plan changes ³	various	\$ -	\$ 2,436,750
Other			\$ 1,014,907
Total savings including incremental savings		\$ 60,388,112	\$ 60,000,000

Notes:

1. Management estimate assumes PPO plan changes are underwritten by BCBS
2. Savings from HAP changes assumes \$250 ded, 20% co-ins, \$1,500 co-ins max, \$1,750 OOP max, \$25 OV, \$75 ER, \$25 UC, Rx \$10/\$20/\$30
3. Incremental savings from HAP changes assumes \$750 ded, 20% co-ins, \$2,500 co-ins max, \$3,250 OOP max, \$25 OV, \$75 ER, \$25 UC, Rx \$10/\$20/\$30

Exhibit 12

JONES DAY

77 WEST WACKER • CHICAGO, ILLINOIS 60601.1692
TELEPHONE: +1.312.782.3939 • FACSIMILE: +1.312.782.8585

August 8, 2013

VIA EMAIL

Mr. Steven Kreisberg
Director of Collective Bargaining and Health Care Policy
AFSCME, AFL-CIO
1625 L Street, NW
Washington, D.C. 20036
SKreisberg@afscme.org

Re: City of Detroit and AFSCME Council 25

Dear Mr. Kreisberg:

I am in receipt of your letter dated August 6, 2013 in which AFSCME Council 25, on behalf of the City of Detroit Coalition Unions, "demand[ed] bargaining in good faith on the City's August 2 health insurance proposal." While the City of Detroit (the "City") previously was subject to a statutory duty to "bargain collectively with the representatives of its employees" pursuant to section 15(1) of the Michigan Public Employment Relations Act ("PERA"), the duty to bargain was suspended when the City was placed in receivership under Public Act 436 ("PA 436"). MICH. COMP. LAWS § 423.215(1); § 141.1567(3). Specifically, PA 436 provides that "[a] local government placed in receivership . . . is not subject to section 15(1) of 1947 PA 336, MCL 423.215, for a period of 5 years from the date the local government is placed in receivership or until the time the receivership is terminated, whichever occurs first." MICH. COMP. LAWS § 141.1567(3). As such, the City currently is not subject to a statutory duty to bargain under PERA.

Although the City will exercise its current right not to engage in collective bargaining with AFSCME Council 25, the City is more than willing to meet with representatives of your union to discuss any feedback they may have regarding its health care restructuring plans. We are available to meet with Mr. Ed McNeil and Mr. Richard Mack on Wednesday, August 14, 2013 at 2:00 p.m. to discuss the City's active employee health insurance proposal. Please let me know at your earliest convenience if this date and time are acceptable.

We look forward to working closely with your union as we attempt to restructure the City's finances and operations.

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JONES DAY

Mr. Steven Kreisberg
August 8, 2013
Page 2

Sincerely,

Evan Miller/suo

Evan Miller

cc: Brian West Easley, Esq.
Ed McNeil

Exhibit A

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF INGHAM

THE GENERAL RETIREMENT SYSTEM
OF THE CITY OF DETROIT, and THE
POLICE AND FIRE RETIREMENT
SYSTEM OF THE CITY OF DETROIT,

Graigie Webster
and Veronica Thomas

Plaintiffs,

Case No. 13-768-CZ

13-000734-CZ
C30

vs.

State of Michigan

Hon. Rosemarie
Aquilina

KEVIN D. ORR, in his official capacity as the
EMERGENCY MANAGER OF THE CITY OF
DETROIT, and RICHARD SNYDER, in his
official capacity as the GOVERNOR OF THE
STATE OF MICHIGAN, and Andy Dillon,

Defendants.

Treasury in his official capacity

Ronald A. King (P45088)
Aaron O. Matthews (P64744)
Michael J. Pattwell (P72419)
CLARK HILL PLC
212 East Grand River Avenue
Lansing, Michigan 48906
(517) 318-3100
Attorneys for Plaintiffs

John R Canzano P30417
McKnight, McCloy, Canzano Smith
& Radtke PC
400 Galleria Office Center

TEMPORARY RESTRAINING ORDER

At a session of said Court, held in the City of
Lansing, County of Ingham, State of Michigan
on 18 July 13

PRESENT: HON.

Rosemarie Aquilina
CIRCUIT COURT JUDGE

and having appeared
during the hearing
for a TRO in 13-000734

This matter having come before the Court on Plaintiffs' Complaint with verification and

Declaratory Judgment and Preliminary Injunction,
Ex Parte Motion for a Temporary Restraining Order; the Court being fully advised in the

premises; Plaintiffs having shown a likelihood of success on the merits of the claims in

Plaintiffs' Complaint; Plaintiff having adequately shown that a failure to immediately issue a Temporary Restraining Order will cause irreparable injury to Plaintiffs by permitting the Governor and the Emergency Manager ("Defendants") to authorize and file a Chapter 9 bankruptcy petition wherein Plaintiffs' accrued financial benefits will be impaired prior this Court's scheduled preliminary injunction hearing on Monday, July 22, 2013; and the Court being otherwise fully informed in the premises and finding good cause:

IT IS HEREBY ORDERED that Plaintiffs' Motion is granted;

IT IS FURTHER ORDERED that Defendants are immediately and temporarily enjoined and restrained from taking any action (including the authorization of an unconditional Chapter 9 bankruptcy proceeding for the City of Detroit and/or the filing of a Chapter 9 bankruptcy petition) ^{or taking any further action with respect to any filing} that may: (i) cause the accrued financial benefits of the Retirement System ^{which has already occurred} or their participants from in any way being diminished or impaired as mandated by Article IX, section 24, of the Michigan Constitution, or (ii) otherwise abrogate Article IX, section 24, of the Michigan Constitution;

IT IS FURTHER ORDERED that the Court shall hold a hearing on July 22, 2013 at 9:00 AM ^{Declaratory Judgment and/or} whereby Defendants shall show cause why a Preliminary Injunction shall not issue; and

IT IS FURTHER ORDERED that this temporary restraining order shall remain in full force and effect until further order of the Court, 2013 at 5:00 p.m.

IT IS SO ORDERED.

DATE: 18 July 13

TIME: 4:25 p.m.

Rosemarie E. Aquilina
CIRCUIT COURT JUDGE
P37670

^{30th} STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF INGHAM

THE GENERAL RETIREMENT SYSTEM
OF THE CITY OF DETROIT, and THE
POLICE AND FIRE RETIREMENT
SYSTEM OF THE CITY OF DETROIT,

Plaintiffs,

vs.

KEVYN D. ORR, in his official capacity as the
EMERGENCY MANAGER OF THE CITY OF
DETROIT, and RICHARD SNYDER, in his
official capacity as the GOVERNOR OF THE
STATE OF MICHIGAN,

Defendants.

Case No. 13-768-CZ

Hon. Rosemarie E. Aquilina

Ronald A. King (P45088)
Aaron O. Matthews (P64744)
Michael J. Pattwell (P72419)
CLARK HILL PLC
212 East Grand River Avenue
Lansing, Michigan 48906
(517) 315-3100
Attorneys for Plaintiffs

Flowers attorneys

TEMPORARY RESTRAINING ORDER

At a session of said Court, held in the City of
Lansing, County of Ingham, State of Michigan
on 18 July 13

PRESENT: HON. Rosemarie E. Aquilina

CIRCUIT COURT JUDGE

Amended Verified

This matter having come before the Court on Plaintiffs' Complaint ~~with verification~~ and
~~Ex Parte~~ *Preliminary Injunction* Motion for a Temporary Restraining Order; the Court being fully advised in the
premises; Plaintiffs having shown a likelihood of success on the merits of the claims in

Plaintiffs' Complaint; Plaintiff having adequately shown that a failure to immediately issue a

~~Preliminary Injunction~~
~~Temporary Restraining Order~~ will cause irreparable injury to Plaintiffs by permitting the
~~and the State Treasurer~~

Governor ~~and the Emergency Manager~~ ("Defendants") to authorize ~~and file a~~ Chapter 9
~~on behalf of the City of Detroit, or to aid in such a filing~~ bankruptcy petition wherein Plaintiffs' accrued financial benefits will be impaired ~~prior to this~~
~~or otherwise proceed with~~

~~Court's scheduled preliminary injunction hearing on Monday, July 22, 2013; and the Court being~~

otherwise fully informed in the premises and finding good cause:

IT IS HEREBY ORDERED that Plaintiffs' Motion is granted;

IT IS FURTHER ORDERED that Defendants are immediately and ~~temporarily~~ enjoined
~~preliminarily~~
and restrained from taking any action (including the authorization of an ~~unconditional~~ Chapter 9

bankruptcy proceeding for the City of Detroit and/or the filing of a Chapter 9 bankruptcy
~~or any action~~ petition) ~~that may: (i) cause the accrued financial benefits of the Retirement Systems or their~~
~~participants from in any way being diminished or impaired as mandated by Article IX, section~~
~~24, of the Michigan Constitution, or (ii) otherwise abrogate Article IX, section 24, of the~~
~~Michigan Constitution;~~

IT IS FURTHER ORDERED that the Court shall hold a hearing on _____, 2013 at
_____ whereby Defendants shall show cause why a Preliminary Injunction shall not issue; and
~~preliminary injunction until~~

IT IS FURTHER ORDERED that this ~~temporary restraining order~~ shall remain in full
~~force and effect until~~ ~~the court~~ ~~force and effect until~~ _____, 2013 at 5:00 p.m.

IT IS SO ORDERED.

DATE: 18 July 13

TIME: 4:25 p.m.

Rosemarie Edgumina
CIRCUIT COURT JUDGE
P.37670

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF INGHAM

THE GENERAL RETIREMENT SYSTEM
OF THE CITY OF DETROIT, and THE
POLICE AND FIRE RETIREMENT
SYSTEM OF THE CITY OF DETROIT,

Plaintiffs,

vs.

KEVYN D. ORR, in his official capacity as the
EMERGENCY MANAGER OF THE CITY OF
DETROIT, and RICHARD SNYDER, in his
official capacity as the GOVERNOR OF THE
STATE OF MICHIGAN,

Defendants.

Case No. 13-768-CZ

Hon. *Rosemarie E. Apulina*

Ronald A. King (P45088)
Aaron O. Matthews (P64744)
Michael J. Pattwell (P72419)
CLARK HILL PLC
212 East Grand River Avenue
Lansing, Michigan 48906
(517) 318-3100
Attorneys for Plaintiffs

TEMPORARY RESTRAINING ORDER

At a session of said Court, held in the City of
Lansing, County of Ingham, State of Michigan
on 18 July 13

PRESENT: HON. *Rosemarie E. Apulina*

CIRCUIT COURT JUDGE

This matter having come before the Court on Plaintiffs' Complaint with verification and
Ex-Parte Motion for a Temporary Restraining Order; the Court being fully advised in the
premises; Plaintiffs having shown a likelihood of success on the merits of the claims in

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Plaintiffs' Complaint; Plaintiff having adequately shown that a failure to immediately issue a Temporary Restraining Order will cause irreparable injury to Plaintiffs by permitting the Governor and the Emergency Manager ("Defendants") to authorize and file a Chapter 9 bankruptcy petition wherein Plaintiffs' accrued financial benefits will be impaired prior this Court's scheduled preliminary injunction hearing on Monday, July 22, 2013; and the Court being otherwise fully informed in the premises and finding good cause:

IT IS HEREBY ORDERED that Plaintiffs' Motion is granted;

IT IS FURTHER ORDERED that Defendants are immediately and temporarily enjoined and restrained from taking any action ^{Further} ~~(including the authorization of an unconditional Chapter 9 bankruptcy proceeding for the City of Detroit and/or the filing of a Chapter 9 bankruptcy petition)~~ that may: (i) cause the accrued financial benefits of the Retirement Systems or their participants from in any way being diminished or impaired as mandated by Article IX, section 24, of the Michigan Constitution, or (ii) otherwise abrogate Article IX, section 24, of the Michigan Constitution;

IT IS FURTHER ORDERED that the Court shall hold a hearing on 22 July, 2013 at 9:00 AM whereby Defendants shall show cause why a Preliminary Injunction shall not issue; and

IT IS FURTHER ORDERED that this temporary restraining order shall remain in full force and effect until 1 AUG, 2013 at 5:00 p.m.

IT IS SO ORDERED.

DATE: 18 July 13

TIME: 4:25

Rosemarie E. Aquilina
CIRCUIT COURT JUDGE *P37670*

Exhibit B

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF INGHAM

GRACIE WEBSTER and
VERONICA THOMAS,

Plaintiffs,

vs

Case No. 13-734-CZ
Hon. Rosemarie Aquilina

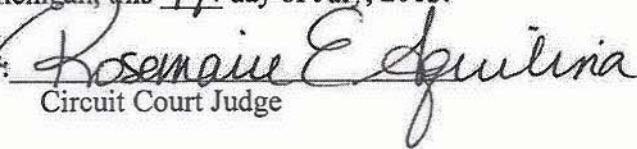
THE STATE OF MICHIGAN;
RICHARD SNYDER, as Governor
of the State of Michigan; and
ANDY DILLON, as Treasurer of
the State of Michigan,

Defendants.

ORDER OF DECLARATORY JUDGMENT

At a session of said Court held in Ingham County Circuit Court,
State of Michigan, this 19th day of July, 2013.

PRESENT:


Circuit Court Judge

Plaintiffs request declaratory relief pursuant to MCR 2.605 concerning (1) the constitutionality under Article IX Section 24 of the Michigan Constitution of the Local Financial Stability and Choice Act, 2012 PA 436, MCL 141.1541, *et seq.* ("PA 436"), insofar as PA 436 permits the Governor to authorize an emergency manager to proceed under chapter 9 of the bankruptcy code, chapter 9 of title 11 of the United States Code, 29 USC 901 to 946 ("Chapter 9") in a manner which threatens to diminish or impair accrued pension benefits; and (2) the

authority of the Governor and/or State Treasurer to authorize an emergency manager to proceed under Chapter 9 in a manner which threatens to diminish or impair accrued pension benefits.

Plaintiffs have requested, and Defendants have agreed in their Response, that the hearing in this matter may be advanced pursuant to MCR 2.605(D) and the court finds that expedited treatment is appropriate and that final declaratory relief is proper at this time.

The Court having reviewed the parties filings and submissions, and having heard oral argument by counsel for the parties, and being otherwise fully advised in the premises, and for the reasons stated on the record,

IT IS HEREBY ORDERED:

PA 436 is unconstitutional and in violation of Article IX Section 24 of the Michigan Constitution to the extent that it permits the Governor to authorize an emergency manager to proceed under Chapter 9 in any manner which threatens to diminish or impair accrued pension benefits; and PA 436 is to that extent of no force or effect;

The Governor is prohibited by Article IX Section 24 of the Michigan Constitution from authorizing an emergency manager under PA 436 to proceed under Chapter 9 in a manner which threatens to diminish or impair accrued pension benefits, and any such action by the Governor is without authority and in violation of Article IX Section 24 of the Michigan Constitution.

On July 16, 2013, City of Detroit Emergency Manager Kevyn Orr submitted a recommendation to Defendant Governor Snyder and Defendant Treasurer Dillon pursuant to Section 18(1) of PA 436 to proceed under Chapter 9, which together with the facts presented in Plaintiffs' filings, reflect that Emergency Manager Orr intended to diminish or impair accrued pension benefits if he were authorized to proceed under Chapter 9. On July 18, 2013, Defendant

Governor Snyder approved the Emergency Manager's recommendation without placing any contingencies on a Chapter 9 filing by the Emergency Manager; and the Emergency Manager filed a Chapter 9 petition shortly thereafter. By authorizing the Emergency Manager to proceed under Chapter 9 to diminish or impair accrued pension benefits, Defendant Snyder acted without authority under Michigan law and in violation of Article IX Section 24 of the Michigan Constitution.

In order to rectify his unauthorized and unconstitutional actions described above, the Governor must (1) direct the Emergency Manager to immediately withdraw the Chapter 9 petition filed on July 18, and (2) not authorize any further Chapter 9 filing which threatens to diminish or impair accrued pension benefits.

A copy of this Order shall be transmitted to President Obama.

It is so Ordered. *Rosemarie E. Aquilino*
Circuit Court Judge *P37670*

Exhibit C

CITY OF DETROIT
PROPOSAL FOR CREDITORS

JUNE 14, 2013



CITY OF DETROIT

PROPOSAL FOR CREDITORS

JUNE 14, 2013

This proposal is based on numerous projections and assumptions concerning future uncertain events including estimates of tax revenues and forecasts of future business and economic conditions in the city, all of which are beyond the control of the city. Actual results may differ from the assumptions and projections presented herein, and such differences could be material.

Additional data are being gathered or developed, and various critical financial and operational analyses remain in process. Thus, this proposal remains subject to material change.

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DETROIT FACES STRONG ECONOMIC HEADWINDS

DETERIORATING MACROECONOMIC CONDITIONS.

During the past several decades, the City of Detroit (the “City”) has experienced changes that have adversely affected the economic circumstances of the City and its residents.

Declining Population. The City’s population has declined 63% since its postwar peak, including a 26% decline since 2000:

- June 1950: 1,849,600
- June 1990: 1,028,000
- June 2000: 951,270
- June 2010: 713,777
- December 2012: 684,799

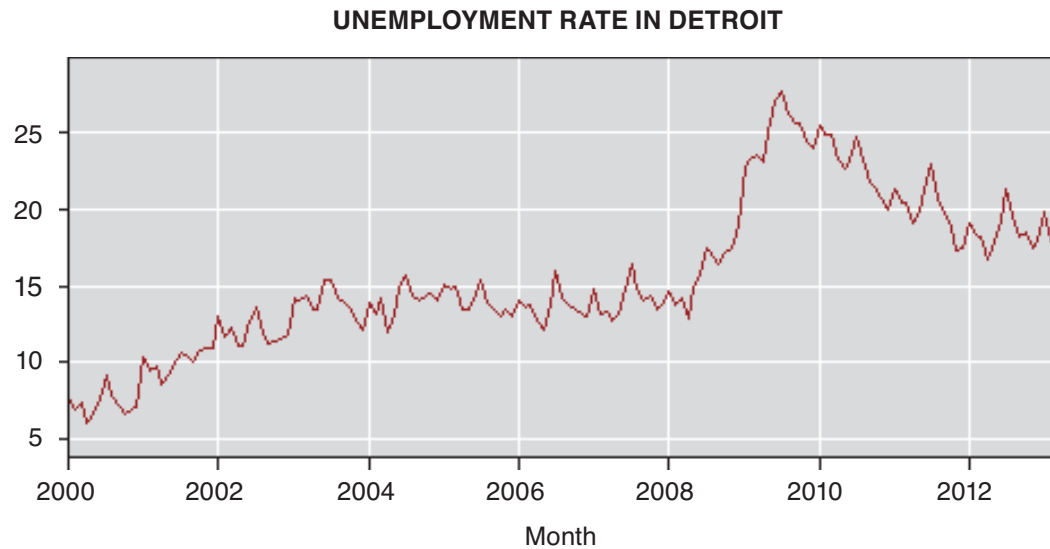
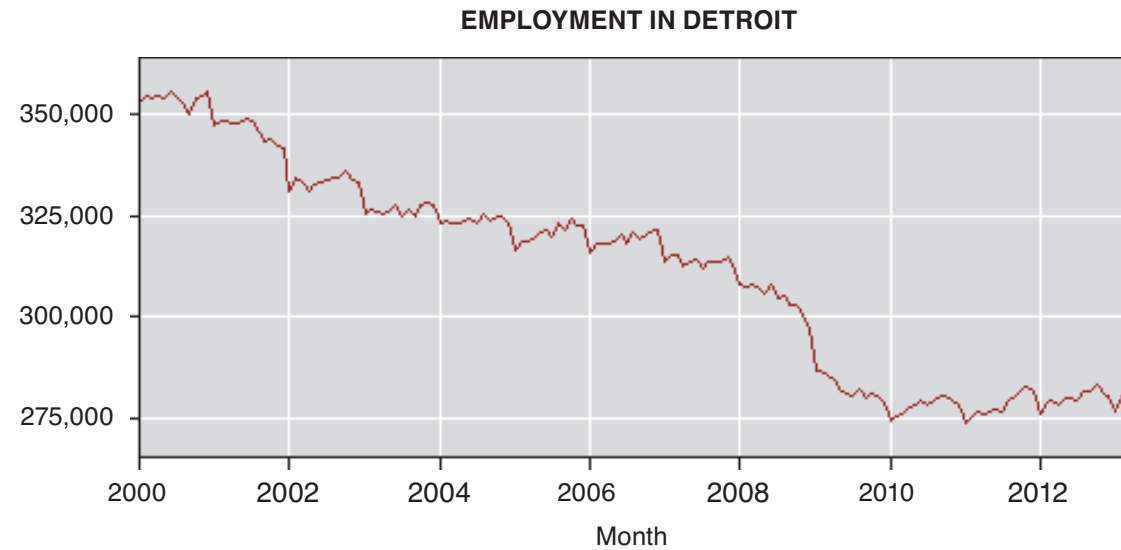
High Unemployment. Despite some recent improvement, the City’s unemployment rate has nearly tripled since 2000:

- June 2000: 6.3%
- June 2010: 23.4%
- June 2012: 18.3%

Number of Detroit Residents Employed.

	2000	2010	2012
Labor force	381,498	361,538	343,856
Employment	353,813	278,063	279,960
Unemployment	27,685	83,475	63,896
Unemployment rate	7.3%	23.1%	18.6%

- The number of employed Detroit residents has dropped more than 53% since 1970.



Eroding Tax Base and Reductions in State Revenue Sharing.

- **Property Taxes.**
 - Property tax revenues have decreased by approximately 19.7% over the past five years as a result of declining assessed values (\$1.6 billion from 2008 to 2012) and lower collection rates (from 76.6% in 2008 to 68.3% in 2011).
 - Projected FY 2013 property tax revenues are \$135 million, a reduction of \$13 million (or approximately 9%) from FY 2012 levels.
- **Income Taxes.**
 - Income tax revenues have decreased by \$91 million since 2002 (approximately 30%) and by \$44 million (approximately 15%) since 2008. The primary cause of these decreases has been high unemployment driving lower taxable income of City residents and non-residents working in the City.
 - Income tax revenues may be showing signs of stabilization. This results from a modest decrease in unemployment, the indefinite deferral of a previously planned decrease of the City's 2.4% resident income tax rate and an increase in the corporate income tax rate from 1% to 2% in January 2012.
 - The income tax rate for residents and non-residents was set to decrease due to criteria set by the City Income Tax Act, but legislation has been put in place to hold the tax rates at the current level (2.4% for residents and 1.2% for non-residents) in order to avoid a loss of income tax revenues.
- **Utility Users' Excise Tax.**
 - Revenues from the City's utility users' tax have declined from approximately \$55.3 million in FY 2003 to approximately \$39.8 million in FY 2012 (approximately 28%).
- **Wagering Taxes.**
 - Annual receipts of wagering taxes have remained steady at about \$170–\$180 million, but gaming tax receipts are projected to decrease through FY 2015 due to expected loss of gaming revenue to casinos opening in nearby Toledo, Ohio.

- State Revenue Sharing.
 - State revenue sharing has decreased by \$161 million since FY 2002 (approximately 48%) and by \$76 million (approximately 30.6%) since 2008 due to the City's declining population and significant reductions in statutory revenue sharing by the State.
 - Revenue sharing is calculated based on population; revenue sharing amounts will decrease further if the City's population continues to decline.
- **The City is currently levying all taxes at or near statutory maximum rates.**

RESIDENTS AND BUSINESSES ARE LEAVING DETROIT TO ESCAPE HIGH TAXES AND INSURANCE COSTS.

Comparative Tax Burden.

- **Per Capita Tax Burden.** Per capita tax burden on City residents is the highest in Michigan. This tax burden is particularly severe because it is imposed on a population that has relatively low levels of per capita income.
- **Resident Income Tax.** Income tax burden on residents is greater than that of residents in the surrounding area. The City's income tax — 2.4% for residents, 1.2% for nonresidents and 2.0% for businesses — is the highest in Michigan.
- **Property Taxes.** Detroit residents pay the highest total property tax rates (inclusive of property taxes paid to all overlapping jurisdictions; *e.g.*, the City, the State, Wayne County) of those paid by residents of Michigan cities having a population over 50,000. The total property tax rate (including property taxes assessed by the City, the State and various special authorities) imposed on Detroit homeowners is approximately 67.07 mills; for businesses the total property tax rate is approximately 85.35 mills.
 - At more than 19.95 mills, the City's property tax rate for general operations is close to the statutory maximum of 20.00 mills.
- **Utility Users Tax.** Detroit is the only city in Michigan that levies an excise tax on utility users (at a rate of 5%).

Comparative Tax Burden.

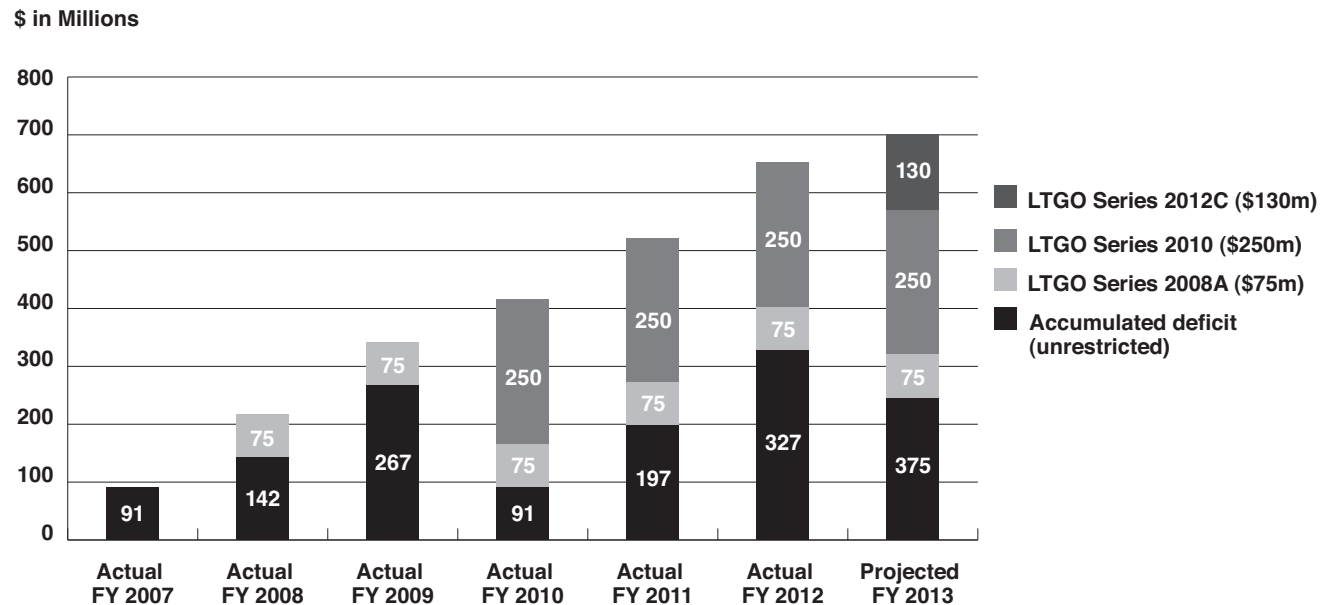
City	Population	Per Capita Income	TAX BURDEN		
			Per Capita Tax Burden	Resident Income Tax Rates	Resident Property Tax Rates
Detroit	684,799	\$15,261	\$1,207	2.4%	67.07 mills
Local Comparison					
Dearborn	98,153	\$22,816	\$668	N/A	60.23 mills
Livonia	96,942	\$31,959	\$590	N/A	36.81 mills
Southfield	71,739	\$29,228	\$930	N/A	60.70 mills

Comparative Insurance Costs.

City	Average Cost of Homeowner's Insurance	Average Cost of Automobile Insurance
Detroit	\$1,543	\$3,993
Local Comparison		
Dearborn	N/A	\$2,908
Livonia	N/A	\$2,052
Southfield	N/A	\$3,108

CONTINUING BUDGET DEFICITS.

Excluding the effect of recent debt issuances (e.g., \$75 million in FY 2008, \$250 million in FY 2010 and \$129.5 million in FY 2013) that funded the City's operating deficits, the City's accumulated general fund deficit has grown continuously over an extended period.



