UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF MICHIGAN

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

CITY OF DETROIT'S RESPONSE IN OPPOSITION TO SYNCORA'S MOTION TO EXCLUDE THE TESTIMONY OF THE CITY'S FORECASTING EXPERTS UNDER FEDERAL RULE OF EVIDENCE 702

The City of Detroit, Michigan (the "City") submits this opposition to Syncora's Motion to Exclude the Testimony of the City's Forecasting Experts Under Federal Rule of Evidence 702 (the "Motion").

INTRODUCTION

Syncora's motion to exclude the testimony of the City's forecasting experts is one of a battery of *Daubert* motions Syncora has filed, all of which turn on the single theme that the projection of financial results is so inherently unreliable that it is not capable of expert opinion.¹ That proposition, however, is belied by the decisions and practice in innumerable cases in which expert evidence of precisely

¹ See Syncora Guarantee Inc. and Syncora Capital Assurance Inc.'s Motion to Exclude the Testimony of John W. Hill [Docket No. 6997]; Motion to Exclude Certain of the Expert Opinions of Martha Kopacz Under Federal Rule of Evidence 702 [Docket No. 6999].

this nature has been received and credited, and it is difficult to see how any plan in bankruptcy—whether chapter 11 or chapter 9—ever could be confirmed if the debtor were barred from offering forecasts of its future financial health under the plan being proposed.

To support its extreme arguments, Syncora has embarked upon a systematic misrepresentation of the deposition testimony of the five witnesses in question. To simplify the process of correcting so many misstatements, the City has prepared and has annexed to this brief an appendix of Syncora's misrepresentations of the record. *See* Appendix A, Misrepresentations of the Record ("Misreps.").

In fact, and contrary to Syncora's exaggerated claims, there has been nothing unusual, improper, or different here from the countless bankruptcy cases in which experts have offered opinions about a debtor's financial future. The witnesses from Ernst & Young ("EY") are highly capable experts with years of experience; their work took months; their review of data and choice of assumptions was painstaking; their methods were ones widely accepted in their professions; the documentation of their work was extensive; and their results carefully reached and closely reviewed. Syncora's assertions to the contrary have no basis in law, fact, or common sense, and its Motion should be denied.

BACKGROUND

Faced with dwindling cash reserves and uncertain of its ability to continue fulfilling its financial obligations, the City retained EY in May 2011 to forecast its revenues and expenses. Initially, this engagement was limited to the creation of short-term forecasts, which were designed to help the City understand its cash flows. Gaurav Malhotra, the Midwest Restructuring Leader at EY and the head of the EY team engaged by Detroit, was primarily responsible for developing these forecasts.

As the City's cash position became more dire, the City asked EY to begin developing longer-term forecasts of revenues and expenses. At that point—in the Spring of 2013—Mr. Malhotra asked Dr. Robert Cline of EY's Quantitative Economics and Statistics Practice ("QUEST") to bring his particular expertise to bear by forecasting the City's five key revenue drivers—income taxes, property taxes, wagering taxes, state revenue sharing, and utility users' taxes—over the next ten years. Dr. Cline holds a Ph.D. in economics from the University of Michigan and has over 40 years' experience forecasting tax revenues for governmental and private clients. *See* Cline Report at Ex. D. Dr. Cline, in turn, asked Caroline Sallee, a Manager in the QUEST group with almost a decade of experience forecasting tax revenues, to focus on two of these revenue drivers—property taxes and state revenue sharing—under his supervision. *See* Sallee Report at Ex. C.

Dr. Cline and Ms. Sallee then set out to develop longer-run forecasts of these revenue drivers, while Mr. Malhotra and his team focused on the expense side of the City's budget. The product, in June 2013, was a new 10-year forecast of the annual revenues and expenses the City could expect in future years.

Unable to reach an out-of-court settlement with its creditors, the City filed for bankruptcy on July 18, 2013. A hearing to determine the City's eligibility for bankruptcy was then held in October and November of 2013. The 10-year forecast prepared by Mr. Malhotra, Dr. Cline, and Ms. Sallee was one of the key pieces of evidence presented at this hearing. However, because Mr. Malhotra had not been retained to provide expert testimony regarding the City's forecasts—and, indeed, because EY's engagement letter with the City expressly prohibited Mr. Malhotra from doing so—the City did not seek to qualify Mr. Malhotra as an expert. Instead, the City argued that Mr. Malhotra was qualified to testify about the reliability of his forecasts because of his extensive knowledge of the City's finances, gained as a result of his more than two-year engagement with the City. The Court agreed, admitting the forecasts as evidence. See Opinion Regarding Eligibility at 108–09 ("Eligibility Op.") [Docket No. 1945].

Later, as the City was seeking approval of a settlement with its swap counterparties in December 2013, the City and EY determined that it would be appropriate to amend their engagement letter so that Mr. Malhotra could testify as

an expert witness about the forecasts his team was preparing for the City. Meanwhile, around that time, EY was developing a revised 10-year forecast to take account of newly acquired actual results, and was also at the beginning stages of developing a simulation that would extend the 10-year forecast for another three decades in order to illustrate potential recoveries under an eventual plan of adjustment. As they had with the 10-year forecasts developed in Spring 2013, Dr. Cline and Ms. Sallee forecasted the five key revenue drivers for the new simulation.

On July 8, 2014, the City identified Mr. Malhotra, Dr. Cline, and Ms. Sallee as expert witnesses it intended to call at the hearing on plan confirmation and filed expert reports for each. Dr. Cline was deposed on July 14; Mr. Malhotra was deposed on July 14 and July 15; and Ms. Sallee was deposed on July 24. Because of scheduling conflicts, Dr. Cline testified before the Court on July 18, subject to a reservation of the right to challenge the admissibility of his testimony. Finally, on August 22, Syncora filed the instant Motion, which challenges the qualifications and methodologies of Dr. Cline, Ms. Sallee, and Mr. Malhotra.

A. The Methodologies Employed By The EY Experts

1. Dr. Cline

Dr. Cline has already testified about the methodology he employed to forecast the City's individual income tax, corporate income tax, wagering tax, and utility users' tax revenues. As that testimony and his expert report demonstrate,

Dr. Cline employed standard forecasting procedures in calculating the annual estimates of the revenues the City can expect in future years from these sources.

a. Individual Income Taxes

To forecast individual income taxes, Dr. Cline employed a "model approach," whereby he built up income tax revenue forecasts from their individual economic components—number of taxpayers, average wages, and applicable tax rates. Tr. of Hearing on Aug. 18, 2014, at 26 ("Cline Testimony") [Docket No. 7069].

The first step in Dr. Cline's process involved determining employment levels within the City in future years on the ground that only individuals who are employed will be paying the income tax. *See* Report of Robert Cline at 5-6 ("Cline Report"), attached hereto as Exhibit 1. However, while there are sophisticated economic models for the State of Michigan—namely, the RSQE, *see* Cline Testimony at 14–15—there is no comparable economic model for the City itself. As a result, Dr. Cline determined that the best way estimate future Detroit employment levels would be to derive them based on the historical relationship of City employment as a share of total State employment. *See* Cline Report at 5-6. In doing so, Dr. Cline determined that over the last 20 years Detroit employment has been declining as a share of total Michigan employment by a factor of -0.85%.

From this data, Dr. Cline was able to make assumptions regarding the employment growth rates the City can expect in future years, relative to the State. *Id.* at 5–7.

Having developed forecasts of Detroit employment, Dr. Cline then had to determine whether the jobs within the City were likely to be held by residents or non-residents because non-residents pay lower rates of tax on income earned in the City. Id. at 8–10. To develop these assumptions, Dr. Cline relied upon the population forecasts created by the Southeast Michigan Council of Governments ("SEMCOG"), an organization that has published studies on expected population levels in the City and surrounding areas. Id. As Dr. Cline testified, he has used SEMCOG data in the past and has found it to be very reliable. See Cline Testimony at 32. Based upon the population forecast produced by SEMCOG and data from the United States Census Bureau on worker flows, Dr. Cline was able to develop assumptions regarding the relative share of Detroit jobs held by residents versus non-residents in future years. Cline Report at 8–10. Finally, Dr. Cline had to determine the number of Detroit residents that work outside the City, who would not have been captured in his estimates for Detroit employment but would still be required to pay taxes to Detroit. Id. To do this, Dr. Cline used the statewide employment growth estimates he had already developed and applied the rate of population decline forecast by SEMCOG. Id.

Finally, Dr. Cline determined annual figures for the tax bases—i.e., the amount of income against which the tax rates could be applied—by combining the growth in the number of taxpayers (i.e., the employment figures) with the growth in the average wages earned by those taxpayers. *Id.* at 10–11. Dr. Cline developed his assumption that this latter figure would be 1.0% by adjusting the statewide wage growth figures downward to account for Detroit's relatively slower rate of economic growth. *Id.* at 10. Having calculated the annual amount of income available to be taxed in each income tax base, Dr. Cline then applied the 2.4% resident tax rate and the 1.2% non-resident tax rate to their respective tax bases. *Id.* at 10–11. By doing this, Dr. Cline was able to calculate annual estimates for the City's income tax revenues. *Id.*

b. Corporate Income Taxes

Dr. Cline followed a similar methodology in forecasting the City's expected revenue from corporate income taxes. *See id.* at 18–19. First, Dr. Cline began by analyzing the forecast for State corporate income tax revenues created by the Michigan Consensus Revenue Conference. *Id.* Based on historical data and this short-term forecast, Dr. Cline was able to extrapolate the expected growth in State corporate income tax revenues out to 10 years. *Id.* Next, Dr. Cline applied a "structural adjustment" to the statewide growth rates, to account for the relatively slower growth in City corporate profits relative to the State. *Id.* Dr. Cline

developed his assumption about the extent of this structural adjustment based on an analysis of the historical relationship between Detroit corporate income tax revenues and state corporate tax revenues. *Id.* In addition, Dr. Cline factored in the fact that net operating losses from the last recession are still being applied to corporate profits, as allowed by Michigan law, which results in lower than expected revenues in the early years of the forecast. *Id.* Finally, by applying the structural adjustment developed by Dr. Cline to the estimated growth in state corporate income tax revenues, Dr. Cline was able to calculate annual estimates for corporate income tax revenues for the City.

c. Wagering Taxes and Utility Users' Taxes

To develop his forecasts for both wagering taxes and utility users' taxes, Dr. Cline analyzed historical trends and made adjustments as necessary to account for anticipated changes. *See id.* at 22–25. For example, Dr. Cline determined that over the last decade revenues from Detroit's wagering taxes grew at an average rate of 1.8% per year. *Id.* at 22–24. However, in the five years since fiscal year 2009, that average growth rate has slowed to 0.6% per year, and the most recent wagering tax collections data shows that wagering taxes are anticipated to drop - 4.3% in fiscal year 2014. *Id.* Based on these recent trends and the well-recognized fact that Detroit casinos will soon be facing increased competition from a new casino in Toledo, Ohio, Dr. Cline determined that an average rate of growth of

1.0% per year was a reasonable assumption. *Id.* Applying this average growth rate to recent collections data, Dr. Cline was able to calculate annual estimates for the City's wagering tax revenues. *Id.*

Similarly, when estimating the City's expected revenues for utility users' taxes, Dr. Cline began by analyzing historical trends. *Id.* at 24–25. Dr. Cline determined that gross utility users' tax revenues have decreased significantly since fiscal year 2008, declining by an average rate of -6.0% per year. *Id.* However, because the Detroit FY2014 Executive Budget indicates that more taxpayers have been added to the utility users' tax base through compliance activities, Dr. Cline assumed that this trend would slow. *Id.* As a result, Dr. Cline determined that it was reasonable to assume that after the Detroit economy stabilizes through fiscal years 2015 and 2016, average annual growth rates of 1.5% could be expected. *Id.* Finally, after accounting for the reduction to utility users' tax revenues due to the transfers required by the Public Lighting Authority transaction, Dr. Cline was able to calculate annual estimates for the City's utility users' tax revenues. *Id.*

d. Restructuring Scenario and 40-Year Forecasts

Having calculated annual estimates for revenues from individual and corporate income taxes, wagering taxes, and utility users' taxes based on historical trends and relationships to statewide economic forecasts, Dr. Cline set out to estimate the effects that could be expected from improved economic conditions

within the City after a successful restructuring. Cline Report at 16–18, 21. Critically, Dr. Cline was not concerned with additional revenues that might result from administrative changes, such as, for example, increased collections rates.² Instead, Dr. Cline was concerned with the effect that a general improvement in City conditions would have on the underlying economic components he had used to estimate annual revenues. Dr. Cline thus adjusted the various economic assumptions underlying the income tax calculations to bring them closer to long-term trends and statewide growth forecasts than under the baseline scenario. *Id.* Based on these adjusted assumptions, Dr. Cline was able to calculate the additional income tax revenue that could be expected. *Id.*

With economic forecasts that accounted for a general improvement in the economic conditions of the City through fiscal year 2023, Dr. Cline next developed a simulation of the revenues that could be expected in the following three decades. *Id.* at 12–13 (individual income taxes), 19–20 (corporate income taxes), 23 (wagering taxes), 25 (utility users' taxes). To do this, Dr. Cline extrapolated from the final years of his 10-year forecasts to develop simulated long-run growth rate assumptions for each of the revenue drivers he estimated. *Id.* After developing

² Indeed, because incremental revenues from those more specific initiatives had already been developed by Conway MacKenzie and were already included in the City's forecasts, Dr. Cline would have been double counting had he done so.

these assumptions, Dr. Cline was able to calculate the City's simulated revenues over each of the following three decades. *Id*.

2. Ms. Sallee

Ms. Sallee applied standard forecasting procedures for both the real and personal property general operating tax forecast and the state revenue sharing forecast. Sallee Report at 4. In doing so, Ms. Sallee followed the standard forecasting procedures outlined by the Congressional Budget Office ("CBO") and the State of Michigan Consensus Revenue Estimating Conference. Sallee Report at 4; CBO, The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (Feb. 2013), available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf; Rebecca Ross, Consensus Revenue Estimating: The Process, Fiscal Forum (Apr. 2001), available at http://www.house.mi.gov/hfa/Archives/PDF/consens.pdf. As these standard procedures explain, there are three steps involved in revenue forecasting:

First, a forecaster should review historical data and quarterly trends. Ross, supra, at 6. As explained in her report, Ms. Sallee began her property tax analysis by "review[ing] historical data on Detroit and Michigan property taxes, economic variables, and housing indicators." Report of Caroline Sallee at 4 ("Sallee Report"), attached hereto as Exhibit 2. Specifically, Ms. Sallee collected and reviewed data from numerous sources, including the Michigan State Tax

Commission, City of Detroit, CBO, House Fiscal Agency, Case-Shiller Home Price Index for Detroit, Detroit Board of Realtors, and United States Census Bureau. *Id.* at 4–6.

Second, a forecaster should "develop baseline revenue estimates based on the future path of economic growth." Ross, supra, at 6. Of particular focus in this step is to "use[e] the information gained from comparing actual collections with target estimates and comparing revenue estimates generated from the economic forecast to estimated baseline revenues." Id. As outlined in her report, Ms. Sallee similarly "[d]eveloped a baseline of property tax collections for the 10-year Forecast Period" by estimating taxable value by property class, selecting a tax rate, and forecasting the tax levy. Sallee Report at 6–8.

Third, a forecaster must take into account "any necessary adjustments to baseline revenues (due to tax changes, lawsuits, and one-time adjustments) to arrive at actual revenues." Ross, *supra*, at 6. As she elaborates upon in her report, Ms. Sallee "[a]djust[ed] the tax levy for known legal and policy changes." Sallee Report at 8. Ms. Sallee also performed a "with restructuring" scenario that took into consideration an additional adjustment—the "improvements to the tax base and collections if the general operations and economic environment of the City improve during the 10-year period." *Id.* at 9.

It is a bedrock principle of these standard forecasting procedures to apply "the assumption that current laws generally remain unchanged," with the exception that it can also be appropriate to perform scenarios illustrating "policies that were [] in place but that were scheduled to change under []current law." CBO, supra, at 10, 37; see also Ross, supra, at 2 ("Forecasts are based on the assumption that current law will remain in effect for the forecast period."). Ms. Sallee followed these standard practices by selecting "the current general operating tax rate for property taxes in the City of Detroit" and by assuming "that the tax law will remain unchanged during the forecast time periods." Sallee Report at 8. For this reason, when attempting to forecast state revenue sharing payments under the State's Economic Vitality Incentive Payments (EVIP), Ms. Sallee determined that the proper course under standard forecasting procedures would be to maintain the current-law level of payments, given the uncertainty of the figure from year to year.

3. Mr. Malhotra

Mr. Malhotra's responsibility was to compile the various inputs into a comprehensive revenue and expense forecast for the City's general fund, as well as to forecast the City's operating expenditures and incidental revenues. On the revenue side, Mr. Malhotra began with the revenue driver forecasts created by EY's QUEST team, adding to them the City's other revenue line items. To forecast these other revenues, Mr. Malhotra analyzed historical trends reflected in

the City's Comprehensive Annual Financial Reports. From this data, Mr. Malhotra was able to develop estimated growth rates for future years in each of the revenue categories. Report of Gaurav Malhotra at 4–5 ("Malhotra Report"), attached hereto as Exhibit 3. In addition, Mr. Malhotra incorporated into the City's revenue forecasts funds from the Additional Revenue Initiatives developed by Conway MacKenzie, as well as one-time items, such as the net proceeds of Quality of Life financing in fiscal years 2014 and 2015 and the assumed proceeds from exit financing between fiscal years 2015 and 2016. *Id.* at 5.

On the expense side, Mr. Malhotra developed forecasts of the City's expected operating expenditures, legacy liabilities, and restructuring-related expenses. *Id.* at 5. To develop forecasts of the City's expected operating expenditures, Mr. Malhotra and his team both analyzed historical trends and conducted department-by-department reviews of budgets and engaged in discussions with City management regarding steady-state projections. *Id.* at 3–5. Mr. Malhotra used this review of historical and current staffing levels, payroll, and benefits in order to determine the salary, overtime, and fringe benefit costs for both Public Safety and Non-Public Safety departments. *Id.* at 5. To complete his expense-side forecast, Mr. Malhotra then incorporated the restructuring and reinvestment spending forecasted by Conway MacKenzie, accounted for the payments for debt and legacy liabilities under the terms of the plan of adjustment,

included a contingency reserve to account for unanticipated events, and made adjustments to the timing of certain reinvestment spending to ensure adequate cash liquidity. *Id.* at 3-7. Finally, because one purpose of the forecasts was to determine the amount of funds the City had available to pay unsecured creditors after providing adequate municipal services, Mr. Malhotra accounted for annual sources and uses of funds under the plan to tally the expected annual payments to creditors during the 10-year forecast period. *Id.* at 7.

In developing the 40-year forecasts, which are aimed at projecting illustrative recoveries for unsecured creditors, Mr. Malhotra extrapolated his 10-year forecasts for an additional three decades. *Id.* at 16-17. Then, as with the 10-year projections, Mr. Malhotra determined the sources and uses of funds under the terms of the plan of adjustment, applying those sources and uses to the time periods in which they were expected and tallying the surpluses and cash balances for the City's general fund in each of the next four decades. *Id.* Finally, Mr. Malhotra was able to determine illustrative recoveries over the life of the plan by calculating the present value of distributions to each unsecured creditor based on the projected uses. *Id.* He applied a discount rate of 5.0%, based on his own research and discussions with the City's financial advisors at Miller Buckfire, to calculate illustrative recoveries consistently for each creditor and divided each

recovery amount by its respective claim amount to arrive at an illustrative recovery percentage. *Id*.

LEGAL STANDARD

Under Federal Rule of Evidence 702, witnesses may testify as experts whenever (1) their specialized "knowledge, skill, experience, training, or education" will help the trier of fact, (2) their testimony is "relevant to the task at hand," and (3) their testimony "rests on a reliable foundation." *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 597 (1993).

The standard for admissibility under Rule 702 is broad, in order to give effect to its "liberal thrust." *Id.* Indeed, Rule 702 rests on the fundamental premise that "[v]igorous cross-examination, presentation of contrary evidence and careful weighing of the burden of proof"—rather than exclusion—is the best method for evaluating evidence. *Fierro v. Gomez*, 865 F. Supp. 1387, 1396 n.7 (N.D. Cal. 1994). As a result, admissibility of expert testimony is the rule, not the exception. *See* Fed. R. Evid. 702 advisory committee's notes, 2000 amend.; *In re Scrap Metal Antitrust Litig.*, 527 F.3d 517, 530 (6th Cir. 2008).

Trial courts enjoy broad discretion to admit expert testimony under Federal Rule of Evidence 702. *See Gross v. Comm'r*, 272 F.3d 333, 339 (6th Cir. 2001). This discretion, moreover, "is at its zenith during a bench trial." *United States v. Kalymon*, 541 F.3d 624, 636 (6th Cir. 2008). Indeed, as the Sixth Circuit has

explained, the Court's traditional "gatekeeping" role "is *largely irrelevant* in the context of a bench trial" because there is no need "to protect juries from misleading or unreliable expert testimony." *Deal ex rel. Deal v. Hamilton Cnty.*Bd. of Educ., 392 F.3d 840, 851–52 (6th Cir. 2004) (emphasis added).

Moreover, the *Daubert* factors are not talismanic, and no one factor is accorded dispositive weight. *See, e.g., Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 141 (1999) ("[T]he test of reliability is 'flexible,' and *Daubert*'s list of specific factors neither necessarily nor exclusively applies to all experts or in every case."). Rather, a trial judge has "broad latitude to determine" whether the *Daubert* factors "are, or are not, reasonable measures of reliability in a particular case." *First Tenn. Bank Nat'l Ass'n v. Barreto*, 268 F.3d 319, 335 (6th Cir. 2001). As a result, when confronted with non-scientific expert testimony, courts often assess its reliability based on a variety of other factors, including the expert's "knowledge or experience." *Id.*.

Finally, and contrary to Syncora's intimations otherwise, the Sixth Circuit has made clear that it is improper to litigate the validity of assumptions underlying expert testimony at the *Daubert* stage of the proceedings. This is so because "[t]he purpose of a *Daubert* hearing is to determine the scientific validity—and thus the evidentiary relevance and reliability [(i.e., matters of admissibility)]—of the principles that underlie a proposed submission. [T]he *Daubert* Court has

instructed the courts that they are not to be concerned with the reliability of the conclusions generated by valid methods, principles and reasoning." *See, e.g., Greenwell v. Boatwright*, 184 F.3d 492, 497 (6th Cir. 1999) (internal quotation marks and citations omitted) (alterations in original). Because the validity of an expert's assumptions go to the weight of the opinion, not its admissibility, the proponent of expert testimony toned not prove the correctness of any facts or assumptions relied upon by the expert in order for the testimony to be admissible. *See, e.g., In re Scrap Metal Antitrust Litig.*, 527 F.3d at 530.

ARGUMENT

Syncora's Motion should be rejected. As their testimony will show, the City's forecasting experts are well-qualified to forecast the City's revenues and expenses. Moreover, the City's forecasting experts relied upon objective, testable, and reliable methods in making these forecasts.

I. THE CITY'S FORECASTING EXPERTS ARE QUALIFIED BY KNOWLEDGE, SKILL, EXPERIENCE, EDUCATION, AND TRAINING

The standard for expert qualification is minimal. *See United States v. Barker*, 553 F.2d 1013, 1024 (6th Cir. 1977). Under Rule 702, an expert may testify in the form of opinion if, among other things, he or she is qualified "by knowledge, skill, experience, training, or education." Fed. R. Evid. 702; *Surles v. Greyhound Lines, Inc.*, 474 F.3d 288, 293 (6th Cir. 2007). According to the Sixth

Circuit, this Rule "should be broadly interpreted on the basis of whether the use of expert testimony will assist the trier of fact." *Davis v. Combustion Eng'g, Inc.*, 742 F.2d 916, 919 (6th Cir. 1984). This standard does not require that an expert "have certificates of training, nor memberships in professional organizations, . . . [n]or need he be . . . an outstanding practitioner in the field in which he professes expertise." *Id.* Rather, "[t]he text of Rule 702 expressly contemplates that an expert may be qualified on the basis of experience." *United States v. Cunningham*, 679 F.3d 355, 378–79 (6th Cir. 2012). "Whether a proposed expert's experience is sufficient to qualify the expert to offer an opinion on a particular subject depends on the nature and extent of that experience." *Id.* at 378–79.

The City's forecasting experts easily meet this test, and Syncora makes no real effort to argue otherwise. Among them, the City's experts have over 60 years of experience forecasting tax revenues and governmental expenditures for a range of public and private clients. Each has at least one advanced degree in economics, finance, or public policy. And each has extensive experience conducting forecasts in Michigan for both public and private entities.

One of these experts, Dr. Robert Cline, has spent decades forecasting tax revenues for governmental and private clients—the very subject upon which he is testifying here—including nearly every state in this country, as well as the governments of Canada, Australia, the European Union, and the Irish Department

of Finance. See Cline Report, Ex. D at 1–2; see also Cline Dep. at 7–8. This is in addition to serving as Tax Research Director for both the States of Minnesota and Michigan. Likewise, Ms. Sallee—who is a member of Dr. Cline's team and worked closely with him in developing her forecasts—holds a degree in economics and an advanced degree in public policy, has dedicated the bulk of her professional career to tax forecasting, has concentrated her work almost solely on forecasting state and local tax revenues, and has worked on dozens of tax analyses, mostly in Michigan and the Midwest. Ms. Sallee has also served as an independent consultant for the City of Flint, Michigan, projecting property tax revenues and state revenue sharing by using the same methodology she applied to Detroit. And lastly Mr. Malhotra—who has already been qualified as an expert in financial analysis and forecasting by this Court—has over a dozen years' experience forecasting revenues, projecting expenses, and analyzing the liquidity of public and private entities, including the Detroit Public Schools. In addition, of course, Mr. Malhotra has been forecasting the City of Detroit's revenues and expenses—the very subject of his testimony here—for almost three and one-half years. See Eligibility Op. at 108–09 (holding that Mr. Malhotra was qualified by his extensive knowledge of the City of Detroit's finances to opine on future revenues and expenses).

Syncora cannot seriously dispute the expert qualifications of Dr. Cline, Ms. Sallee, and Mr. Malhotra, and instead argues that the City's experts are not qualified to create financial forecasts specifically *for municipalities*. *See* Syncora Mot. at ¶¶ 1, 11. However, Syncora, provides no basis for concluding that recognized experts in forecasting revenues and expenses for *state* governments—and, indeed, for private clients—would be unable to forecast revenues and expenses for *municipal* governments.

Nor does such a narrowly defined scope of expertise find support in the law. The Sixth Circuit has repeatedly cautioned against applying an "overly narrow test" of an expert's qualifications to offer an opinion. *Barker*, 553 F.2d at 1024. As that Court has explained, a "lack of experience in a *particular* subject matter" does not render an expert unqualified to offer an opinion, "so long as his general knowledge in the field can assist the trier of fact." *Dilts v. United Grp. Servs.*, LLC, 500 F. App'x 440, 446 (6th Cir. 2012) (emphasis added). Thus, for example, the Sixth Circuit rejected the argument that "a specialist in threat assessment" was unqualified to offer an opinion under *Daubert* because he lacked expertise "in the very specialized area of *commercial bus line* threat assessment." *Surles*, 474 F.3d at 294 (emphasis added). The import of these and many more cases is clear: the argument that *Daubert* "requires particular credentials for an expert witness" is

"radically unsound." *Tuf Racing Prods., Inc. v. Am. Suzuki Motor Corp.*, 223 F.3d 585, 591 (7th Cir. 2000).

In light of these experts' professional and academic bona fides, Syncora's allegations that Dr. Cline, Ms. Sallee, and Mr. Malhotra are unqualified to forecast the City's future revenues cannot be taken seriously. *See, e.g., id.* ("Anyone with relevant expertise enabling him to offer responsible opinion testimony helpful to judge or jury may qualify as an expert witness.").

II. THE EXPERTS' FORECASTS ARE THE PRODUCT OF RELIABLE PRINCIPLES AND METHODOLOGY

Syncora first argues that the City's forecasts do not satisfy *Daubert*'s liberal standard of admissibility because "the City's forecasters employed no discernible methodology" and instead "merely employed a series of assumptions based on their judgment." Syncora Mot. at ¶ 33 (footnote omitted). Thus, Syncora argues, the forecasts should be excluded because "the ability to test and assess the reliability of expert opinion [is] a critical requirement of Rule 702." *Id.* at ¶¶ 32–33. But this is obviously wrong. As described above, the City's experts employed standard methodologies used in forecasting municipal revenues and expenses. And, in any event, to the extent Syncora has specific challenges to the City's assumptions, these go more to the weight to be accorded EY's forecasts than their admissibility. While each of these arguments may be appropriate topics for cross-

examination, they do not provide a legal or factual basis for exclusion under Daubert.

A. Ernst & Young's Forecasts Were The Product Of Reliable, Persuasive Methodologies

As an initial matter, Syncora is wrong to claim that the City's forecasts are not the product of any "discernible methodology." Syncora Mot. at ¶ 33. As detailed at length above, see Background, supra, at Part B, and as the experts will testify, EY's forecasts were the product of standard methodologies that are generally accepted in their profession and commonly relied upon to develop forecasts of tax revenues and government expenses. Tellingly, the work of these three EY experts was reviewed by yet another expert, Martha Kopacz, who found that (1) EY's "projections" were "generally mathematically correct and materially reasonabl[e]"; (2) "the individual assumptions used to build the projections" were within "a reasonable range"; and (3) "when taken as a group," EY's individual "assumptions [we]re also reasonable." Expert Report of Martha E.M. Kopacz at 200-01 ("Kopacz Report"), attached hereto as Exhibit 4; see also id. at 10 ("The assumptions that underlie the City's plan of adjustment projections regarding its revenues, expenses and plan payments are reasonable."); id. at 42–43, 47.

Moreover, these forecasts were no mere academic exercise. The City retained EY over three years ago—in May 2011—to develop financial forecasts for the purpose of determining whether the City had the financial wherewithal to

continue paying its bills while maintaining basic City services. EY was not hired initially to serve as an expert witness; indeed, in the original retainer agreement with the City, EY specifically disclaimed that it would serve as an expert witness. See Syncora Ex. 4568 at 4 (EY Amend. No. 7 To Statement of Work (7/17/2013)), attached hereto as Exhibit 7. Both of these facts support the independence and credibility of the EY witnesses today. As the Sixth Circuit has explained, the fact that "experts are proposing to testify about matters growing naturally and directly out of research they have conducted independent of the litigation . . . provides important, objective proof that the research comports with the dictates of good science." Smelser v. Norfolk S. Ry. Co., 105 F.3d 299, 303 (6th Cir. 1997) (internal quotation marks omitted), abrogated on other grounds by Morales v. Am. Honda Motor Co., Inc., 151 F.3d 500, 515 (6th Cir. 1998).

B. *Daubert* Does Not Prohibit An Expert From Making Assumptions And Using Professional Judgment In Rendering An Opinion

Nor is there merit to Syncora's argument that EY's forecasts must be excluded because the experts "employed a series of assumptions based on their judgment" in creating them. Syncora Mot. at ¶ 33 (footnote omitted). Syncora's argument fails for two reasons. *First*, as already described, EY's methodology was consistent and rigorous, and, to the extent the experts employed assumptions, they were the product of sound exercises of professional judgment based on available data. *Second*, and more fundamentally, there is no deficiency in an expert's

methods if he or she must make assumptions or apply judgment in the expert analysis. In fact, one of the common hallmarks of expert testimony is that the expert is asked to render an opinion based on certain assumptions, and the expert report of Syncora's own expert witness is replete with sweeping assumptions.

Thus, it is no surprise that Syncora's argument finds no support in the law. That an expert exercised reasonable, experience-based judgment in rendering his opinions "does not mean that [expert] testimony must be excluded." Grp. Health Plan, 344 F.3d at 760 (quoting Rosen v. Ciba-Geigy Corp., 78 F.3d 316, 319 (7th Indeed, as the Sixth Circuit has recognized, admissible expert Cir. 1996)). testimony often *depends* on "the use of informed, careful judgment," and "cannot be expected to yield mathematically precise results." In re Muskegon Motor Specialties, 366 F.2d 522, 530 (6th Cir. 1966) (business valuation). Economic forecasts are a paradigmatic example. As one court put it, the predictions of "[e]conomic experts are necessarily speculative" because "[t]here is no crystal ball for experts to divine exact future earnings." Perez-Garcia v. Puerto Rico Ports Auth., 873 F. Supp. 2d 431, 434 (D.P.R. 2012); see also Cayuga Indian Nation of N.Y. v. Pataki, 83 F. Supp. 2d 318, 327–28 (N.D.N.Y. 2000) (rejecting the notion "that subjective analysis has no place in" making economic projections, as nearly all experts "necessarily" rely "upon a certain amount of subjectivity").