At the end of FY 2012, the City's accumulated general fund deficit was \$326.6 million.

The City's operating deficit for FY 2013 (which excludes the impact of the \$129.5 million debt issuance in August of 2012) is estimated to be approximately \$47 million.

If not for the City's recent debt issuances, the accumulated deficit for FY 2013 would have been approximately \$700 million.

THE CITY IS INSOLVENT.

Liquidity Crisis. Absent ongoing cash intervention (primarily in the form of payment deferrals and cost cutting), the City would have run out of cash before the end of FY 2013.

- The City had negative cash flows of \$115.5 million in FY 2012, excluding the impact of proceeds from short-term borrowings. In March 2012, to avoid running out of cash, the City borrowed \$80 million on a secured basis (of which the City spent \$50 million in FY 2012).
- The City is projecting to have positive cash flows of \$4.0 million in FY 2013 after deferring approximately \$120 million of current and prior year pension contributions and other payments.
- Absent intervention and/or restructuring, the City is projecting to have negative cash flows of \$198.5 million in FY 2014.
- As of the end of May 2013, the City had \$68 million of cash before property tax distributions, but had outstanding deferrals and amounts due to other funds and entities of approximately \$216 million. These are effectively borrowings and must be repaid.

The City is Not Paying Its Debts as They Come Due.

- The City is not making its pension contributions as they come due. The City has deferred payment of its year-end Police and Fire Retirement System contributions (and finances such deferrals at a rate of 8%). As of May 2013, the City had deferred approximately \$54 million in pension contributions related to current and prior periods and will defer approximately \$50 million on June 30, 2013 for current year PFRS pension contributions. Therefore, by fiscal year end the City will have deferred over \$100 million of pension contributions.
- The City will not make the scheduled \$39.7 million payments due on its pension-related certificates of participation on June 14, 2013.

Plummeting Credit Ratings.

The City's credit ratings have continuously declined during the past decade and are well below investment grade. No major U.S. city has lower credit ratings.

Ratings on the City's Uninsured General Obligation Bonds

	Moody's	Standard & Poor's	Fitch
June 30, 2003	Baa1	A-	A
June 30, 2004	Baa1	A-	A
June 30, 2005	Baa1	BBB+	BBB+
June 30, 2006	Baa2	BBB	BBB
June 30, 2007	Baa2	BBB	BBB
June 30, 2008	Baa2	BBB	BBB
June 30, 2009	Ba2	BB	BB
June 30, 2010	Ba3	BB	BB
June 30, 2011	Ba3	BB	BB-
June 30, 2012	B3	B	CCC

CURRENT LEVELS OF MUNICIPAL SERVICES TO RESIDENTS AND BUSINESSES ARE SEVERELY INADEQUATE.

The City Must Reduce High Crime Rates.

- In 2012, the City had the highest rate of violent crime of any U.S. city having a population over 200,000 (based on the FBI's Uniform Crime Reports database). The City's violent crime rate is five times the national average.
- All crime, not just violent crime, is prevalent in the City, with more than 136,000 crimes being reported in 2011.
 - See charts on following pages.
- EMS and DFD response times are extremely slow when compared to other cities (15 minutes and 7 minutes, respectively).
- Residents and business owners have been forced to take their safety into their own hands; some relatively well-off sections of the City have created private security forces.

Comparable Data Regarding Public Safety.

Crime Data – National & Local Comparables

OFFENSES KNOWN TO LAW ENFORCEMENT

by State by City, 2011

City	Population	Violent crime	Murder and nonnegligent manslaughter	Forcible rape	Robbery	Aggravated assault	Property crime	Burglary	Larceny-theft	Motor vehicle theft	Arson
Detroit	713,239	15,245	344	427	4,962	9,512	43,818	15,994	16,456	11,368	957

Local Comparison

Dearborn	98,079	359	3	22	104	230	3,757	612	2,705	440	12
Livonia	96,869	168	1	19	40	108	2,108	308	1,589	211	11
Southfield	71,685	377	4	33	116	224	2,681	710	1,592	379	5

National Comparison

Cleveland	397,106	5,426	74	354	3,156	1,842	25,323	10,706	10,524	4,093	319
Pittsburgh	308,609	2,476	44	67	1,126	1,239	10,063	2,686	6,897	480	195
St. Louis	320,454	5,950	113	188	2,127	3,522	25,669	7,015	15,285	3,369	191
Milwaukee	597,426	5,969	85	194	2,963	2,727	30,097	6,669	18,890	4,538	262

Incidents and Case Clearance Rates – National and Local Comparables

City	Violent Crime	Murder	Force Rape	Robbery	Aggravated Assault	Simple Assault	Property Crime	Burglary	Larceny Theft	MV Theft	Arson	Total
Detroit												
Cases Assigned	15,254	344	426	4,976	9,508	17,240	43,759	16,032	16,500	11,227	958	136,224
Cleared	2,841	39	54	401	2,347	2,427	1,844	730	578	536	57	11,854
Clearance Rate	18.6%	11.3%	12.7%	8.1%	24.7%	14.1%	4.2%	4.6%	3.5%	4.8%	5.9%	8.7%
Pittsburgh												
Cases Assigned	2,476	44	67	1,126	1,239	5,619	10,063	2,686	6,897	480	195	30,892
Cleared	1,247	22	61	435	729	3,963	1,997	498	1,312	187	55	10,506
Clearance Rate	50.4%	50.0%	91.0%	38.6%	58.8%	70.5%	19.8%	18.5%	19.0%	39.0%	28.2%	34.0%
Milwaukee												
Cases Assigned	6,637	86	205	3,091	3,255	7,253	30,669	7,079	19,030	4,560	272	82,137
Cleared	2,465	58	159	764	1,484	4,701	4,718	808	3,769	141	34	19,101
Clearance Rate	37.1%	67.4%	77.6%	24.7%	45.6%	64.8%	15.4%	11.4%	19.8%	3.1%	13%	23.3%
St. Louis												
Cases Assigned	5,950	113	188	2,127	3,522	4,866	25,669	7,015	15,285	3,369	191	68,295
Cleared	2,835	75	135	619	2,006	3,745	3,296	1,109	1,987	200	19	16,026
Clearance Rate	47.6%	66.4%	71.8%	29.1%	57.0%	77.0%	12.8%	15.8%	13.0%	5.9%	9.9%	23.5%
Cleveland												
Cases Assigned	5,431	74	356	3,157	1,844	16,257	25,418	10,724	10,598	4,096	319	78,274
Cleared	1,072	26	89	447	510	3,346	1,685	793	718	174	46	8,906
Clearance Rate	19.7%	35.1%	25.0%	14.2%	27.7%	20.6%	6.6%	7.4%	6.8%	4.2%	14.4%	11.4%

City	Violent Crime	Murder	Force Rape	Robbery	Aggravated Assault	Simple Assault	Property Crime	Burglary	Larceny Theft	MV Theft	Arson	Total
Detroit												
Cases Assigned	15,254	344	426	4,976	9,508	17,240	43,759	16,032	16,500	11,227	958	136,224
Cleared	2,841	39	54	401	2,347	2,427	1,844	730	578	536	57	11,854
Clearance Rate	18.6%	11.3%	12.7%	8.1%	24.7%	14.1%	4.2%	4.6%	3.5%	4.8%	5.9%	8.7%
Southfield												
Cases Assigned	380	4	36	116	224	1178	2688	710	1602	376	5	7319
Cleared	149	3	8	27	111	276	398	58	312	28	3	1373
Clearance Rate	39.2%	75.0%	22.2%	23.3%	49.6%	23.4%	14.8%	8.2%	19.5%	7.4%	60.0%	18.8%
Livonia												
Cases Assigned	168	1	19	40	108	552	2,114	309	1,595	210	11	5,127
Cleared	69	1	1	15	52	201	563	33	505	25	0	1,465
Clearance Rate	41.1%	100.0%	5.3%	37.5%	48.1%	36.4%	26.6%	10.7%	31.7%	11.9%	0.0%	28.6%
Dearborn												
Cases Assigned	361	3	24	104	230	1,346	3,756	609	2,709	438	12	9,592
Cleared	180	3	6	37	134	419	1,229	70	1,124	35	3	3,240
Clearance Rate	49.9%	100.0%	25.0%	35.6%	58.3%	31.1%	32.7%	11.5%	41.5%	8.0%	25.0%	33.8%

THE CITY MUST PROVIDE FUNCTIONING STREET LIGHTS.

As of April 2013, approximately 40% of the City's street lights were not functioning. The lights that are functioning are scattered across the City's historical population footprint (and thus are not focused to meet the current population's actual needs).

City	Total Functioning Street Lights	Functioning Lights per square mile
Detroit	52,800	370

Local Comparison

Dearborn	6,500	265
Livonia	5,000	204
Southfield	2,356	90

National Comparison

Cleveland	67,000	812
Pittsburgh	39,779	682
St. Louis	52,000	785
Milwaukee	77,000	795

As of April 2013, the City estimated there was a backlog of approximately 3,300 complaints regarding the City's street lights.

THE CITY MUST OVERHAUL ITS OPERATIONS.

Police Department.

- Over the last five years, the DPD has had five different police chiefs, all having varying approaches to DPD's operations.
- DPD's efficiency (response times), effectiveness (case closure rate, crime reduction) and employee morale are extremely low.
- Data driven policing has not been fully adopted within DPD. Compstat (i.e., data driven policing) meetings (which would enhance accountability) are not fully implemented.
- DPD receives over 700,000 calls for service annually. DPD response times are extremely high.

Response Time Data – Detroit Police Department

CITY OF DETROIT

Priority One Response Time (In Minutes)

Precinct	2012	2013	% Change
1	23	37	60.81%
2	22	40	78.42%
4	30	42	41.03%
5	39	78	99.46%
6	32	55	75.19%
7	22	41	89.05%
8	40	115	185.31%
9	38	68	78.95%
10	24	31	31.37%
11	24	41	71.78%
12	21	34	62.58%
13	25	42	73.31%
AGENCY	2012	2013	
DPD	30	58	94.73%

Priority Other Response Time (In Minutes)

Precinct	2012	2013	% Change
1	34	38	11.57%
2	48	58	22.56%
4	42	47	12.19%
5	56	97	75.20%
6	44	50	15.36%
7	38	60	57.05%
8	56	64	15.93%
9	54	49	-8.45%
10	30	43	44.28%
11	45	70	54.82%
12	37	54	47.35%
13	35	61	74.89%
AGENCY	2012	2013	
DPD	43	56	30.59%

- The national average response time is 11 minutes. Police response times for Dearborn and Livonia are approximately nine minutes and 24 minutes, respectively.
- The DPD's extremely low 8.7% case clearance rate is driven by the DPD's lack of a case management system, lack of accountability for detectives, unfavorable work rules imposed by collective bargaining agreements and a high attrition rate in the investigative operations unit.
- The DPD's manpower has been reduced by approximately 40% over the last 10 years causing constant strain on the organization; the DPD needs to evaluate appropriate uniform staffing levels.
 - Over 450 uniformed DPD employees are eligible for retirement in 2013. An additional 150 officers are eligible for retirement in each of the following five years.
- The DPD has restructured its operations multiple times over the past ten years due to dwindling budgets, severely hampering its operations.
- Employee accountability is limited. Individual employee performance metrics do not exist for either positive or negative police activity. Morale is extremely low. Disciplinary processes are slow and cumbersome, preventing leadership from effectively managing the Department.
- Community policing efforts are underfunded, uncoordinated and have been deemphasized by the DPD. "Citizens Radio Patrol" participants have lost confidence in the DPD's commitment to this important effort.

Assessor's Office and Property Tax Division.

- The City lacks a state-required Level IV Assessor and currently has a former employee contractor in the position, whose contract expires in June 2013. Due to inadequate compensation, among other things, there are no available candidates to fill this position.
- The Assessor's Office has approximately 15,000 parcels per employee. The State recommends 4,000 parcels per employee.
- The City has not updated residential property values on a regular basis. Therefore, residential property values are likely overstated. Due to a significant number of complaints, the Michigan Tax Board is investigating Detroit's allegedly inflated property values.

Detroit Department of Transportation.

- Grant dollars are not maximized. These are typically a significant revenue source for bus transit systems.
- DDOT fares are lower than comparable bus transit systems.
- Maintenance operations are highly inefficient.
- High absenteeism among bus drivers causes inefficiencies and higher costs.

THE PHYSICAL DETERIORATION OF THE CITY MUST BE ADDRESSED.

- There are approximately (i) 78,000 abandoned and blighted structures in the City, nearly half of which are considered “dangerous” and (ii) 66,000 blighted and vacant lots within the City limits.
- The number of City parks is dwindling, and many are in poor or fair condition as a result of neglect due to lack of funding.
 - The closure of 210 parks in the 2008-09 fiscal year reduced the City’s park portfolio by 66% — from 317 parks to 107 parks.
 - The City announced in February 2013 that 50 of its remaining 107 parks would be closed, another 38 parks would shift to limited maintenance, and Belle Isle (already suffering from a lack of funding) would receive decreased services.
 - Thanks to \$14 million in civic donations, the 50 parks slated to be closed will temporarily remain open through the summer of 2013.
- Approximately 70 superfund sites have been established in Detroit.
- The City’s electricity grid has not been adequately maintained and is deteriorating.
- The City’s fire stations are old and are not adequately maintained.
 - The average age of the City’s 35 fire stations is 80 years.
 - Maintenance costs often exceed \$1 million annually. Major items requiring constant repairs: apparatus doors, plumbing, electrical, boiler and roof problems.
- The vehicles and equipment employed by the City’s police, fire, EMS and transportation personnel are aging, poorly maintained and lack adequate information technology.

THE CITY HAS INCURRED AND CONTINUES TO INCUR ENORMOUS COSTS ASSOCIATED WITH UNOCCUPIED PROPERTY.

Land and Structures.

- The City's population decline and declining property values have resulted in large amounts of abandoned, forfeited or foreclosed land and structures within the City.
 - 85% of the City's land area has experienced population decline over the last decade.
- There are approximately 66,000 vacant and blighted lots within the City limits.
- There are approximately 78,000 vacant structures in the City.
 - Approximately 38,000 structures are considered dangerous buildings. The number of dangerous structures is constantly increasing due to vacancy (particularly foreclosures) and house fires.
 - 16,700 have been inspected and classified as dangerous.
 - 14,263 have open complaints of being dangerous.
 - 6,657 to go before City Council for order of demolition.
 - 1,159 are considered emergency demolitions.
- Blight contributes to fire, crime and depressed property values.
 - The City has seen between 11,000 – 12,000 fires each year for the past decade. Approximately 60% of these occur in blighted or unoccupied buildings.
 - The Fire Department spends a disproportionate (and arguably unnecessary) amount of time and money fighting fires in vacant structures. These incidents could be remedied by blight removal.

- Average cost to demolish a residential structure is approximately \$8,500, with an equalized total cost of \$5.74 per square foot.

Expense	Amount
Demolition Contract	\$5,000
Survey and Abatement	\$1,500
Gas Disconnect Fee	\$750
Administration Costs	\$720
Water Disconnect Fee	\$550
<i>Lis Pendens</i> (interest in structure)	\$15
Total Cost of Demolition	\$8,535*

* Cost will vary depending on size of unit and construction materials used.

ADDITIONAL CHALLENGES FACING BLIGHT REMOVAL EFFORTS.

Addressing blight will require the coordination of several state, county and local agencies (*e.g.*, the State Fast Track Land Bank Authority; Wayne County Treasurer and Land Bank; various City departments; the Detroit Land Bank Authority; the Detroit Housing Commission; and NGOs (*e.g.*, the Detroit Economic Growth Corporation and the Blight Authority)).

Blight removal is governed by multiple codes and regulations and a number of overlapping jurisdictions.

- **Code Enforcement and Adjudication** (*e.g.*, State of Michigan Housing Law; Zoning Ordinance, Chapter 61; Property Maintenance Ordinance, Chapter 9; Blight Violations Ordinance, Chapters 8.5 and 22; Sale of 1 and 2-family Ordinance).
- **Condemnation and Demolition** (*e.g.*, State of Michigan Housing Law; City Ordinance 290-H — wrecking structures; Industry Standard Building Officials Code Administration).
- **Foreclosure and Land Disposition** (*e.g.*, State of Michigan PA 123; various City codes addressing non-federal property).
- The current regulatory framework increases demolition costs and slows the process.

Ordinance and regulatory reform are needed to expedite demolition.

DETROIT HAS ENDURED INADEQUATE INVESTMENT IN INFRASTRUCTURE AND EQUIPMENT FOR YEARS.

Fire Department.

- **Fire Apparatus.** The Detroit Fire Department (“DFD”) fleet includes (i) 26 engines; (ii) 15 ladder trucks; (iii) six squads (specialized rescue vehicles with no watering or laddering capacity); (iv) one hazardous material apparatus; (v) one TAC unit (a mini-pumper for use in low-clearance structures such as parking garages) and (vi) 36 ambulances and other light vehicles.
- DFD’s fleet has “many mechanical issues,” contains no reserve vehicles and lacks equipment ordinarily regarded as standard.
 - The Apparatus Division’s mechanic to vehicle ratio of 1:39 (once staffed with 63 people; currently 26) results in an inability to complete preventative maintenance on schedule.
 - Detroit firefighters frequently operate shorthanded due to a lack of serviceable equipment; one DFD captain recently called his equipment “junk,” and expressed frustration at the lack of working trucks, pumps and other essential equipment across many City neighborhoods.
 - In February 2013, Detroit Fire Commissioner Donald Austin ordered firefighters not to use hydraulic ladders on DFD ladder trucks except in cases involving an “immediate threat to life” because the ladders had not received safety inspections “for years.” On May 15, 2013, AAA Michigan donated \$23,500 towards inspections of fire ladders on trucks and ground ladders because the City could not afford required inspections.
- **Fire Stations.** DFD operates 35 fire station buildings (average age = 80 years).
 - DFD has difficulty accommodating the size of modern firefighting equipment in older stations.
- **EMS Fleet.**
 - During the first quarter of 2013, frequently only 10 to 14 of the City’s 36 ambulances were in service.
 - Some of the City’s EMS vehicles have been driven 250,000 to 300,000 miles, and break down frequently.
 - In March 2013, a group of corporations pledged to donate \$8 million to the City, a portion of which will be used to upgrade the city’s fleet of EMS vehicles. The donation is expected to add 23 new leased EMS vehicles to the City’s fleet as replacements for older vehicles.

Police Department.

- **Age of Police Cars.**

- The DPD operates with an “extremely old fleet” of 1,291 vehicles. Most DPD police cruisers lack necessary information technology.
- A majority of vehicles in the fleet have reached replacement age (a typical replacement cycle is three years). Operating with an aged fleet drives up maintenance costs.
- The combination of an aging fleet of police cruisers and layoffs of city-employed auto mechanics has resulted in delayed maintenance and a reduction in the number of police cruisers on patrol.
- As part of the approximately \$8 million pledged by a group of corporations in March 2013, DPD expects to receive 100 new leased cruisers in 2013.

- **Facilities.**

- The DPD has not invested in or maintained its facility infrastructure for many years. DPD has closed or consolidated multiple precincts.
- The DPD’s facility infrastructure has reached a critical level of disrepair and no longer meets its needs, contributing to low employee and citizen morale.

Information Systems

- **Challenges generally:**

- Old and outdated technology assets and applications must be updated.
- Information technology infrastructure is not integrated between departments and functions (*e.g.*, there is no integration between core City finance system and Department level systems) or even within Departments (*e.g.*, police precincts and districts cannot share information across their systems).
- The City **urgently** needs to upgrade or replace the following IT systems, among others: payroll; financial; budget development; property information and assessment; income tax; and DPD operating system.
- The City lacks a formal documented IT governance structure (development of structure in process).

- **DPD, DFD and EMS**

- DPD, DFD and EMS information technology systems are obsolete; vendors do not provide full support; core functions are sporadic.
- DPD, DFD and EMS have non-integrated solutions that result in redundant data entry, no meaningful reporting and limited query capabilities.
 - DPD's IT systems, in particular, are outdated with multiple disparate systems with limited information sharing capability and requiring highly manual processes. The result is highly inefficient DPD operations.
 - DPD has no IT systems for jail management, electronic ticketing and activity logs. DPD vehicles lack necessary IT infrastructure.

- **Payroll System.**

- The City currently uses multiple, non-integrated payroll systems. A majority of employees are on an archaic payroll system that has limited reporting capability and no way to clearly track, monitor or report expenditures by category.
- The cost of payroll administration for the City is significantly higher than for comparable entities. Current cost to process payroll is \$62 per check (\$19.2 million per year), which is more than 4 times more costly than the overall average of \$15 per paycheck, and almost 3.5 times more costly than other public sector organizations, which average \$18 per paycheck.
 - The primary driver of excess cost is labor, which is more than 70% of the total cost for the City.
 - 149 full-time employees are involved in the payroll process, 51 of which are uniformed officers (*i.e.*, high-cost personnel performing clerical duties).
- Current process is highly manual (some done by hand) and prone to human error, including erroneous payments to individuals.

- **Income Tax Division**

- Income tax collection and data management are highly manual.
- The City's Income Tax System is outdated (purchased in the mid-1990s), has little to no automation capability and is "catastrophic" per an IRS audit completed in July 2012.

- Updating the current Income Tax System could (i) increase revenues for the City through improved revenue tax processing, tax compliance and collection and (ii) improve reporting, efficiency and accuracy.
 - A new tax system that allows for automated processing and e-filing capability will free up City resources to focus on compliance.
- **Property Tax Division.**
 - The City's billing, processing and collection of property taxes is inefficient.
 - Recommendations made by consultant in 2011 have not been followed, even though implementation promises to increase efficiency of collection process.
- **Budgeting, Accounting & Financial Reporting Systems.**
 - Oracle-based Financial Reporting system (DRMS) was implemented in 1999. It is not being utilized to its full capabilities and is no longer supported by its manufacturer.
 - Budget Development system (BRASS) is over ten years old and requires a manual interface with DRMS.
 - Approximately 70% of journal entries are booked manually.
 - The City lacks a true fail-over and backup system.
 - The integration of Accounting, Budget Development and Financial Reporting systems into a single process is necessary to provide for improved reporting, efficiency, accuracy and accountability.
- **Grant Management System.**
 - Grant tracking systems are fragmented. Thus, the City is unable to comprehensively track citywide grant funds and status.
 - Grant reporting is not standardized, such that the City is unable to prevent disallowed costs.

- **Permitting.**

- The Buildings, Safety Engineering and Environmental Department's system for licensing and permitting is more than ten years old and needs to be upgraded.
- The Fire Marshall Division's system for inspections and permitting is more than 20 years old and needs to be replaced.
- Current information technology system deficiencies lead to bottlenecks in permit invoicing and collection of fees.

- **Department of Transportation.**

- To improve service and safety, both on buses and at DDOT facilities, DDOT requires technology updates (*e.g.*, automatic vehicle location systems; bus cameras).

Electrical Transmission Grid and Fixtures.

- The City's Public Lighting Department ("*PLD*") is responsible for operating and maintaining 88,000 streetlights and owns and operates a distribution-only electricity grid providing power for lighting and serving 114 customers.
- The City-owned Mistersky power plant has been idle for 2-3 years, but has not been decommissioned. In addition, the City has 31 sub-stations that would need to be decommissioned. The City is in the process of obtaining estimates for decommissioning costs.
- Approximately 40% of Detroit's 88,000 streetlights are not functioning due, in large part, to disrepair and neglect; outages exist on both DTE Energy Company ("*DTE*") and PLD-powered lights.
 - Outages affecting DTE-powered lights are primarily bulb-related. Outages on PLD-powered lights are partly bulb-related. Others are caused by problems related to PLD's obsolete grid and wiring.

THE CITY'S DEBT AND LEGACY LIABILITIES HAVE GROWN CONSIDERABLY OVER TIME.

Balance Sheet Liabilities.

The City estimates that, as of the close of its 2013 fiscal year (*i.e.*, June 30, 2013), the City will have liabilities reflected on its balance sheet of approximately \$9.05 billion, including approximately:

- \$5.85 billion in special revenue obligations (*e.g.*, Enterprise Fund debt);
- \$1.43 billion in pension-related Certificate of Participation (“COPs”) liabilities;
- \$343.6 million in marked-to-market swap liabilities related to COPs (as of May 31, 2013 valuation);
- \$1.13 billion in unlimited and limited tax general obligation bond liabilities and notes and loans payable; and
- \$300 million in other liabilities.

Off-Balance Sheet Liabilities.

- **OPEB Liabilities.** Unfunded OPEB liabilities increased from \$4.8 billion to \$5.7 billion from June 30, 2007 through June 30, 2011 (the most recent actuarial data available).
- **Pension Liabilities.**
 - As described in further detail below, the City’s reported pension UAAL (based on 2011 actuarial valuations) of \$643,754,109 is substantially understated.
 - Estimated UAAL for FY 2012 was \$829.8 million (for the General Retirement System (“GRS”) and \$147.2 million (for the Police and Fire Retirement System (“PFRS”)), based on 2011 actuarial assumptions.
 - Further analysis by the City using more realistic assumptions (including by reducing the discount rate by one percentage point) suggests that pension UAAL will be approximately \$3.5 billion as of June 30, 2013.
 - UAAL under the GRS and the PFRS increased by over \$1 billion between June 30, 2007 and June 30, 2011, even (i) using the actuarial assumptions used to calculate 2011 UAAL and (ii) after consideration of the contribution of the COPs proceeds in 2005 and 2006.

- For the five years ending with FY 2012, pension payments exceeded contributions and investment income by approximately \$1.7 billion for the GRS and \$1.6 billion for the PFRS, resulting in liquidation of pension trust principal.

System	Benefit Payments	Contribution / Investment Income	Net Trust Loss
GRS	\$1,601,193,045	(\$60,113,101)	\$1,661,306,146
PFRS	\$1,445,581,026	(\$127,803,339)	\$1,573,384,365

- **Increasing Legacy Liabilities.** During FY 2012, more than 38% of the City's actual revenue was consumed servicing legacy liabilities. Going forward, legacy liabilities are expected to consume increasing portions of City revenues.
 - Projected unfunded OPEB liabilities for FY 2013 are currently being evaluated. As of the most recent valuation (June 30, 2011), OPEB unfunded liabilities totaled \$5.7 billion and are expected to grow absent restructuring.
 - Required pension contributions are projected to increase in light of (i) an increasingly mature population already in pension pay status, (ii) deferral of recognition of prior losses, (iii) the anticipated revision of actuarial assumptions used in the past and (iv) past deferrals of contributions.
 - In addition, the Governmental Accounting Standards Board has issued a statement (No. 67), effective during the City's 2014 fiscal year, requiring municipalities to recognize their unfunded pension benefit obligation as a liability and to more comprehensively measure the annual costs of pension benefits.
 - Even if the City were not to change prior actuarial assumptions, pension UAAL is projected to grow to nearly \$2 billion by 2017. The adoption of realistic actuarial assumptions would result in a significantly higher number for UAAL.
- Debt service for the City's general fund, including payments related to unlimited tax general obligations and COPs, is projected to exceed \$240 million in FY 2013.

Obligations Secured by Special Revenues

- The City estimates that, as of the end of FY 2013 (*i.e.*, June 30, 2013), it will have:
 - \$5.34 billion in outstanding principal amount of revenue bonds; and
 - \$494 million in related state revolving loans.
- The revenue bonds and the revolving loans are related to the following funds:
 - Sewage Disposal Fund
 - \$2.82 billion in outstanding principal amount of notes maturing July 1, 2013 through July 1, 2039, as of June 30, 2013.
 - \$472.8 million in outstanding principal amount of state revolving loans, as of June 30, 2013.
 - Substantially all revenues of the sewage disposal system, net of operating expenses, pledged to secure payment of principal and interest. Net system revenues of \$227,447,337 versus debt service requirements of \$199,990,125 in FY 2012.
 - A schedule of the sewage disposal system bonds and related state revolving loans as of June 30, 2012 is attached hereto as Appendix A.
 - Water Fund
 - \$2.52 billion in outstanding principal amount of various series of notes maturing July 1, 2013 through July 1, 2041, as of June 30, 2013.
 - \$21.4 million in outstanding principal amount of state revolving loans, as of June 30, 2013.
 - Substantially all of the revenues of the City's water system, net of operating expenses, pledged to secure payment of principal and interest. Net system revenues of \$178,842,057 versus debt service requirements of \$153,441,666 in FY 2012.
 - A schedule of the water system bonds and related state revolving loans as of June 30, 2012 is attached hereto as Appendix B.

- Automobile Parking Fund
 - \$9.3 million in outstanding principal amount of Detroit Building Authority Revenue Refunding Bonds: Parking System, Series 1998-A maturing July 1, 2013 through July 1, 2019, as of June 30, 2013.
 - Substantially all revenues of the parking system, net of operating expenses, pledged to secure payments of principal and interest.
 - Net system revenues of \$2,708,223 versus debt service requirements of \$2,923,454 in FY 2012.
- A chart setting forth the annual debt service on the foregoing special revenue obligations is attached hereto as Appendix F.

General Fund Obligations

- The City estimates that, as of the close of FY 2013 (*i.e.*, June 30, 2013), it will have \$1.01 billion in outstanding principal amount of limited and unlimited tax general obligation bonds, consisting of:
 - \$469.1 million in outstanding principal amount of unlimited tax general obligation (“*UTGO*”) bonds maturing from April 1, 2013 through November 1, 2035.
 - \$100 million of the foregoing bonds are secured by a second lien on distributable state aid.
 - \$540.3 million in outstanding principal amount of limited tax general obligation (“*LTGO*”) bonds maturing April 1, 2013 through November 1, 2035.
 - Issuance of LTGO bonds do not require voter approval. They are payable from general non-restricted funds.
 - \$249.8 million of the LTGO bonds are secured by a first lien on distributable state aid. \$129.5 million of the LTGO bonds are secured by a third lien on distributable state aid.

- The City estimates that, as of June 30, 2013, the City will have \$121.5 million in other outstanding installment notes and loans payable related to various public improvement projects.
 - \$87.8 million in notes payable, which notes were issued in connection with the “Section 108” HUD Loan Guarantee Program and are secured by future “Block Grant” revenues.
 - \$33.7 million in loans payable (\$33.6 million of which is a non-interest bearing unsecured loan payable to the Downtown Development Authority as general operating funds become available).
- On August 23, 2012, the City issued \$129.5 million of LTGO bonds at a \$9.1 million premium (generating \$137 million in proceeds after issuance costs) in part to defease short term bonds issued March 2012. The remaining proceeds of this issuance were set aside with a trustee bank in an escrow account to provide funds for reforms and liquidity in FY 2013. The current amount of the escrow is approximately \$80 million.
- A schedule of the secured general obligation bonds and secured notes and loans payable as of June 30, 2012 is attached hereto as Appendix D. A schedule of the unsecured general obligation bonds and unsecured loans payable as of June 30, 2012 is attached hereto as Appendix E. A chart setting forth the annual debt service on the foregoing general fund obligations (and other liabilities) is attached hereto as Appendix G.

Certificates of Participation (Pension).

- In 2005, service corporations established by the GRS and PFRS created a trust that issued the COPs. The proceeds of the COPs were contributed to the City’s pension trusts.
- Principal and interest on the COPs is payable solely from payments made by the City to the service corporations pursuant to service contracts.
- The City estimates that, as of the close of FY 2013 (*i.e.*, June 30, 2013), the following amounts were outstanding under the COPs:
 - \$480.3 million in outstanding principal amount of \$640,000,000 Certificates of Participation Series 2005 A maturing June 15, 2013 through 2025; and
 - \$948.54 million in outstanding principal amount of \$948,540,000 Certificates of Participation Series 2006 A and B maturing June 15, 2019 through 2035.

- The City has allocated portions of the COP liabilities among the transportation, sewage disposal, water and library funds based on each fund's share of the aggregate UAAL determined at the time of issuance of the COPs.
- The City has identified certain issues related to the validity and/or enforceability of the COPs that may warrant further investigation.
- A schedule of the COPs and related swap liabilities as of June 30, 2012 is attached hereto as Appendix C.

Swap Liabilities Related to Certificates of Participation.

- In connection with the COPs, the City entered into eight pay-fixed, receive-variable interest rate swap contracts, effective as of June 12, 2006, with a total notional amount of \$800 million.
 - Recent valuations establish the negative fair value of the swaps at approximately \$343.6 million (as of May 31, 2013).
 - January 2009 — The City received notice from the swap contract counterparties that downgrading of the COPs and certain swap insurers would constitute an “Additional Termination Event” under the swap contracts if not cured.
 - June 2009 — The City and the swap contract counterparties agreed on an amendment to the swap agreements, eliminating the Additional Termination Event and the potential for an immediate demand for a termination payment. Pursuant to the amendment:
 - The swap counterparties waived their right to termination payments; and
 - The City agreed to:
 - direct certain wagering tax revenues to a trust as collateral for the quarterly payments owing to the swap counterparties;
 - increase the interest rate of the swap agreements by 10 basis points effective July 1, 2010; and
 - include new termination events, including if COP ratings were withdrawn, suspended or downgraded.
 - March 2012 — COPs were further downgraded which triggered another Termination Event; City and the swap counterparties are in negotiations regarding the Termination Event.
 - March 2013 — Appointment of Emergency Manager constitutes an event of default triggering another Termination Event.

- Although this proposal reflects treating the swap obligations as special revenue debt secured by the wagering tax revenues, that treatment is still being reviewed by the Emergency Manager.
- A chart setting forth the annual debt service on the COPs and related swap liabilities is attached hereto as Appendix H.

UNSUSTAINABLE RETIREE BENEFITS.

OPEB Liabilities Are Large and Unfunded.

- The OPEB plans consist of the Health and Life Insurance Benefit Plan and the Supplemental Death Benefit Plan.
- As of June 30, 2011 (the most recently published actuarial valuation), there were 19,389 retirees eligible to receive benefits under the City's OPEB plans. The number of retirees receiving benefits from the City is expected to increase over time.
- 99.6% of the City's OPEB liabilities are unfunded.
- **Health and Life Insurance Plan**
 - Defined benefit plan providing hospitalization, dental care, vision care and life insurance to current employees and substantially all retirees.
 - City generally pays for 80% to 100% of health care coverage for eligible retirees.
 - \$5,718,286,228 in actuarial liabilities as of June 30, 2011. An updated actuarial valuation based on more recent census data is currently being developed by third party professionals.
 - The Health and Life Insurance Plan is 0% funded; financed entirely on a "pay-as-you-go" basis.
 - \$177,460,627 cost to the City on account of retiree benefits during FY 2012 provided under the Health and Life Insurance Plan.
 - City's contribution is in addition to \$23,516,879 in FY 2012 contributions by retirees.

- The City's OPEB costs are expected to increase as a result of the City's growing number, and young age, of retirees (pension and health care plans have no age restrictions and early vesting ages) as well as increases in health care costs, particularly hospitalization costs.
- Health and Life Insurance Plan is secondary to Medicare for eligible employees over the age of 65; however, many retired police/fire employees are *not* eligible to receive free Medicare Part A benefits due to State-regulated social security "opt-out" provisions.
- **Supplemental Death Benefit Plan**
 - Pre-funded single-employer defined benefit plan providing death benefits based upon years of creditable service.
 - \$34,564,960 in actuarially accrued liabilities as of June 30, 2011.
 - 74.3% funded; UAAL of \$8.9 million.

OPEB Obligations Arise Under a Multiplicity of Plans

- The City's OPEB obligations arise under 22 different plans (15 different plans alone for medical/Rx) having varying structures and terms. This creates a high level of complexity and cost in benefit administration.

Weiler Class OPEB Benefits.

- In July 2006, the City made a number of unilateral changes to the healthcare benefits for unionized police and firefighter retirees. Retiree Alan Weiler filed a class action lawsuit on behalf of approximately 7,000 retirees alleging violations of collective bargaining agreements.
- The City and the *Weiler* class settled before trial, and the court entered a Consent Judgment approving the parties' settlement agreement. The settlement agreement requires the City to provide *Weiler* class members with generous health benefits for as long as class members receive a City pension.
- The *Weiler* plaintiffs are expected to assert that the settlement restricts the ability of the City to alter the benefit provisions included in the settlement.

- The *Weiler* class retirees/beneficiaries currently cost the City approximately \$75 million per year, representing over 40% of retiree benefits costs under the Health and Life Insurance Plan.

Pension Liabilities Are Not Fully Funded — Shortfall Has Been Understated.

Aggressive Actuarial Assumptions Generate a Perception that Pensions are Modestly Underfunded.

- GRS: Reported UAAL of \$639,871,444 out of \$3,720,167,178 in accrued liabilities as of June 30, 2011 (82.8% funded).
- PFRS: Reported UAAL of \$3,882,665 out of \$3,808,642,553 in accrued liabilities as of June 30, 2011, as a result of awards received under Public Act 312 of 1969 (99.9% funded).
- These funding levels were based on the following assumptions:

	GRS	PFRS
Amortization Period	30 years (refinanced anew each year)	30 years
Asset valuation method	7-year smoothed market	7-year smoothed market
Investment rate of return (net of expenses)	7.9%	8.0%
Projected salary increases	4.0%-8.9%	5.0%-9.2%
Inflation rate	4.0%	0% for four years; 4.0% thereafter
Cost-of-living pension adjustments	2.25%	2.25%

More Realistic Assumptions Reveal That Funding Levels Have Been Overstated.

- The combined reported UAAL of approximately \$644 million for the GRS/PFRS (estimated at \$977 million as of June 30, 2012) is **substantially** understated.
- Current actuarial valuations project aggressive and unrealistic annual rates of return on investments net of expenses (GRS — 7.9%; PFRS — 8.0%).

- Pension plan funding levels calculated based upon assumed annual rates of return of 7%, or even 7.5%, would further reduce funding levels.
- Smoothing of funding levels over seven years masks funding shortfall — pension plan funding levels calculated based on the current market value of the plans' assets show substantially reduced funding levels (GRS – 65% funded; PFRS – 78% funded).
- A 30-year amortization period for unfunded liabilities — which in GRS is applied anew each year to the full amount of unfunded liability, akin to annually refinancing a 30-year mortgage — allows unfunded liabilities to continue to grow rapidly (due to compounding).
- Although many governmental plans have significant amortization periods for unfunded benefits (*e.g.*, MERS applies a 27-year amortization period with a goal of moving down to 20 years by the December 31, 2017 valuation), 30 years is longer than most and is far too long for these mature plans. Especially in the case of GRS, such a long period has the effect of deferring efforts to meaningfully reduce underfunding into the future.
- The City has consistently deferred payment of its year-end PFRS contributions (and finances such deferrals at a rate of 8%). As of June 30, 2012, the City owed the PFRS its full contribution for FY 2012 in the amount of approximately \$50 million. As of May 2013, the City had deferred approximately \$58 million in pension contributions owing for FY 2013. Contributions made in the form of notes have been treated as timely funding contributions made to the pension trust during the applicable financial year.
- The City was granted a funding credit by PFRS in the amount of \$25 million for each of the fiscal years 2008 through 2010 resulting in under-contributions by the City toward its pension liabilities for each of those years.

Past Pension Practices. Certain past trustee practices contributed to the pension plans' significant underfunding (*e.g.*, annuity savings accounts; “13th checks”; ad hoc “sweeteners”; and various changes to eligibility (*e.g.*, lowered years of service, combined years of employment)).

- For example, in both pension plans (and especially GRS), hundreds of millions of dollars contributed by the City and invested to support the defined benefit arrangement have instead been used to fund investment returns selected (but not actually earned) on employee contributions made under a separate defined contribution arrangement known as the Annuity Savings Accounts.

Anticipated Increase in Pension Contributions. Using current actuarial assumptions, the City’s required pension contributions are projected to grow from 25% (for GRS) and 30% (for PFRS) of eligible payroll expenses in FY 2012 to 30% (for GRS) and 60% (for PFRS) of such expenses by FY 2017. Changes in actuarial assumptions would result in further increases to the City’s required pension contributions.

OTHER LIABILITIES

The City estimates that, as of the end of FY 2013, the City will have \$300 million in other liabilities outstanding.

As of June 30, 2012, the City owed at least \$264.6 million in other liabilities, consisting primarily of:

- \$101.2 million in accrued compensated absences, including unpaid, accumulated vacation and sick leave balances;
- \$86.5 million in accrued workers’ compensation for which the City is self-insured;
- \$63.9 million in claims and judgments, including lawsuits and claims other than workers’ compensation claims; and
- \$13.0 million in capital leases and accrued pollution remedies.

	FUND						
	General Governmental	Sewage Disposal	Transportation	Water	Parking	Other Proprietary	Total
Accrued compensated absences	82,099,713	5,502,481	3,895,416	9,421,311	276,814	53,442	\$101,249,177
Accrued workers’ compensation	66,231,000	3,554,000	5,569,812	10,339,000	667,000	92,000	\$86,452,812
Capital leases payable			12,678,358				\$12,678,358
Claims and judgments	62,003,257	1,519,500		286,500	110,497	2,000	\$63,921,754
Accrued pollution remediation		340,613					\$340,613
Total	\$210,333,970	\$10,916,594	\$22,143,586	\$20,046,811	\$1,054,311	\$147,442	\$264,642,714

Steady State Projection of Legacy Expenditures (assuming no restructuring)

(\$ in millions)

	FISCAL YEAR ENDED ACTUAL					PRELIMINARY FORECAST				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Legacy expenditures										
Debt service (LTGO)	\$(66.6)	\$(106.2)	\$(63.5)	\$(64.5)	\$(62.6)	\$(70.8)	\$(70.9)	\$(61.8)	\$(61.8)	\$(38.5)
Debt service (UTGO)	(67.2)	(71.5)	(72.4)	(72.8)	(73.0)	(70.6)	(64.9)	(62.5)	(57.6)	(57.6)
POC - principal and interest (GF)	(24.6)	(20.9)	(23.6)	(33.5)	(33.0)	(46.8)	(51.4)	(53.3)	(55.0)	(56.9)
POC - principal and interest (EF, excl. DDOT)	(1.8)	(1.4)	(1.5)	(1.8)	(2.0)	(5.3)	(5.9)	(6.1)	(6.4)	(6.6)
POC - principal and interest (DDOT)	(3.5)	(2.8)	(3.0)	(3.6)	(4.0)	(3.3)	(3.7)	(3.8)	(3.9)	(4.1)
POC - swaps (GF)	(38.6)	(43.9)	(44.7)	(44.7)	(44.8)	(42.9)	(42.8)	(42.8)	(42.7)	(42.7)
POC - swaps (EF, excl. DDOT)	(2.3)	(2.0)	(2.0)	(2.0)	(2.0)	(4.8)	(4.8)	(4.8)	(4.9)	(4.9)
POC - swaps (DDOT)	(4.5)	(4.0)	(4.0)	(4.0)	(4.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Pension contributions - Public Safety	(58.9)	(31.4)	(32.8)	(81.6)	(49.8)	(46.1)	(139.0)	(163.0)	(180.0)	(198.0)
Pension contributions - Non-Public Safety	(10.6)	(27.0)	(11.1)	(28.3)	(25.4)	(19.9)	(36.9)	(42.5)	(47.7)	(53.1)
Pension contributions - DDOT	(6.8)	(7.3)	(6.9)	(9.5)	(10.9)	(12.3)	(23.6)	(27.7)	(31.2)	(34.8)
Health benefits - retiree - Public Safety	(73.7)	(80.2)	(70.4)	(79.6)	(90.6)	(91.5)	(88.6)	(95.2)	(101.7)	(108.0)
Health benefits - retiree - Non-Public Safety	(47.4)	(51.6)	(50.6)	(49.0)	(49.2)	(49.7)	(38.8)	(41.5)	(44.6)	(47.7)
Health benefits - retiree - DDOT	(8.2)	(11.8)	(11.2)	(11.1)	(10.3)	(10.4)	(13.3)	(14.3)	(15.3)	(16.3)
Total legacy expenditures	\$(414.6)	\$(462.0)	\$(397.9)	\$(486.1)	\$(461.6)	\$(477.3)	\$(587.6)	\$(622.4)	\$(655.9)	\$(672.3)
Total revenues (excl. financing proceeds)	\$1,397.7	\$1,363.3	\$1,291.0	\$1,316.8	\$1,196.9	\$1,121.9	\$1,082.8	\$1,046.2	\$1,041.5	\$1,041.4
Total legacy expenditures as a % of total revenues	29.7%	33.9%	30.8%	36.9%	38.6%	42.5%	54.3%	59.5%	63.0%	64.6%

HIGH LABOR COSTS AND RESTRICTIVE EMPLOYMENT TERMS

High Labor Costs.

Despite recent headcount reductions, labor costs related to General Fund active employees (*i.e.*, wages, pension and benefits) represent more than 41% of the City's estimated FY 2013 gross revenues. Accordingly, savings related to such costs are a critical component of any restructuring.

- Estimated General Fund FY 2013 Wages: \$333.8 million (29.8% of estimated FY 2013 revenues).
- Estimated General Fund FY 2013 Benefit Costs (fringes including health for *active* employees): Approx. \$66.5 million (5.9% of estimated FY 2013 revenues).
- Estimated General Fund FY 2013 pension contributions (including normal and UAAL portion): \$66.0 million (5.9% of estimated FY 2013 revenues).
 - While pension contributions are based on active payroll, some portion of the contribution is intended to cover the unfunded actuarial accrued liability which technically benefits all participants in the plan, including retirees.
 - Benefit and pension costs per *active* employee have increased from ~\$18,000 in FY 2000 to ~\$24,000 in FY 2013.
- **Increasing Benefit Costs.** Some of the savings related to medical benefits achieved through the City Employment Terms (the "CETs") will be offset by anticipated medical cost inflation.

Collective Bargaining Landscape.

The City's unionized employees are represented by 47 discrete bargaining units. The CBAs covering 44 of those bargaining units were expired as of September 30, 2012, and the majority of the employees represented thereby are subject to the CETs. The CBAs with the three remaining bargaining units expire as of June 30, 2013, at which point the employees represented thereby will become subject to the CETs as well. See Appendix I (identifying all City employee bargaining units).

Restrictive Employment Terms.

The City's CBAs impose work rules and other restrictions that have impaired the efficient functioning of City government. The CETs provide some relief from work rules and other restrictions (in part through incorporation of a broad management rights clause).

- **“Bumping” Rights.** Employees have been permitted to transfer across departments based solely on seniority (without regard to merit, relevant qualifications or experience for the new position). The City has amended the criteria for transfers and assignments and based them upon experience, attendance, work performance, sick time use and demonstrated ability rather than seniority.
 - The CETs also negated seniority protections in various CBAs by changing shifts, hours of operation and overtime procedures; and revising or eliminating job classifications.
- **Limitations on Management Rights.** The City's ability to manage policies, goals and the scope of operations for many City departments (most notably with respect to the right to implement and modify disciplinary policies) have been impaired by limitations on management rights and responsibilities. The CETs have replaced these limitations with a broad management rights clause, granting the City broad discretion with respect to the design and implementation of work rules.
- **Arbitration Rights.** The CETs curtail the ability of arbitrators to uphold future grievances based on expired bargaining agreement provisions or past practice.
- **Lack of Reimbursement Rights.** The unions historically did not (i) reimburse the City for full-time and part-time paid union officials or (ii) pay any fees for the City's collection and remittance of union dues and service fees. Under the CETs, the City is reimbursed for paid officials and collects a 2% administrative fee in connection with efforts related to union dues/service fees.
- In addition to concessions imposed by the CETs, additional concessions have been granted through statutory interest arbitration. These concessions have not been uniformly applied to all bargaining units, and some City employees have not been affected by these measures.
- In some cases, changes to the City Charter and the City Code, or other legislative initiatives, may be necessary to support needed operational enhancements and reduce unnecessary bureaucracy.

DETROIT WATER AND SEWERAGE DEPARTMENT MUST BE RESTRUCTURED.

The Detroit Water and Sewerage Department (“DWSD”) is one of the largest municipal water and sewerage departments in the nation, providing water and wastewater services to the City and many suburban communities in an eight-county area, covering 1,079 square miles.

DWSD Capital Expenditures.

- Municipal securities broker/dealers and the City’s advisors’ analyses suggest that DWSD’s cost of capital is inflated due to the DWSD’s association with the City (and its financial circumstances). This increased cost of capital, coupled with the inability to raise rates and other factors, has resulted in significant under-spending on capital expenditures.
- DWSD’s January 2013 Capital Improvement Program totals approximately \$1.2 billion over the next four years with approximately \$322.4 million budgeted for water and sewer projects for FY 2013-14 and \$361.8 million budgeted for FY 2014-15.

The EPA Litigation (E.D. Mich., Judge Cox).

- In 1977, the United States Environmental Protection Agency sued the City and the DWSD, alleging violations of the Clean Water Act (“CWA”). The case remained pending in the United States District Court for the Eastern District of Michigan — and the DWSD operated under federal oversight — for more than 35 years owing to “a recurring cycle” of compliance failures with regard to the CWA and National Pollutant Discharge Elimination System (“NPDES”) permits required by the Michigan Department of Environmental Quality (“MDEQ”).

Administrative Consent Order.

- In July 2011, the DWSD agreed to undertake remedial measures pursuant to an Administrative Consent Order (“ACO”) with the MDEQ. The ACO instituted a compliance program with regard to areas of persistent dysfunction (*e.g.*, maintenance; inadequate capital expenditures and related planning; inadequate staffing; restrictive procurement policies).
- Following the dismissal of the EPA Litigation, the ACO is the only order through which the MDEQ maintains oversight of the DWSD.

Root Cause Committee Plan of Action.

- Determining that the ACO, by itself, could not guarantee the DWSD's long-term compliance with CWA and NPDES standards, the district court ordered a "Root Cause Committee" comprised of City/DWSD officials to submit a plan addressing the "root causes" of the DWSD's noncompliance.
- The Root Cause Committee drafted – and the district court adopted – a "Plan of Action," which proposed to restructure the DWSD in order to address systemic dysfunction and achieve long-term compliance with federal and state standards (including, but not limited to, the imposition of changes on DWSD employees otherwise forbidden by applicable CBAs).
- A report submitted by the Root Cause Committee in March 2013 recommended an autonomous DWSD. Implementation of the Root Cause Committee's recommendation would require creation of two unique authorities (with one authority owning the assets and the other authority leasing the assets and making recurring payments to the City in lieu of taxes in the estimated annual amount of \$50,000,000 in consideration for the transfer of DWSD assets).

Order Dismissing Case.

- By an order dated March 27, 2013, the district court closed the case, stating that it was satisfied that the court's orders and the ACO "have been substantially implemented." Closing the case was appropriate, the court said, "because the existing [ACO] is a sufficient mechanism to address any future issues regarding compliance with the DWSD's NPDES permit and the [CWA]."
- The district court did not order the implementation of the DWSD transaction proposed by the Root Cause Committee, citing its lack of authority to do so.
- The City appealed the district court's order dismissing the EPA Litigation on May 22, 2013.

OTHER LITIGATION AFFECTING THE CITY'S FINANCIAL CONDITION

The City generally has been successful in defending against legal challenges to its attempts to restructure its financial affairs, but numerous cases have been filed and remain pending and additional cases may well be filed. Some of these cases could affect the ability of the City to successfully restructure its affairs.

Litigation Challenging Consent Agreement.

Decision Voiding CBA-Related Sections of Consent Agreement Reversed on Procedural Grounds.

- In September 2012, the Ingham County Circuit Court struck down Sections 4.1 and 4.3 of the Consent Agreement, which provisions (i) granted the Mayor “authority to negotiate, renegotiate, execute, amend, modify, reject or terminate collective bargaining agreements” (§ 4.1) and (ii) gave the Financial Advisory Board approval rights over CBAs and allowed the Program Management Director to impose CBAs not approved by the City Council (§ 4.3). The Court overturned these provisions on the grounds that they improperly granted powers to Mayor Bing and other officials that are reserved exclusively to emergency managers.
- In October 2012, the Court of Appeals for the State of Michigan reversed the Ingham County court. The Court of Appeals’ ruling was based on procedural grounds (*i.e.*, that the Circuit Court had lacked jurisdiction where the plaintiff had failed to establish standing).

Litigation Regarding Imposition of CETs.

Over 15 legal challenges and grievances related to the imposition of the CETs have been filed in several state courts and before the Michigan Employment Relations Commission (“*MERC*”). These cases challenge the enforceability of the Financial Stability Agreement and, thus, the legality of the CETs. These challenges generally have not prevented the City’s imposition of the CETs.

- **Imposition of CETs on Police Department.** In August of 2012, the Wayne County Circuit Court denied the Detroit Police Officers Association’s request for a permanent injunction against imposition of the CETs.
- **Imposition of CETs on DWSD Employees.** In the long-standing EPA Litigation, the United States District Court for the Eastern District of Michigan (i) required that DWSD employees enter into new CBAs with the DWSD (as opposed to with the City) and (ii) clarified that, although its orders did not restrict the DWSD from implementing CETs with respect to DWSD employees prior to negotiation of new CBAs, neither did such orders enjoin employees from challenging the CETs to the extent imposition thereof was inconsistent with applicable law. AFSCME Local 207 – the largest union in the DWSD – has challenged the imposition of the CETs upon DWSD employees before the MERC.
- **Restoration of Certain Pay Cuts.** In *In re City of Detroit and Detroit Police Officers Association*, Case No. D12 D-0354, the Detroit Police Officers Association, among other things, sought the restoration of a 10% across-the-board pay cut imposed upon all City police officers pursuant to the CETs. The City argued that such wage cuts were needed in light of the City’s ongoing financial emergency. The MERC panel ordered a 5% restoration of the officers’ wages, effective January 1, 2014 (and encouraged the emergency manager, the Mayor and the State Treasurer to consider instituting the 5% salary restoration effective July 1, 2013).

KEY OBJECTIVES FOR A FINANCIAL RESTRUCTURING AND REHABILITATION OF DETROIT

To the fullest extent possible under all of the circumstances:

- Provide incentives (and eliminate disincentives) for businesses and residents to locate and/or remain in the City.
 - The City cannot stabilize or pay creditors meaningful recoveries if it continues to shrink.
 - Achieving this goal requires improvements in City services, particularly in the area of public safety and tax reform to reduce the cost of living in the City to more closely approximate costs of living in nearby areas.
- Maximize recoveries for creditors.
 - Since the City will not generate sufficient cash to pay all liabilities, alternatives have to be considered.
- Provide affordable pension and health insurance benefits, and restructure governance of pension arrangements.
- Eliminate blight to assist in stabilizing and revitalizing neighborhoods and communities within the City.
- Reform the City government operations to improve efficiency and reduce costs.
 - In many areas, longer term benefits will require immediate increases in capital investment.
- Maximize collection of taxes and fees that are levied or imposed.
- Generate value from City assets where it is appropriate to do so.

CURRENT FINANCIAL STATUS

HISTORICAL REVENUE AND EXPENDITURE TRENDS, INCLUDING PRELIMINARY FY 2013.

General Fund summary

(\$ in millions)	FISCAL YEAR ENDED ACTUAL					PRELIM.
	2008	2009	2010	2011	2012	2013
Total revenues	\$1,397.7	\$1,363.3	\$1,291.0	\$1,316.8	\$1,196.9	\$1,121.9
Operating expenditures	(1,111.1)	(1,025.3)	(964.7)	(887.5)	(857.1)	(692.0)
Legacy expenditures	(414.6)	(462.0)	(397.9)	(486.1)	(461.6)	(477.3)
Deficit (excl. financing proceeds)	(127.9)	(124.1)	(71.7)	(56.9)	(121.8)	(47.4)
Financing proceeds	75.0	-	250.0	-	-	137.0
Total surplus (deficit)	\$(52.9)	\$(124.1)	\$178.3	\$(56.9)	\$(121.8)	\$89.6
Accumulated unrestricted General Fund deficit	\$(219.2)	\$(331.9)	\$(155.7)	\$(196.6)	\$(326.6)	\$(237.0)

The City has made significant progress decreasing operating costs; however, revenues have declined more quickly and legacy costs have increased.

Excluding proceeds from debt issuances, the City's expenditures have exceeded revenues from FY 2008 to FY 2012 by an average of \$100 million annually.