Clearly, *Daubert* does not prohibit an expert from making assumptions and using professional judgment in rendering his opinions. Instead, exclusion is justified only when the expert's methodology is "*purely*" or "*entirely* subjective." *In re TMI Litig.*, 193 F.3d 613, 703 & n.144 (3d Cir. 1999) amended, 199 F.3d 158 (3d Cir. 2000) (emphasis added). In such cases, because "the creator of the methodology" is "the *only* person capable of testing or falsifying the hypothesis," the expert's opinions are not testable through cross-examination. *Id.* (emphasis added). But where experts have used their judgment to make assumptions based on the available data, the fact that other experts may make different assumptions based on the same data is not a basis for exclusion under *Daubert*. *See Falise v. Am. Tobacco Co.*, 258 F. Supp. 2d 63, 67–68 (E.D.N.Y. 2000).

C. Under *Daubert*, Challenges To The Validity Of Assumptions Go To The Weight, Not The Admissibility Of An Expert Opinion

Syncora challenges the individual assumptions made by the City's experts and the quality of the data underlying them. However, because the purpose of *Daubert* is to determine the technical validity of the principles underlying the expert's testimony, *Greenwell*, 184 F.3d at 497, challenges to an expert's assumptions and data bear only on the *weight* of the expert's opinion, not its admissibility, *see*, *e.g.*, *McLean*, 224 F.3d at 801. Under *Daubert*, the critical focus is methodology—not the expert's conclusions and "not the quality of the data used in applying the methodology." *See*, *e.g.*, *Manpower*, *Inc. v. Ins. Co. of*

Pa., 732 F.3d 796, 806 (7th Cir. 2013). Thus, to the extent Syncora wishes to challenge the experts' methodologies and assumptions, it may attempt to do so through vigorous cross-examination and the presentation of competing expert testimony.

The assumption Syncora most vigorously attacks is Ms. Sallee's assumption that the taxable value of the City's residential property is currently overassessed and will decrease in value upon completion of the City's planned mass reappraisal study. See Syncora Mot. at ¶¶ 34-41. However, not only is such an argument improper in a Daubert setting, see McLean, 224 F.3d at 801, Ms. Sallee's assumption that residential property in the City is overassessed also finds extensive support in the record: Detroit housing prices have dropped over 50% from their pre-recession highs; there are a significant number of abandoned or blighted houses in the City; the City continues to lose population; earlier this year, the City dropped residential taxable value over 20% after looking at only part of the City's distressed housing; and the assessor's office is about to embark upon a thorough re-assessment of every property in the City. See, e.g., Sallee Report at 14-15. In the face of this evidence, Ms. Sallee's conclusions that real property is overassessed are hardly speculative.

Ms. Sallee's careful methodology confirms the reliability of her approach.

As required by CBO and Michigan State practice, Ms. Sallee began by reviewing

the historical data on Detroit and Michigan property taxes, economic variables, and housing indicators described above. Sallee Report at 4-6. She also spoke with City and State officials to learn information available to them. Sallee Tr. at 36-37.

Ms. Sallee next forecasted the taxable value in the City by each property class, starting with historical baseline values and determining rates of growth (or loss) based upon additions and losses to the tax base, changes to assessments that happen as houses sell, and the City's planned reassessments. Sallee Report at 7. Of the steps Ms. Sallee took and factors she considered, Syncora takes issue only with her projection of the likely effect of the City's reassessment program, which is based upon information provided to her by the Assessor's Office itself. Sallee Report at 14-15.

In the end, Syncora is left only with the criticism that Ms. Sallee was "uninformed" about the mass reappraisal study when conducting her forecast. This is false. Ms. Sallee spoke with the Assessor's Office about the study and learned their plans and expectations directly. Sallee Tr. at 36-37; Sallee Report at 14-15. Although Syncora argues that "she does not know who will conduct the reappraisal or what methodology they will use," it is because—as Syncora admits later in that same paragraph—"the City has not yet retained any outside consultant." Syncora Mot. at ¶39. This criticism, too, fails.

D. Daubert Does Not Require Exclusion Of Economic Forecasts Merely Because There Is No Way To "Test" The Accuracy Of The Results Until The Future

Syncora's claim that the City's forecasts must be excluded because there is no way to fully "test" the results of future forecasts in the present day also is baseless. See Syncora Mot. at ¶14. Courts have acknowledged that financial forecasting is "less than an 'exact science," and, like valuation, forecasting entails "[e]stimations, predications, and inferences based on professional judgment and experience," Brown v. Brewer, 2010 WL 2472182, at *27 (C.D. Cal. June 17, 2010), that do not allow for "mathematical certitude," *Protective Comm. v.* Anderson, 390 U.S. 414, 442 (1968). But Daubert is not a "straightjacket," and none of its factors is universally applicable or independently dispositive. See In re Scrap Metal Antitrust Litig., 527 F.3d at 529 (holding that Daubert's factors are not a "definitive checklist or test"). Rather, *Daubert's* "measures of reliability" must be determined on a case-by-case basis based on a variety of factors, including the expert's "knowledge or experience." Barreto, 268 F.3d at 335. However, this does not mean that the forecasts are unreliable or untestable. Indeed, predictive economic judgments can be evaluated and "confirm[ed]" by "test[ing]" the economist's "model against historical data." Multimatic, Inc. v. Faurecia Interior Sys. USA, Inc., 358 F. App'x 643, 654 (6th Cir. 2009); see also Hein v. Merck & Co., Inc., 868 F. Supp. 230, 232 (M.D. Tenn. 1994) ("Many of the predictions or

assumptions of economists in damages testimony can be validated in retrospect, if not otherwise."). Syncora, therefore, offers no basis for excluding the City's forecasts simply because the future cannot be conclusively predicted in advance.

Everyday experience corroborates this. Financial forecasting is performed daily in government, business and other fields, yet no one seriously can claim that financial projections are necessarily misleading or speculative. Instead—accepting the uncertainties inherent in any prediction of the future—forecasting is a well-known and commonly accepted discipline that can yield useful guidance in making financial decisions. Indeed, it would be the rare bankruptcy case in which a court was asked to confirm a plan without being given forecasts of the debtor's expected future financial performance. Where, as here, experienced professionals have applied generally accepted methods and carefully reviewed the information and assumptions they are relying upon, the forecasts they produce are sufficiently reliable to meet the standards of *Daubert*.

E. *Daubert* Does Not Require An Expert To Independently Verify The Data Upon Which He Relies For An Opinion To Be Admissible

Syncora specifically criticizes Dr. Cline for a perceived lack of "independent testing or verification of much of the material he was provided by third parties." Syncora Mot. at ¶33. But neither Rule 702 nor *Daubert* make independent testing and verification of data a requirement for admissibility. Indeed, Rule 703

expressly contemplates that experts will rely "on facts or data ... that the expert has been made aware of" but not "personally observed." Fed. R. Evid. 703. As long as an expert's opinions are not based on "mere guess or speculation" but find "some support ... in the record," the Sixth Circuit maintains that they should be admitted. *In re Scrap Metal Antitrust Litig.*, 527 F.3d at 528–29. Rather, "any weaknesses in the factual basis of an expert witness' opinion, including unfamiliarity with standards, bear on the weight of the evidence rather than on its admissibility." *United States v. L.E. Cooke Co., Inc.*, 991 F.2d 336, 342 (6th Cir. 1993).

F. The Fact That The Experts Projected The City's Revenues and Expenses Over 10- and 40-Year Periods Is Neither "Unprecedented" Nor A Basis For Excluding The Forecasts

Syncora next makes a broad-sided attack upon the inherent reliability of EY's 10-year forecasts and 30-year financial simulation. Syncora argues that projections of such length should not be admitted because they are "unprecedented," Syncora Mot. at ¶ 63, and because there are too many variables that can change over that amount of time to have confidence in the accuracy of their predictions. Once again, Syncora's arguments are misguided.

First, contrary to Syncora's assertions, long-range economic forecasts are not unprecedented. For example, both Jefferson County, Alabama, and Stockton, California, employed long-range forecasts similar to those used here. Jefferson

County, for instance, used 15-year and 40-year forecasts in its bankruptcy estimations. *See, e.g.,* Jefferson Cnty. Ex. 11, Financial Projections for Estimation Tax (2013), http://www.alnb.uscourts.gov/sites/default/files/ natinterestcases/ jca_1977_23.pdf; *see also* Jefferson Cnty. Ex. 9, Amended Financing Plan, http://www.alnb.uscourts.gov/sites/default/files/natinterestcases/ jca_1977_21.pdf. Stockton utilized a 10-year forecast, and the bankruptcy court in that case found chapter 9 relief appropriate based in part on that forecast. *See, e.g., In re City of Stockton*, 493 B.R. 772, 790 (Bankr. E.D. Cal. 2013); *see also* Steven Church, *Stockton Deficits May Total \$100 Million, Forecast Shows*, Bloomberg News (Mar. 26, 2013 2:56 PM) (noting that Stockton relied on "10-year forecasts"), http://www.bloomberg.com/news/2013-03-26/stockton-deficits-may-total-100-million-forecast-shows.html.

Moreover, bankruptcy courts—including in cases under chapter 9—routinely hear and examine expert testimony involving longer-range forecasts and projections—some extending even beyond forty years. *See, e.g., In re N. Am. Refractories Co.*, 2007 Bankr. LEXIS 4721, at *37–*39 (Bankr. W.D. Pa. Nov. 13, 2007) (accepting an expert's projection of the number of claims to be asserted against the debtor between 2006 and 2050); Jefferson Cnty. Ex. 9, Amended Financing Plan, http://www.alnb.uscourts.gov/sites/default/files/natinterestcases/

jca_1977_21.pdf. In some instances, experts are called upon to estimate the "amount of claims to be paid" by the debtor to all claimants that may arise in the future. *See, e.g., In re Johns-Manville Corp.*, 68 B.R. 618, 631 (Bankr. S.D.N.Y. 1986). But the fact that such estimations cannot "be made with absolute certainty"—and must therefore simply be "reasonable"—does not mean that expert projections over a several-decade period are inadmissible, let alone unprecedented. *See id.*

Second, even if the projections and methodologies of the City's experts were "unprecedented," they are still reliable, sound, and admissible under Daubert. See, e.g., United States v. Valencia, 600 F.3d 389, 425–29 (5th Cir. 2010); Cayuga Indian Nation, 83 F. Supp. 2d at 323; Chesler v. Trinity Indus., Inc., 2002 WL 1822918, at *7 (N.D. Ill. Aug. 8, 2002) (admitting expert analysis that was "unusual" and "unprecedented in [the expert's] experience"); Florists' Mut. Ins. Co. v. Lewis Taylor Farms, Inc., 2008 WL 875493, at *17 (M.D. Ga. Mar. 27, 2008) (noting that simply because "[t]here is . . . no standard protocol for" a specific expert calculation does not mean "the expert is using a rogue methodology").

Indeed, because opposing counsel may vigorously cross-examine an adverse expert, reliance on a purportedly "unprecedented" methodology does not render the expert's opinion "altogether unreliable" or "inadmissible." *Valencia*, 600 F.3d at

425–29. In *Valencia*, the Fifth Circuit held that, because the case was "res nova" and "there ha[d] been no need in the world for anyone to do the work that [the expert] ha[d] done," "the unprecedented nature of [the expert's] work" did not affect its admissibility or reliability under *Daubert*. *Id.* at 421, 425. Although the uniqueness of the methodology "made it impractical, if not impossible," to apply the typical *Daubert* analysis, the testimony was still admissible because its "arithmetic underpinnings" could be used to "test [the expert's] theories and determine the rate of error." *Id.* at 425.

In this case, the experts' creation of a 10-year forecast was not only reasonable, but necessary to determine whether that the plan is feasible—that is, whether the City can meet its obligations under the plan of adjustment and still provide necessary services. *See* 11 U.S.C. § 943(7). Moreover, the creation of a 30-year extension of the 10-year forecast was also reasonable. Although Syncora devotes much time to arguing against the precision of the 30-year simulation, the City's experts never intended for the 30-year simulation to be a precise forecast of revenues and expenses over the additional three decades. Rather, the 30-year extension of the 10-year forecast was meant to illustrate, on a pro forma basis, how the City would be expected to operate in those years assuming that the conditions known today continue to obtain. There is nothing improper about this approach,

and Syncora is welcome to test the City's assumptions through cross-examination and contrary evidence.

Accordingly, the length of the forecast periods does not make these projections improper. Not only is the temporal scope of the experts' forecasts *not* "unprecedented," *see Johns-Manville*, 68 B.R. at 631, but also, even if the forecasts were *sui generis*, they would still be reliable and admissible under *Daubert*, *see Valencia*, 600 F.3d at 425–29; *see also Oracle Am., Inc. v. Google Inc.*, 2012 WL 850705, at *11–*12 (N.D. Cal. Mar. 13, 2012) (admitting an expert's damages calculation based on a "sui generis" mathematical equation that "will not be found in the textbooks," because it was "merely an arithmetical statement of components previously allowed").

G. The Possibility of Potential Sources of Revenue That Could Have Been Included Is Not Relevant To The *Daubert* Analysis

Finally, Syncora asserts that the testimony of the City's experts should be excluded under *Daubert* because the experts "did not attempt to forecast all revenues and expenditures for the City." Syncora Mot. at ¶ 70 (emphasis added). Rather, Syncora contends, the City's experts "ignore[d] numerous sources of potential revenue that could be used to pay creditors. *Id.* at ¶ 7. According to Syncora, such self-serving assertions affect the admissibility of the experts' testimony. *See id.*

Syncora is wrong on several levels. *First*, the Court has already held and the evidence at trial will establish that the City does not have the legal ability to raise its income, property, wagering, utility, or utility users taxes. See, e.g., Eligibility Op. at 23 ("The City cannot legally increase its tax revenues."). Second, although the Michigan Revised Judicature Act provides an avenue for the City's *creditors* to impose an additional property tax levy upon the City's residents, that is a right creditors alone have and, as the Court has ruled, will be a matter for rebuttal expert testimony, if at all. See Tr. of Hearing on Aug. 21, 2014, at 28-31 [Docket No. 7044]. Third, the City's experts most certainly have forecast increases in fees, fines, collection rates and other revenue-enhancing measures, and those increases are set forth in detail in the City's forecasts of its financial projections under the "restructuring" scenario. See, e.g., Sallee Report at 9, 20; see also Kopacz Report at 85–88 & n.31.

Moreover, Syncora's position is not the law. The relevant analysis is not whether the experts have selected data Syncora would prefer, but instead whether "the fundamental approach taken by" the City's experts "departs from accepted practice in the field of economics." *Ogden v. Saint Mary's Med. Ctr.*, 2007 WL 1675092, at *2 (E.D. Mich. June 11, 2007). Nor can Syncora show that the "failure to include [hypothesized] variables" somehow renders the experts' forecasts inadmissible. *Cf. Bazemore v. Friday*, 478 U.S. 385, 400 (1986). To the

contrary, because "statistical evidence by its very nature deals with probabilities rather than certainties," "[a]ll that can be required of methods employed in gathering such evidence is that they assure reasonably accurate findings." *Guardians Assoc. of N.Y.*, 633 F.2d at 241. Because Dr. Cline, Ms. Sallee, and Mr. Malhotra reached their conclusions following accepted forecasting methods, their analyses satisfy the reliability criterion under *Daubert. See Valencia*, 600 F.3d at 427–28; *see also Klaczak v. Consol. Med. Transp.*, 458 F. Supp. 2d 622, 670 (N.D. Ill. 2006) (holding that expert testimony is still admissible even if based "upon incomplete data," since "no study has perfect data").