Revenues

(\$ in millions)	FISCAL YEAR ENDED ACTUAL					PRELIM.
	2008	2009	2010	2011	2012	2013
Municipal income tax	\$276.5	\$240.8	\$216.5	\$228.3	\$233.0	\$238.7
State revenue sharing	249.6	266.6	263.6	239.3	173.3	182.8
Wagering taxes	180.4	173.0	183.3	176.9	181.4	173.0
Sales and charges for services	191.3	166.7	154.1	155.0	145.4	120.4
Property taxes	155.2	163.7	143.0	182.7	147.8	134.9
Utility users' and other taxes	73.0	71.5	64.8	64.8	57.1	54.8
Other	271.8	281.0	265.6	269.8	258.8	217.4
Total revenues	\$1,397.7	\$1,363.3	\$1,291.0	\$1,316.8	\$1,196.9	\$1,121.9

Municipal income tax

- Income tax revenues decreased in FY 2009 and FY 2010 primarily due to lower taxable income of City residents and non-residents working in the City as a result of the economic recession. The recovery in the last 3 years was due to increased taxable income as well as the recent increase in the corporate tax rate.

State revenue sharing

- State revenue sharing decreased in FY 2011 primarily due to the 2010 census population decline affecting constitutional revenue sharing payments.
- FY 2009 and FY 2010 include \$15 - \$20 million payments that were held from the previous year due to late CAFR submission.
- Statutory revenue sharing was replaced by the Economic Vitality Incentive Program funds. The total amount available to be paid to municipalities decreased and the payment method is now based on performance metrics to reward "best practices".

Wagering taxes

- Wagering tax revenues from Detroit's three casinos have remained steady. Wagering tax receipts are projected to decrease through FY 2015 and beyond due to expected loss of gaming revenue to casinos opening in nearby Toledo, Ohio.
- Beginning January 2006, the City began receiving an additional 1% of adjusted gross receipts as percentage payment revenues. In addition, the City receives \$4 million from each casino when the casino reaches \$400 million in adjusted gross receipts during the calendar year.

Property taxes

- Property tax revenues have been decreasing primarily due to declining taxable property valuations (~12% since FY 2008) and increasing charge-backs due to delinquency rates (charge-backs have been increasing at a quicker pace than delinquent bills transferred to Wayne County).
- Delinquent property tax bills are transferred to Wayne County and the City receives payment for the full amount submitted, less charge-backs for prior period uncollectible bills, which ultimately the City has to repay.
- Revenues were higher in FY 2011 due to (non-cash) adjustments to property tax distributions and charge-back liabilities that were overstated in prior years.

Operating expenditures

(\$ in millions)	FISCAL YEAR ENDED ACTUAL					PRELIM.
	2008	2009	2010	2011	2012	2013
Salaries/overtime/fringe	\$(509.9)	\$(506.6)	\$(466.4)	\$(454.8)	\$(431.5)	\$(357.3)
Health benefits - active	(49.9)	(54.4)	(70.8)	(64.6)	(54.3)	(43.1)
Professional and contractual services	(66.9)	(73.5)	(54.2)	(48.5)	(43.1)	(42.7)
Materials & supplies	(85.8)	(70.9)	(60.1)	(67.1)	(62.2)	(63.6)
Utilities	(35.6)	(38.6)	(27.8)	(30.1)	(27.1)	(25.5)
Other	(362.9)	(281.2)	(285.4)	(222.4)	(238.9)	(159.8)
Operating expenditures	\$(1,111.1)	\$(1,025.3)	\$(964.7)	\$(887.5)	\$(857.1)	\$(692.0)

Salary/overtime/fringe

- The City has significantly reduced its payroll related costs since the peak in FY 2009 based on a variety of cost reduction efforts, including headcount reductions, furlough days, wage reductions, etc.

Other expenses declining

- Other expenditures, including expenses covered by grant revenue, claims for self-insurance, professional/contractual services and purchased electricity and gas/fuel costs have declined by more than \$266 million (44%) over the past six years.

Legacy expenditures

(\$ in millions)

	FISCAL YEAR ENDED ACTUAL					PRELIM.
	2008	2009	2010	2011	2012	2013
Debt service (LTGO & UTGO)	\$(133.8)	\$(177.6)	\$(135.9)	\$(137.3)	\$(135.6)	\$(141.4)
POC - principal and interest	(29.8)	(25.1)	(28.1)	(38.9)	(39.0)	(55.4)
POC swaps	(45.3)	(49.9)	(50.7)	(50.7)	(50.7)	(50.6)
Pension contributions	(76.3)	(65.7)	(50.8)	(119.5)	(86.1)	(78.3)
Health benefits - retiree	(129.3)	(143.7)	(132.3)	(139.7)	(150.1)	(151.6)
Legacy expenditures	\$(414.6)	\$(462.0)	\$(397.9)	\$(486.1)	\$(461.6)	\$(477.3)

Debt service and COP payments

- COP-related payments include swap interest payments and principal and interest.
- COP-related payments have been increasing due to increasing scheduled maturities and increasing swap interest rates through FY 2010.
- Debt service was higher in FY 2009 due to a balloon payment due in 2009 on debt related to the Greater Detroit Resource Recovery Authority.
- COP-related payments are forecast to increase due to a back-loaded amortization schedule.

Pension contributions

- The City has consistently deferred year-end PFRS contributions by using a payment plan financing arrangement paying 8% interest (~\$50 million for FY 2012).
- The City was granted a \$25 million credit in each of the years 2008, 2009, and 2010. If not for these credits, the contribution would have been \$25 million higher in each of those years, thereby saving the City a cumulative \$75 million. Therefore, the contributions for 2008, 2009, and 2010 are effectively understated.

Health Benefits - Retiree

- The total cost of healthcare benefits City-wide in FY 2012 was approximately \$275 million, of which approximately \$177 million related to retirees.
- The General Fund's portion of healthcare costs in FY 2012 was approximately \$204 million, of which approximately \$150 million related to retirees.

FY 2013 Cash Flow

FY 2013 Forecast.

- At the end of FY 2012, the City held cash of \$29.8 million, subject to accumulated property tax distributions in the amount of \$27.9 million, or cash net of distributions of \$1.9 million.
- Based upon actual results through May 31, 2013 and forecasted results through the end of FY 2013, the City is projecting positive net cash flow of \$4.0 million for FY 2013.
 - However, as of June 30, 2013, the City will have accumulated deferrals of approximately \$120 million, primarily related to pension contributions. If not for the deferrals of payments, the City would have already run out of cash.
- In August 2012 (FY 2013), the City issued \$129.5 million in self-insurance and capital improvement bonds (proceeds of \$137 million) with the assistance of the Michigan Finance Authority; however, \$80 million was used to repay a short-term borrowing in FY 2012 and the balance was placed in escrow subject to State Treasury approval of withdrawal.
- In December 2012, the State authorized the City to draw an additional \$10 million from the escrowed proceeds.
- The forecast assumes an additional \$20 million will be drawn in June 2013.

Interfund Loans and Other Outstanding Amounts Due.

- As of May 31, 2013, the City's general fund had outstanding deferrals and amounts due to other funds and entities of approximately \$202.6 million. These are effectively borrowings and must be repaid.
 - Cash owed to other funds: As of May 31, 2013, the General Fund owed approximately \$41.2 million to other funds (e.g., Risk Management Fund).
 - Cash commingled with General Fund: As of May 31, 2013, the General Fund held \$52.6 million of other funds' cash in its operating account (e.g., Major and Local Street Funds).
 - Property tax distributions: As of May 31, 2013, the General Fund owed \$55.1 million to other taxing authorities (e.g., Detroit Public Schools and Wayne County).
 - Deferred pension contributions: As of May 31, 2013, the General Fund owed \$53.7 million in delinquent pension contributions to the GRS and PFRS systems.
 - On June 30, 2013, the City will owe an additional \$50 million (estimated) related to the FY 2013 required PFRS contribution, which will increase the amount of deferred pension contributions to over \$100 million.

Cash conservation measures include:

- Issuance of short-term (RANs & TANs) and long-term debt.
- General fund borrowing from other funds, deferrals of payments to other funds and cash pooling (as described above).
- Deferral of trade payments and management of accounts payable with reference to available cash. Current accounts payable are approximately aged 60 to 75 days. Issues related to unvouchered accounts payable could increase the aging profile of the City's A/P.

FY 2013 Forecasted Cash Flow to Year End

<i>\$ in millions</i>	Actual FY 2012	Actual Jul-12	Actual Aug-12	Actual Sep-12	Actual Oct-12	Actual Nov-12	Actual Dec-12	Actual Jan-13	Actual Feb-13	Actual Mar-13	Actual Apr-13	Actual May-13	Forecast Jun-13	11A + 1F FY 2013
Operating Receipts														
Property taxes	\$567.0	\$34.0	\$198.0	\$14.8	\$6.9	\$4.2	\$24.4	\$139.1	\$42.3	\$5.4	\$1.3	\$3.1	\$58.0	\$531.6
Income & utility taxes	276.2	23.1	25.1	21.5	25.8	23.6	21.9	25.4	23.9	20.4	30.2	30.8	18.4	290.1
Gaming taxes	177.5	12.4	15.2	17.2	12.4	20.8	11.0	11.5	19.6	14.4	12.8	16.5	9.2	173.0
Municipal service fee to casinos	19.8	-	7.6	-	-	4.0	4.0	1.8	-	-	-	-	-	17.4
State revenue sharing	194.3	28.5	-	28.7	-	30.9	-	30.4	-	30.6	-	29.7	-	178.9
Other receipts	480.8	26.1	37.8	26.0	22.5	26.6	31.7	16.7	58.0	25.6	29.3	41.4	19.4	361.2
Refinancing proceeds	50.0	-	-	-	-	-	10.0	-	-	-	-	-	20.0	30.0
Total operating receipts	1,765.5	124.2	283.8	108.2	67.5	110.1	103.1	225.0	143.9	96.5	73.6	121.4	125.0	1,582.2
Operating Disbursements														
Payroll, taxes, & deductions	(454.2)	(37.5)	(35.0)	(32.5)	(28.0)	(41.1)	(30.1)	(23.6)	(30.1)	(25.9)	(26.3)	(36.2)	(27.2)	(373.6)
Benefits	(203.4)	(18.3)	(21.0)	(20.4)	(16.7)	(16.2)	(19.5)	(9.7)	(15.8)	(17.7)	(4.7)	(14.9)	(16.0)	(191.0)
Pension contributions	(103.9)	-	(11.7)	(7.2)	-	(1.2)	(8.8)	(1.9)	-	-	-	-	-	(30.8)
Subsidy payments	(50.0)	(0.6)	(4.9)	(6.2)	(1.1)	-	(0.1)	(0.2)	(5.7)	(5.0)	(3.9)	(1.6)	(10.9)	(40.1)
Distributions - tax authorities	(374.4)	(0.9)	(110.1)	(34.3)	(2.1)	(4.2)	(1.5)	(8.1)	(79.4)	(14.7)	(0.6)	-	(27.2)	(283.2)
Distributions - UTGO	-	-	(1.5)	(11.0)	(1.3)	-	-	-	(1.3)	(52.1)	(1.3)	-	-	(68.6)
Distributions - DDA increment	(8.6)	-	-	-	-	-	-	(5.9)	-	-	-	-	(5.5)	(11.4)
Income tax refunds	(16.9)	(1.9)	(3.3)	(0.6)	-	(1.8)	(1.0)	(0.5)	(0.4)	(0.4)	(1.9)	(1.6)	(3.8)	(17.2)
A/P and other disbursements	(477.5)	(43.8)	(48.1)	(34.5)	(31.4)	(37.1)	(25.2)	(24.3)	(34.7)	(29.3)	(27.7)	(36.9)	(32.2)	(405.3)
Professional fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total operating dis- bursements	(1,688.9)	(103.1)	(235.7)	(146.8)	(80.6)	(101.7)	(86.1)	(74.1)	(167.4)	(145.0)	(66.5)	(91.3)	(122.8)	(1,421.1)
POC and debt related payments	(142.1)	(4.2)	(5.4)	(4.9)	(9.0)	(7.9)	(14.9)	(3.1)	(8.5)	(4.8)	(32.2)	(25.6)	(36.6)	(157.1)
Total disbursements	(1,831.0)	(107.3)	(241.1)	(151.7)	(89.6)	(109.6)	(101.0)	(77.2)	(175.9)	(149.8)	(98.8)	(116.9)	(159.4)	(1,578.2)
Net cash flow	(65.5)	16.9	42.6	(43.5)	(22.0)	0.5	2.1	147.8	(32.1)	(53.3)	(25.2)	4.6	(34.4)	4.0
Cumulative net cash flow		16.9	59.5	16.0	(6.0)	(5.5)	(3.4)	144.4	112.3	59.0	33.9	38.4	4.0	
Beginning cash balance	95.3	29.8	46.7	89.3	45.8	23.8	24.3	26.4	174.2	142.1	88.8	63.7	68.2	29.8
Net cash flow	(65.5)	16.9	42.6	(43.5)	(22.0)	0.5	2.1	147.8	(32.1)	(53.3)	(25.2)	4.6	(34.4)	4.0
Cash before required distributions	\$29.8	\$46.7	\$89.3	\$45.8	\$23.8	\$24.3	\$26.4	\$174.2	\$142.1	\$88.8	\$63.7	\$68.2	\$33.8	\$33.8
Accumulated property tax distributions	(27.9)	(48.1)	(77.8)	(31.8)	(32.9)	(31.5)	(48.0)	(149.8)	(89.5)	(26.9)	(26.0)	(28.5)	(19.7)	(19.7)
Cash net of distributions	\$1.9	\$(1.4)	\$11.5	\$14.0	\$(9.1)	\$(7.1)	\$(21.5)	\$24.4	\$52.6	\$61.9	\$37.6	\$39.7	\$14.1	\$14.1
Memo:														
Accumulated deferrals	(64.4)	(66.2)	(56.3)	(50.9)	(52.7)	(53.2)	(46.3)	(44.2)	(53.9)	(57.7)	(61.5)	(65.8)	(118.7)	(118.7)
Refunding bond proceeds in escrow	28.6	28.6	81.7	81.7	81.7	81.7	71.7	71.7	71.7	71.7	71.7	51.7	51.7	51.7
Reimbursements owed to other funds	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd

FY 2014 Forecasted Cash Flow to Year End

<i>\$ in millions</i>	Forecast Jul 13	Forecast Aug-13	Forecast Sep-13	Forecast Oct-13	Forecast Nov-13	Forecast Dec-13	Forecast Jan-14	Forecast Feb-14	Forecast Mar-14	Forecast Apr-14	Forecast May-14	Forecast Jun-14	Forecast FY 2014
Operating Receipts													
Property taxes	\$37.8	\$166.6	\$13.0	\$6.6	\$3.1	\$21.5	\$139.1	\$20.8	\$4.8	\$1.3	\$2.5	\$51.1	\$468.4
Income & utility taxes	28.7	22.7	22.3	28.3	22.7	22.3	28.3	23.5	22.7	28.3	22.3	22.7	294.7
Gaming taxes	14.6	14.1	8.9	23.1	10.4	9.4	22.1	9.9	15.1	17.4	13.2	11.8	170.0
Municipal service fee to casinos	-	7.6	-	-	4.0	4.0	1.8	-	-	-	-	-	17.4
State revenue sharing	30.7	-	30.7	-	30.7	-	30.7	-	30.7	-	30.7	-	184.3
Other receipts	27.2	25.8	25.9	32.9	26.3	25.9	32.9	27.1	26.3	32.9	25.9	26.3	335.9
Refinancing proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating receipts	139.1	236.9	100.9	91.0	97.2	83.2	255.0	81.3	99.6	80.0	94.6	111.9	1,470.7
Operating Disbursements													
Payroll, taxes, & deductions	(31.0)	(26.6)	(26.6)	(35.5)	(26.6)	(26.6)	(31.0)	(26.6)	(26.6)	(35.5)	(26.6)	(26.6)	(345.6)
Benefits	(15.5)	(15.5)	(15.5)	(15.5)	(15.5)	(15.5)	(15.5)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(178.6)
Pension contributions	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(14.7)	(175.9)
Subsidy payments	(7.6)	(5.0)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(75.6)
Distributions - tax authorities	(14.8)	(72.4)	(40.0)	(5.7)	(1.0)	(1.3)	(57.3)	(20.9)	(14.0)	(1.7)	-	(24.0)	(253.1)
Distributions - UTGO	-	(12.0)	-	-	-	-	-	-	(44.9)	-	-	-	(56.9)
Distributions - DDA increment	-	-	-	-	-	(8.0)	-	-	-	-	-	(1.0)	(9.0)
Income tax refunds	(2.5)	(2.7)	(.06)	(0.3)	(1.5)	(1.0)	(0.6)	(0.3)	(0.4)	(2.3)	(1.2)	(3.7)	(17.0)
A/P and other disbursements	(36.3)	(37.9)	(29.3)	(37.1)	(30.1)	(25.6)	(40.8)	(23.0)	(33.5)	(39.7)	(30.0)	(30.0)	(393.2)
Sub-total operating disbursements	(122.3)	(186.7)	(132.8)	(115.1)	(95.6)	(98.9)	(166.0)	(105.8)	(154.4)	(114.3)	(92.8)	(120.3)	(1,504.9)
POC and debt related payments	(7.4)	(4.2)	(5.8)	(8.5)	(7.3)	(15.4)	(7.3)	(4.2)	(5.7)	(51.9)	(7.3)	(39.1)	(164.2)
Total disbursements	(129.6)	(191.0)	(138.6)	(123.5)	(102.9)	(114.3)	(173.4)	(110.0)	(160.2)	(166.1)	(100.1)	(159.3)	(1,669.1)
Net cash flow	9.5	45.9	(37.7)	(32.6)	(5.7)	(31.1)	(81.6)	(28.7)	(60.6)	(86.1)	(5.5)	(47.4)	(198.5)
Cumulative net cash flow	9.5	55.4	17.7	(14.9)	(20.6)	(51.7)	29.9	1.1	(59.4)	(145.6)	(151.0)	(198.5)	
Beginning cash balance	33.8	43.3	89.2	51.5	18.9	13.2	(17.9)	63.7	34.9	25.6	(111.8)	(117.2)	33.8
Net cash flow	9.5	45.9	(37.7)	(32.6)	(5.7)	(31.1)	81.6	(28.7)	(60.6)	(86.1)	(5.5)	(47.4)	(198.5)
Cash before required distributions	\$43.3	\$89.2	\$51.5	\$18.9	\$13.2	\$(17.9)	\$63.7	\$34.9	\$(25.6)	\$(111.8)	\$(117.2)	\$(164.7)	\$(164.7)
Accumulated property tax distributions	(29.8)	(55.4)	(24.0)	(22.7)	(23.7)	(38.6)	(86.5)	(82.2)	(27.1)	(26.5)	(28.5)	(19.7)	(19.7)
Cash net of distributions	\$13.5	\$33.8	\$27.4	\$(3.8)	\$(10.5)	\$(56.5)	\$(22.8)	\$(47.2)	\$(52.7)	\$(138.2)	\$(145.7)	\$(184.4)	\$(184.4)
Memo:													
Accumulated deferrals	(119.3)	(112.4)	(112.8)	(113.5)	(113.9)	(114.4)	(115.0)	(115.5)	(116.0)	(116.6)	(117.1)	(117.6)	(117.6)
Refunding bond proceeds in escrow	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7
Reimbursements owed to other funds	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd

IN THE ABSENCE OF A COMPREHENSIVE FINANCIAL RESTRUCTURING, BUDGET DEFICITS WILL CONTINUE FOR THE FORESEEABLE FUTURE.

The City Has Limited Options for Further Revenue Generation and, in the Absence of a Comprehensive Financial Restructuring, Cost-Saving Measures.

- Legacy obligations continue to increase;
- Limited or no access to capital markets;
- Diminishing, if any, returns from further tax increases; and
- Minimal potential for further payroll related reductions.

Absent Structural Changes, the City's Accumulated Deficit is Expected to Grow to Unprecedented Levels.

- At the City's current run rate, its accumulated deficit could grow to 3-4 times its current level of \$326.6 million to over \$1.35 billion by FY 2017.

A Look at the Future in the Absence of Restructuring Initiatives

***Note:** The following projections were prepared based solely on the City's current levels of operating expenses and capital expenditures and do *not* account for (i) increases in expenditures necessary to restore City services to adequate levels, (ii) additional investment by the City in services, assets or infrastructure or (iii) any changes to legacy liabilities.

(\$ in millions)

	FISCAL YEAR ENDED ACTUAL					PRELIMINARY FORECAST					5-YEAR TOTAL
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Revenues											
Municipal income tax	\$276.5	\$240.8	\$216.5	\$228.3	\$233.0	\$238.7	\$243.4	\$247.3	\$249.0	\$250.7	\$1,229.1
State revenue sharing	249.6	266.6	263.6	239.3	173.3	182.8	184.3	186.1	187.9	189.5	930.4
Wagering taxes	180.4	173.0	183.3	176.9	181.4	173.0	170.0	168.3	170.0	171.7	853.0
Sales and charges for services	191.3	166.7	154.1	155.0	145.4	120.4	124.8	119.4	118.2	117.0	599.7
Property taxes	155.2	163.7	143.0	182.7	147.8	134.9	118.4	110.2	105.7	100.8	570.0
Utility users' and other taxes	73.0	71.5	64.8	64.8	57.1	54.8	47.2	40.9	40.9	41.3	225.0
Other revenue	156.9	142.7	134.2	152.4	125.5	93.4	75.6	55.8	55.8	55.9	336.4
General Fund reimbursements	34.7	55.7	47.6	32.3	47.6	31.2	30.3	30.3	30.3	30.3	152.2
Transfers in (UTGO millage & non-General Fund POCs)	80.1	82.5	83.8	85.1	85.8	92.8	89.0	87.9	83.8	84.4	438.0
Total revenues	1,397.7	1,363.3	1,291.0	1,316.8	1,196.9	1,121.9	1,082.8	1,046.2	1,041.5	1,041.4	5,333.8
Expenditures											
Salaries/overtime/fringe	(509.9)	(506.6)	(466.4)	(454.8)	(431.5)	(357.3)	(341.5)	(341.9)	(346.4)	(352.5)	(1,739.7)
Health benefits - active	(49.9)	(54.4)	(70.8)	(64.6)	(54.3)	(43.1)	(51.2)	(54.0)	(57.4)	(61.0)	(266.7)
Other operating expenses	(551.2)	(464.3)	(427.5)	(368.2)	(371.3)	(291.6)	(292.9)	(288.2)	(295.9)	(301.5)	(1,470.2)
Operating expenditures	(1,111.1)	(1,025.3)	(964.7)	(887.5)	(857.1)	(692.0)	(685.7)	(684.1)	(699.7)	(715.0)	(3,476.6)
Net operating surplus	286.7	338.0	326.3	429.2	339.8	429.9	397.2	362.0	341.8	326.3	1,857.2
Debt service (LTGO & UTGO)	(133.8)	(177.6)	(135.9)	(137.3)	(135.6)	(141.4)	(135.9)	(124.4)	(119.4)	(96.1)	(617.2)
POC - principal and interest	(29.8)	(25.1)	(28.1)	(38.9)	(39.0)	(55.4)	(61.0)	(63.2)	(65.4)	(67.6)	(312.6)
POC swaps	(45.3)	(49.9)	(50.7)	(50.7)	(50.7)	(50.6)	(50.6)	(50.6)	(50.6)	(50.6)	(253.1)
Pension contributions	(76.3)	(65.7)	(50.8)	(119.5)	(86.1)	(78.3)	(199.5)	(233.1)	(258.9)	(285.9)	(1,055.8)
Health benefits - retiree	(129.3)	(143.7)	(132.3)	(139.7)	(150.1)	(151.6)	(140.7)	(151.1)	(161.6)	(172.0)	(776.9)
Legacy expenditures	(414.6)	(462.0)	(397.9)	(486.1)	(461.6)	(477.3)	(587.6)	(622.4)	(655.9)	(672.3)	(3,015.6)
Deficit (excl. financing proceeds)	(127.9)	(124.1)	(71.7)	(56.9)	(121.8)	(47.4)	(190.5)	(260.4)	(314.1)	(346.0)	(1,158.4)
Financing proceeds	75.0	-	250.0	-	-	137.0	-	-	-	-	137.0
Total surplus (deficit)	\$(52.9)	\$(124.1)	\$178.3	\$(56.9)	\$(121.8)	\$89.6	\$(190.5)	\$(260.4)	\$(314.1)	\$(346.0)	\$(1,021.4)
Accumulated unrestricted General Fund deficit	\$(219.2)	\$(331.9)	\$(155.7)	\$(196.6)	\$(326.6)	\$(237.0)	\$(427.5)	\$(687.9)	\$(1,002.0)	\$(1,348.0)	

THE CITY HAS TAKEN ACTION TO ADDRESS ITS FINANCIAL CHALLENGES

The City has already taken numerous steps to improve its financial position including expense savings and revenue increases. These initiatives save the City an estimated \$200 million per year but they also impose substantial burdens on the City's workforce and residents.

Headcount Reductions.

- Since 2011, the City has reduced its headcount by more than 2,700 employees (from 12,302 employees as of close of FY 2010 to approximately 9,560 as of May 31, 2013).
- The City's headcount reductions have resulted in annual savings of over \$100 million.

Reductions of Labor Costs through Implementation of City Employment Terms.

- On July 12, 2012, the Financial Advisory Board approved the CETs for (i) employees in unions with expired CBAs and (ii) nonunion employees, effective as of July 17, 2012.
- Among other things, the CETs provide for (i) wage reductions (implemented through imposition of furlough days); (ii) caps/reductions on vacation/holiday pay/overtime/sick days; (iii) the reduction of pension multipliers; and (iv) changes to healthcare coverage.
- Implementation of the CETs provides for an estimated \$102 million in annual savings.
 - \$25 million in savings attributable to wage reductions (24% of savings).
 - \$59 million in savings attributable to reduced active and retiree benefits (59% of savings).
 - \$9 million in savings attributable to reduced pension costs (9% of savings).
 - \$8 million in savings attributable to changes to work rules (8% of savings).

- **Police Work Rules.** The CETs implement a number of changes to work rules governing the DPD. For example, the CETs implement changes related to (i) the establishment of a joint labor/management committee to determine the assignment of civilians to certain job functions (*i.e.*, “civilianization”); (ii) the ability of the chief of police to hire and deploy personnel; (iii) limitations on court time pay, holiday pay, eligibility for overtime pay, holiday pay and bonus vacation days; (iv) elimination of educational reimbursement programs; (v) elimination of “wage differential” compensation while employees are on roster for promotion; and (vi) delaying separation payments.
- **Other Union Rules.** The CETs also implement a number of changes to work rules governing those unions with contracts that expired on or before June 30, 2012. For example, the CETs implement changes related to (i) freezing sick leave banks and eliminating reserve sick leave accrual; (ii) elimination of sick time cash payouts for future earned time; (iii) reserving the City’s right to reinstate furlough days; (iv) elimination of the \$3-per-day allowance for daily car usage; (v) elimination of four to six annual bonus vacation days; and (vi) reduced vacation accrual to 160 hours from 320 hours.

Revenue Generating Initiatives.

- **Increased Corporate Tax Rate.** In January 2012, the City’s corporate income tax rate was raised to 2.0% from 1.0%. This increased rate was projected to generate an estimated \$6 million in additional annual revenue.
- **Enhanced Tax Collection Initiatives.** The City has implemented, and is implementing, initiatives designed to (i) improve collection of past due taxes and (ii) enhance collection efforts on a prospective basis. These efforts to enhance collection of taxes could generate an estimated \$13 million in additional annual revenue.
- **Increased Lighting Rates.** In January 2013, the PLD increased its rates to more closely align with market rates/ eliminate practice of charging customers less for power than the City itself was paying. Increased PLD rates could generate an estimated \$9 million in additional annual revenue.

Significantly Reduced Operating Expenses.

- **Reductions in Vendor Costs.** The City is implementing an initiative to reduce its vendor-related costs by 10%. Reductions in vendor costs are expected to save an estimated \$10 million annually.
- **Reduction in Subsidy to DDOT.** In 2012, the City undertook steps to improve the efficiency of the Detroit Dep’t of Transportation (*e.g.*, through route rationalization), thereby reducing the subsidy from the City’s General Fund to the DDOT enterprise fund by approximately \$15 million annually.

Deferred Capital Expenditures.

- The City has deferred capital expenditures.
 - Average aggregate capital outlays for the fiscal years 2008 – 2012 were only \$82.98 million. Average aggregate capital outlays for the preceding fiscal years 2003 – 2007 were \$151.94 million.
 - For fiscal years 2014 – 2023, it is estimated that General Fund necessary capital expenditures will average approximately \$145 million.

Demolition Initiative.

Program launched in April 2010 with the goal of demolishing 10,000 vacant structures in 3 years.

- Over 5,000 structures have been demolished; the remaining portion of the 10,000 structures in the program are planned to be demolished by December 2013.
- Despite \$72 million in committed and expended funds for this initiative, there is a funding gap of \$40 million to complete the demolition of 10,000 structures and achieve the program's goal.
- Demolition initiative only addresses 13% of the vacant buildings in the City and 26% of such buildings that are classified as dangerous.
 - Ancillary demolition initiative in partnership with State allocated \$10 million related to mortgage-related settlement to targeted demolition of 1,234 structures around schools. 179 structures demolished as of February, 28, 2013 (with another 56 under contract).

Execution of Consent Agreement/Creation of Financial Advisory Board.

- **Early 2012:** City and State negotiate a “Financial Stability Agreement” (often referred to as the “Consent Agreement”) in an effort to achieve (i) financial stability for the City and (ii) a stable platform for future growth.
- The City Council approved the Consent Agreement on April 4, 2012. The Consent Agreement was executed by the Mayor, the members of a State-appointed Financial Review Team, the State Treasurer and the Governor as of April 5, 2012.

- The Consent Agreement created a “Financial Advisory Board” (the “*FAB*”), of nine members selected by the Governor, the State Treasurer, the Mayor and City Council.
 - Under the Consent Agreement, the FAB had an oversight role and limited powers over certain City reform and budget activities.
 - The FAB has held, and continues to hold, regular public meetings and continues to exercise its oversight functions consistent with the Consent Agreement.
- To implement the reform efforts set forth in the Consent Agreement, the positions of “Chief Financial Officer” and “Program Management Director” were established. Each report to the Mayor.

Legislation Authorizing Appointment of an Emergency Manager (“*EM*”).

- In 1990, the Michigan Legislature enacted Public Act 72 (“*PA 72*”), which empowered the State to intervene in municipalities facing financial crisis through the appointment of an EM who, once appointed, assumed many of the powers ordinarily held by local elected officials.
- Effective March 16, 2011, the Legislature repealed PA 72 and enacted Public Act 4 (“*PA 4*”). PA 4 enhanced the State’s power to intervene in financially troubled municipalities by, for example, giving EMs the authority to unilaterally modify, reject or terminate municipal contracts.
- Michigan voters rejected PA 4 by referendum on November 5, 2012.
- The Michigan Court of Appeals ruled that the rejection of PA 4 automatically revived PA 72.
- Effective March 28, 2013, the Legislature enacted Public Act 436 (“*PA 436*”), which repealed and replaced the revived PA 72.
 - Like PA 4, PA 436 empowers EMs to modify, reject or terminate municipal contracts.
 - PA 436 contains an appropriations provision that immunizes the law from referendum.

Appointment of EM.

- Pursuant to PA 72, on December 19, 2012, Governor Snyder appointed a Financial Review Team to examine the City's financial situation.
- On February 19, 2013, the Financial Review Team issued a report concluding that Detroit was in a state of financial emergency.
- Based upon the Financial Review Team's findings, on March 1, 2013, the Governor determined that a financial emergency existed in Detroit — a determination that, under PA 72, required the Local Emergency Financial Assistance Loan Board ("LEFALB") to appoint an EM for Detroit.
- On March 14, 2013, the LEFALB appointed Kevyn Orr as EM for Detroit.
 - Mr. Orr's first employment contract became effective on March 25, 2013, the day Mr. Orr began work as EM. Three days later, on the date PA 436 repealed and replaced PA 72, Mr. Orr and the State entered into a second contract.

Litigation Relating to Detroit EM Appointment.

- In *Davis v. Local Emergency Financial Assistance Loan Board*, pending in the Ingham County Circuit Court, the plaintiff (i) alleges violations of Michigan's Open Meetings Act by the LEFALB in connection with Mr. Orr's appointment as Detroit EM and (ii) requests that the court invalidate that appointment.
 - Case law indicates that the LEFALB is not a public body subject to the Open Meetings Act.
 - Parties are currently engaged in various discovery disputes and dispositive motion practice; answer yet to be filed.
- In *Citizens United Against Corrupt Government v. Local Emergency Financial Assistance Loan Board*, pending in the U.S. District Court for the Eastern District of Michigan, the plaintiff (i) argues that Mr. Orr could not have been appointed under PA 72, because that law could not have been in effect and (ii) asks the court to reverse its previous opinion that voter rejection of PA 4 revived PA 72.

Litigation Challenging PA 436

- In *Phillips v. Snyder*, pending in the U.S. District Court for the Eastern District of Michigan, the plaintiffs seek, among other things, (i) declaratory relief that PA 436 violates, among other things, the U.S. Constitution and the Voting Rights Act; and (ii) injunctive relief, among other things, preventing the Defendants and any EMs from exercising rights under PA 436. A hearing on the defendants' motion to dismiss is scheduled for August 21, 2013.
- In *Detroit NAACP v. Snyder*, pending in the U.S. District Court for the Eastern District of Michigan, the plaintiffs seek an order declaring that PA 436 violates the Due Process and Equal Protection clauses of the U.S. Constitution. The plaintiffs assert that the Michigan Legislature violated the pre-clearance requirement of section 5 of the Voting Rights Act in passing PA 436. The plaintiffs seek injunctive relief against any actions taken pursuant to PA 436, including all actions initiated by EMs.

Litigation Concerning Actions Taken by Other EMs.

- Since 1990, EMs have been appointed to restructure the finances of Hamtramck, Highland Park, Flint, Three Oaks, Pontiac, Ecorse, Benton Harbor, Allen Park — and now Detroit. Except for Hamtramck, Highland Park, Ecorse and Three Oaks, each of these municipalities remains under the control of an EM. The school districts of Detroit, Highland Park and Muskegon Heights also are currently operating under EM control.
- Opponents have challenged various EM actions in administrative proceedings, arbitration and lawsuits with mixed results.
 - **Litigation Relating to Actions Affecting CBAs.** Under PA 4, EMs have ordered unilateral modifications to CBA provisions. Plaintiffs have challenged such modifications on federal and state law grounds, including constitutional challenges based on Contracts Clause and Due Process arguments.
 - **Limitation on EM Power to Modify CBAs.** On March 29, 2013, the United States District Court for the Eastern District of Michigan enjoined an EM's unilateral modifications to CBAs with unions representing municipal retirees. The EM had shifted certain health care costs from the municipality to retirees. The court granted the plaintiffs' motion for a preliminary injunction on Contracts Clause and Due Process Clause grounds. An appeal is pending before the Sixth Circuit Court of Appeals.

- **Litigation Relating to Changes in Salaries of Local Elected Officials.**
 - EMs have reduced the compensation paid to mayors and city council members, at least on a temporary basis. Courts have held that local elected officials do not have property rights to continued compensation at a pre-existing level, and that an EM can eliminate elected officials' salaries entirely.
- **Litigation in Connection with Termination of Unelected Municipal Employees with "For Cause" Contracts.**
 - While an EM's broad power to hire and terminate at-will municipal employees has not been subject to any legal challenges, the Sixth Circuit Court of Appeals recently affirmed a ruling that, under PA 72, an EM did not have authority to fire a municipal employee who was not a department head, and whose employment contract provided for dismissal only "for cause," without first providing notice and an opportunity to be heard.
- **Litigation in Connection with Modification or Termination of Municipal Contracts.**
 - PA 4 contained a provision authorizing an EM to "[r]eject, modify, or terminate 1 or more terms and conditions of an existing contract." PA 436 contains identical language.
 - Although no ruling to date has invalidated the statutory authority of an EM to modify or reject contracts, a Michigan circuit court recently ruled PA 4's contract-modification provision unconstitutional as applied.
 - The U.S. District Court for the Eastern District of Michigan recently rejected cross-motions for summary judgment and scheduled a bench trial to resolve a claim that an EM's termination of real estate leases violated the Contracts Clause of the U.S. Constitution.
- **Litigation in Connection with Bidding Processes for Municipal Contracts.**
 - Recent litigation regarding the fairness and transparency of a contract bidding process instituted by an EM was settled prior to decision (and after denial of injunctive relief).
- **Litigation Concerning Michigan's Open Meetings Act.**
 - The Michigan Court of Appeals has held that an EM is not subject to the state Open Meetings Act, even when the EM assumes the duties of a body that is subject to the act (*e.g.*, the city council).
- **Litigation Concerning Restructuring a Municipal Pension Board.**
 - In a case that may be particular to PA 72, displaced pension board members and others obtained an injunction staying an EM's decision to restructure a city's largest pension board (reducing its membership from 11 to 5) in Michigan circuit court. The defendants have moved for leave to appeal in the Michigan Court of Appeals.

Continuing Role of Mayor and City Council.

- Under PA 436, Mr. Orr acts for and in the place of the Detroit mayor and city council.
- PA 436 prohibits Detroit's local elected officials from exercising any powers except as expressly authorized by PA 436 or as authorized in writing by Mr. Orr and subject to any conditions he may impose.
- Nevertheless, both the Mayor and the City Council have continuing legal roles and rights under PA 436. Maintaining such offices should help ensure that the executive and legislative branches of City government can resume full functioning upon the City's transition out of receivership.
- On March 25, 2013, Mr. Orr issued an order restoring the full salaries and benefits of the mayor and city council, which compensation otherwise would have been automatically eliminated on PA 436's effective date of March 28, 2013.
- On April 11, 2013, Mr. Orr issued an order authorizing the mayor and city council to continue conducting the day-to-day business of the City, subject to limitations imposed by PA 436 and Mr. Orr's ultimate approval.
- Since Mr. Orr's appointment, the FAB continues to serve, but its responsibilities and powers remain subject to modification.

RESTRUCTURING AND REINVESTING IN CITY GOVERNMENT

To address the crises confronting the City and remedy the deficiencies in services addressed above (including, in particular, deficiencies in services relating to public safety), and to achieve a sustainable restructuring that promotes the longterm health, safety and growth of the City, the City must aggressively pursue – and devote substantial resources to – the objectives described below.

The City proposes to spend approximately \$1.25 billion over the next ten years to, among other things, (i) improve the performance and infrastructure of its Police, Fire, EMS and Transportation Departments, (ii) comprehensively address and remediate urban blight, (iii) modernize its information technology systems on a City-wide basis and (iv) address lingering issues plaguing the City’s electrical grid and lighting.

A detailed summary of the reinvestments to be made in the City — and the associated costs — is attached hereto as Appendix J.

PUBLIC SAFETY

Police.

- **Key Issues and Deficiencies to Be Addressed.**
 - Exceedingly high crime rates.
 - Outdated and obsolete information technology.
 - Poor quantitative performance (*e.g.*, low response times; low case closure rates)
 - Inadequate staffing, low employee morale and lack of employee accountability.
 - Aging infrastructure (*e.g.*, fleet and facilities).

- **Measurable Objectives.**

- Reduce response times to the national average.
- Improve closure rates and first responder investigations.
- Update and overhaul police fleet and facilities.
- Modernize the Department's information technology.
- Achieve compliance with federal consent decrees.
- Refine structure, staffing and organization of department to better serve citizens; hold all members (sworn and civilian) of the department accountable to effectively maintain core responsibilities of policing.

- **Expected impact on restructuring/reinvestment expenses in FY 2014 and going forward**

(numbers in brackets represent increases in expenditures):

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Restructuring/Reinvestment					
Facility Costs	(5.7)	(5.5)	(4.3)	(3.4)	(3.9)
Fleet Update - Repairs & Maintenance	(11.6)	(11.0)	(10.7)	(10.6)	(9.8)
Technology/Other	(9.0)	(6.2)	(1.1)	(1.1)	(1.1)
Total	(26.3)	(22.7)	(16.1)	(15.1)	(14.8)

- **Initiatives To Be Undertaken to Achieve Objectives.**

- Hiring of new police chief to drive DPD restructuring (in process).
- Implement Compstat (*i.e.*, data-driven policing) model to increase accountability of command staff; evaluate outsourcing crime analysis to a third party with deep statistical analysis capabilities; implement key performance metrics driven by crime data.
- Restructure department and streamline cumbersome processes to improve operational efficiency; evaluate precincts, districts and special units; utilize accountability metrics and IT systems to eliminate non-productive policing time.
- Enhance DPD collaboration with all facets of community (*e.g.*, individuals, neighborhood groups, clergy, schools, private social service agencies); facilitate relationships with all facets of government.
- Expand “Citizens Radio Patrol” to serve as extended eyes and ears of the DPD, thereby increasing law enforcement effectiveness; deploy to all areas of Detroit. A recently-implemented “Broken Windows” pilot project has achieved positive results in the 8th Precinct’s Rosedale Park neighborhood. This pilot project could be expanded City-wide.
- Restructured operations and deficient sworn staffing levels will be addressed by a comprehensive workload analysis and crime statistics trends; redeploy sworn members based on data-driven approach.
- Civilianize eligible administrative functions and redeploy sworn officers.
- Hold all members (sworn and civilian) of the department accountable; redesign disciplinary process and ensure it is transparent, consistent and effective.
- Develop strategy to address low employee morale.
- Provide adequate operational and technological resources to officers (*e.g.*, uniforms, vests, tasers, vehicles, IT, etc.).
- Better utilize police reserves.
- Develop detailed recruiting strategy (with respect to both new recruits and experienced hires); explore outsourcing all or a portion of Police Academy training to local MCOLES certified academic institutions; continue to provide training courses on DPD rules, regulations, policies, and City ordinances; develop overall training plans for metrics, financials and operations.

- Evaluate location, number and condition of facilities (owned and leased); refresh vehicle fleet; increase facility and fleet maintenance expenditures to appropriate levels.
- Select and implement a fully integrated IT system; implement Jail Management System.
- Develop contracts and memoranda of understanding with neighboring law enforcement agencies for the sharing of resources (police, fire and EMS); enhance regional public safety with local and state public safety community cooperation.
- Increase fees for service (\$2-3 million potential opportunity); expedite Eticketing implementation; identify additional grant funding to support public safety initiatives; pursue opportunities for donations; evaluate improving/outsourcing collections efforts.
- Restructure budget process to eliminate silos; implement budget to actual process; transfer budget and actual financial ownership to Command officers.
- Implement outsourcing contract with the Michigan Department of Corrections (“MDOC”) to consolidate all DPD pre-arraignment jail operations into one centralized jail.

Fire and EMS.

- **Key Issues and Deficiencies to Be Addressed.**
 - Aging infrastructure (e.g., fleet and facilities).
 - Inadequate maintenance and faulty equipment.
 - Outdated and obsolete information technology.
- **Measurable Objectives.**
 - Modernize fleet and facilities to ensure that DFD has adequate and reliable infrastructure and equipment to perform its duties.
 - Modernize information technology.
 - Improve operating efficiency and cost structure.

- **Expected impact on restructuring/reinvestment expenses in FY 2014 and going forward**
(numbers in brackets represent increases in expenditures):

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Restructuring/Reinvestment					
Facility Costs	(4.5)	(4.0)	(4.1)	(18.4)	(1.1)
Fleet Update - Repairs & Maintenance	(0.6)	(1.9)	(2.0)	(2.0)	(2.1)
Technology/Other	(1.3)	(0.2)	(0.2)	(0.2)	(0.2)
Total	(6.3)	(6.1)	(6.2)	(20.6)	(3.4)

- **Initiatives To Be Undertaken to Achieve Objectives.**

- Substantial investments in assets and new information technology are required to improve delivery of services.
- Evaluate and implement revenue enhancements to improve and streamline billing and collections processes, increase charges and fees and enhance grant identification and management.
- Take steps to improve operating efficiency and cost structure, including:
 - Implementing flexible labor work rules and employment terms;
 - Evaluating opportunities to more fully integrate fire-fighting and EMS;
 - Civilianizing administrative functions;
 - Transferring apparatus maintenance to General Services Department in an effort to more efficiently manage the fleet; and
 - Increasing the use of technology to drive efficiencies.
 - Seek assistance from independent experts to assist with designing and vetting DFD-specific restructuring plan.
 - Evaluate opportunities to share administrative costs within public safety structure.
 - Evaluate opportunities to combine fire and/or EMS services with other local municipalities.

Blight Removal.

- **Key Issues and Deficiencies to Be Addressed.**

- Large numbers of abandoned and blighted structures.
- Contribution of blight to high fire and crime levels and depressed property values.
- High cost of demolition of blighted structures.
- Cumbersome statutes and regulations governing blight removal efforts.

- **Measurable Objectives.**

- Stabilize and revitalize neighborhoods and communities within the City and improve quality of life.
- Decrease incidence of crime and fire in blighted buildings and areas.
- Increase property values and property taxes.
- Improvement in appearance of City.
- Reduce migration from City.

- **Expected impact on restructuring/reinvestment expenses in FY 2014 and going forward**

- Costs associated with blight removal include demolition, brush removal, recycling centers, disposal of debris, logistics, administration, and legal costs associated with clearing title and preserving the City's right to reimbursement of costs.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Blight Costs	50.0	50.0	100.0	100.0	100.0

- **Initiatives to Be Undertaken to Achieve Objectives.**

- The City has begun and will continue to remediate blight within the City by partnering with public and private initiatives and utilizing a mix of Federal, State, municipal and private (commercial and non-profit) resources.
- The City's will participate in broader State initiatives coordinated by the Michigan State Housing Development Authority (MSHDA) and focus on collaboration across public entities holding underutilized lands; effective and appropriate blight removal policies and regulation; efficient and safe demolition and clearing activities from publicly owned properties; and returning properties to the private tax base to create value.
- To the extent that resources become available to remediate blight within the City, the City may be able to accelerate its residential, commercial and industrial blight remediation, or reallocate budgeted resources to other initiatives or spending items, including supporting its liabilities.
- Pursue grant funds to pay for the demolition of abandoned structures.
- Review and, where appropriate, revise ordinances and regulations to speed and reduce the cost of the demolition process.
- Support construction of recycling centers for local demolition materials via volume or other commitments.
- Consolidate and integrate Police and Fire activity data to use strategic demolition activities as a means to reduce crime and arson.

Electrical Transmission Grid.

- **Key Issues and Deficiencies to Be Addressed.**

- Inadequate maintenance and deterioration of grid.
- Need to de-commission segments of the grid, sub-stations and the Mistersky power plant.
- Inefficient billing and collection efforts.

- **Measurable Objectives.**

- Improvement in performance of grid and services to citizens.
- Decommissioning of grid, sub-stations and power plant.
- Increased revenue collection from customers.

- **Initiatives to Be Undertaken to Achieve Objectives.**

- The City is considering alternatives to exit the electricity business.
 - An alternative being considered consists of migrating customers to an alternative provider over a five- to seven-year period with the alternative provider providing reimbursement to the City to maintain the distribution grid on the provider's behalf.
 - Five- to seven-year build-out:
 - i. Year 1 — meters changed to alternative provider's system and customers transitioned. PLD continues to operate and maintain the system during the transition period.
 - ii. Years 2-7 — customers migrate to alternative provider's grid on a substation by substation basis as the PLD operation is simultaneously scaled down.
 - Customers (including City) would pay alternative provider's rate book (which could be higher than the current rate charged/incurred by City).
 - PLD workers and/or third party contractors will operate and maintain City grid until build-out is finished (cost reimbursed by alternative provider subject to negotiation). Requires regulatory approval.

Street lights

- **Key Issues and Deficiencies to Be Addressed.**
 - High percentage of non-functioning streetlights.
 - Working lights not adequately serving current population footprint.
 - Dated infrastructure requiring upgrade and modernization.
- **Measurable Objectives.**
 - Implementation current population-based streetlight footprint.
 - Outsource operations and maintenance to the newly-created Public Lighting Authority structure (in consultation with the City).
 - Improved service to citizens and better cost management.
- **Initiatives to Be Undertaken to Achieve Objectives.**
 - Short term: address outages systematically in an effort to restore light and facilitate the transition of streetlights to the new structure.
 - Long term: newly-established authority to upgrade, operate and maintain streetlights, resulting in an approximately 46,000-55,000 light footprint servicing today's Detroit.
 - Three year build-out (1/3 of lights each year).
 - Alternative provider will potentially manage project for Authority (subject to competitive bid).
 - Authority or City will negotiate special rate for operations and maintenance/electricity of lights as no regulated rate exists for operations and maintenance of municipal-owned system.
- **Expected impact on restructuring/reinvestment expenses in FY 2014 and going forward.**
 - Under the proposed structure, the PLD's net tax cost is expected to be approximately \$12 million annually.
 - The \$12.5 million of utility users' tax will be directed to the Authority as per statute. The Authority may seek to issue debt of \$160 million secured by tax receipts to fund its activities.

Information Systems Upgrades

- Investment by the City in upgraded information technology is an indispensable aspect of the restructuring and reinvestment proposals and is critical to achieving almost all of the objectives described herein.
- **Key Issues and Deficiencies to Be Addressed.**
 - Old and outdated technology assets and applications.
 - Lack of integration of IT infrastructure between departments and functions.
 - Deficiencies in IT infrastructure present throughout City government.
- **Measurable Objectives.**
 - Enhance City-wide IT infrastructure to assist with effectuating change and augmenting workflows.
 - Increase integration between finance and operational systems City-wide resulting in lower labor costs and improved efficiencies.
 - Improve financial and operational reporting, resulting in:
 - Ability to monitor and improve operating performance.
 - More timely and accurate financial reporting to interested parties.
 - Improve revenue and collection efforts as a result of streamlined processes.
- **Initiatives to Be Undertaken to Achieve Objectives.**
 - **DPD, DFD & EMS.**
 - DPD has identified a fully integrated public safety solution (SunGard/OSSI) that can provide DPD, DFD and EMS (all of which support the solution) with integrated computer aided dispatch, records management and reporting.
 - Regional solution that integrates the City of Detroit with Wayne County, Detroit Public Schools, Wayne State University, Down River communities, etc.
 - Costs to implement Public Safety IT solution: approximately \$5 million.
 - An integrated product will allow for much-needed data exchanges between agencies and will improve efficiency and operations.

- **Payroll System Upgrade.**

- In November 2012, the City contracted to transition its payroll (and benefits and human resources) operations to ADP Payroll Services. The transition is expected to be complete in March 2014.
- Benefits of payroll system upgrade:
 - Approximately \$10 million annual reduction in payroll processing costs.
 - Approximately \$10 million annual reduction to payroll inflation from errors.
 - Improved reporting, efficiency and accuracy.
 - Approximately 50+ uniformed policemen to be re-deployed.

- **Overhaul and Centralize Grant Management System.**

- City receives approximately \$293 million in grants related to its services each year.
- City may invest in an overhaul of the administration of its grant management system, including centralizing oversight and support and standardizing information technology.
- City may appoint an auditor general to screen for potential mismanagement of grant funding.
- Benefits:
 - Implementing a centralized and standardized grant IT system is expected to result in the City receiving more grant funds with better compliance at a lower cost.
 - Ability to comprehensively track Citywide grant funds and status.
 - Citywide accountability structure to prevent disallowed costs and improve service delivery.
 - Improved relations with federal, state and private funders.
 - Ability to discover and apply for more grant opportunities.

- Costs:
 - Training modules to migrate system (cost TBD).
 - Implementation of grants IT module and related training.
 - Potential operating costs for grants management operating unit are approximately \$700,000.
- **Assessor's Office and Property Tax Division.**
 - Recommendations made by consultant in 2011 have not been followed, even though implementation promises to increase efficiency of collection process.
 - A consultant is currently engaged to identify issues and make recommendations at Assessor's Office Division. The consultant's Property Tax Transformation Project engagement includes a review and assessment of operations and related recommendations, assistance with the Property Tax software upgrade and assistance with the preparation of the Summer Tax Bill for mail and distribution on July 1, 2013.
 - Preliminary recommendations to improve the Assessor's Office functionality include additional resources to create a more robust valuation function, additional employee training and updated technology to increase efficiency and improve customer service.
- **Integrate Budgeting, Accounting & Financial Reporting Systems.**
 - Integration of Accounting, Budget Development and Financial Reporting systems into a single process would provide for improved reporting, efficiency, accuracy and accountability.
 - Costs to implement such an integration initiative are not currently known.

- **Permitting.**
 - Implement “Enterprise Resource Planning” system to replace the two systems currently being utilized.
 - Total costs to implement Enterprise Resource Planning system: approximately \$3 million.
- **36th District Court.**
 - State legislature is currently evaluating ability of all courts to go paperless; if accepted, paperless solution would provide many advantages to 36th District Court.
 - Transition to paperless court requires substantial investments in assets and new information technology.
 - Perform process mapping to determine workflow improvements and implement full use of JIS.
- **Income Tax Division.**
 - Update the current Income Tax System, which will result in (i) increased revenues for the City through improved revenue tax processing, tax compliance and collection; and (ii) improved reporting, efficiency and accuracy.
 - A new tax system that allows for automated processing and e-filing capability will free up City resources to focus on compliance.

Detroit Department of Transportation.

- **Key Issues and Deficiencies to Be Addressed.**

- Grant dollars not maximized.
- Poor maintenance.
- Relatively low rate for fares.
- High employee absenteeism.

- **Measurable Objectives.**

- Reduce general fund subsidy through increased revenue and reduced costs.
- Determine best strategic direction for DDOT.

- **Initiatives to Be Undertaken to Achieve Objectives**

- A consultant is currently identifying short and long-term efficiencies. Preliminary identified efficiencies include:
 - Grants for preventative maintenance (Summer 2013).
 - Increased fares (long-term potential).
 - Less overtime in vehicle maintenance (long-term potential).
 - Less bus operator overtime (long-term potential).
- City could transition DDOT to new Regional Transit Authority ("RTA") at some point in the future.
 - No change in DDOT's status is currently included in restructuring plan or budget; foregoing discussion contemplates restructuring of DDOT as a continuing Department within the City.
 - DDOT could be merged with SMART or another private carrier prior to potential transition into RTA.
 - Outsourcing certain portions or all of DDOT operations:
 - Would likely require certain regulatory approvals.
 - City of Detroit would have to subsidize third party operations, which subsidy may be less than current general fund subsidy.

- Outsourcing could assist in creating appropriate incentive structure to discourage status quo operations.
- Some City employees would still be required to oversee transferred bus operations.
- Allow for easier potential transition to RTA.
- Limited labor and financial resources could be deployed to other city core services.
- Bus service could improve for residents (*e.g.*, on-time; safety) at lower cost to the City.
- Expected impact on restructuring/reinvestment expenses in FY 2014 and going forward – not including outsourcing of operations or transition to a regional authority (*numbers in brackets represent increases in expenditures*):

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Restructuring/Reinvestment					
Facility Costs	(6.3)	(8.0)	(1.5)	(2.0)	
Fleet Update - Repairs & Maintenance	(1.0)	(1.0)	(1.0)		
Technology/Other	(3.5)				
Total	(10.8)	(9.0)	(2.5)	(2.0)	–

Leases and Contracts.

- The City's restructuring will entail a comprehensive review of the City's contracts (vendor; employee; construction; financial) and recommendations regarding modification/termination in various restructuring contexts.
 - The City will review its key leases and contracts to determine if such agreements are the most cost-effective approach to managing Detroit's infrastructure
 - City currently working to assemble database of unexpired contracts and leases.
 - City to analyze and overhaul procurement process to ensure ability to acquire goods and services necessary to restructuring initiatives.

Labor Costs and Terms and Conditions.