Finally, Syncora's arguments are simply futile efforts to attack the weight of the experts' opinions. *See, e.g., Adams v. Ameritech Servs., Inc.*, 231 F.3d 414, 425 (7th Cir. 2000) (reiterating that *Daubert* evaluates "what [the expert] *did*, rather than hypothetical tests that he or another expert might have done" (emphasis added)). When "a causal relationship is not an essential fact of consequence, an expert need not eliminate all confounding variables or potential contributory factors in order to present an opinion that is both relevant and reliable." *Valencia*, 600 F.3d at 427 (citing *Int'l Bhd. of Teamsters v. United States*, 431 U.S. 324, 340 (1977) (noting that the usefulness of statistics "depends on all of the surrounding facts and circumstances")); *Lapsley v. Xtek, Inc.*, 689 F.3d 802, 814 (7th Cir. 2012) (noting that Rule 702 asks only whether the expert's "hypothesis was reliably

supported and applied to the known facts, such that it . . . becomes a presentable probability"). Indeed, as the Supreme Court has noted in the context of regression analysis, "the omission of variables" does not render inadmissible or unpersuasive "an analysis which accounts for the major factors." *Bazemore*, 478 U.S. at 400. As noted, Syncora will have the opportunity to cross-examine these witnesses and, in fact, already has done so in the case of Dr. Cline.

H. Syncora's Misrepresentations Of The Record Do Not Change The Analysis

Finally, Syncora's effort to build up the case for exclusion of the City's forecasts through selective and creatively excerpted quotations does not alter the analysis. Rather, as a more complete review of the record will show, the experts "conce[ssions]," did not make the supposed "admi[ssions]," "acknowledge[ments]" Syncora ascribes to them. For example, although Syncora attempts to give the impression that the City's and the Court's experts have "conceded" that the forecasts performed by EY are "subjective" and that they "didn't have sufficient time to independently verify all of the data on which the forecasts are built," Syncora Mot. at 2, 12 n.24, the experts made no such concessions. See Misrep. 2, 10, 11, 12. Not only did the experts inform Syncora that all "financial modeling" involves "some art in addition to science," given its inherently predictive nature, see Misrep. 2, 10, but the court-appointed expert, Ms. Kopacz, also made clear that she was "satisfied with [her team's] ability to

evaluate . . . all the information that was available and meet with the people that were available and do what [they] needed to do," Misrep. 11, 12. In addition, Syncora goes to great lengths to describe Ms. Sallee's testimony as "uninformed," by stating emphatically that "[i]t is hard to conceive how an expert tasked with determining the taxable value of a city's future tax base could fail to discuss the matter with the City's most senior property tax assessor. But that is precisely what Ms. Sallee did." Syncora Mot. at ¶ 36. As Ms. Sallee made clear at her deposition, however, she spoke City Assessor Evanko several times. *See* Misrep. 3. These are but a few examples, but the import is clear: the factual basis upon which Syncora builds much of its case for exclusion simply does not exist.

CONCLUSION

For the reasons set forth above, Syncora's Motion to Exclude the Testimony of the City's Forecasting Experts Under Federal Rule of Evidence 702 should be denied.

Dated: August 27, 2014 Respectfully submitted,

/s/ Heather Lennox

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ATTORNEYS FOR THE CITY OF DETROIT

APPENDIX A

MISREPRESENTATIONS OF THE RECORD

MISSTATEMENT 1: MS. SALLEE

"Nonetheless, as the City's experts concede, 'there is no measure of reliability' for their forecasting methods, which at bottom constitute a **fundamentally** 'subjective undertaking."

Syncora Mot. at 2 (citing Sallee Dep. at 292:12-16).

- Q. -- Ms. Kopacz says that financial modeling is a highly subjective undertaking that is affected by the assumptions made and the professional biases of the analysts developing the model. Do you agree with that statement?
- A. I may not say highly. I think in financial modeling, there's some art in addition to science to it, so...
- Q. Do you agree the financial modeling is a subjective undertaking that is affected by the assumptions made and the professional biases of analysts developing the model?

A. I would agree with that.

Sallee Dep. at 292.

MISSTATEMENT 2: MS. KOPACZ

"Ms. Kopacz described the Ernest & Young forecasts as 'convoluted' and 'confusing'—i.e., a 'black box' "

Syncora Mot. at 12 (Kopacz Report at 26).

"This is convoluted and contributes to the **feelings amongst many creditors** in this case that the financial projections in the POA are a 'black box'"

Kopacz Report at 25–26.

MISSTATEMENT 3: MS. SALLEE

"It is hard to conceive how an expert tasked with determining the taxable value of a city's future tax base could fail to discuss the matter with the City's most senior property tax assessor."

Syncora Mot. at 24 (no citation).

- Q. Were your forecasts based on assumptions or other information provided by the City of Detroit?
- A. I had conversations with the City of Detroit about what they're planning to do on property taxes, and so I used that information to form my own assumptions for the analysis.
- Q. Okay. Who did you have discussions with?
- A. So I had discussions with Gary Evanko and Alvin Horhn and Michael Jameson and Linda Beatty and Nancy Caper, I think, is her last name. She's no longer there. Those are the people I can recall that I had conversations with.
- Q. How many times did you have conversations with Gary Evanko?
- A. I cannot recall the exact number. I will say that I have been on the phone with him at least twice, and I've had e-mail exchanges with Gary.

Sallee Dep. at 36–37.

MISSTATEMENT 4: MS. SALLEE

"Moreover, [Ms. Sallee] concedes that her uninformed judgment is 'inconsistent with' that of the City's own assessor and that of Wayne County."

Syncora Mot. at 23 (no citation).

- Q. Do you -- would it be fair to say that your opinion that Detroit property is overassessed is inconsistent with the determination of the county?
- A. I don't know inconsistent. The county has their process by which they review and they assign an equalization factor. And using their rules, they've come up with their opinions. And I've looked at it differently, and I come up with my own opinion that it's overassessed.

Sallee Dep. at 96:8-17.

- Q. The county's conclusion that property is properly assessed, though, is inconsistent with your conclusion that it's overassessed, correct?
- A. The county in using the equalization factor has said that it's not under or overassessed, and my conclusion is that it's overassessed.
- Q. So you've come to **inconsistent** conclusions with the county, correct?
- A. My opinion is different than the county's.

Sallee Dep. 97:2-11.

MISSTATEMENT 5: DR. CLINE

"He based his analysis on his assumptions, which in turn are based on his experience."

Syncora Mot. at 32–33 (citing Cline Dep. 47:24-48:2).

- Q. What forecast has been done for the City that's used the methodology you used?
- A. The methodology that we have used is a fairly standard forecasting methodology that's been used extensively in the City of Detroit and for the State of Michigan and in other cities.
- Q. Have you reviewed any depositions in this case?
- A. I have not, other than my own.
- Q. The -- you say that the methodology used is a standard methodology that's been used before, correct?
- A. The methodology we used in constructing the forecasting model is based upon my experience as a revenue forecaster, and I believe it is fairly standard in terms of how State revenue forecasting is done.

Cline Dep at 47-48.

MISSTATEMENT 6: DR. CLINE

"Again, Dr. Cline simply picked some numbers. He similarly 'assumed' the growth rate for the corporate income tax revenues he used because he did not 'know of any analyses or study that could have helped us determine what that specific rate is.""

Syncora Mot. at 37 (citing Cline Dep. at 262:21-263:14).

- A. As I mentioned earlier, the corporate income tax in Michigan is a new tax. We perhaps have three years of observations at most on how it's performing over the economic cycle. And so, no one could fit a regression equation for the actual data, so I do not know of any analyses or study that could have helped us determine what that specific rate is.
- Q. And do you know how that 3.0 percent -- it seems pretty precise, 3.0 percent; do you know how that number was selected?
- A. I know we selected that number by looking at national corporate income tax growth, what limited information we had about Michigan, and that's a number that's in the realm of our very limited but actual experience in Michigan. But I will add that we happen to -- the experience in Michigan happens to coincide with the end of the deepest recession we've had in decades. And to use that information, we would have had to determine more precisely how Michigan was coming out of the recession, so that again, there wasn't information available for us to pick a specific number. It wasn't going to be 3.1756. It was going to be rounded off because it is an assumption about the rate of growth.
- Q. Yeah. I'm just wondering where that

3.0 number came from.

A. It's our estimate of what we think is likely for State corporate income tax rate -- income tax revenue to grow. I will tell you that since the recovery from the recession, across all the states, there's been no growth in the corporate income tax collections, 0.0 across all the states since the end of the recession. I don't think it would be reasonable to assume a very strong rate of growth in corporate profits going forward. We chose 3 percent as a reasonable estimate, despite the recent experience nationally that says there will be no growth in this corporate income tax. We think Michigan, as it continues to recover, and Detroit, as it continues to recover, will enjoy a slightly higher rate of growth.

Cline Dep. at 263–64.

MISSTATEMENT 7: MS. KOPACZ

"I didn't reach a conclusion about the quality of Ernst & Young's work."

Syncora Mot. at 12 n.24 (Kopacz Dep. at 48:21-22).

A. I -- I didn't reach a conclusion about the quality of Ernst & Young's work. I reached a conclusion on the reasonableness of those assumptions.

Kopacz Deposition at 47–48.

MISSTATEMENT 8: DR. CLINE

"[Dr. Cline] then altered those numbers using arbitrarily selected rates based on no data, to arrive at population estimates in a restructuring scenario that were less than estimates in one of the SEMCOG scenarios he rejected in the absence of any restructuring efforts."

Syncora Mot. at 39 (citing Cline Dep. at 226:16-19, 226:20-227:33).

- Q. Okay. Did you do any alteration of SEMCOG's population projections?
- A. We did in forecasting the individual income tax collections.
- Q. Okay. Can you tell me the mathematical formula you used to adjust or change SEMCOG's population projections?
- A. We used add factors, which could be plus or minus percentage changes, for different components of the population, which were not forecasted by SEMCOG. As you remember, in terms of our methodology, we had to look at residents who work in the City of Detroit, residents who work outside of the City of Detroit, and people who live in the suburbs and work in Detroit. Those are all subsets or not, in one case, even in the population numbers for Detroit. So that we had to do separate percentage change estimates for those three components of the taxpayer groups in Detroit.

Cline Dep. at 226–27.

MISSTATEMENT 9: DR. CLINE

"Dr. Cline acknowledged, for example, that 'at the end of the day,' the assumed wagering 'growth rate that he used is a number that he just picked.""

Syncora Mot. at 40 (citing Cline Dep. at 171:22-25).

A. In all of the revenue estimating that I have done, there is no precise formula that gives you the resulting revenue estimate. There are equations that are based upon history that you use to get an initial starting point, and then economists do what we call add factors, dummy variables and adjustments. No economic -- no revenue forecaster at the state level accepts the numbers coming out of an equation. They start there, and then they modify it.

We used what we thought was relevant, additional information to determine these growth rates. There was not a single mechanical formula that generated the .5 or the 1.0 number.

Q. I mean, at the end of the day, the wagering tax growth rate that you used is a number that you just picked, right?

A. As the City did also.

Cline Dep. at 171.

MISSTATEMENT 10: MS. KOPACZ

"As [Kopacz] acknowledged, **the City's** forecasts were 'highly subjective' and 'subject to the biases of the person doing the forecast.""

Syncora Mot. at 13 ¶ 19 (Kopacz Deposition at 160: 15-21; Kopacz Report at 15).

Q. Do you agree that **forecasting** is a highly subjective area?

A. Yes.

Q. And, as such, it's subject to the biases of the person doing the forecast, correct?

A. Yes. And -- and -- but I would qualify biases as neither good nor bad.

Q. Understood. It's not a -- it's not meant to be a negative word like -- like racial bias.

A. Right.

Kopacz Deposition at 160.

"Financial modeling is a highly subjective undertaking that is affected by the assumptions made and the professional biases of the analyst developing the model. Financial modeling is both a science and an art. When the analyst forecasts growing revenue, declining costs, or a change in headcount, he or she has a number of ways to write the mathematical formulas which arrive at the intended numbers. . . . It is in the working model that a reviewer can understand the 'art' of the analyst's modeling."

Kopacz Report at 15.

MISSTATEMENTS 11 & 12: MS. KOPACZ

"[A]cknowledging that [Kopacz] 'didn't have sufficient time to independently verify all of the data on which the forecasts are built in order to develop [her] own assumptions."

Syncora Mot. at 12 n.24 ¶ 17 (Kopacz Dep. at 178:2-11).

"[O]bserving that [Kopacz] had less than 90 days to perform her work."

Syncora Mot. at 12 n.24 ¶ 17 (Kopacz Deposition at 113:19-21).

- A. I -- I wouldn't go so far as to say we didn't independently verify because we did, specifically on the revenue projections and things surrounding those, we did seek other third-party sources of data. So --
- Q. There were instances where you sought some form of corroboration?

A. Separate and apart from the City.

Q. But in general, you'd agree with my statement that you didn't have sufficient time to independently verify all of the data on which the forecasts are built in order to develop your own assumptions?

MR. KANE: Objection. Go ahead and answer.

- A. Yes.
- Q. You agree with me?
- A. Yes.

Kopacz Deposition at 177–78.

- Q. You had less than 90 days to do your work in this case, correct?
- A. Yeah, whatever it's been.

Q. Did you have sufficient time to do

A. I feel like I did. I mean there's still a couple of things that, as I said in to response to Mr. Stewart, questions that I intend to do going forward. But for the most part, I am satisfied with our ability to evaluate what all the information that was available and meet with the people that were available and do what we needed to do.

Q. With respect to the forecasts?

A. With respect to the forecasts.

Kopacz Deposition at 113–14.

MISSTATEMENT 13: MR. MALHOTRA

"Before the current projection, the longest period that Ernst & Young had attempted to forecast Detroit's revenues and expenses was for a period of five years."

Syncora Mot. at 45 n.122 (citing Malhotra Dep. at 65:3-8).

- Q. Well, have you created more than one forecast for the City of Detroit?
- A. Well, there's the plan of adjustment. We have the financials, the 10-year financials and the 40-year financials that are there. We have the update from July 2nd, along with the bridge that's there.

There were iterations of that previously as a part of the third plan, amended plan. And so I just want to make sure you can ask me which specific forecast.

- Q. When was the first time you created any forecast for the City of Detroit?
- A. Any forecast? Probably two-and-a-half-plus years ago.
- Q. Okay. Were there forecasts you created for the City of Detroit that were less than 10-year forecasts?
- A. I think we started looking at a fiveyear forecast sometime probably twoplus years ago. I don't remember exactly.
- Q. What was the purpose of that forecast?
- A. I would have to go back and check. This is over two years ago. I don't remember specifically when we started developing the forecast. It was, again, to look at the liabilities of the City over a

longer term versus on a more short-term basis.

Malhotra Dep. at 64-65.

Q. When was the first time that you – what was the first time you did the 10-year and 40-year forecast?

A. Well, I do not recall. I think the 10-year 10-year forecast we had a version of in the **June 30th** -- the June 13th proposal to creditors. That seems around the time frame when we would have had the 10-year forecast sort of come together with the assumptions as of then.

Malhotra Dep at 67.

Certificate of Service

I hereby certify that, on August 27, 2014, I electronically filed the *City of Detroit's Response in Opposition To Syncora's Motion To Exclude the Testimony of the City's Forecasting Experts Under Federal Rule of Evidence 702* with the Clerk of the Court which sends notice by operation of the Court's electronic filing service to all ECF participants registered to receive notice in this case.

Dated: August 27, 2014 /s/ Heather Lennox
Heather Lennox

EXHIBIT 1

Report of Robert Cline

UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF MICHIGAN SOUTHERN DIVISION

-----X

In re : Chapter 9

CITY OF DETROIT, MICHIGAN, : Case No. 13-53846

Debtor. : Hon. Steven W. Rhodes

----- X

REPORT OF ROBERT CLINE

Pursuant to Federal Rule of Civil Procedure 26(a)(2)(B), made applicable to this proceeding by Federal Rule of Bankruptcy Procedure 7026, debtor the City of Detroit submits this report with respect to the expected expert testimony of Robert Cline.

INTRODUCTION

Robert Cline is the Director of State-Local Tax Policy Economics and a member of the Quantitative Economics & Statistics practice ("QUEST") of the firm Ernst & Young LLP ("EY"). It is the City's intention to call Mr. Cline to testify about the forecasted revenues the City may expect in future years from the individual and corporate income taxes, wagering taxes, and utility users' taxes it imposes. The information in this report is presented as of the date of this report and is based upon projections contained within the Fourth Amended Disclosure

Statement With Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit [Docket no. 4391] dated May 5, 2014 (the "Disclosure Statement"), as such projections were updated as of July 2, 2014. *See* Ten-Year Financial Projections [POA00706519 – POA00706600] ("10-Year Forecast"); Plan of Adjustment – 40 year projections [POA00706603 – POA00706611] ("40-Year Forecast").

OPINIONS

Mr. Cline will offer the following opinions:

I. Income Tax Revenues

A. For the period ending with the City's 2023 fiscal year, the projected revenues the City can expect from the individual and corporate income taxes it levies are set forth in the 10-Year Forecast, in particular at Exhibits 2, 3, 4, and Appendices B.2a and B.2b. These amounts are reasonable projections of the revenues the City will receive from income taxes during this period.

B. For each of the four ten-year periods ending with the City's 2053 fiscal year, the projected revenues the City can expect from the individual and corporate income taxes it levies are set forth in the 40-Year Forecast, in particular at Exhibit 3a. These amounts are reasonable projections of the revenues the City will receive from income taxes during this period.

II. Wagering Tax Revenues

A. For the period ending with the City's 2023 fiscal year, the projected revenues the City can expect from the wagering taxes it levies are set forth in the 10-Year Forecast, in particular at Exhibits 2, 3, 4, and Appendix B.3. These amounts are reasonable projections of the revenues the City will receive from wagering taxes during this period.

B. For each of the four ten-year periods ending with the City's 2053 fiscal year, the projected revenues the City can expect from the wagering taxes it levies are set forth in the 40-Year Forecast, in particular at Exhibit 3a. These amounts are reasonable projections of the revenues the City will receive from wagering taxes during this period.

III. Utility Users' Tax Revenues

A. For the period ending with the City's 2023 fiscal year, the projected revenues the City can expect from the utility users' taxes it levies are set forth in Exhibit A. These amounts are reasonable projections of the revenues the City will receive from utility users' taxes during this period.

B. For each of the four ten-year periods ending with the City's 2053 fiscal year, the projected revenues the City can expect from the utility users' taxes it levies are set forth in Exhibit A. These amounts are reasonable projections of the revenues the City will receive from utility users' taxes during this period.

BASIS AND REASONS FOR OPINIONS

Mr. Cline developed forecasts for the revenues the City can expect from the individual income taxes, corporate income taxes, wagering taxes, and utility users' taxes it levies in three different scenarios: (A) from FY2013 to FY2023 assuming no restructuring or reinvestment spending ("Baseline Scenario"); (B) from FY2013 to FY2023 assuming a restructuring and reinvestment spending ("Restructuring Scenario"); and (C) from FY2023 to 2053 assuming a restructuring and reinvestment spending ("40-Year Forecasts"). In reaching his opinions, Mr. Cline followed standard forecasting procedures used by revenue forecasters and, where available, existing economic forecasts of the Michigan economy prepared by the State of Michigan Consensus Revenue Estimating Conference and national economic forecasts prepared by U.S. federal agencies such as the Congressional Budget Office ("CBO"). Mr. Cline employed the following methodologies and assumptions:

Individual Income Taxes

I. Methodology

A. Develop a Baseline Scenario Forecast for Individual Income Tax Revenues

To develop the Baseline Scenario for the City's individual income tax revenues, Mr. Cline classified all individual income taxpayers into three income

tax base categories: (i) residents of Detroit working in Detroit ("Income Tax Base A"); (ii) non-residents of Detroit working in Detroit ("Income Tax Base B"); and (iii) residents of Detroit working outside of Detroit ("Income Tax Base C"). The classification was based on individual income tax data through 2011 provided by the City of Detroit for resident and non-resident taxpayers. Mr. Cline determined the proportions of resident taxpayers working in Detroit versus those working outside of Detroit based on U.S. Census worker-flow data.

Mr. Cline then estimated growth rates in the number of taxpayers in each category over the forecast period, using forecasts for Detroit employment and population changes developed by Mr. Cline and his team. To translate the number of taxpayers into dollars of taxable income, Mr. Cline forecasted the growth of average taxable income in Detroit and applied this forecast to the growth in number of taxpayers in each group. Current income tax rates for residents and non-residents were applied to the taxable income bases to determine estimated future tax collections, as follows:

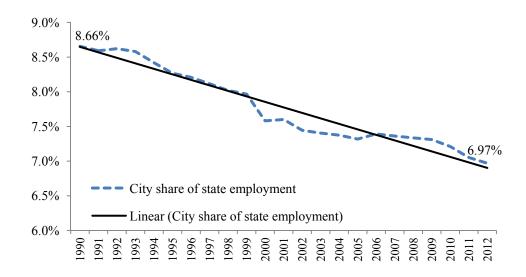
(1) Forecast the employment growth rate for the State of Michigan from 2013 to 2023: Mr. Cline began by relying upon the employment growth rate for FY2013 to FY2015 produced by the State's Consensus Revenue Estimating Conference on May 15, 2013. See Consensus Revenue Estimating Conference, Economic and Revenue Forecasts: FY2013, FY2014, FY2015 (May 15, 2013)

[POA00275856 – POA00275895]; Michigan Department of Treasury, Office of Revenue and Tax Analysis, *Administration Estimates: Michigan Economic and Revenue Outlook* (May 15, 2013) [POA00275929 – POA00275978]. Mr. Cline then estimated an employment growth rate for the State of Michigan for FY2016 to FY2023 based on historical trends.

(2) Forecast the employment growth rate for the City of Detroit from 2013 to 2023: To estimate the City's employment growth rate, Mr. Cline first determined the average historical ratio of Detroit employment as a share of total Michigan employment. See United States Bureau of Labor Statistics, Local Area Unemployment Statistics, 1990-2013 [POA00276113]. The comparison indicates that the ratio of Detroit employment as a share of Michigan employment has been declining at an average rate of -0.85% over the last 20 years. This relationship is illustrated in Figure 1:

Figure 1. City of Detroit's share of total State of Michigan employment, 1990 – 2012

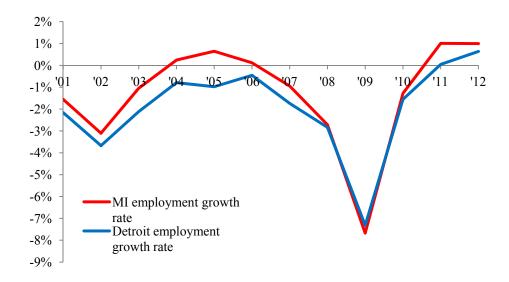
Note that y-axis starts at 6.0%; Source: BLS Local Area Unemployment Statistics.



This longer-run structural decline is assumed to continue over the 10-year forecast period. In addition, a comparison of more recent changes in employment in Detroit and Michigan indicates that Detroit employment has not recovered at the same rate as Michigan employment coming out of the last two recessions. As shown in Figure 2, Detroit's employment recovery from the last two recessions has lagged behind Michigan's employment recovery. Mr. Cline included this additional negative impact in the Baseline Scenario.

Figure 2. Growth rates of City of Detroit and Michigan employment, 2001 – 2012

Source: BLS Local Area Unemployment Statistics.



(3) Forecast the Growth in the Number of Taxpayers in Each of the Three Income Tax Bases:

(a) *Determine Population Growth Rate*: Mr. Cline first determined the forecasted population growth rate for the City over the next ten years. To do so, Mr. Cline relied upon the population forecasts prepared by the Southeast Michigan Council of Governments ("SEMCOG"). *See* Southeast Michigan Council of Governments, *Southeast Michigan 2040 Forecast Summary* (Revised, April 2012) [POA00275979 – POA00276041]. To develop the 10-year forecasts, Mr. Cline and his team used SEMCOG's population scenario 1a (middle scenario) as a basis.

(b) Estimate Growth in the Number of Taxpayers in Income Tax Bases A (Residents Working in the City) and B (Non-Residents Working in the City): Mr. Cline relied upon the United States Census Bureau data on worker flows to determine the share of Detroit employment attributable to residents versus non-residents as of 2010. See U.S. Census Bureau, On the Map (LEHD Origin-Destination Employment Statistics (beginning of quarter employment, 2nd Quarter of 2002 – 2010)) [POA00275851 – POA00275851]. To estimate the growth in the share of Detroit employment held by residents over the forecast period, Mr. Cline combined the projected Detroit employment growth rate with an estimated population decline for residents working in the City. The forecast assumes that this group of taxpayers will decline at a slower rate than that of the total Detroit population (SEMCOG's 1a forecast). Mr. Cline forecasted that the number of residents employed in Detroit will decline at -1.0% per year. The growth rate increases to -0.5% in FY2020 – FY2021, and 0.0% in the last two forecast years. The amount of the Detroit employment forecasted in each year that was not attributable to residents was attributable to non-residents.

(c) Estimate Growth in the Number of Taxpayers in Income Tax

Base C (Detroit Residents Working Outside of the City): To estimate the growth in
residents employed outside of the City, Mr. Cline combined the projected
statewide employment growth rate with an estimated population decline for

residents working outside of the City. The forecast assumes that this group of taxpayers will decline at a faster rate than that of the total Detroit population (SEMCOG's 1a forecast).

- estimates of the rate of growth in wages and salaries in order to determine the expected growth in the tax base (i.e., the amount of taxable income in Detroit) over the forecast period. To do so, Mr. Cline began with the Michigan wage and salary growth forecasts in the State's Consensus Revenue Estimating Conference on May 15, 2013. See Consensus Revenue Estimating Conference, Economic and Revenue Forecasts: FY2013, FY2014, FY2015 (May 15, 2013) [POA00275856 POA00275895]. The State forecasts that wages will grow at an average rate of 2.5% above employment growth for FY2012 to FY2015. Based on these forecasts, Mr. Cline assumed an average wage growth rate of 1.0% for Detroit to reflect the lagging economic conditions in the City compared with the State and the presence of higher unemployment holding down wages in the labor market within Detroit.
 - (5) Forecast Total Tax Revenues:
- (a) Calculate Total Tax Revenues from Detroit Residents

 (Income Tax Bases A and C): To forecast the total tax collections from City

 residents, Mr. Cline first combined the estimated employment (number of taxpayers) for Income Tax Bases A and C to calculate the overall rate of growth in

the number of resident taxpayers. Mr. Cline then added the estimated growth in average taxable income to estimate the overall growth rate in the resident income tax base (i.e., growth in resident income tax base = employment growth for combined Income Tax Bases A & C + taxable income growth). This growth rate was applied to the starting value of actual resident taxable income. The forecasted tax base was multiplied by the resident tax rate (2.4%) to estimate City tax collections.

(b) Calculate Total Tax Revenues from Non-Residents (Income Tax Base B): To forecast the total tax collections from non-residents working in Detroit, Mr. Cline first forecasted the annual values of Income Tax Base B over the forecast period by adding the estimated employment growth rate for Income Tax Base B to the estimated growth in average taxable income. Because non-residents working in Detroit pay a 1.2% income tax rate, Mr. Cline determined the annual tax collections from this income base by multiplying Income Tax Base B by 1.2%.

B. Analyze the Impact of Restructuring

To determine the impact on Detroit employment under the Restructuring Scenario, Mr. Cline assumed that while the long-run structural decline in Detroit relative to Michigan, as shown in Figure 1, would continue over the 10-year forecast period, the additional negative impact of the slower recovery in Detroit from the latest recession would not apply. In addition, Mr. Cline

assumed that improved economic conditions within the City would lead to a lower rate of decline for both populations of residents working in Detroit and outside the City, relative to the baseline forecast. Finally, Mr. Cline assumed that the average taxable income base in Detroit would increase at approximately two-thirds the rate of growth in Michigan average taxable income. These adjustments resulted in higher growth rates in projected individual income tax collections compared to the Baseline Scenario.

C. Extrapolate 10-Year Forecasts to Create 40-Year Forecasts

The tax collection estimates for the 40-year forecast begin with the level of collections estimated for 2023 in the 10-year restructuring forecast. Each tax series is then extrapolated over another 30 years based on assumed growth rates. The 40-year tax forecast should be considered a simulation of what would happen under the assumed growth rates, not a forecast of what is expected to happen.

- (1) Employment Growth Rate: Mr. Cline adjusted the longer-run historical ratio of Detroit employment as a share of Michigan employment from -0.85% to -0.50% to account for an improvement in Detroit's economic condition relative to Michigan.
- (2) Average Taxable Income Growth Rate: Mr. Cline determined that 2.0% was an appropriate long-run average wage inflation rate. Mr. Cline relied partly upon the facts that the inflation rate for U.S. Gross Domestic Product

("GDP") averaged nearly 2.0% (1.9%) annually over the past 20 years (1993-2012) and that the CBO forecast uses a GDP annual inflation rate of 2.2% annually from 2013 through 2088. *See* BEA Data – GDP Inflation 1992 to 2012 [POA00275850 – POA00275850]; CBO, 2013 Long-term Budget Outlook [POA00275848 – POA00275849]. In other words, the tax base would grow roughly 2.0% annually if wages and salaries grow in line with inflation (i.e., tax bases remain constant in real terms).

(3) *Population Growth*: Mr. Cline and EY reviewed population trends in other metropolitan areas that experienced a decade or more of declining population. The Detroit metropolitan area grew an average of 0.5% annually between 1990 and 2000 after experiencing declining population in the previous decade. *See* U.S. Census Bureau, *Statistical Abstract of the United States: 2012*, Table 20: Large Metropolitan Statistical Areas—Population: 1990 to 2010, *available at* http://www.census.gov/prod/2011pubs/12statab/pop.pdf. Mr. Cline and his team then examined historical employment and wage information to conclude that Detroit will under-perform relative to the surrounding metropolitan area, which includes the Detroit suburbs. Mr. Cline and his team thus selected Detroit population growth rates that average half of the metropolitan areas' average annual growth rate.

II. Assumptions

Documents and other materials supporting Mr. Cline's opinions have been or will be produced by the City. In addition, certain of the assumptions underlying Mr. Cline's analysis and opinions are set forth in the 10-Year Forecast, in particular at Exhibit 1 and Appendices B.2a and B.2b.

Mr. Cline also made the following assumptions:

A. Baseline Scenario

- (1) *Michigan Employment Gr*owth: The State consensus forecast for Michigan employment growth is 1.33% in FY2013, 1.17% in FY2014, and 1.07% in FY2015. From 2016 forward, the projections assume an annual employment growth rate of 1.0%, which is in line with the State forecast.
- (2) *Detroit Employment Growth*: In the Baseline Scenario, the projections assume a structural decline of -1.0% per year in FY2014, coupled with an initial cyclical (economic) adjustment of -0.7%. This cyclical adjustment begins to drop off in later years, falling in magnitude to -0.5% from FY2016 FY2020, -0.3% in FY2021, and finally to zero in FY2022 FY2023. Over this period, the assumed structural decline in Detroit employment also wanes, falling in magnitude from -1.0% from FY2014 through FY2020 to -0.7% in FY2021 and -0.5% in the last two years.

- (3) Share of Detroit Employment Attributable to Income Tax Base A (Residents Working in the City): The forecasts assume a decline at -1.0% per year due to continued population decline until FY2020. The rate increases to -0.5% in FY2020 FY2021 and to 0.0% in FY2022 FY2023.
- (4) Share of Detroit Employment Attributable to Income Tax Base B (Non-Residents Working in the City): The forecasts assume that Detroit employment growth not attributable to residents is attributable to non-residents.
- (5) Share of Michigan Employment Attributable to Income Tax Base C (Detroit Residents Working Outside of the City): In FY2013 and FY2014, the growth rate is estimated as statewide employment growth, less population decline, resulting in an average -0.4% annual growth rate. From FY2015 FY2021, the growth rate is held constant at -0.25%. As for Income Tax Base A, this rate increases to 0.0% in FY2022 FY2023.
- (6) *Wage Growth*: The Baseline Scenario assumes an average wage growth rate of 1.0%, indicating lagging growth of wages at the local level, compared to the State (which projects a 2.5% average wage growth from FY2013 through FY2015).
- (7) *Tax Rates*: The forecasts assume that the current income tax rates of 2.4% of gross income for Detroit residents and 1.2% of income earned in Detroit will remain constant throughout the forecast period.