As part of the City's overall financial restructuring, reductions in costs associated with represented and unrepresented workers will be necessary. The adoption of modifications to wages and work rules similar to those imposed pursuant to the CETs will serve as a baseline position for the City in its union negotiations (although the City may seek (i) cuts/ changes beyond those included in the CETs and (ii) different language that that used in the CETs). Key elements of the strategy for making these modifications include the following:

- **Collective Bargaining Agreements.**

- Significant modifications to CBAs and labor-related obligations will be necessary to optimize staffing and reduce employment costs.
- The City currently does not have agreements with the majority of labor unions representing its employees. Instead, most employees are working under the CETs. As part of its restructuring effort, the City will work cooperatively with organized labor to improve existing relationships and, where possible, reach agreements to implement changes in terms and conditions of employment that mirror the changes included in the CETs.
- The City will attempt to structure all new labor agreements using a common form of agreement that will promote ease of administration and enable a known, measurable basis for cost evaluation and comparison.
- If it is not possible to reach agreements with labor representatives to restructure employment liabilities, the City will retain the authority to unilaterally implement restructuring initiatives pursuant to the emergency manager powers established under PA 436.
- Pursuant to Section 13(c) of the Federal Transit Act, the City is required to engage in collective bargaining with labor unions representing transportation workers and has certain limitations in terms of its rights to make unilateral changes to employment terms. The City will work within the framework established by the FTA to achieve any labor cost reductions for these workers through collective bargaining.

- **Salaries and Wages.**

- The City must reduce employment costs for both represented and unrepresented workers as part of its restructuring. However, the potential for reductions in wages and salaries must be balanced against likely reductions in benefits and the City's need to attract and retain skilled workers.
- Both represented and unrepresented City workers have already been subjected to salary and wage reductions; most City workers covered by CETs already have taken 5-10% salary and/or wage reductions. As a result, the City will need to carefully evaluate the utility of any additional reductions.
- Reductions in non-wage compensation, overtime and premium payments may be achievable.
- Other areas where the City is evaluating potential cost reductions include: (i) attendance policies; (ii) leaves of absence; (iii) vacation days; (iv) holidays; (v) union reimbursement of City costs associated with paid union time and dues check off; (vi) tuition reimbursement and other loan programs; (vii) overtime; (viii) shift scheduling; (ix) shift premiums; (x) creation of new positions (and establishment of wage scale for new positions); and (xi) temporary assignments.

- **Operational Efficiencies/Work Rules.**

- Significant labor cost reductions may be possible by restructuring jobs and streamlining work rules for both represented and unrepresented workers using the work rule changes implemented pursuant to the CETs as a template.
- The City will work with labor representatives to make these improvements, including restructuring the Police Department, Fire Department, and other groups to improve operating efficiency and effectiveness.
- Dispute resolution procedures under the City's CBAs will be simplified and expedited to achieve predictability for both sides. Further, the City will attempt to eliminate undesirable practices and assure that these practices cannot be revived through dispute resolution procedures.
- The City will attempt to restructure CBAs so that employment decisions including promotions, transfers and assignments will be based upon the quality of the employee (*e.g.*, performance, attendance, experience, skill, ability, etc.) rather than by seniority.

- The City will attempt to (i) reduce lateral transfers by limiting bumping rights in its CBAs to job classifications that an employee currently holds or held within the prior year and (ii) increase flexibility to assign employees to work out of classification.
- Joint labor-management committees, if any, will be patterned in structure and role after the committees included in the State's CBAs.
- **Staffing Levels and Headcount.**
 - Significant labor cost savings may be achievable by rationalizing staffing levels and reducing employee headcounts. Consolidation of departments and elimination of redundant functions will be implemented where service improvements or cost savings can be achieved.
 - If necessary, the City will retain the right to reduce salary and wage costs by implementing unpaid furlough days.
 - The City will work with labor representatives to minimize the effects of any headcount reductions and enter into effects bargaining agreements in connection with headcount reductions when appropriate.
- **Outsourcing.**
 - Where cost savings or service improvements can be achieved, the City will explore potential outsourcing of functions.
 - The City will provide unions with advance notice of competitive bids and allow the unions to bid on the work.
 - The City will work with labor representatives to minimize the effects of any headcount reductions resulting from outsourcing initiatives and enter into effects bargaining agreements when appropriate.

REVENUE ADJUSTMENTS AND TAX REFORM

EXPANDING THE TAX BASE.

- The personal income tax base can be increased through economic growth, for example, more people working, higher wages, or both.
- Expansion of the property tax base results from appreciation in the value of existing real estate, adding newly constructed buildings to the tax rolls, or expanding the universe of property included in the base (e.g., parcels that are currently exempt, such as churches and public schools).

RATIONALIZING NOMINAL TAX RATES.

- The City's already high tax rates are widely believed to have contributed to its population loss and economic decline. For a number of reasons, higher tax rates could have a negative effect on revenue.
- The City is currently levying taxes at or near the statutory maximums.
- The City believes that lowering selected tax rates – primarily income and property tax rates – to levels that are at least competitive with surrounding jurisdictions is critical to reversing the City's crippling population and job losses.
- Although tax rate reform will likely lead to decreased revenue in the short term (which decreases may be partially offset by improved collection efforts), the City anticipates that the long term benefits promise to render such reform at least revenue neutral over a reasonable time frame.
- The City's analysis of necessary tax reforms is ongoing.

INCREASING COLLECTION RATES.

- The City is implementing and will continue to implement initiatives designed to (i) improve collection of past due taxes and (ii) enhance collection efforts on a prospective basis.
- **Income Tax Collection Initiatives:**
 - **Efforts to Improve Collection of Past Due Taxes**
 - Compuware has identified historical non-filers with outstanding tax obligations totaling approximately \$250 million. The City is pursuing the collection of these taxes.
 - The City loses approximately \$30 million to \$45 million of income tax revenue annually (approximately 15% to 20% of the total tax collected) from reverse commuter non-filers.
 - As of March 2013, approximately 50,000 letters were sent to individual and business nonfilers. Goal is to send 100,000 letters total by the end of FY 2013.
 - As of January 31, 2013, the City had received approximately \$870,000 in collections as a result of letters sent to non-filers.
 - Income Tax Amnesty Program: between January 22, 2013 and March 2, 2013, parties with outstanding income tax balances for tax years 2011 and prior could pay their back taxes without penalty.
 - Expected to result in \$3 million in collections and \$1.5 million in payment agreements as of March 2013.
 - **Efforts to Enhance Collection Going Forward**
 - Tax Compliance & Enforcement Unit created in October 2012.
 - Business on-line registration initiative to electronically capture W-2 data from employers launched in January 2013.
 - City considering purchasing a new tax system and moving to a common form.
 - Purchase of new income tax system — \$2 million to \$3 million one-time cost — would improve reporting, efficiency and accuracy.

- 19 of 22 cities in Michigan that collect taxes currently are using the “common form.” Moving to the common form could result in a potentially smoother transition to a new income tax system, although the cost of such a move presently is unknown.
- City also intends to pass legislation to require withholding of City income taxes for reverse commuters.

- **Property Tax Collection Initiatives:**

- Only 53% of City property owners paid their 2011 property taxes. Approximately \$246.5 million in taxes and fees went uncollected for 2011, of which \$131 million was due to the City.
- Treasury Department received recommendations for process improvements from an outside consultant and the City’s own audit department in 2011.
- Subsequently, the City engaged a consultant to conduct a four-week *pro bono* review of the City’s property tax process. The consultant recommended that the City create an actionable work place using existing recommendations supplemented with the consultant’s recommendations.
- As described above, in December 2012, the City engaged a different consultant to implement improvements in the Property Tax and Assessors Offices.

- **Permitting and Licensing Collection Initiatives:**

- **Efforts to Collect on Past Due Invoices**

- City is developing a structured collection effort for the \$50 million outstanding accounts receivable owed to the Buildings, Safety Engineering and Environmental Department (BSEED).
 - City has identified, and is seeking payment of, approximately \$8 million due from Wayne County for past due bills for permits and licenses (among other similar fees).
 - Updates to information technology systems (discussed earlier) should alleviate bottlenecks in invoicing and collections for permitting and licensing.

- **Efforts to Improve Going Forward**

- The goal is to increase the revenues derived from permits and licenses issued by the City.
 - City ceased waiving permit fees in March 2012.
 - City is developing recommendations for action, including a possible survey of businesses operating in the City and their outstanding permit and license requirements.
 - Currently, only 30% of businesses operating in the City have valid licenses. As of July 26, 2012, approximately 2,000 businesses were identified as being without a proper license.

REALIZATION OF VALUE OF ASSETS

DETROIT WATER AND SEWERAGE DEPARTMENT.

The form of transaction described herein is based upon the form of transaction contemplated in the Root Cause Committee report. Any transaction would be contingent upon the City and relevant third parties reaching agreement on many matters, including, but not limited to, governance, amounts to be paid to the City, and the form and terms and conditions of such transaction. Thus, all of the terms and conditions of the transaction described below may change and it is possible that the current structure will not change.

Creation of New Metropolitan Area Water and Sewer Authority. The City may form an authority (the Metropolitan Area Water and Sewer Authority, or “MAWSA”) to conduct the operations currently conducted by the Detroit Water and Sewerage Department (“DWSD”).

- MAWSA would operate as a standalone public authority and, depending on the form of any transaction, may be the employer of the employees engaged in operating the water/sewer systems who are employed by DWSD as of the effective date of any DWSD Transaction (defined below).
- MAWSA would be governed by a Board of Commissioners. The Mayor would have the authority to appoint four of the Board’s members in accordance with the provisions of the February 2011 stipulated order entered in the EPA Litigation (the “February Order”), except that one of the four mayoral appointments would be made from a list of three names presented by the Detroit City Council. The other three Board members would be appointed as set forth in the February Order. The bylaws of MAWSA would include provisions to allow major customers to appoint additional Board members upon a super-majority vote of MAWSA’s Board.
- MAWSA would have all of the powers of a public body corporate in Michigan including, but not limited to, the power to:
 - Hold property in its own name;
 - Contract in its own name;
 - Collect water and sewer fees;
 - Issue taxable and tax exempt revenue bonds or incur other indebtedness;

- Apply for and receive loans from local, private, State and/or Federal sources including SRF loans;
- Sue and be sued in its own name;
- Subject to applicable approvals, apply for NPDES and any and all other permits required to operate the water and sewer systems;
- Subject to applicable approvals, if any, implement the powers delegated by prior Court orders; and
- Act on its own with respect to local ordinances and regulations that impact MAWSA operations (*i.e.*, downspout disconnects, etc.).
- All other powers granted or reserved to the City, the Mayor or the City Council with respect to DWSD under the State constitution, State statutes, the City's Charter (as it may be revised as part of the City's comprehensive restructuring) or Court orders that are not expressly continued would be eliminated for as long as MAWSA continues to operate.
- The Detroit City Council would have the authority to appoint each year an individual to serve as a customer advocate for Detroit retail customers. The advocate's compensation would be set by the director of MAWSA or MAWSA's Board of Commissioners in accordance with MAWSA's procurement policy.

Benefits and Legacy Liability Treatment (*applicable where MAWSA is the employer of persons operating the water and sewer system*).

- From and after the effective date of the City's comprehensive restructuring plan, for new hires and current employees, MAWSA would establish and serve as its own plan sponsor and administrator with respect to the establishment of a new, separate pension or retirement plan. The new pension or retirement arrangement would govern the future pension or retirement rights of current DWSD employees and the pension or retirement rights of future MAWSA employees, consistent with applicable future CBAs and/or other terms and conditions of employment.
- From and after the effective date of the City's comprehensive restructuring plan, for new hires and current employees, MAWSA would determine whether to provide healthcare to future retirees, and at what level.

- From and after the effective date of the City's comprehensive restructuring plan, current DWSD retirees and beneficiaries who have vested benefits in the City's General Retirement System would remain in GRS and receive the same treatment afforded to all other retirees in the GRS as part of the City's comprehensive restructuring plan. Current DWSD active employees who have accrued vested pensions in GRS would, as to those accrued pensions, receive the same treatment afforded to all other active participants in the GRS as part of the City's comprehensive restructuring plan. GRS would continue to be liable for pension benefits accrued as of the date of the effective date of the City's comprehensive restructuring plan, consistent with that restructuring plan.
- From and after the effective date of the City's comprehensive restructuring plan, current DWSD retirees and beneficiaries who are receiving, or entitled to receive in the future, retiree healthcare benefits from the City would receive the treatment afforded to all other similarly-situated participants as part of the City's comprehensive restructuring plan. Current DWSD employees who are entitled to receive in the future retiree healthcare benefits from the City would no longer be entitled to such healthcare as of the Effective Date of the comprehensive restructuring plan, and would receive whatever retiree healthcare program is established by MAWSA from and after the effective date of the City's comprehensive restructuring plan.
- As indicated above, the City would retain DWSD's accrued pension liabilities and retiree healthcare liabilities as of the effective date of the City's restructuring plan, as both will be modified by such plan (collectively with DWSD's allocable portion of the COP payments, "*DWSD Legacy Benefits Obligations*"). As consideration for being relieved of those obligations, from and after the effective date of the City's comprehensive restructuring plan, MAWSA would include an amount attributable to the value of such relief from the DWSD Legacy Benefits Obligations as part of the Transaction Payment (as defined below).

Potential Asset Transaction.

- The City would either permit MAWSA to operate the DWSD assets through a concession agreement or lease the assets of DWSD to MAWSA pursuant to a lease agreement (either form of agreement for purposes of this document will be referred to as the "*City/MAWSA Agreement*"). If a transaction were effected pursuant to a lease agreement rather than a concession agreement, the City/MAWSA Agreement would be structured as a capital lease, and the initial term of the City/MAWSA Agreement would (i) be tied to the length of MAWSA's bonded indebtedness (but would not exceed 40 years) and (ii) automatically be extended as new bonds are issued by MAWSA as long as MAWSA remains in compliance with the terms of the City/MAWSA Agreement. To the extent that additional value may be obtained for the City, MAWSA could accept the sewer or water assets of other governmental entities. All of the foregoing is collectively referred to herein as the "*DWSD Transaction*."

- In exchange for the concession for/lease of the DWSD assets in favor of MAWSA and for the relief from DWSD Legacy Benefits Obligations, MAWSA would pay to the City a monthly PILOT, lease or other form of payment (the “*Transaction Payment*”).
- The Transaction Payment would be paid to the City monthly and would be an amount equal to the sum of (i) an amount calculated on either the basis of the value of the DWSD assets or a percentage of water and sewer rates plus (ii) an amount calculated by reference to the value of the relief from DWSD Legacy Benefits Obligations plus (iii) any other amount based on relevant factors as agreed to by the parties in connection with the negotiation of the DWSD Transaction.
- The City would have customary market remedies in the event that MAWSA fails to make payment or otherwise defaults under the City/MAWSA Agreement.
- The City’s use of the new payment stream from the Transaction Payment would be unrestricted, and the City could encumber or otherwise monetize all or a portion of that revenue stream.
- The effective date of the DWSD Transaction would be the effective date of the City’s comprehensive restructuring plan.
- On the effective date of the DWSD Transaction, the existing bond debt of the DWSD would either be refinanced and redeemed or holders of the existing bond debt would receive new or restructured tax-exempt bonds. See Section IX (Restructuring Proposal) *infra*.

COLEMAN A. YOUNG AIRPORT.

- Coleman A. Young International Airport is a two-runway general aviation airport located within and operated by the City. It includes approximately 263 acres.
- The airport has not offered commercial passenger service since 2000 (runways are too short to serve standard economic carrier traffic); approximately 225 corporate and private flights originate from, or terminate at, the airport daily.
- The airport’s 2012-13 annual budget was \$275,000.

- In November 2012, a consultant prepared a 10-year capital improvement program for the airport which included several rehabilitation plans, ranging from approximately \$55 million (for upgrades to facilities other than runways) to \$273 million (for a rehabilitation including a replacement runway funded in part by federal grants).
- Revitalization of the airport is a long-term project that will be addressed at a later date. The City will continue to subsidize operations as closing of airport would terminate certain federal subsidies and require the repayment of certain FAA grant monies previously received.

DETROIT-WINDSOR TUNNEL.

- The 83-year-old Detroit-Windsor Tunnel is an automotive tunnel (*i.e.*, cars only; no trucks) connecting Detroit and Windsor, Ontario. Approximately 2 million vehicles pass through the tunnel annually.
- The City of Detroit owns the U.S. portion of the tunnel; the City of Windsor owns the portion located in Canada.
- Detroit Windsor Tunnel LLC leases the City's portion of the tunnel for an annual rental payment equal to 20% of the average annual revenue derived from the operations of the Detroit side of the tunnel over the most recent five years, which recently has been less than \$1 million per year. Operating revenue for the Detroit side of the tunnel is less than \$5 million per year. The lease runs through 2020.

BELLE ISLE PARK.

- The City owns Belle Isle Park, a 982-acre park on an island in the Detroit River featuring a museum, a conservatory, golf courses and other attractions. The Detroit Recreation Department manages Belle Isle Park at a cost of approximately \$6 million per year in maintenance and operating expenses.
- In January 2013, Governor Snyder proposed that the City lease Belle Isle Park to the State of Michigan, turning it into a state park and charging an admission fee to cover maintenance costs. Mayor Bing supported the proposal, but the offer was rescinded after the Detroit City Council failed to vote on the proposal.
- The City intends to enter into lease transaction with State on generally the same terms as the State's prior proposal.

DETROIT INSTITUTE OF ARTS.

- As has been widely reported, representatives of the Emergency Manager met with representatives of the nonprofit corporation (“*DIA Corp.*”) that currently operates the Detroit Institute of Arts to discuss the art collection exhibited there.
- It has also been reported that DIA Corp. contends that the collection is held by a public trust and cannot be used for any purpose other than exhibition or to maintain and enhance the collection itself.
- Further dialogue is anticipated.

CITY OWNED LAND.

- An estimated 22 square miles of land within City limits is government-owned, including parcels owned by the City, Wayne County and the State of Michigan. The vast majority of this property has limited current commercial value.
- The City will continue to participate in broader initiatives consistent with the Consent Agreement, focusing on collaboration across public and private entities, blight removal and returning properties to the private tax base to create value.

PARKING OPERATIONS.

Parking Garages/Lots.

- The City’s Municipal Parking Department (“MPD”) manages nine parking garages containing a total of 8,688 spaces, and two public parking lots together containing 1,240 spaces.
- The City owns certain of these parking facilities; others are owned by the Detroit Building Authority.

Parking Meters.

- MPD also operates 3,404 on-street metered parking spaces; tickets collected through a private vendor.

- MPD's projected revenue for 2012-13 is \$12,900,314. Expenses are projected to be approximately \$19 million (with the General Fund's portion being approximately \$6 million).
- The City intends to market its parking related assets to private operators through a sale, long term lease or concession arrangements (and shutter the related departments) and use any proceeds that may be received to pay down \$10 million in related special revenue debt.
- Transaction involving parking assets could potentially be consummated within six months of commencement of marketing process.

JOE LOUIS ARENA.

- Joe Louis Arena is an indoor arena located in downtown Detroit, Michigan and is the home to the Detroit Red Wings of the National Hockey League. Completed in 1979, the 20,058 seat arena is Detroit's largest indoor venue and regularly hosts professional sports, college hockey, concerts, ice shows, circuses and other entertainment.
- It has been reported that the Illitch Holdings, owner of the Detroit Red Wings, is looking to build a new downtown arena for the team.
- The City is evaluating alternatives for Joe Louis Arena.

TEN-YEAR PROJECTIONS

(General Fund Only)

(\$ in millions)

(\$ in millions)	PRELIMINARY FORECAST										10-YEAR TOTAL
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Revenues											
Municipal income tax	\$243.4	\$247.3	\$249.0	\$250.7	\$252.4	\$254.0	\$255.6	\$257.8	\$260.9	\$264.0	\$2,535.0
State revenue sharing	184.3	186.1	187.9	189.5	191.2	193.0	194.8	188.3	190.0	191.7	1,896.4
Wagering taxes	170.0	168.3	170.0	171.7	173.4	175.1	176.9	178.7	180.4	182.2	1,746.7
Sales and charges for services	124.8	119.4	118.2	117.0	115.7	114.5	113.4	112.3	113.2	114.2	1,162.6
Property taxes	118.4	110.2	105.7	100.8	100.5	99.6	99.7	100.2	100.8	102.1	1,038.0
Utility users' and other taxes	47.2	40.9	40.9	41.3	41.7	42.1	42.5	43.0	43.4	43.8	426.8
Other revenue	75.6	55.8	55.8	55.9	55.9	56.0	56.0	56.0	56.1	56.1	579.2
General Fund reimbursements	30.3	30.3	30.3	30.3	30.3	30.3	30.3	30.3	30.3	30.3	302.6
Transfers in (UTGO millage & non-General Fund POCs)	89.0	87.9	83.8	84.4	83.9	81.2	80.6	80.0	65.0	61.2	797.1
Total revenues	1,082.8	1,046.2	1,041.5	1,041.4	1,045.0	1,045.7	1,049.8	1,046.3	1,040.1	1,045.7	10,484.5
Expenditures											
Salaries/overtime/fringe	(341.5)	(341.9)	(346.4)	(352.5)	(358.8)	(365.1)	(371.4)	(378.4)	(386.0)	(393.7)	(3,635.7)
Health benefits - active	(51.2)	(54.0)	(57.4)	(61.0)	(64.5)	(67.9)	(71.2)	(74.6)	(78.4)	(82.3)	(662.5)
Other operating expenses	(292.9)	(288.2)	(295.9)	(301.5)	(309.7)	(313.5)	(320.0)	(326.5)	(335.3)	(339.7)	(3,123.2)
Operating expenditures	(685.7)	(684.1)	(699.7)	(715.0)	(733.1)	(746.5)	(762.5)	(779.5)	(799.6)	(815.7)	(7,421.5)
Net operating surplus	397.2	362.0	341.8	326.3	311.9	299.2	287.2	266.8	240.5	230.0	3,063.0

Ten-Year Projections – Continued

(\$ in millions)

	PRELIMINARY FORECAST										10-YEAR TOTAL
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Debt service (LTGO & UTGO)	(135.9)	(124.4)	(119.4)	(96.1)	(95.0)	(92.5)	(91.8)	(91.5)	(74.8)	(70.9)	(992.4)
POC - principal and interest	(61.0)	(63.2)	(65.4)	(67.6)	(69.9)	(68.1)	(69.0)	(69.9)	(70.7)	(71.4)	(676.3)
POC swaps	(50.6)	(50.6)	(50.6)	(50.6)	(50.6)	(50.6)	(49.8)	(48.9)	(48.1)	(47.4)	(498.0)
Pension contributions	(199.5)	(233.1)	(258.9)	(285.9)	(314.7)	(321.4)	(331.5)	(337.2)	(339.5)	(343.0)	(2,964.8)
Health benefits - retiree	(140.7)	(151.1)	(161.6)	(172.0)	(182.3)	(192.3)	(201.9)	(212.0)	(222.6)	(233.7)	(1,870.0)
Legacy expenditures	(587.6)	(622.4)	(655.9)	(672.3)	(712.6)	(725.0)	(744.0)	(759.5)	(755.8)	(766.4)	(7,001.5)
Deficit (excl. financing proceeds)	(190.5)	(260.4)	(314.1)	(346.0)	(400.7)	(425.8)	(456.8)	(492.6)	(515.3)	(536.4)	(3,938.5)
Financing proceeds	-	-	-	-	-	-	-	-	-	-	-
Total surplus (deficit)	\$(190.5)	\$(260.4)	\$(314.1)	\$(346.0)	\$(400.7)	\$(425.8)	\$(456.8)	\$(492.6)	\$(515.3)	\$(536.4)	\$(3,938.5)
Accumulated unrestricted General Fund deficit	(427.5)	(687.9)	(1,002.0)	(1,348.0)	(1,748.7)	(2,174.5)	(2,631.3)	(3,123.9)	(3,639.2)	(4,175.6)	
Reinvestment in the City											
Department revenue initiatives	\$22.9	\$22.1	\$24.4	\$24.2	\$24.5	\$24.7	\$25.0	\$25.3	\$25.6	\$25.9	\$244.6
Additional operating expenditures	(53.7)	(37.0)	(21.3)	(22.0)	(21.7)	(22.7)	(29.3)	(29.3)	(29.7)	(30.7)	(297.4)
Capital investments	(107.7)	(74.5)	(38.8)	(51.9)	(33.3)	(30.8)	(28.4)	(29.5)	(28.5)	(29.0)	(452.3)
Blight (excludes heavy commercial)	(50.0)	(50.0)	(100.0)	(100.0)	(100.0)	(100.0)	-	-	-	-	(500.0)
Total reinvestment in the City	(188.5)	(139.3)	(135.7)	(149.7)	(130.5)	(128.8)	(32.8)	(33.4)	(32.6)	(33.8)	(1,005.2)
Adjusted surplus (deficit)	\$(379.0)	\$(399.7)	\$(449.8)	\$(495.6)	\$(531.2)	\$(554.6)	\$(489.6)	\$(526.1)	\$(547.9)	\$(570.2)	\$(4,943.7)
Adj. accumulated unrestricted General Fund deficit	(615.9)	(1,015.6)	(1,465.4)	(1,961.0)	(2,492.2)	(3,046.8)	(3,536.4)	(4,062.5)	(4,610.4)	(5,180.6)	

ASSUMPTIONS IN TEN-YEAR PROJECTIONS

Revenues

- Municipal Income Tax.
 - Based on State employment, wage and corporate income tax growth estimates adjusted for Detroit specific trends; population estimates considered as well. Increases due to improved employment outlook. Income tax policy is under review and income tax rate could be reduced as a part of the final restructuring plan.
- State Revenue Sharing.
 - Increases due to anticipation of higher taxes collected/distributed by State; based on estimates provided by the State.
- Wagering Taxes.
 - Decreases through FY 2015 due to competition from Ohio casinos and recovers thereafter due to improved economic outlook.
- Sales and Charges for Services.
 - Primarily consists of court fees, public safety service charges, electrical and personal service fees. Declines primarily due to transition of Health and Wellness and Public Lighting Department Distribution business.
- Property Taxes.
 - Based on Michigan home sales, new construction and population data adjusted for Detroit specific trends. Decreases through FY 2017 due to declining values and collection rate with modest increases beginning FY 2021.
- Utility Users' & Other Taxes.
 - Decreases beginning FY 2014 due to the annual allocation of \$12.5 million to the Public Lighting Authority (half-year impact in FY 14). 1% annual increase beginning FY 2017 due to assumed increase in utility usage and inflation.

- Other revenue.
 - **Licenses/Permits/Inspection Charges.** Primarily consists of business licenses, street use permits and fire marshal and construction inspections charges. Based on recent trends. FY 2013 includes one-time permit and inspection revenues from utility providers.
 - **Revenue from Use/Sale Assets.** FY 2012 includes loss from sale of asset. FY 2014 includes proceeds from sale of Veteran's building.
 - **Parking/Court Fines & Other Revenue.** Primarily consists of traffic, criminal and parking fines. Based on recent trends.
 - **Grant Revenue.** Decreases in FY 2014 due to transition of Health and Wellness department and expiration of certain public safety grants.
 - **General Fund reimbursements.** Reflects reimbursements from other departments for expenses incurred by the General Fund. FY 2012 includes \$16 million one-time contribution from DDOT.
 - **UTGO Property Tax Millage.** Property tax millage for UTGO debt service. Revenues and associated expenses offset.
 - **COP Allocation (Governmental).** Transfer from general City, non General Fund for allocated COP debt service. Revenues and associated expenses offset.
 - **COP Allocation (Enterprise Funds (excl. DDOT)).** Transfer from enterprise funds for allocated COP debt service. Revenues and associated expenses offset.