B. Restructuring Scenario

- (1) *Detroit Employment Growth*: The Restructuring Scenario assumes that improved economic conditions within the City will result in a return to the longer-run ratio of Detroit employment as a share of total Michigan employment. The Restructuring Scenario thus assumes a -0.85% annual decline relative to the State throughout the forecast period. This results in annual growth rates for Detroit employment of 0.3% in FY2014, 0.2% in FY2015, and 0.1% in FY2016 through FY2023.
- (2) Share of Detroit Employment Attributable to Income Tax Base A (Residents Working in the City): After FY2013, the Restructuring Scenario assumes that the number of residents working in Detroit will grow at 50% of the rate of total job growth due to the continued fall in Detroit population.
- (3) Share of Detroit Employment Attributable to Income Tax Base B (Non-Residents Working in the City): The forecasts assume that Detroit employment growth not attributable to residents is attributable to non-residents.
- (4) Share of Michigan Employment Attributable to Income Tax Base C (Residents Working Outside of the City): The Restructuring Scenario assumes that the number of residents employed outside of Detroit will grow at the state employment growth rate, minus the estimated decline in Detroit's population. The forecast assumes a slower rate of decline in the population of this group than under

the Baseline Scenario. After some initial decline in FY2013 and FY2014, the estimates show some modest growth in employment of Detroit residents working outside of the City over the next ten years.

(5) Wage Growth: The Restructuring Scenario assumes an average wage growth rate of 2.0%, which is closer to the State projections.

C. 40-Year Forecasts

- (1) *Detroit Employment*: The 40-year projections assume that a modest recovery in Detroit will result in a slowing of the longer-run historical ratio of Detroit employment as a share of Michigan employment from -0.85% to -0.50% per year from FY2024 to FY2053.
- (2) *Relative Shares of Detroit Employment*: Following the same methodology used in the 10-year restructuring forecast, the 40-year projections assume that the number of residents working in Detroit will grow at 50% of the rate of total job growth, with Detroit employment growth not attributable to residents attributable to non-residents.
 - (3) Wage Growth: Wage growth was held constant at 2.0% per year.
- (4) *Population Projections*: The projections follow the SEMCOG population forecast from FY2024 through FY2028. After that point, the projections assume (i) zero population growth from FY2029 until FY2033; (ii) 0.2%

annual population growth from FY2034 until FY2043; and (iii) 0.3% annual population growth from FY2044 until FY2053.

Corporate Income Tax

I. Methodology

- A. Develop Baseline Scenario Forecasts of Corporate Income Tax Revenues
- (1) Evaluate Historical Corporate Income Tax Collections and Michigan Statewide Corporate Income Tax Forecasts: Mr. Cline began by analyzing the recent history of actual corporate income tax collections data provided by the City. Mr. Cline then evaluated the Michigan Consensus Revenue Estimating Conference's forecasted growth rate for state corporate income tax collections for FY2014 and FY2015. See Michigan Department of Treasury, Office of Revenue and Tax Analysis, Administration Estimates: Michigan Economic and Revenue Outlook (May 15, 2013) [POA00275929 POA00275978]. Note that Michigan has just recently returned to using a corporate income tax, so there is limited historical information related to the state tax.
- (2) Estimate Growth Rate in City Corporate Income Tax Revenues:

 Mr. Cline applied a structural adjustment to account for slower growth in City corporate profits, relative to the State. The structural adjustment is based upon the

historical relationship between Detroit corporate income tax collections and the business income tax component of the recently replaced Michigan Business Tax. Because net operating losses generated during the recent recession are still working through the corporate income tax system, growth rates are expected to be stronger in the early years of the 10-year forecast period. To account for this, the structural adjustment decreases from -3.2% in FY2015 to a steady-state long-run adjustment of -2.0% by FY2020.

(3) Forecast Longer-Run Corporate Income Tax Revenues: Mr. Cline forecasted Detroit corporate income tax revenues in FY2016 and beyond by assuming that State corporate income tax revenues return to a longer-run growth rate of 3.0%.

B. Analyze the Impact of Restructuring

Mr. Cline assumed that improved conditions within the City due to reinvestment spending would cause the City to track the state economics more closely. To account for this, the structural adjustment is held constant at -1.0% throughout the FY2014 to FY2023 forecast period.

C. Extrapolate the 10-Year Forecasts to Create 40-Year Forecasts

(1) Corporate tax growth rates for the State of Michigan: Mr. Cline extrapolated the City's corporate income taxes over 40 years based on the relationship between the State of Michigan's corporate income tax projections and

nominal U.S. GDP growth projections from the CBO's September 2013 report *The* 2013 Long-Term Budget Outlook [POA00275848 – POA00275849]. For the projection period, CBO's projected U.S. GDP growth rate is reduced by -1.5% to estimate the State's growth in corporate profits (and, therefore, the corporate income tax base).

(2) Corporate tax growth rates for the City of Detroit: Beginning in FY2024, Mr. Cline phased out the structural adjustment on the assumption that the City's structural decline would be resolved by FY2032. This resulted in an equivalent State and City growth rate beginning in year FY2033. From FY2033-2053, the corporate profits tax base in Detroit is projected to grow at the same rate as Michigan overall.

II. Assumptions

A. Baseline Scenario

- (1) The structural adjustment in the base case decreases from -3.2% in FY2015 to a steady-state long-run adjustment of -2.0% by FY2020. Applying the structural adjustment to the consensus Michigan forecast of state corporate tax growth rates for FY2014 and FY2015 yields City growth rates of 2.8% and 2.5%, respectively, followed by growth rates of 2.0% from FY2016 FY2018, 1.5% in FY2019 and 1.0% from FY2020 FY2023.
 - (2) The long-run state corporate tax growth rate is 3.0%.

(3) The forecasts assume that the Detroit corporate tax rate will remain constant at 2.0% after FY2013, when it was increased from 1.0% to 2.0% to help offset the individual income tax rate cuts.

B. Restructuring Scenario

The improved conditions within the City due to a general economic recovery and the reinvestment spending will cause the City to track the state economics more closely, resulting in a structural adjustment of -1.0% throughout the forecast period. Applying the one percentage point structural adjustment to the consensus Michigan state corporate tax growth rates for FY2014 and FY2015 yields City growth rates of 2.8% and 4.8%, respectively. From FY2016-2023, the forecasted growth rate is 2.0%, closer to the longer-run statewide growth rate.

C. 40-Year Forecasts

- (1) 40-Year Corporate Tax Growth Rates for Michigan: For the projection period, CBO's projected U.S. GDP growth rate is reduced by -1.5% to estimate the State's growth in corporate profits (and, therefore, corporate income taxes).
- (2) 40-Year Corporate Tax Growth Rates for Detroit: From FY2033
 FY2053, corporate profits in Detroit are projected to grow at the same rate as Michigan overall.

Wagering Tax Revenues

I. Methodology

A. Develop a Baseline Scenario Forecast for Wagering Tax Revenues

- (1) Evaluate the historical wagering tax collections as reported in the FY2013 – FY2014 Detroit Executive Budget: Mr. Cline determined that over the last decade (from FY2004 through FY2013), revenues from the three Detroit casinos (MGM Grand Detroit, Motor City Casino, and Greektown Casino) grew at an average rate of 1.8% per year. In contrast, over the past five years (since FY2009), revenues from these three casinos grew an average of 0.6%. See City Council, Fiscal Analysis Division, Report on Gaming Tax Revenue through April 2013 (May 17, 2013), available at http://www.detroitmi.gov/Portals/0/docs/ legislative/fiscalanalysis/2013/Report%20on%20Gaming%20Tax%20Revenue%2 Othrough%20April%202013.pdf; Michigan Gaming Control Board, Detroit Casino Revenues & State Wagering Tax Receipts, 1999-2014 [POA00276114 – POA00276114]; City of Detroit, FY2013 – FY2014 Executive Budget, Summary Chart 9, available at http://www.detroitmi.gov/Portals/0/docs/budgetdept/2013-14 Budget/EB Charts Schedules stamped 14.pdf.
- (2) Forecast long-run growth projections for Detroit wagering tax revenues: Because the City Council Fiscal Analysis Division's May 17, 2013 report did not estimate the long-run effect of the Toledo casino on Detroit revenues,

Mr. Cline made adjustments to the historical growth rate to account for the increased competition. Based on the most recent wagering tax collections data, these taxes are anticipated to drop -4.3% in FY2014. It is assumed that there will be an additional year of decline in FY2015 (-1.0%), two years of growth at 0.5%, then a transition to a slightly higher growth rate of 1.0% after FY2018.

B. Extrapolate 10-Year Forecasts to Create 40-Year Forecasts

Mr. Cline extrapolated the 10-year forecasts to create 40-year forecasts by assuming that wagering tax revenues would continue to grow at an average rate of 1.0% per year.

II. Assumptions

A. Baseline Scenario

- (1) Mr. Cline assumed that the wagering tax rate remains constant at 10.9% throughout the forecast period.
- (2) Mr. Cline assumed that wagering tax revenues would decrease through FY2015 due to competition from out-of-state casinos, but would increase thereafter due to improved Michigan and Detroit economic growth. The projections assume a 0.5% growth rate in FY2016 and FY2017, and a 1.0% annual growth in wagering taxes (1.0% change in gross receipts) in all years after FY2017.

B. Restructuring Scenario

Mr. Cline assumed that the City's reinvestment spending would not have a material, direct impact on its wagering tax revenues.

C. 40-Year Forecasts

Mr. Cline assumed a 1.0% annual long-run growth rate in wagering tax revenues for FY2023 through FY2053.

Utility Users' Tax Revenues

I. Methodology

A. Develop a Baseline Scenario Forecast for Utility Users' Tax Revenues

- (1) Evaluate actual utility users' tax collections reported in the FY2014-FY2015 Executive Budget: Mr. Cline observed that gross utility users' tax collections have decreased significantly since FY2008, declining by a total of -25.0% through FY2013, and equating to an average annual decline of -6.0% per year. See City of Detroit, FY2013 FY2014 Executive Budget, Summary Chart 9, available at http://www.detroitmi.gov/Portals/0/docs/budgetdept/2013-14_Budget/ EB_Charts_Schedules_stamped_14.pdf.
- (2) Determine effect of transfers to the Detroit Public Lighting

 Authority ("PLA"): Mr. Cline incorporated information provided by Gaurav

Malhotra and the EY restructuring team on the reduction in gross utility users' tax receipts due to the transfers to the PLA. The PLA transfers will reduce net tax collections by the City by -\$1.8 million in FY2013 and an anticipated -\$16.9 million in FY2014. From FY2015 through FY2023, Mr. Cline held transfers to the PLA constant at -\$12.5 million.

(3) Forecast growth of utility users' tax revenues: Mr. Cline relied upon the Detroit FY2014 Executive Budget, which indicates that more taxpayers have been added to the utility users' tax base through compliance activities. Mr. Cline thus assumed that, after the Detroit economy stabilizes through FY2015 and FY2016, utility users' taxes net of PLA transfers will increase at an annual growth rate of 1.5% from FY2019 through the rest of the forecast period.

B. Extrapolate 10-Year Forecasts to Create 40-Year Forecasts

Mr. Cline extrapolated the 10-year forecasts of utility users' taxes by assuming that utility users' taxes will continue to grow at the long-run rate of 1.5%.

II. Assumptions

A. Baseline Scenario

(1) Unpaid PLA transfers will be passed forward from FY2013 to FY2014, reducing net utility users' tax collections in that year. FY2014 PLA transfers total -\$16.9 million: -\$12.5 million annual transfers, plus -\$4.4 million for FY2013.

(2) PLA transfers will return to -\$12.50 million in FY2015, resulting in an increase in net tax collections from FY2014 even though gross collections are flat (no growth).

B. Restructuring Scenario

Mr. Cline assumed that the City's reinvestment spending would not have a material, direct impact on its net utility users' tax revenues.

C. 40-Year Forecasts

Mr. Cline assumed that utility users' taxes would continue to grow at a rate of 1.5% annually during FY2023 – FY 2053.

EXHIBITS

Attached as Exhibit B are exhibits Mr. Cline intends to rely upon during his testimony. The City reserves its right to use other exhibits during Mr. Cline's testimony, including demonstrative exhibits created from or summarizing existing exhibits.

MATERIALS CONSIDERED IN REACHING OPINIONS

Attached as Exhibit C is a listing of the materials Mr. Cline considered in reaching his opinions. Mr. Cline also had available to him City officials, advisors, and consultants, as well as the expertise of Gaurav Malhotra and Caroline Sallee and the materials they considered.

QUALIFICATIONS

Mr. Cline's biography and curriculum vitae is attached as Exhibit D.

PRIOR EXPERT TESTIMONY

Mr. Cline has previously testified as an expert on state and local tax apportionment in *In re Disney Enterprises, Inc. & Combined Subsidiaries*, No. 818378 (N.Y. Div. of Tax Appeals 2003).

COMPENSATION

Jones Day retained Ernst & Young LLP on behalf of the City to provide expert witness services to the City in connection with *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (Rhodes, J.). The City compensates EY at an hourly rate of \$754 for actual time incurred by Mr. Cline, as well as reasonable out-of-pocket expenses. These fees are subject to a 10% holdback contingent on plan confirmation by December 31, 2014.

Dated: July 8, 2014

Robert Cline

Robert Cline

EXHIBIT A

City of Detroit

Ten-Year Financial Projections

Ten-Year Financial Projections

Note Utility Users' tax revenue - 40-Year forecast

Note: No change in Baseline Scenario and Restructuring Scenaric (\$ in millions)

		Fisc	al year e	iscal year ended actual	la.						10-Year Forecast	orecast				
	2008	2009	2010	2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Growth rate in gross tax collections, driver						L	0.0%	0.0%	1.0%	1.5%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Gross utility users tax collection	51.7	49.9	44.2	44.6		37.0	37.0	37.0	37.4	38.0	38.5	38.9	39.3	39.7	40.1	40.5
% growth rate, result		-3.5%	-11.4%	%6.0	-10.8%	%6.9-	%0.0	%0.0	1.0%	1.5%	1.5%	1.0%	1.0%	1.0%	-6.9% 0.0% 0.0% 1.0% 1.5% 1.5% 1.0% 1.0% 1.0% 1.0% 1.0%	1.0%
Transfer to PLA						-1.8	-16.9	-12.5	-12.5	-12.5	-12.5	-12.5	-12.5	-12.5	-12.5	-12.5
Net utility users tax collections							20.1	24.5	24.9	25.5	26.0	26.4	26.8	27.2	27.6	28.0
% growth rate, result									1.5%	2.3%	2.2%	1.5%	1.5%	1.5%	1.5%	1.5%

140-Year forecast, additional year.
2024 2025 2026 2027 2028 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2045 2046 2047 2048 2049 2050 2051 2052 2053 29.3 1.5% 28.4 28.9 1.5% 1.5% Growth rate in gross tax collections, driver Gross utility users tax collection: % growth rate, result Transfer to PLA

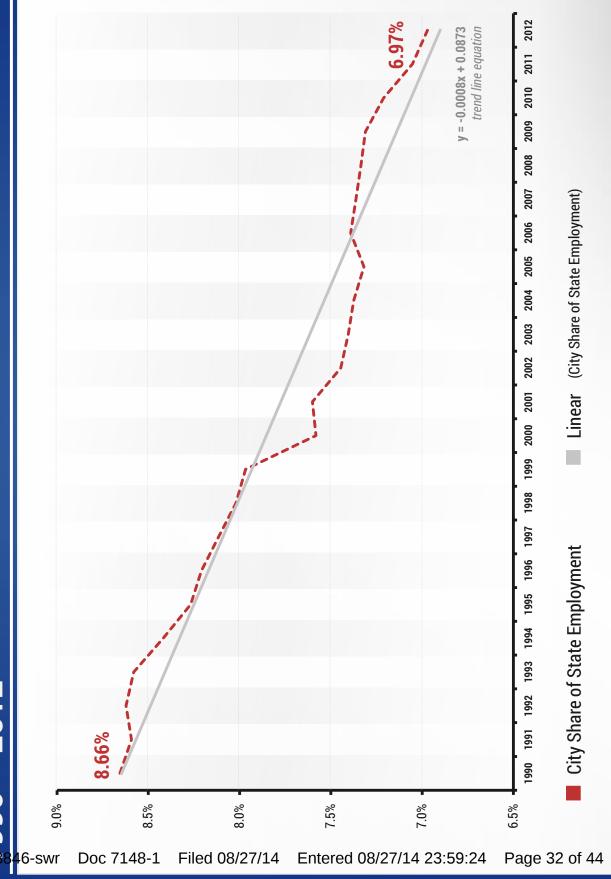
Net utility users tax collections

% growth rate, result

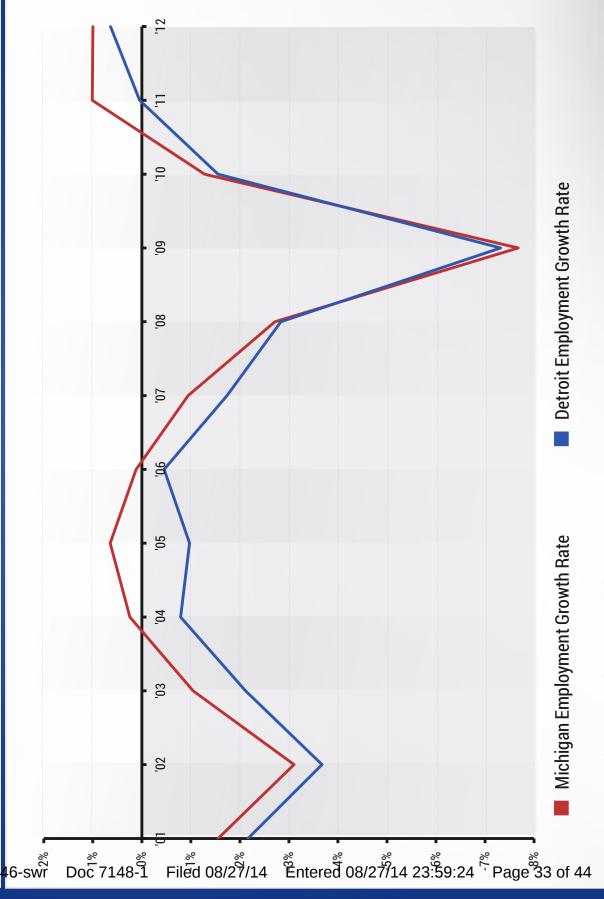
Total, FY2014-2023 \$257 millions **Total, FY2014-2053** \$1,325 millions