Operating Expenditures

- Salaries & Wages.
 - Includes CET changes implemented in FY 2013 and continuing through the projection period. 10% wage reduction for uniformed employees beginning FY 2014 for contracts expiring FY 2013; 2% wage inflation assumed for all City employees beginning FY 2015. Headcount changes in projection period primarily due to PLD transaction and transition to ADP payroll and benefits administration services.
- Overtime.
 - Decreases due to wage cuts and FY 2013 run rates. Increases beginning FY 2015 due to wage inflation.
- Health Benefits (Actives).
 - Includes CET changes implemented in FY 2013 and continuing during the projection period. Average 6% inflation assumed annually for hospitalization costs.
- Other operating expenses
 - **Other Benefits.** Based on recent trends.
 - **Professional/Contractual Services.** Assumes higher costs in election years (FY 2014 and every four years thereafter).
 - **Materials/Supplies.** Decreases due to transition of PLD distribution business. 1% cost inflation assumed beginning in FY 2015.
 - **Utilities.** Based on recent trends with minimal changes with 1% cost inflation assumed beginning in FY 2015.
 - **Purchased Services.** Increases beginning in FY 2014 due to costs associated with payroll processing management and prisoner pre-arraignment functions. 1% cost inflation assumed beginning in FY 2015.
 - **Risk Management/Insurance.** Includes costs related to worker's compensation, litigation and other claims. 1% cost inflation assumed beginning in FY 2015.
 - **Maintenance Capital (current run rate).** Represents the General Fund payment for capital expenditures based on recent spend levels. 1% cost inflation assumed beginning in FY 2015.

- **Other Expenses.** Primarily includes printing, rental and other operating costs. 1.0% cost inflation assumed to certain costs beginning FY 2015.
- **Contributions to Non-Enterprise Funds.** Represents General Fund transfers to Municipal parking, the vehicle fund, Museum of African American History, etc. Increases beginning FY 2014 primarily due to contributions to operations to the Public Lighting Authority.
- **DDOT Subsidy.** Reflects the General Fund contribution to cover the DDOT deficit. Excludes DDOT related legacy expenditures shown below the line. Increases primarily due to personnel and operating cost inflation.
- **Grant-Related Expenses.** Decreases in FY 2014 due to transition of Health and Wellness Department. Increases primarily due to wage and operating cost inflation.

Legacy Expenditures

- Debt Service (UTGO & LTGO).
 - Reflects currently scheduled principal and interest payments.
- COPs (Principal, Interest & Swaps).
 - Reflects principal, interest and swap payments as currently scheduled.
- Pension.
 - Per preliminary actuarial analysis. Subject to further analysis. Starting in FY 2014, significant increases attributable to use of more realistic actuarial assumptions and use of closed, 15-year amortization period for PFRS and closed, 18-year period for GRS rather than current open 30-year amortization period.
- Retiree Health Benefits.
 - Includes impact of CET changes implemented in FY 2013 and continuing during the projection period. Average 6% inflation assumed annually for hospitalization costs.

Financing Proceeds.

- FY 2013 includes \$137 million in refunding bond proceeds.

Operational Restructuring Initiatives/Reinvestment in the City.

- Department revenues initiatives.
 - Reflects increases to fees, improved billing and collection efforts and collection of past due receivables.
- Additional Operating Expenditures.
 - Primarily reflects increases to headcount in order to improve and provide adequate level of City services. Potential efficiencies not reflected.
- Capital investments (Technology).
 - Reflects costs associated with information systems upgrades and maintenance.
- Capital investments (Capital Expenditures).
 - Primarily reflects City's capital improvement plan to invest in facilities and vehicles.
- Capital investments (Implementation Costs).
 - Primarily reflects non-recurring costs associated with implementing technology initiatives.
- Blight.
 - Reflects costs associated with demolition and clean-up efforts of residential and light commercial. Heavy commercial blight removal would require significant additional funding.

RESTRUCTURING SCENARIO.

(\$ in millions)

	PRELIMINARY FORECAST										10-YEAR TOTAL
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Total revenues	\$1,082.8	\$1,046.2	\$1,041.5	\$1,041.4	\$1,045.0	\$1,045.7	\$1,049.8	\$1,046.3	\$1,040.1	\$1,045.7	\$10,484.5
Department revenue initiatives	22.9	22.1	24.4	24.2	24.5	24.7	25.0	25.3	25.6	25.9	244.6
Operating expenditures	(685.7)	(684.1)	(699.7)	(715.0)	(733.1)	(746.5)	(762.5)	(779.5)	(799.6)	(815.7)	(7,421.5)
Additional operating expenditures	(53.7)	(37.0)	(21.3)	(22.0)	(21.7)	(22.7)	(29.3)	(29.3)	(29.7)	(30.7)	(297.4)
Net operating surplus	\$366.4	\$347.2	\$344.9	\$328.5	\$314.6	\$301.2	\$282.9	\$262.9	\$236.4	\$225.2	\$3,010.2
Reinvestment expenditures/adjustments											
Reorganization (Capital investments & Professional fees)	(167.0)	(111.7)	(38.8)	(51.9)	(33.3)	(30.8)	(28.4)	(29.5)	(28.5)	(29.0)	(548.8)
Blight (excludes heavy commercial)	(50.0)	(50.0)	(100.0)	(100.0)	(100.0)	(100.0)	-	-	-	-	(500.0)
DC Pension contribution (10% Police/Fire, 5% other)	(25.4)	(25.7)	(26.2)	(26.6)	(27.2)	(27.7)	(28.2)	(28.7)	(29.3)	(29.9)	(274.8)
POC reimbursements	(24.1)	(25.4)	(26.2)	(26.8)	(27.5)	(27.1)	(27.3)	(27.4)	(27.4)	(27.4)	(266.7)
PLD decommission	-	(25.0)	(25.0)	(25.0)	-	-	-	-	-	-	(75.0)
Increased tax revenues	7.4	12.2	16.4	23.8	28.3	36.0	42.0	48.5	56.3	63.8	334.5
Total restructuring	(259.1)	(225.6)	(199.8)	(206.6)	(159.6)	(149.6)	(42.0)	(37.1)	(29.0)	(22.6)	(1,330.9)
Funds available for legacy liabilities	107.3	121.6	145.2	122.0	155.0	151.6	240.9	225.7	207.4	202.6	1,679.3

Restructuring Scenario – Continued

(\$ in millions)

	PRELIMINARY FORECAST										10-YEAR TOTAL
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Payments to secured claims (subject to review/negotiation)											
LTGO - secured	(18.7)	(29.2)	(29.2)	(29.2)	(29.2)	(29.2)	(29.2)	(29.2)	(29.2)	(29.2)	(281.6)
UTGO - secured	(8.0)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(96.4)
POC swaps ¹	(50.6)	(50.6)	(50.6)	(50.6)	(50.6)	(50.6)	(49.8)	(48.9)	(48.1)	(47.4)	(498.0)
Notes/loans payable	-	-	-	-	-	-	-	-	-	-	-
Total payments to secured claims	(77.3)	(89.7)	(89.7)	(89.7)	(89.7)	(89.7)	(88.9)	(88.0)	(87.2)	(86.4)	(876.0)
Funds available for unsecured claims	\$30.0	\$31.9	\$55.5	\$32.3	\$65.4	\$62.0	\$152.1	\$137.7	\$120.2	\$116.2	\$803.3
Asset monetization / revenue opportunities	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
Funds available for unsecured claims w/opportunities	\$30.0	\$31.9	\$55.5	\$32.3	\$65.4	\$62.0	\$152.1	\$137.7	\$120.2	\$116.2	\$803.3

Estimated unsecured claims	
Unsecured debt	
LTGO - unsecured	\$161.0
UTGO - unsecured	369.1
POC principal balance	1,428.8
Notes/loans payable	33.6
Sub-total: Unsecured debt	1,992.5
Unsecured pension & OPEB	
OPEB liability	5,718.3
Pension unfunded liability (PFRS)	1,437.0
Pension unfunded liability (DGRS)	2,037.0
Sub-total: Pension & OPEB	9,192.3
Other unsecured items	
Other liabilities (FY 2012 CAFR)	264.6
Other potential claims	tbd
Sub-total: Other	264.6
Estimated total unsecured claims	\$11,449.4

Footnote:

(1) Assumes continued payments as scheduled. Treatment to be determined.

- Reorganization (capital investment and professional fees).
 - Consistent with above Technology, Capital Expenditures, and Implementation Costs.
- Blight.
 - Consistent with above.
- DC Pension contribution.
 - Preliminary estimates to be further refined by additional analysis. Assumes new DC plans with employer contributions equal to 10% of wages for uniformed employed and 5% of wages for non-uniform employed.
- POC reimbursements.
 - Represents reversal of revenue received from enterprise and other Non-General Fund agencies.
- PLD decommission.
 - Represents preliminary estimate of cost required to decommission existing substations and Mistersky Plant (to be further refined by additional analysis).
- Increased Tax Revenues.
 - Represents potential revenue opportunities primarily due to increased property values and employment conditions resulting from restructuring efforts.
- Payments on Secured Claims.
 - Includes the unaltered payment schedules of secured debt, COP related swaps and other notes payable. There are no scheduled payments on secured notes payable.

CONCLUSIONS BASED UPON PROJECTIONS.

- The City acknowledges that it must exert reasonable efforts to maximize recoveries for all creditors.
- As demonstrated by the 10-year projections, however, the City's expected revenues will fall significantly short of the levels required to fund the City's operations and fully satisfy its liabilities.
- Given the City's (i) substantial debt levels (LTGO; UTGO; COPs; Swaps), (ii) significant labor related liabilities and (iii) continuing operating expenses, shared sacrifice will be required from all stakeholders to achieve the City's dual (and complementary) goals of maximizing returns for its stakeholder constituencies while simultaneously establishing the framework for a healthy and growing Detroit moving forward.
- All of the City's stakeholders can benefit from a restructured and revitalized Detroit.

RESTRUCTURING PROPOSAL

SUMMARY OF TREATMENT OF DEBT.

Secured Debt.

DWSD Debt. The existing DWSD water and sewer bond debt may be divided into two classes, if applicable:

- **DWSD Class A Debt Claims.**
 - DWSD Class A Debt Claims shall consist of claims under or evidenced by certain debt that may be paid prior to the effective date of the City's comprehensive restructuring plan without incurring a material premium or penalty.
 - On the effective date of the City's comprehensive restructuring plan, accrued principal and interest for DWSD Class A Debt Claims accrued through the restructuring plan's effective date will either (i) be repaid in full in cash or (ii) receive such treatment as may be agreed upon by the parties.
- **Source of funds for repayment:** New longterm bond issuances with MAWSA as the issuer.
 - **New Series A Bond Principal:** An amount equal to the sum of the principal of the outstanding debt that was issued to redeem the DWSD Class A Debt Bonds plus interest thereon accrued through the restructuring plan effective date and fees incurred in connection with the new financings.
 - **New Series A Bond Collateral:** Lien on net revenues generated by MAWSA assets with the same priorities as the DWSD Class A Debt, but subordinate to the operating and maintenance costs of the system, including the Transaction Payment.
 - **New Series A Bond Interest Rate:** Prevailing market rate for similar long-term municipal bonds at the time of issuance.
 - **New Series A Bond Maturities:** The various series of new municipal bonds would have long-term maturities determined at the time of issuance on the basis of then-existing market conditions.

- **DWSD Class B Debt Claims.**

- DWSD Class B Debt Claims shall consist of all claims under or evidenced by each series of existing water or sewer bond debt (whether callable or not) that are not DWSD Class A Debt Claims.
 - On the effective date of the City's comprehensive restructuring plan, holders of DWSD Class B Debt Claims shall receive Series B Restructured Bonds or such treatment as may be agreed upon by the parties.
- **Series B Restructured Bond Terms:** Series B Restructured Bonds would be issued by MAWSA to holders of outstanding DWSD Class B Debt Claims.
 - **Series B Restructured Bond Principal:** For each series of Series B Restructured Bonds, an amount equal to the sum of the principal of the outstanding DWSD Class B Debt Bonds for which such Series B Restructured Bonds are to be exchanged plus interest thereon accrued through the restructuring plan Effective Date.
 - **Series B Restructured Bond Collateral:** Lien on net revenues generated by MAWSA assets in the same priorities as currently exist for the DWSD Class B Debt Bonds for which such Series B Restructured Bonds are to be exchanged, subordinate to the operating and maintenance costs of the system, including the Transaction Payment.
 - **Series B Restructured Bond Interest Rate:** Prevailing market rate for similar long-term municipal bonds at the time of issuance.
 - **Series B Restructured Bond Maturities:** The same maturity dates as the DWSD Class B Debt Bonds for which the Series B Restructured Bonds will be exchanged.

Secured General Obligation Debt.

- There are six series of secured General Obligation Debt:
 - \$100,000,000 original principal amount Distributable State Aid Second Lien Bonds (Unlimited Tax General Obligation), Series 2010(A) (Taxable-Recovery Zone Economic Development Bonds-Direct Payment).
 - \$249,790,000 original principal amount Distributable State Aid General Obligation Limited Tax Bonds, Series 2010.
 - \$38,865,000 original principal amount Self-Insurance Distributable State Aid Third Lien Bonds (Limited Tax General Obligation), Series 2012(A)(2).
 - \$30,730,000 original principal amount Self-Insurance Distributable State Aid Third Lien Refunding Bonds (Limited Tax General Obligation), Series 2012(B2).
 - \$6,405,000 original principal amount General Obligation Distributable State Aid Third Lien Capital Improvement Refunding Bonds (Limited Tax General Obligation), Series 2012(B).
 - \$53,520,000 original principal amount Self-Insurance Distributable State Aid Third Lien Bonds (Limited Tax General Obligation), Series 2012(A2-B).

- Total annual debt service is approximately \$39 million per year from FY 2015 through FY 2033.

\$ in millions	FISCAL YEAR						Total for Period
	2013	2014	2015 - 2033	2034	2035	2036	
\$100,000,000 original principal amount Distributable State Aid Second Lien Bonds (Unlimited Tax General Obligation), Series 2010(A) (Taxable - Recovery Zone Economic Development Bonds-Direct Payment)	4.0	8.0	9.8	9.8	9.8	9.8	228.2
\$249,790,000 original principal amount Distributable State Aid General Obligation Limited Tax Bonds, Series 2010	6.3	12.6	18.9	18.8	18.8	18.8	433.5
\$129,520,000 aggregate original principal amount of Distributable State Aid Third Lien Bonds (Limited Tax General Obligation), Series 2012(A)(2), (A2-B), (B) & (B)(2) (Combined)	4.2	6.1	10.4				207.2
Annual Total	14.5	26.7	39.0	28.7	28.7	28.7	868.9

- Treatment: Subject to negotiation with holders.

Secured Claims Arising in Connection with Installment Notes Payable.

- The City has issued \$87.8 million in installment notes related to various public improvement projects, which notes were issued in connection with the “Section 108” HUD Loan Guarantee Program and are secured by future “Block Grant” revenues.
- Treatment: Subject to negotiation with holders.

Secured Claims Arising under Service Agreements Related to COP-Related Interest Rate Swaps.

- Eight interest rate swaps (the “COP Swaps”) were entered into by the Service Corporations in reference to the COPs.
- The City entered into Service Contracts with the Service Corporations that purport to obligate the City to pay the Service Corporations, among other things, amounts equal to the amounts the Service Corporations are obligated to pay under the COP Swaps.
- The following table shows the estimated amounts due annually under the COP Swaps to maturity:

\$ in millions

FISCAL YEAR(S)									Total
2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	2033-2035	
50.7	50.6	50.6	50.6	50.6	248.0	226.9	135.6	15.1	878.7

- Treatment: Subject to negotiation with holders.

Secured Automobile Parking Fund Claims.

- \$9.3 million in outstanding principal amount of Detroit Building Authority Revenue Refunding Bonds: Parking System, Series 1998-A are secured by a pledge of all revenues of the parking system, net of operating expenses.
- Treatment: In the event that the City executes a sale of its parking-related assets, principal and interest accrued through the effective date will be paid in full in cash using proceeds of sales of City's parking-related assets. In the event that sales are not negotiated and consummated prior to the effective date, treatment of such claims will be subject to negotiations with holders.

Unsecured Debt.

Consideration for Unsecured Claims.

- Limited Recourse Participation Notes (the "*Notes*").
 - **Relevant Definitions:**
 - "Adjusted Base Covered Revenues" means for a Fiscal Year following the Initial Revenue Participation Year, Base Covered Revenues adjusted for inflation for the period beginning on the first day of the Initial Revenue Participation Year and ending on the first day of the Fiscal Year using the positive change, if any, in the Consumer Price Index during such period.
 - "Base Covered Revenues" means one half of the sum of Covered Revenues for the first two Fiscal Years beginning after the Effective Date.
 - "Covered Revenues" means amounts actually collected by the City's General Fund in a Fiscal Year on account of (a) Property Taxes, Income Taxes and Gaming Taxes levied for such Fiscal Year and (b) Revenue Sharing Payments, determined based upon the City's audited financial statements.
 - "Dutch Auction" means a method for pricing the Notes whereby the price of the Notes offered by the City is the lowest price (the "Auction Price") at which there are bids to sell Notes for an aggregate purchase price equal to the amount the City is required to pay in respect of Revenue Participation Payments and/or Asset Disposition Proceeds then due and payable. During bidding, each Noteholder will indicate how many Notes it is willing to sell to the City and the price such Noteholder is willing to accept. All Notes offered at the Auction Price or at a lower price will be sold to the City at the Auction Price.

- “Effective Date” means the closing date of a comprehensive restructuring of the City’s finances on which the Notes shall be issued.
- “Final Participation Year” means the Fiscal Year beginning on the 20th anniversary of the first day of the Initial Participation Year.
- “Fiscal Year” means a period commencing on July 1 of a year and ending on June 30 of the following year. For greater certainty, the Fiscal Year beginning on July 1, 2014 and ending on June 30, 2015 is the 2015 Fiscal Year.
- “Initial Participation Year” means the second full Fiscal Year following the Effective Date.
- “Trustee” means an indenture trustee or other agent for the Noteholders as defined in definitive documentation for the Notes.
- **Terms:**
 - Initial Principal Amount: \$2,000,000,000.00.
 - Interest Rate: 1.5% per annum on the outstanding principal amount of the Notes, payable semiannually. No interest shall be paid or accrued for any period following the end of the Final Participation Year.
 - Maturity Date: The first September 30 following the Final Participation Year. The City shall have no obligation to pay any amounts other than the Revenue Participation Payment in respect of the Final Participation Year on the maturity date. The Notes may be prepaid in whole or in part at any time without premium or penalty.
 - Revenue Participation Payments: On the September 30 after the end of each Fiscal Year beginning with the Initial Participation Year, an amount equal to the product of (a) 30% (0.30), multiplied by (b) (i) the amount by which Covered Revenues for such Fiscal Year exceed (ii) Adjusted Base Covered Revenues shall be applied to reduce the principal amount of the Notes. No Revenue Participation Payments shall be made for any Fiscal Year after the Final Participation Year.

- **Grants and Other Amounts Received to Offset Costs of Addressing Blight:** If the City receives any cash grants or other cash payments after the Effective Date and before the Maturity Date from the State of Michigan, the Federal government, or any other government or nonprofit entity not affiliated in any way with the City for the purpose of funding programs or activities to address blight that are included in the 10 Year Plan (“Blight Revenues”) and that can be utilized in place of the General Fund sums in the 10 Year Plan projections, an amount equal to 75% of the General Fund revenues that would otherwise be spent on blight but for the outside funds shall be applied to reduce the principal amount of the Notes.
- **Asset Disposition Proceeds:** If the City receives cash consideration in connection with the transfer of Specified Assets after the Effective Date and before the Maturity Date, an amount equal to 75% of such cash shall be applied to reduce the principal amount of the Notes. For greater certainty, the assumption of indebtedness shall not constitute cash consideration.
- The City shall make distributions of Blight Revenues and Asset Disposition Proceeds when the amount of such payments that are due equal or exceed \$50 million or at the time a Revenue Participation Payment is due, whichever is sooner.
- **Dutch Auctions.** Any Revenue Participation Payment, Blight Revenues, Asset Disposition Proceeds and other amount made available by the City may be used to fund offers to purchase Notes through a Dutch Auction process. The City shall give notice of its intent to conduct a Dutch Auction using a Revenue Participation Payment on or before the July 15th following the end of the pertinent Fiscal Year and shall conclude the auction and purchase notes offered and accepted in the auction no later than the 90 days following the date such notice is given. The City shall give notice of its intent to conduct such a Dutch Auction using Asset Disposition Proceeds or Blight Revenues on or before the 30 days following the date when the City becomes obligated to make apply Asset Distribution Proceeds and shall conclude the auction and purchase notes offered and accepted in the auction no later than 90 days following the date such notice is given. The City may give notice of its intent to conduct a Dutch Auction using funds provided by the City which are not otherwise required to be applied to repayment of the Notes at any time.
- **Limited Recourse.** The City’s obligation to pay interest on the Notes shall be a general obligation of the City. The City shall have no obligation to pay the principal amount of the Notes except to the extent that Revenue Participation Payments, Blight Revenues, or Asset Disposition Proceeds become due in accordance with the terms hereof.
- **Requirements of Law.** The terms of the Notes may be revised to conform with requirements of law.

Claims Under Unsecured General Obligation Bonds/Notes.

- Aggregate amount: Approximately \$650 million.
- Treatment: Exchanged for a pro rata (relative to all unsecured claims) principal amount of new Notes.

Claims of Service Corporations (or affiliated trusts) on Account of COPs.

- Aggregate amount: Approximately \$1.4 billion.
- Treatment: Exchanged for a pro rata (relative to all unsecured claims) principal amount of new Notes

Claims for Unfunded OPEB Liabilities.

- Current retirees will receive modified medical benefits plans utilizing either the exchanges to be created by January 1, 2014 under the Patient Protection and Affordable Care Act or Medicare, as applicable. The proposed replacement program is preliminarily estimated to have a cost to the City of between \$27.5 million and \$40 million annually depending on choices to be made.
- Claims will result from the modification of benefits. The amount of such claims has not been finally determined.
- Treatment for Allowed Claim: Exchanged for a pro rata (relative to all unsecured claims) principal amount of new Notes.

Claims for Unfunded Pension Liabilities.

- As set forth above, preliminary analysis indicates that the underfunding in the GRS and the PFRS is approximately \$3.5 billion. At this level of underfunding, the City would have to contribute approximately \$200 million to \$350 million annually to fully fund currently accrued, vested benefits. Such contributions will not be made under the plan.
- Claims for the underfunding will be exchanged for a pro rata (relative to all unsecured claims) principal amount of new Notes.
- Because the amounts realized on the underfunding claims will be substantially less than the underfunding amount, there must be significant cuts in accrued, vested pension amounts for both active and currently retired persons.

Claims on account of Other Liabilities.

- Aggregate Amount: Approximately \$300 million.
- Treatment: Exchanged for a pro rata (relative to all unsecured claims) principal amount of new Notes.

CEMENTING THE CITY'S RESTRUCTURING: DETROIT AFTER THE EMERGENCY MANAGER

In accordance with PA 436 – and similar to post-receivership governance structures established in other municipalities (e.g., New York) – Emergency Manager Orr intends to adopt various measures and impose certain requirements to ensure that the restructuring achieved by the City is sustainable.

APPOINTMENT OF “TRANSITION ADVISORY BOARD”

In accordance with Section 23(1) of PA 436, the Emergency Manager may recommend that the Governor appoint a “receivership transition advisory board” (a “*Transition Advisory Board*”) to monitor the affairs of the City prior to removing it from receivership.

- The Transition Advisory Board would consist of (i) the State Treasurer (or his/her designee), (ii) the director of the Department of Technology, Management and Budget (or his/her designee) and (iii) in the Governor’s discretion, one or more individuals with relevant professional experience.
- The Transition Advisory Board would be empowered to do any of the following:
 - Require the City to annually convene a consensus revenue estimating conference for the ensuing fiscal year;
 - Require the City to provide monthly cash flow projections and a comparison of actual and budgeted revenues and expenditures;
 - Review and approve the City’s proposed and amended budgets;
 - Review requests by the City to issue debt under applicable law;
 - Review and approve proposed CBAs negotiated under applicable law;.
 - Review the City’s compliance with any deficit elimination plan; and
 - Perform any other duties assigned by the Governor at the time the Transition Advisory Board is appointed.

Revisions to Model Charter.

- Consistent with Section 22(4)(b) of PA 436, the Emergency Manager may recommend that the Governor require the City to adopt a model City Charter or model charter provisions developed by the Emergency Manager.

Development of Two-Year Budget.

- Pursuant to Section 21 of PA 436, before the conclusion of the Emergency Manager's term (or before the appointment of a Transition Advisory Board), the Emergency Manager must adopt and implement a two-year budget (including all contractual and employment agreements) for the City, which budget commences upon the termination of the City's receivership.
- The City Council is prohibited by Section 21(2) of PA 436 from
 - amending the Emergency Manager's two-year budget (absent the approval of the State Treasurer); and
 - revising any order or ordinance implemented by the Emergency Manager prior to one year after termination of the receivership.

Potential Appointment of New Emergency Manager.

- Pursuant to Section 24 of PA 436, the Governor may, at his own initiative or at the recommendation of a Transition Advisory Board, determine that the City's financial condition has not been corrected in a sustainable fashion and appoint a new emergency manager.

CALENDAR AND CONTACTS

Requests for additional information: June 17, 2013 - June 24, 2013

Initial round of discussions with stake holders: June 17, 2013 -July 12, 2013

Evaluation: July 15, 2013 - July 19, 2013.