EXHIBIT B

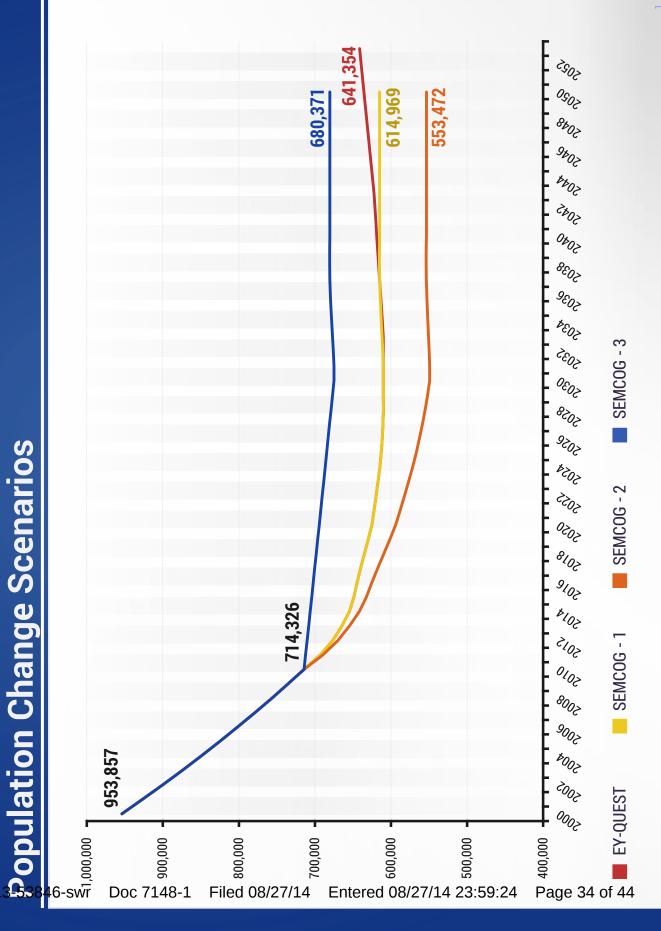
City of Detroit's Share of Total State of Michigan Employment, $\frac{3}{3}990 - 2012$

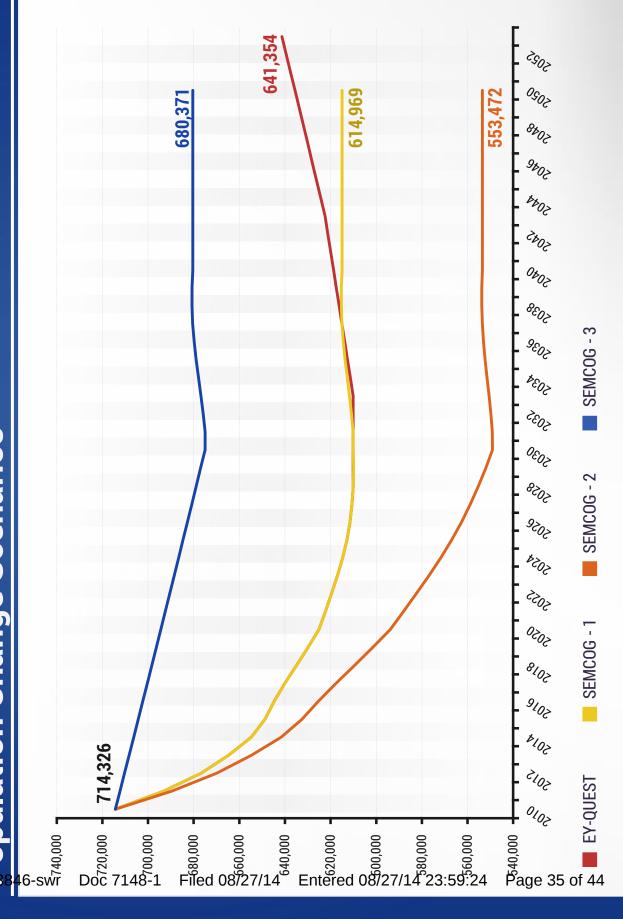


Source: BLS Local Area Unemployment Statistics



Source: BLS Local Area Unemployment Statistics





Taxable Income

Forecast Estimate

Input (Source)

EXHIBIT C

Sources Considered By Robert Cline

Name	Bates	Range
10-Year Forecast as of 5.5.2014	POA00275421	POA00275502
40-Year Forecast as of 5.5.2014	POA00275503	POA00275511
2013 Long term budget outlook inflation projections 2013-2088	POA00275848	POA00275849
BEA Data GDP Inflation 1992 2012	POA00275850	POA00275850
Census On the Map data Detroit worker flow (2002-2012)	POA00275851	POA00275851
Detroit income tax forecast information (08.09.2013)	POA00275852	POA00275854
Income Tax Revenue Calculations	POA00275855	POA00275855
MI Economic & Revenue Forecast Presentation	POA00275856	POA00275895
MI Economic & Revenue Forecast Presentation	POA00275929	POA00275978
SEMCOG 2040 Forecast Summary (April 2012)	POA00275979	POA00276041
SEMCOG Population Estimates	POA00276042	POA00276042
SFA Economic Outlook May 2013	POA00276043	POA00276112
US Bureau of Labor Statistics LAUS MI Detroit (1990 - 2013)	POA00276113	POA00276113
MGCB Casino Adjusted Gross Receipts	POA00276114	POA00276114

Sources Considered By Robert Cline

Name	Bates	Range
Description of Estimating Methodology (06.06.2013)	POA00276188	POA00276193
Detroit Tax Forecast Information (07.24.2013)	POA00276194	POA00276195
CBO - 2013 Long term budget outlook inflation projections 2013-2088	POA00275647	POA00275648
BEA Data - GDP Inflation (1992 - 2012)	POA00275649	POA00275649
40 Year Revenue Projections	POA00275651	POA00275651
40 Yr Projections - Revenue and Dept Summary Overview (01.08.2014)	POA00275652	POA00275654
CBO 2013-02-Economic Projections (Property Taxes)	POA00275655	POA00275655
Metro Populations (30 Years) Data	POA00275656	POA00275656
QUEST Revenue Discusison Items (01.11.2014)	POA00275657	POA00275660
Statistical Abstract of the United States: 2012, Table 20: Large Metropolitan Statistical Areas—Population: 1990 to 2010, available at http://www.census.gov/prod/2011pubs/12statab/pop.pdf		
City Council, Fiscal Analysis Division, Report on Gaming Tax Revenue through April 2013 (May 17, 2013), <i>available at</i> http://www.detroitmi.gov/Portals/0/docs/legislative/fiscalanalysis/2013/Report%20on%20Gaming%20Tax%20Revenue%20through%20April%202013.pdf	ł	ł
City of Detroit, FY2013 – FY2014 Executive Budget, available at http://www.detroitmi.gov/DepartmentsandAgencies/BudgetDepartment/2013-2014ExecutiveBudget.aspx		
City of Detroit's Proposal for Creditors (June 2013)	POA00215882	POA00216015
10-Year Plan of Adjustment Restructuring and Reinvestment Initiatives Bridge (June 2014)	POA00706448	POA00706448
40-Year Plan of Adjustment Financial Projections Bridge (July 2014)	POA00706601	POA00706602

EXHIBIT D

ROBERT J. CLINE, Ph.D.

National Director of SALT Policy Economics Ernst & Young LLP

Dr. Cline is National Director of State and Local Tax Policy Economics in EY's National Tax Practice in Washington, DC. Dr. Cline assists the business community, state tax agencies, legislatures and tax commissions with the evaluation of tax policy options, including revenue estimates, distributional analysis and dynamic fiscal and economic impact analysis. Prior to joining EY in 1999, Dr. Cline was Director of State and Local Finance, Barents Group LLC of KPMG LLP (1996-1999) and a consultant to Price Waterhouse LLP (1995-1996) on state tax reform.

Dr. Cline has extensive state and local tax policy and research experience having served as Tax Research Director in the Michigan Department of Management and Budget (1984-1986) and in the Minnesota Department of Revenue (1989-1995). His responsibilities as research director included tax policy development, tax bill revenue estimating, economic and revenue forecasting, and dynamic economic impact analysis. While at the Minnesota Department of Revenue, Dr. Cline directed the preparation of the state's tax expenditure report, the development of a tax incidence model for all major state and local taxes, and the construction of a corporate income tax policy simulation model. Earlier research experience included serving as a Senior Public Finance Resident, U.S. Advisory Commission on Intergovernmental Relations (1982-1983).

Dr. Cline has directed or participated in tax reform and tax policy studies, tax modeling projects, fiscal studies and economic impact studies in over 40 states. For example, he has directed state tax policy studies in California, Connecticut, Louisiana, Michigan, New York, Ohio, Pennsylvania, Maryland, North Carolina, Illinois and Virginia. As part of these studies, Dr. Cline was responsible for estimating impacts of changes in corporate income tax structures, including apportionment and income combination, revenues from the expansion of sales tax bases, and revenues expected from alternative business tax bases, including value added and gross receipts bases. A number of the studies included industry-by-industry analysis of proposed changes in business tax liabilities and estimates of the dynamic economic impacts of tax changes and tax reform on state economies. Dr. Cline has also directed a number of business tax studies for specific industries, including electricity production, telecommunications, natural resource extraction, and financial services.

He directed state and local business tax studies for the Council on State Taxation, including the annual 50-state study of state and local business taxes. He was the author of the COST studies (published in Tax Analyst's State Tax Notes), "Combined Reporting: Understanding the Revenue and Competitive Effects of Combined Reporting" (May 2008), and "What's Wrong with Taxing Business Services?" (April 2013) In the past year, Dr. Cline worked on several state tax policy projects that included evaluating proposals to expand the retail sales tax to

business services in Louisiana, Ohio and Puerto Rico, estimating the impacts of tax reform on Ohio's business tax competitiveness and economy, and estimating the dynamic impact of corporate tax reform in New York.

Dr. Cline has completed business tax studies in other countries, including Canada, Australia and the European Union. He was a co-author of the EY study prepared for the Irish Department of Finance, *Study of the Economic and Budgetary Impact of the Introduction of a Common Consolidated Corporate Tax Base in the European Union* (2009). The study included estimating the country-by-country changes in EU corporate income tax collections, as well as dynamic economic impacts, of a proposal for changing the assignment of corporate income among the Member states. Most recently, he directed an EY study of the expected impact of the adoption of a VAT on the tourism industry in the Bahamas.

Dr. Cline also has extensive experience teaching economics and public finance. Positions include:

- Assistant Professor of Economics, Department of Economics, Georgia State University, Atlanta, Georgia (1972-1975)
- Professor of Economics, Department of Economics and Business Administration, Hope College, Holland, Michigan (1975-1989)
- Visiting Professor of Economics, Department of Economics, University of Michigan, Ann Arbor, Michigan (1977-1978)
- Adjunct Professor, Humphrey Institute, University of Minnesota, St. Paul, Minnesota (1994-1995)

Dr. Cline holds a Ph.D. (1977) and an M.A. degree (1971) in economics from the University of Michigan and a B.A. in economics in (Phi Beta Kappa) from the College of William and Mary in 1968.

Additional Experience and Other Selected Publications for Robert Cline

Professional Experience:

National Director of State and Local Tax Policy Economics, Ernst & Young LLP (June 1999 - present)

Director, State and Local Finance, Barents Group LLC of KPMG LLP (1996-1999).

Consultant to Price Waterhouse LLP (1995-1996).

Director, Tax Research Division, Minnesota Department of Revenue (1989-1995).

Adjunct Professor, Humphrey Institute, University of Minnesota Director (1994-1995)

Director, Office of Revenue and Tax Analysis, Michigan Department of Management and Budget (1984-1986).

Senior Public Finance Resident, U.S. Advisory Commission on Intergovernmental Relations (1982-1983).

Professor of Economics, Department of Economics and Business Administration, Hope College (1975-1989).

Research Economist, Urban Institute (1978).

Visiting Professor of Economics, Department of Economics, University of Michigan (1977-1978).

Assistant Professor of Economics, Department of Economics, Georgia State University (1972-1975).

Other Selected Publications:

- "Federal Tax Reform: Lessons from the States," with Steven Wlodychak, *State Tax Notes*, February 13, 2012.
- "Competitiveness of State and Local Business Taxes on New Investment," with Andrew Phillips And Tom Neubig, *State Tax Notes*, May 16, 2011.
- "Five Federal Lessons from California's Near-VAT Experience," with Tom Neubig, *State Tax Notes*, June 7, 2010.
- "Economic Incidence of State Business Taxes," with Andrew Phillips, Joo Mi Kim, and Tom Neubig, *State Tax Notes*, January 11, 2010.
- "Future State Business Tax Reforms: Defend or Replace the Base, with Tom Neubig, *State Tax Notes*, January 21, 2008.
- "Illinois State and Local Business Tax Burden," with Andrew Phillips, *State Tax Notes*, May 26, 2003. Study prepared for Illinois Chamber of Commerce.
- "Total State and Local Business Tax Burden Study," with William Fox, Tom Neubig and Andrew Phillips, *State Tax Notes*, January 27, 2003. Study prepared for the Council on State Taxation

- "Telecommunications Taxes: 50-State Estimates of Excess State and Local Tax Burden," *State Tax Notes*, May 2002.
- "Can the Current State and Local Business Tax System Survive the New Economy Challenges?,"

 State Tax Notes, April 2002.
- "Total Corporate Taxation: Hidden, Above-the-Line, Non-Income Taxes," with Kevin Christensen and Thomas S. Neubig, *State Tax Notes*, November 12, 2001.
- "Reducing Out-of-Line Telecommunications Taxes: State Responses to Increased Competition," *State Tax Notes*, September 18, 2000.
- "Masters of Complexity and Bearers of Great Burden: The Sales Tax System and Compliance Costs for Multistate Retailers," with Thomas S. Neubig, *State Tax Notes*, September 1999.
- "Tariffs and Consumption Taxes: Understanding the Differences," Ernst & Young, July 1999.
- "The Sky Is Not Falling: Why State and Local Revenues Were Not Significantly Impacted by the Internet in 1998," with Thomas S. Neubig, *State Tax Notes*, June 18, 1999.
- "Utility Deregulation: Fiscal Impacts on State and Local Governments," presentation to National Conference of State Legislatures, Fiscal Chairs Seminar, Washington, DC, December 1998.
- "Consumption Tax Incidence: A State Perspective," with Paul Wilson, *Proceedings of the 88th Annual Conference*, National Tax Association, 1995, pp. 225-235.
- "State Financing of Health Care Reform: Minnesota's Health Right Act," *Proceedings of the 85th Annual Conference on Taxation*, National Tax Association, 1993.
- "Should States Adopt a Value-Added Tax?," in Steven D. Gold, ed., *The Unfinished Agenda for State Tax Reform*, National Conference of State Legislatures, 1988.
- "Personal Income Tax," in Steven D. Gold, ed., *The Unfinished Agenda for State Tax Reform*, National Conference of State Legislatures, 1988.
- "The Property Tax in a High-Quality State-Local Revenue System," with John Shannon, in C. Lowell Harriss, ed., *The Property Tax and Local Finance*, the Academy of Political Science, Vol. 35, No. 1, 1983.