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Appendix A — Schedule of the sewage disposal system bonds and related state revolving loans as of June 30, 2012

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer	
Sewage Disposal System							
Revenue Bonds:							
Series 1998-A	12-14-06	\$18,540,000	5.50 %	7/1/12-17	\$ 16,440,000	MBIA	
Series 1998-A	12-14-06	49,075,000	5.25	7/1/18-23	49,075,000	MBIA	b
Series 1998-B	12-14-06	18,750,000	5.50	7/1/12-17	16,510,000	MBIA	
Series 1998-B	12-14-06	48,770,000	5.25	7/1/18-23	48,770,000	MBIA	b
Series 1999-A (* *)	12-1-99	33,510,118	0.00	7/1/12-21	69,931,075	FGIC	
Series 2001-B	9-15-01	110,550,000	5.50	7/1/23-29	110,550,000	FGIC	
Series 2001-C (1)	6-5-09	6,360,000	5.25	7/1/12-19	4,930,000	Assured Guaranty	
Series 2001-C (1)	6-5-09	148,510,000	6.50 to 7.00	7/1/20-27	148,510,000	Assured Guaranty	b
Series 2001-C (2)	5-8-08	3,275,000	3.50 to 4.00	7/1/12-18	2,305,000	FGIC/Berkshire Hathaway	
Series 2001-C (2)	5-8-08	119,630,000	4.00 to 5.25	7/1/19-29	119,630,000	FGIC/Berkshire Hathaway	b
Series 2001-D	9-23-01	92,450,000	Variable (a)	7/1/32	21,315,000	MBIA	b
Series 2001-E	5-8-08	136,150,000	5.75	7/1/24-31	136,150,000	FGIC/Berkshire Hathaway	b
Series 2003-A	5-22-03	158,000,000	3.30 to 5.00	7/1/12-13	84,125,000	Assured Guaranty	
Series 2003-A	5-22-03	441,380,000	3.50 to 5.50	7/1/14-32	128,940,000	Assured Guaranty	b
Series 2003-B	6-5-09	150,000,000	7.50	7/1/32-33	150,000,000	Assured Guaranty	b
Series 2004-A	1-09-04	101,435,000	5.00 to 5.25	7/1/12-24	74,380,000	Assured Guaranty	
Series 2005-A	3-17-05	3,765,000	3.40 to 3.70	7/1/12-15	2,495,000	MBIA	
Series 2005-A	3-17-05	269,590,000	3.75 to 5.125	7/1/16-35	236,770,000	MBIA	b
Series 2005-B	3-17-05	40,215,000	3.40 to 5.50	7/1/12-22	40,215,000	MBIA	
Series 2005-C	3-17-05	22,065,000	5.00	7/1/12-15	16,185,000	MBIA	
Series 2005-C	3-17-05	41,095,000	5.00	7/1/16-25	41,095,000	MBIA	b
Series 2006-A	5-8-08	123,655,000	5.50	7/1/34-36	123,655,000	FGIC/Berkshire Hathaway	b
Series 2006-B	8-10-06	11,850,000	4.00 to 5.00	7/1/12-16	7,960,000	FGIC	
Series 2006-B	8-10-06	238,150,000	4.25 to 5.00	7/1/17-36	238,150,000	FGIC	b
Series 2006-C	8-10-06	8,495,000	5.25	7/1/16	8,495,000	FGIC	
Series 2006-C	8-10-06	18,065,000	5.00	7/1/17-18	18,065,000	FGIC	b
Series 2006-D	12-14-06	370,000,000	Variable (a)	7/1/12-32	289,430,000	Assured Guaranty/FSA	b
Series 2012-A	6-26-12	95,445,000	5.00	7/1/14-22	95,445,000	Assured Guaranty	
Series 2012-A	6-26-12	564,335,000	5.00 to 5.50	7/1/23-39	564,335,000	Assured Guaranty	b
Total Sewage Disposal System Revenue Bonds					\$ 2,863,856,075		

* * - Capital Appreciation Bonds

a - Interest rates are set periodically at the stated current market interest rate.

b - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

Appendix A — Continued

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012
State Revolving Loans:					
Series 1992-A-SRF	6-25-92	\$ 4,360,000	2.00%	4/1/13	\$ 260,000
Series 1992-B-SRF	9-10-92	1,915,000	2.00	10/1/12-13	230,000
Series 1993-B-SRF	9-30-93	6,603,996	2.00	10/1/12-14	1,150,000
Series 1997-B-SRF	9-30-97	5,430,174	2.25	10/1/12-18	2,160,000
Series 1999-SRF-1	6-24-99	21,475,000	2.50	4/1/13-20	9,880,000
Series 1999-SRF-2	9-30-99	46,000,000	2.50	10/1/12-22	28,110,000
Series 1999-SRF-3	9-30-99	31,030,000	2.50	10/1/12-20	15,890,000
Series 1999-SRF-4	9-30-99	40,655,000	2.50	10/1/12-20	20,815,000
Series 2000-SRF-1	3-30-00	44,197,995	2.50	10/1/12-22	23,947,995
Series 2000-SRF-2	9-28-00	64,401,066	2.50	10/1/12-22	39,191,066
Series 2001-SRF-1	6-28-01	82,200,000	2.50	10/1/12-24	57,965,000
Series 2001-SRF-2	12-20-01	59,850,000	2.50	10/1/12-24	42,210,000
Series 2002-SRF-1	6-27-02	18,985,000	2.50	4/1/13-23	11,590,000
Series 2002-SRF-2	6-27-02	1,545,369	2.50	4/1/13-23	935,369
Series 2002-SRF-3	12-19-02	31,549,466	2.50	10/1/12-24	20,554,466
Series 2003-SRF-1	6-28-03	48,520,000	2.50	10/1/12-25	36,415,000
Series 2003-SRF-2	9-25-03	25,055,370	2.50	4/1/13-25	17,550,370
Series 2004-SRF-1	6-24-04	2,910,000	2.125	10/1/12-24	2,025,000
Series 2004-SRF-2	6-24-04	18,353,459	2.125	4/1/13-25	12,748,459
Series 2004-SRF-3	6-24-04	12,722,575	2.125	4/1/13-25	8,832,575
Series 2007-SRF-1	9-20-07	156,687,777	1.625	10/1/12-29	142,272,777
Series 2009-SRF-1	4-17-09	22,684,557	2.50	4/1/13-30	10,164,557
Series 2010-SRF-1	1-22-10	6,793,631	2.50	4/1/13-31	3,338,631
Total State Revolving Loans Payable					\$ 508,236,265

Appendix B — Schedule of water system bonds and related state revolving loans as of June 30, 2012

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer	
Water Supply System Revenue Bonds:							
Series 1993	10-15-93	\$ 38,225,000	6.50%	7/1/14-15	\$ 24,725,000	FGIC	
Series 1995-B	10-15-95	60,485,000	5.55	7/1/12	8,480,000	MBIA	
Series 1997-A	8-01-97	186,220,000	6.00	7/1/14-15	13,430,000	MBIA	
Series 2001-A	5-01-01	301,165,000	5.00	7/1/29-30	73,790,000	FGIC	b
Series 2001-C	5-08-08	4,055,000	3.50 to 4.25	7/1/12-18	2,565,000	FGIC	
Series 2001-C	5-08-08	186,350,000	4.50 to 5.75	7/1/19-29	186,350,000	FGIC	b
Series 2003-A	1-28-03	234,805,000	4.50 to 5.00	7/1/19-34	178,785,000	MBIA	b
Series 2003-B	1-28-03	41,770,000	5.00	7/1/34	41,770,000	MBIA	b
Series 2003-C	1-28-03	4,335,000	Variable(a)	7/1/13-14	4,335,000	MBIA	
Series 2003-C	1-28-03	25,325,000	4.25 to 5.25	7/1/15-22	25,325,000	MBIA	b
Series 2003-D	8-14-06	3,180,000	4.00 to 4.20	7/1/12-16	1,625,000	MBIA	
Series 2003-D	8-14-06	139,575,000	4.25 to 5.00	7/1/17-33	139,575,000	MBIA	b
Series 2004-A	8-14-06	17,600,000	3.75 to 5.25	7/1/12-16	17,580,000	MBIA	
Series 2004-A	8-14-06	55,165,000	4.50 to 5.25	7/1/17-25	55,165,000	MBIA	b
Series 2004-B	8-14-06	52,840,000	4.00 to 5.00	7/1/12-16	35,740,000	MBIA	
Series 2004-B	8-14-06	100,990,000	4.25 to 5.00	7/1/17-23	100,990,000	MBIA	b
Series 2005-A	3-11-05	20,965,000	3.40 to 5.00	7/1/12-15	8,445,000	FGIC	
Series 2005-A	3-11-05	84,035,000	3.90 to 5.00	7/1/16-35	84,035,000	FGIC	b
Series 2005-B	5-08-08	19,070,000	4.00 to 5.50	7/1/12-18	15,465,000	FGIC	
Series 2005-B	5-08-08	175,830,000	4.75 to 5.50	7/1/19-35	175,830,000	FGIC	b
Series 2005-C	3-11-05	36,405,000	5.00	7/1/12-15	23,175,000	FGIC	
Series 2005-C	3-11-05	90,200,000	5.00	7/1/16-22	90,200,000	FGIC	b
Series 2006-A	8-14-06	42,795,000	5.00	7/1/13-16	26,900,000	Assured Guaranty/FSA	
Series 2006-A	8-14-06	237,205,000	5.00	7/1/17-34	237,205,000	Assured Guaranty/FSA	b
Series 2006-B	4-1-09	900,000	3.00 to 5.00	7/1/12-19	800,000	Assured Guaranty/FSA	
Series 2006-B	4-1-09	119,100,000	5.50 to 7.00	7/1/20-36	119,100,000	Assured Guaranty/FSA	b
Series 2006-C	8-14-06	12,585,000	4.00 to 5.00	7/1/12-16	10,650,000	Assured Guaranty/FSA	
Series 2006-C	8-14-06	208,060,000	5.00	7/1/17-33	208,060,000	Assured Guaranty/FSA	b

Appendix B — Continued

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer	
Series 2006-D	8-14-06	4,430,000	4.00 to 5.00	7/1/12-16	3,465,000	Assured Guaranty/FSA	
Series 2006-D	8-14-06	142,160,000	4.25 to 5.00	7/1/17-32	142,160,000	Assured Guaranty/FSA	b
Series 2011-A	12-22-11	37,880,000	3.00 to 5.00	7/1/12-21	37,880,000	N/A	
Series 2011-A	12-22-11	341,710,000	5.00 to 5.75	7/1/22-41	341,710,000	N/A	b
Series 2011-B	12-22-11	7,455,000	2.496 to 5.00	7/1/12-21	7,455,000	N/A	
Series 2011-B	12-22-11	9,740,000	6.00	7/1/22-33	9,740,000	N/A	b
Series 2011-C	12-22-11	3,925,000	3.00 to 5.00	7/1/12-21	3,925,000	N/A	
Series 2011-C	12-22-11	99,965,000	4.50 to 5.25	7/1/23-41	99,965,000	N/A	b
Total Water Supply System Revenue Bonds					\$ 2,556,395,000		

State Revolving Loans:

Series 2005 SRF-1	9-22-05	\$ 13,805,164	2.125%	10/1/12-26	\$ 10,575,164
Series 2005 SRF-2	9-22-05	8,891,730	2.125	10/1/12-26	6,621,730
Series 2006 SRF-1	9-21-06	5,180,926	2.125	10/1/12-26	3,945,926
Series 2008 SRF-1	9-29-08	2,590,941	2.500	10/1/12-26	1,810,941

Total State Revolving Loans Payable

\$ 22,953,761

a - Interest rates are set periodically at the stated current market interest rate.

b - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

Appendix C — Schedule of COPs and related swap liabilities as of June 30, 2012

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer
Pension Obligation Certificates:						
Series 2005-A	6/2/05	\$ 640,000,000	4.00 to 4.95%	6/15/13-25	\$ 503,365,000	FGIC/Syncora
Series 2006-A	6/12/06	148,540,000	5.989%	6/15/34-35	148,540,000	FGIC
Series 2006-B	6/12/06	800,000,000	Variable	6/15/19-34	800,000,000	FGIC/Syncora
Total Pension Obligation Certificates					\$ 1,451,905,000	

Cash-Flow Hedges, Pay-Fixed Interest Rate Swaps	Notional Amount	Effective Date	Fixed Rate Paid	Rate Received	Fair Value	Swap Termination Date	Final Maturity of Bonds
Taxable Certificate of Participation:							
SBSFPC-0009	\$ 96,621,000	6/12/06	6.36%	3mth LIBOR + .34%	(57,173,124)	6/15/2034	6/15/2034
SBSFPC-0012	45,252,000	6/12/06	6.32	3mth LIBOR + .30%	(23,055,836)	6/15/2029	6/15/2029
37380341	96,621,000	6/12/06	6.36	3mth LIBOR + .34%	(57,181,711)	6/15/2034	6/15/2034
37380291	45,252,000	6/12/06	6.32	3mth LIBOR + .30%	(23,056,802)	6/15/2029	6/15/2029
SBSFPC-0010	153,801,500	6/12/06	6.35	3mth LIBOR + .34%	(91,309,463)	6/15/2034	6/15/2034
SBSFPC-0011	104,325,500	6/12/06	6.32	3mth LIBOR + .30%	(48,098,696)	6/15/2029	6/15/2029
37380313	153,801,500	6/12/06	6.35	3mth LIBOR + .34%	(91,322,376)	6/15/2034	6/15/2034
37380351	104,325,500	6/12/06	6.32	3mth LIBOR + .30%	(48,104,661)	6/15/2029	6/15/2029
Total	\$ 800,000,000				(439,302,669)		

Appendix D — Schedule of secured general obligation liabilities as of June 30, 2012

	Issue Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer
General Obligation Bonds -						
Unlimited Tax Series 2010-E	12/16/10	100,000,000	5.129 to 8.369	11/1/14-35	100,000,000	N/A
Limited Tax Distributable State Aid 2010	3/18/10	249,790,000	4.25 to 5.25	11/1/14-35	249,790,000	N/A
Total General Obligation Bonds					349,790,000	
Notes and Loans -						
Ferry Street Project	6/12/08		2.62 to 4.62	8/1/12-18	2,041,000	N/A
Garfield Project	6/12/08		2.62 to 4.62	8/1/13-15	750,000	N/A
Stuberstone Project	6/12/08		2.62 to 4.62	8/1/13-16	120,000	N/A
Vernon Lawndale Project	9/14/06		5.05 to 5.74	8/1/13-25	1,800,000	N/A
New Amsterdam Project	8/1/02		4.67 to 6.12	8/1/12-22	8,480,000	N/A
Mexicantown Welcome Center Project	9/14/06		5.03 to 5.70	8/1/13-24	3,600,000	N/A
Book Cadillac Project	9/14/06		5.07 to 5.77	8/1/14-26	7,300,000	N/A
Book Cadillac Project Note 1	6/12/08		4.00 to 5.38	8/1/13-29	10,700,000	N/A
Garfield II Note 1	9/14/06		3.44 to 5.30	8/1/13-25	6,422,000	N/A
Garfield II Note 2	9/14/06		5.07 to 5.77	8/1/14-26	2,058,000	N/A
Garfield II Note 3	9/16/09		LIBOR + 0.2	8/1/12-29	1,723,000	N/A
Garfield II Note 4	9/16/09		LIBOR + 0.2	8/1/17-29	6,697,000	N/A
Fort Shelby Project	6/12/08		3.82 to 5.34	8/1/12-26	18,700,000	N/A
Woodward Garden Project 1	6/12/08		4.48 to 5.05	8/1/16-21	7,050,000	N/A
Woodward Garden Project 2	12/9/08		LIBOR + 0.2	8/1/16-28	6,197,000	N/A
Woodward Garden Project 3	4/20/12		LIBOR + 0.2	8/1/16-31	5,753,000	N/A
Loan Payable GE Capital Schedule –013	4/9/04		4.07	7/1/12-6/1/14	248,289	N/A
Loan Payable GE Capital Schedule – 030	4/30/08		4.57	8/1/12	358,928	
Total Notes and Loans					89,998,217	
Total Secured General Obligation Liabilities					\$439,788,217	

Appendix E — Schedule of unsecured general obligation liabilities as of June 30, 2012

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds –							
Unlimited Tax:							
Series 1999-A	4-1-99	\$ 28,020,000	5.00 to 5.25%	4/1/13-19	\$ 21,040,000	Assured Guaranty	b
Series 2001-A(1)	7-15-01	83,200,000	5.0 to 5.375	4/1/13-21	80,400,000	MBIA	b
Series 2001-B	7-15-01	23,235,000	5.375	4/1/13-14	13,680,000	MBIA	b
Series 2002	8-2-02	29,205,000	4.00 to 5.13	4/1/13-22	6,645,000	MBIA	b
Series 2003-A	10-21-03	9,640,000	3.70 to 5.00	4/1/2013	2,575,000	Syncora	
Series 2003-A	10-21-03	34,380,000	4.00 to 5.25	4/1/14-23	34,380,000	Syncora	b
Series 2004-A(1)	9-9-04	39,270,000	4.25 to 5.25	4/1/19-24	39,270,000	Ambac	b
Series 2004-B(1)	9-9-04	23,720,000	3.75 to 5.00	4/1/13-14	16,175,000	Ambac	
Series 2004-B(1)	9-9-04	29,365,000	4.0 to 5.25	4/1/15-18	29,365,000	Ambac	b
Series 2004-B(2)	9-9-04	17,270,000	4.16 to 5.24	4/1/13-18	865,000	Ambac	
Series 2005-B	12-1-05	13,840,000	4.00 to 5.00	4/1/13-16	8,955,000	Assured Guaranty	
Series 2005-B	12-1-05	37,920,000	4.30 to 5.00	4/1/17-25	37,920,000	Assured Guaranty	b
Series 2005-C	12-1-05	20,010,000	4.00 to 5.00	4/1/13-16	12,230,000	Assured Guaranty	a
Series 2005-C	12-1-05	10,795,000	4.30 to 5.25	4/1/17-20	10,795,000	Assured Guaranty	b
Series 2008-A	6-9-08	15,120,000	5.00	4/1/14-18	15,120,000	Assured Guaranty	
Series 2008-A	6-9-08	43,510,000	4.00 to 5.00	4/1/19-28	43,510,000	Assured Guaranty	b
Series 2008-B(1)	6-9-08	66,475,000	5.00	4/1/13-18	37,905,000	Assured Guaranty	
Total General Obligation Bonds - Unlimited Tax					\$ 410,830,000		

Appendix E — Continued

	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance June 30, 2012	Insurer	
GOVERNMENTAL ACTIVITIES (continued)							
General Obligation Bonds –							
Limited Tax:							
Self-Insurance Bonds:							
Series 2003	10-2-03	\$ 98,895,000	4.32 to 4.97%	5/1/2013	\$ 17,770,000	Assured Guaranty	
Series 2004	9-9-04	62,285,000	4.16 to 4.85	4/1/13-14	25,405,000	Ambac	
General Obligation:							
Series 2005-A(1)	6-24-05	21,325,000	4.27 to 4.53	4/1/13-15	11,320,000	Ambac	
Series 2005-A(1)	6-24-05	52,175,000	4.61 to 5.15	4/1/16-25	52,175,000	Ambac	b
Series 2005-A(2)	6-24-05	4,055,000	3.50 to 4.50	4/1/12-15	2,145,000	Ambac	
Series 2005-A(2)	6-24-05	9,475,000	4.00 to 5.00	4/1/16-25	9,475,000	Ambac	b
Series 2005-B	6-24-05	4,845,000	3.50 to 5.00	4/1/13-15	2,835,000	Ambac	
Series 2005-B	6-24-05	6,940,000	5.00	4/1/16-21	6,940,000	Ambac	b
Series 2008-A(1)	6-9-08	43,443,278	5.00	4/1/13-16	43,443,278	N/A	
Series 2008-A(2)	6-9-08	25,000,000	8.00	4/1/2014	25,000,000	N/A	
Total General Obligation Bonds - Limited Tax					196,508,278		
Loans - Downtown Development Authority							
	1991-1997				33,600,000		
Total Unsecured General Obligation Liabilities					\$ 640,938,278		

a - Indicates interest rates are reset periodically at the stated market interest rates.

b - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

Appendix F – Annual Debt Service on Special Revenue Obligations (\$ in millions).

	Sewage Disposal Fund		Water Fund		Parking Fund		Total Special Revenue
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	
2013	76.58	123.42	33.20	120.25	1.17	0.50	\$355.12
2014	78.39	143.45	41.46	131.24	1.22	0.44	\$396.20
2015	86.66	140.42	53.43	129.31	1.29	0.38	\$411.49
2016	89.28	137.53	58.75	126.49	1.35	0.31	\$413.71
2017	91.58	134.41	61.81	123.38	1.42	0.24	\$412.84
2018-22	503.05	621.32	353.35	568.23	4.03	0.30	\$2,050.28
2023-27	584.93	515.60	447.03	468.72			\$2,016.28
2028-32	733.64	380.44	555.24	344.23			\$2,013.55
2033-37	810.06	220.48	656.86	193.56			\$1,880.96
2037-42	338.56	35.90	318.25	51.62			\$ 744.33
Total	\$3,392.73	\$2,452.97	\$2,579.38	\$2,257.03	\$ 10.48	\$ 2.17	\$10,694.76

Appendix G – Annual Debt Service on General Obligation Debt & Other Liabilities (\$ in millions).

Fiscal Year	General Obligation Bonds		Notes and Loans Payable		Transportation Fund Liabilities		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$82.71	\$51.81	\$1.56	\$3.85	\$0.81	\$0.31	\$141.07
2014	\$81.63	\$47.73	\$3.25	\$3.76	\$0.00	\$0.27	\$136.64
2015	\$68.36	\$42.72	\$3.38	\$3.62	\$2.66	\$0.27	\$121.02
2016	\$66.87	\$39.27	\$3.65	\$3.46	\$2.80	\$0.14	\$116.19
2017	\$49.89	\$35.87	\$6.09	\$3.24	\$0.00	\$0.00	\$95.10
2018-22	\$254.12	\$139.73	\$31.33	\$12.03	\$0.00	\$0.00	\$437.21
2023-27	\$150.59	\$81.99	\$30.46	\$4.61	\$0.00	\$0.00	\$267.65
2028-32	\$101.54	\$47.46	\$10.26	\$0.24	\$0.00	\$0.00	\$159.50
2033-37	\$101.43	\$13.26	\$33.60	\$0.00	\$0.00	\$0.00	\$148.29
Total	\$957.13	\$499.84	\$123.60	\$34.83	\$6.27	\$1.00	\$1,622.67

Figures above do NOT include \$129.5 million in general fund refunding bonds issued in FY 2013, which have increased outstanding debt balance further from FY 2012 balances.

Appendix H – Annual Debt Service on Pension Obligation Certificates and Related Swap Liabilities (\$ in millions).

Fiscal Year	Principal	Interest	Swap Liability	Total
2013	23.1	39.6	50.7	113.4
2014	29.6	38.5	50.6	118.8
2015	33.3	37.2	50.6	121.1
2016	37.0	35.7	50.6	123.2
2017	41.0	33.9	50.6	125.4
2018-22	242.8	140.5	248.0	631.3
2023-27	311.2	88.3	226.9	626.5
2028-32	416.3	61.8	135.6	613.7
2033-35	317.6	26.4	15.1	359.1
Total	1,451.9	501.9	878.7	2,832.5

APPENDIX I — City Bargaining Units

Category	Name of Bargaining Unit	Active CBA?	CBA Expiration	Subject to CETS?	No. of Employees Represented
Uniform	AFSCME - ESOs	Yes	6/30/13	No	93
	Detroit Fire Fighters Ass'n	Yes	6/30/13	No	927
	Detroit Police Command Officers Ass'n		As of 9/30/12	Yes	24
	Detroit Police Lieutenants and Sergeants Ass'n	Yes	6/30/13	No	530
	Detroit Police Officers Ass'n		6/30/12	Yes	1,991
	Emergency Medical Service Officers Ass'n (EMS)		As of 9/30/12	Yes	10
	Police Officers Ass'n of Michigan (EMS)		As of 9/30/12	Yes	187
Coalition and other nonuniform	AFSCME Crossing Guards		6/30/12	Yes	157
	AFSCME Forestry and Landscape Foreman		6/30/12	Yes	4
	AFSCME Motor City Seasonals		6/30/12	Yes	240
	AFSCME Non-Supervisory		6/30/12	No	1,656
	AFSCME Paving Foreperson's		6/30/12	Yes	9
	AFSCME Supervisory, Local 2394		6/30/12	Yes	47
	Assist. Supervisors of Street Maint. & Constr.		6/30/12	Yes	4
	Ass'n of Munic. Engineers (Supervisors of ADE)		6/30/12	Yes	15
	Ass'n of City of Detroit Supervisors		6/30/12	Yes	35
	Ass'n of Detroit Engineers		As of 9/30/12	Yes	82
	Ass'n of Municipal Inspectors		6/30/12	Yes	12
	Ass'n of Prof. & Technical Employees		As of 9/30/12	Yes	102
	Ass'n of Prof. Construction Inspectors		6/30/12	Yes	37
	Building Construction Trades – Foreman		6/30/12	Yes	14
	Building Construction Trades - Non-Supervisory		6/30/12	Yes	172
	Building Construction Trades - Special Service		6/30/12	Yes	26
	Buildings and Safety Inspectors – Tripartite		6/30/12	Yes	19
	Detroit Income Tax Investigators Ass'n		6/30/12	Yes	15
	Detroit License Investigators Ass'n		6/30/12	Yes	0
	Field Engineers Ass'n		6/30/12	Yes	2

Appendix I — Continued

Category	Name of Bargaining Unit	Active CBA?	CBA Expiration	Subject to CETS?	No. of Employees Represented
	International Union of Op. Engineers - Local 324		9/30/12	Yes	27
	Local 324 Park Management Ass'n		6/30/12	Yes	7
	Local 324 Principal Clerks Unit		6/30/12	Yes	64
	Police Officers Labor Council (Detroit Fac. Officers)		6/30/12	Yes	9
	Police Officers Labor Council (Health Department)		6/30/12	Yes	1
	SEIU Local 517M - Non-Supervisory		6/30/12	Yes	5
	SEIU Local 517M – Prof. & Tech. Unit		6/30/12	Yes	22
	SEIU Local 517M - Supervisory		6/30/12	Yes	11
	Senior Accountants, Analysts & Appraisers		6/30/12	Yes	141
	Teamsters, Local 214		6/30/12	Yes	430
	UAW Local 212 (Civilian Police Investigators)		6/30/12	Yes	14
	UAW Local 2211 (Public Attorneys Ass'n)		6/30/12	Yes	37
	UAW Local 412-Unit 86 (Law Dep't Paralegals)		6/30/12	Yes	8
13(c) protected employees	AFSCME Non-supervisory Locals 214 & 312		6/30/12	No	317
	Amalgamated Transit Union (ATU)		6/30/12	No	622
	Building Construction Trades – Non-supervisory		6/30/12	No	4
	DOT Foreman's Ass'n		6/30/12	No	6
	International Union of Op. Engineers		9/30/12	No	2
	Supervisor Chapter of DOT Foreman's Ass'n		6/30/12	No	24
	Teamsters, Local 214		6/30/12	No	9
Total					8,270

Appendix J – Summary of Capital Improvements in 10-Year Plan

Department / Category	Project	Total Budget Impact	Start Date	Duration
Non-Departmental / Citywide (Included in GSD)	Elevator Improvements Program	\$3,503,911	FY 2014	10 years
	Space Consolidation Improvements	\$16,118,541	FY 2014	10 years
	Other	\$1,517,528	FY 2014	10 years
	Subtotal	\$21,139,980		
Manoogian Mansion	Roof Replacement	\$114,643	FY 2020	2 years
	Subtotal	\$114,643		
Police	Police Academy Improvements	\$1,255,932	FY 2014	4 years
	Existing District/Precinct Improvements	\$2,896,861	FY 2014	9 years
	New PCT #1 & 2	\$6,000,000	FY 2014	2 years
	New PCT #3 & 4	\$6,000,000	FY 2016	2 years
	New PCT #5 & 6	\$6,000,000	FY 2018	2 years
	Electrical Improvements	\$2,000,000	FY 2014	2 years
	Contingent Projects	\$14,000,000	FY 2014	10 years
	Other	\$2,027,887	FY 2014	9 years
	Subtotal	\$40,180,681		
Fire	Fire Training Building Replacement	\$17,010,540	FY 2016	2 years
	Fire Apparatus	\$543,525	FY 2014	5 years
	Engine House Improvements	\$2,022,077	FY 2014	10 years
	Structural Improvements	\$6,000,000	FY 2014	6 years
	Electrical Improvements	\$4,000,000	FY 2014	2 years
	Exhaust System Improvements	\$4,500,000	FY 2014	10 years
	Contingent Projects	\$17,300,000	FY 2016	8 years
	Subtotal	\$51,376,142		
DDOT	Facility Improvements	\$20,800,000	FY 2014	4 years
	Subtotal	\$20,800,000		
Airport	Facility Improvements/Expansion	\$13,264,808	FY 2014	10 years
	Subtotal	\$13,264,808		
Public Lighting	PLD HQ HVAC System Replacement	\$1,500,000	FY 2015	1 year
	Other	\$243,432	FY 2014	10 years
	Subtotal	\$1,743,432		
Municipal Parking	Facility Improvements	\$382,698	FY 2014	5 years
	Subtotal	\$382,698		
Health (transferred to DPD)	Animal Control Building Replacement	\$10,899,020	FY 2014	2 years
	Subtotal	\$10,899,020		

Appendix J — Continued

Department / Category	Project	Total Budget Impact	Start Date	Duration
Elections	Facility Improvements	\$1,275,000	FY 2014	1 year
	Contingent Projects	\$2,000,000	FY 2020	4 years
	Subtotal	\$3,275,000		
Fleet Purchases	Police Fleet Purchases	\$102,597,588	FY 2014	10 years
	Fire Fleet Purchases	\$19,059,144	FY 2014	10 years
	Grounds Maintenance Fleet Purchases	\$11,872,447	FY 2014	10 years
	Municipal Parking Fleet Purchases	\$3,532,245	FY 2015	9 years
	Subtotal	\$137,061,424		
Information Technology	Administrative Hearings	\$500,000	FY 2014	1 year
	Finance / Budget	\$50,500,000	FY 2014	10 years
	Fire	\$1,800,000	FY 2014	10 years
	Grants	\$400,000	FY 2014	10 years
	Human Resources	\$300,000	FY 2014	1 year
	Law	\$100,000	FY 2014	1 year
	Police	\$19,900,000	FY 2013	11 years
	Ombudsperson	\$7,900,000	FY 2014	10 years
	36th District Court	\$2,200,000	FY 2014	10 years
	Subtotal	\$83,600,000		
General Services	Facility Improvements	\$3,420,151	FY 2014	8 years
	Contingent Projects	\$17,500,000	FY 2015	9 years
	Subtotal	\$20,920,151		
General Fund Capital Improvement Project Total		\$404,757,979		
Reorganization Costs		\$45,800,000		
Training Costs	HR Training (catch-up costs)	\$1,300,000		
	DDOT Training	\$500,000		
Total Including Reorganization and Training Costs		\$452,357,979		
Blight		\$500,000,000	FY 2014	6 years
Additional Operating Expenditures		\$297,400,000		
GRAND TOTAL		\$1,249,757,979		