EXHIBIT 2

Report of Caroline Sallee

UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF MICHIGAN SOUTHERN DIVISION

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

REPORT OF CAROLINE SALLEE

Pursuant to Federal Rule of Civil Procedure 26(a)(2)(B), made applicable to this proceeding by Federal Rule of Bankruptcy Procedure 7026, debtor the City of Detroit submits this report with respect to the expected expert testimony of Caroline Sallee.

INTRODUCTION

Caroline Sallee is a Manager in the Quantitative Economics & Statistics practice ("QUEST") of the firm Ernst & Young ("E&Y"). It is the City's intention to call Ms. Sallee to testify about the forecasted revenues the City may expect in future years from its real and personal property general operating taxes and from revenue sharing funds it will receive from the State of Michigan.

The information in this report is presented as of the date of this report and is based upon forecasts contained within the Fourth Amended Disclosure Statement With Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit [Docket No. 4391] dated May 5, 2014 (the "Disclosure Statement"), as such forecasts were updated as of July 2, 2014. *See* Ten-Year Plan of Adjustment, Restructuring and Reinvestment Initiatives [POA00706449 –POA00706518] ("10-Year Restructuring and Reinvestment Initiatives"); Ten-Year Financial Projections [POA00706519 – POA00706600] ("10-Year Forecast"); Plan of Adjustment – 40 Year Projections [POA00706603 – POA00706611] ("40-Year Forecast").

OPINIONS

Ms. Sallee will offer the following opinions:

I. Real and Personal Property General Operating Tax Revenues

A. **10-Year Forecast**: For the period ending with the City's 2023 fiscal year, the projected revenues the City can expect from the real and personal property general operating taxes it levies are set forth in the 10-Year Forecast, in particular at Exhibits 2-4 and Appendices A.26a, B.1a, and B.1b. *See* POA00706519 – POA00706600. These are reasonable forecasts of expected revenue during the period in question.

B. **40-Year Forecast:** For each of the four ten-year periods ending with the City's 2053 fiscal year, the City can expect forecasted revenues from its real and personal property general operating taxes as set forth in the 40-Year Forecast, in particular at Exhibits 3a-b. *See* POA00706603 – POA00706611. These are reasonable forecasts of expected revenue during the period in question.

II. State Revenue Sharing Revenues

- A. **10-Year Forecast:** For the period ending with the City's 2023 fiscal year, the projected revenue sharing funds the City can expect from the State of Michigan are set forth in the 10-Year Forecast, in particular at Exhibits 2-4 and Appendices A.26a and B4. *See* POA00706519 POA00706600. These are reasonable forecasts of expected revenue during the period in question.
- B. **40-Year Forecast:** For each of the four ten-year periods ending with the City's 2053 fiscal year, the forecasted revenue sharing funds the City can expect from the State of Michigan are set forth in the 40-Year Forecast, in particular at Exhibits 3a-b. *See* POA00706603 POA00706611. These are reasonable forecasts of expected revenue during the period in question.

BASIS AND REASONS FOR OPINIONS

Real And Personal Property General Operating Taxes

I. Methodology

In reaching her opinions, Ms. Sallee followed standard forecasting procedures used by the State of Michigan Consensus Revenue Estimating Conference and by U.S. federal agencies such as the Congressional Budget Office.

Ms. Sallee used the following methodology:

- A. Reviewed historical data on Detroit and Michigan property taxes, economic variables, and housing indicators.
 - Ms. Sallee collected historical data on property assessments and taxable value by property class in the City of Detroit and the State of Michigan.
 Ms. Sallee collected City of Detroit taxable value, capped value, assessed value, collection rates, and tax rates by property class, which includes real and personal property for residential, commercial, and industrial classes and personal property only for the utility class from the following sources:
 - a) Michigan State Tax Commission for taxable values and assessed values by property class in the City of Detroit and the State of Michigan for tax years 2000-2012.

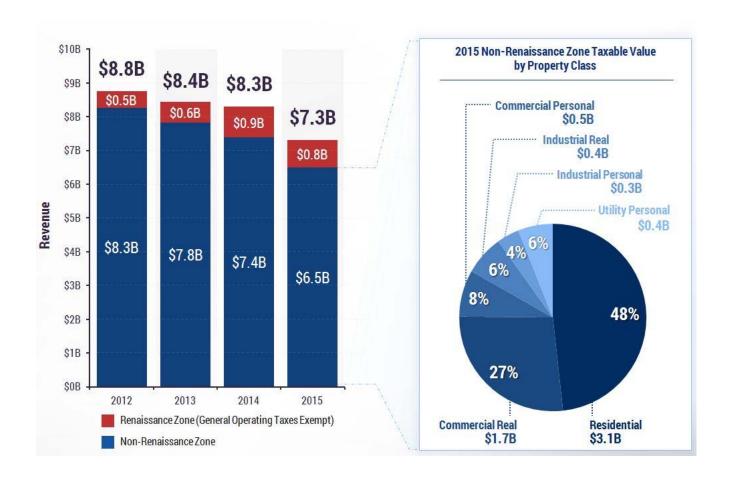
- b) The City of Detroit's Ad Valorem State Tax Commission

 Assessment Roll Certification for tax years 2011, 2012, and 2013,

 and ad valorem data provided by the City for 2014.
- c) Renaissance Zone property by property class for tax year 2013, provided by the City.
- ii. Ms. Sallee reviewed economic and housing indicators for the United States, the State of Michigan, and the City of Detroit for use in developing the baseline forecast, which is identified as the "without reinvestment" scenario in the 10-Year Forecast. *See* POA00706587. Ms. Sallee relied on data from the following sources:
 - a) Congressional Budget Office, "The Budget and Economic Outlook for Fiscal Years 2013 to 2023" (Feb. 2013).
 - b) House Fiscal Agency, Economic Outlook and Revenue Estimates for Michigan (May 2013, Jan. 2014, May 2014).
 - c) City of Detroit, "Revenue Consensus Conference Final Report" (Feb. 7, 2013).
 - d) Case-Shiller Home Price Index for Detroit, Michigan from the Federal Reserve Bank of St. Louis, Economic Research Division (1991-Apr. 2014).

- e) Detroit Board of Realtors residential sales statistics obtained from the Michigan Association of Realtors website (1995, 1998, 2001-2013).
- f) U.S. Bureau of Census, Building Permits Survey for Wayne County (1998 2013).
- B. Developed a baseline of property tax collections for the 10-Year Forecast period. Ms. Sallee completed the following steps:
 - i. Estimated taxable value by property class subject to City of Detroit general operating taxes.
 - a) Ms. Sallee estimated the total taxable value subject to City of Detroit general operating taxes by property class beginning with FY 2012. Total taxable value by property class was obtained from the City of Detroit for tax years 2011, 2012, 2013, and 2014 (FY 2012 FY 2015). The City of Detroit Assessor's Office provided detailed Renaissance Zone taxable value by property class for real and personal property for only tax year 2013 (FY 2014).
 - b) Ms. Sallee used this data to estimate taxable value by property class not in a Renaissance Zone and thus subject to general operating taxes in FY 2012, FY 2013, FY 2014 and FY 2015. *See* Figure 1.

Figure 1. Total Taxable Value for City of Detroit, FY 2012 – FY 2015



- c) Ms. Sallee forecasted taxable value for FY 2016 FY 2023 using separate growth rates for real and personal property by property class. She performed an analysis of four factors affecting residential property to select residential taxable value growth rates:

 (1) additions to the tax base, (2) losses to the tax base,
 - (3) uncapping of taxable value as property sells, and (4) planned reassessments by the City of Detroit. Ms. Sallee selected separate growth rates for commercial and industrial property, both real and

personal, and personal property for utility property, based on projected economic conditions in the City of Detroit, analysis of historical data, and a review of large taxpayers in the City.

ii. Selected a tax rate.

- a) Ms. Sallee selected the current general operating tax rate for property taxes in the City of Detroit for the forecast period.
- b) Pursuant to standard forecasting procedures, Ms. Sallee assumed that the tax law will remain unchanged during the forecast time periods.

iii. Forecasted the tax levy.

- a) Ms. Sallee forecasted the City of Detroit's property tax levy for the forecast period by multiplying the forecasted taxable value subject to general operating taxes by the tax rate.
- iv. Adjust the tax levy for known legal and policy changes.
 - a) Ms. Sallee made adjustments for upcoming legal changes and City activities that will affect property tax collections. Ms. Sallee lowered property tax collections from commercial and industrial personal property by 10% for years after FY 2014, reflecting the upcoming vote on the personal property tax repeal in August of 2014.

- b) Ms. Sallee also took into account City-planned reassessments of property in FY 2015 and the effects of the City-wide reappraisal study.
- v. Selected an effective collections rate.
 - a) Ms. Sallee applied an effective collections rate to the tax levy by calculating all payments related to property taxes received by the City in a given fiscal year divided by that fiscal year's tax levy.
 - b) The effective collections rate includes both property taxes paid on-time (non-delinquent) to the City and payments the City receives from the Wayne County Delinquent Tax Revolving Fund pursuant to Public Act 246 of 2003.
- C. Developed a "with reinvestment" scenario of property taxes.
 - i. The City of Detroit Plan of Adjustment outlines steps for improving the physical infrastructure and operations of the City during a 40-year time period. The "with reinvestment" scenario estimates improvements to the tax base and collections if the general operations and economic environment of the City improve during the 10-year period.
 - ii. To model the effects of reinvestment, Ms. Sallee used historical data and information on the different property tax bases, including tax

collections during other economic time periods and growth rates after recessions.

- D. Extrapolated property tax revenues for the 40-Year Forecast.
 - Ms. Sallee completed the 40-Year Forecast of property tax revenues using forecasted national trends in home prices between 2019 and 2023 and the City of Detroit's historical compounded average annual increase in taxable value between 2000 and 2013.
 - ii. Ms. Sallee modeled property tax collections in FY 2023 to FY 2027 to follow national trends using the Federal Housing Finance Agency house price index as forecasted by the Congressional Budget Office for years 2019 to 2023.
 - iii. After FY 2027, Ms. Sallee lowered the growth rate of property tax collections gradually to 2% by FY 2033. Ms. Sallee used a long-run equilibrium growth rate of 1.5% in years after FY 2033.
 - iv. Ms. Sallee chose the long-run growth rate of 1.5% based on analysis of the City's compounded annual growth rate (CAGR) in taxable value for tax years 2000 and 2013. Ms. Sallee relied upon historical taxable value data from the Michigan State Tax Commission.

II. Assumptions

Documents and other materials supporting Ms. Sallee's opinions have been or will be produced by the City. In addition, certain of the assumptions underlying Ms. Sallee's analysis and opinions are set forth in the 10-Year and 40-Year Forecasts. Ms. Sallee also made the following assumptions.

10-Year Forecast

In the 10-Year Forecast, Ms. Sallee assumed that the taxable value of property will continue to decline until FY 2020. By FY 2022 and FY 2023, improved operations and other factors will cause property tax collections to increase for the City of Detroit.

A. Baseline Forecast

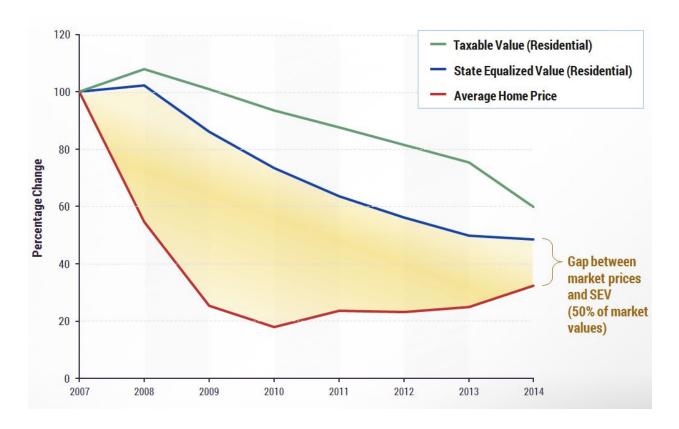
- i. Population Assumptions
 - a) Ms. Sallee used the Southeast Michigan Council of Governments
 (SEMCOG) population forecasts, scenario 1a for the analysis.
 Population in the City of Detroit is expected to decline each year between
 FY 2013 and FY 2023 at an average annual rate of -0.7%.
- ii. Taxable Values: Residential Property
 - a) Ms. Sallee forecasted taxable value for real and personal property by selecting growth rates for each type of property. She modeled four factors that affect taxable value for residential property:

- 1) Ms. Sallee estimated additions to the tax base using U.S. Census building permit data for Wayne County. Ms. Sallee multiplied the cost of new construction in Wayne County per the U.S. Census building permit data by the City of Detroit's share of real property taxable value in Wayne County (19%) to arrive at the City's estimated share of new construction value in Wayne County, which was 1% in 2012 and 2013. This translated into a 0.5% increase in taxable value. Along with additions to existing properties, the analysis assumed an increase to residential taxable value of 1% per year during FY 2015 through FY 2021 and 1.5% in FY 2022 and FY 2023.
- 2) Population declines, anticipated abandonment, and rental vacancies will cause losses to the tax base. Ms. Sallee used SEMCOG's scenario 1a to estimate losses to the tax base. After FY 2015, SEMCOG forecasts average annual population losses to be between -0.8% and -0.4% per year. Losses to residential taxable value are assumed to be between -1.5% and -2% per year after FY 2015.
- 3) Taxable value is defined as the lesser of state equalized value (50% of true cash value) and capped value (taxable value grown annually by 5% or the rate of inflation, whichever is less, not counting additions).

 When a house sells, the taxable value is reset to state equalized value

in the first year. The forecast projects continued losses to taxable value due to the uncapping of taxable value when homes sell. According to Detroit Association of Realtors data, average existing home prices in Detroit fell 63% between 2006 (pre-recession) and 2013. The state equalized value of residential property, however, only declined 54%. See Figure 2. This gap indicates that state equalized value will fall further, resulting in reduced taxable value for residential property. To select growth rates of the uncapping of taxable value due to home sales, Ms. Sallee employed a modeling exercise using historical data on the number of existing home sales and the difference between current taxable value of homes purchased 5, 10, and 15 years ago compared to a re-setting of taxable value equal to 50% of true cash value. The forecast assumes a reduction in residential taxable value of between -2% and -4% per year between FY 2016 and FY 2020.

Figure 2. Percentage Change in Average Sale Price, Residential Taxable Value, and Residential State Equalized Value in Detroit, 2007-2014 (Indexed to 2007)



4) The City completed reassessments for some neighborhoods for tax year 2014 (FY 2015). The result is that residential taxable value declined -20.5% between FY 2014 and FY 2015. The City is also contracting with a company to perform a reappraisal study of all property in Detroit. Based on conversations with the City, Ms. Sallee assumed that the study would take 3-5 years, with changes to the taxable value of property appearing in FY 2020. She assumed a 15% drop in residential taxable value in FY 2020 as a result of the study.

This would bring residential taxable value to approximately half of its FY 2013 level. The value of residential property is expected to stabilize after the reappraisal study is complete. Based on historical data showing how the City came out of past recessions, the evidence does not support a quick rebound.

iii. Taxable Values: Commercial Property

- a) Ms. Sallee forecasted commercial taxable value to decline 7% between FY 2013 and FY 2023 with real property taxable value -8% and personal property taxable value -6%.
- b) Ms. Sallee assumed a continued decline of commercial taxable value of 1- 2% per year until FY 2018. This continues the trend of -2% per year average decline in commercial taxable value between 2008 and 2013 using ad valorem warrant taxable value data from the State Tax Commission and the City of Detroit.
- c) Commercial real property performed better than industrial real property during and after the recent recession (2008-2013), losing a smaller percentage of taxable value than industrial real property. Ms. Sallee assumed that losses to commercial property would end by FY 2018 and there would be slight recovery post FY 2018 in line with other

- assumptions related to employment and population stabilization in the City in later years of the forecast period.
- d) Ms. Sallee assumed population decline in the City of -1.3% per year (CAGR) between 2010 and 2020 and a decline in City employment of -1% between 2013 and 2020. Ms. Sallee also took into account the major commercial and industrial taxpayers and their share of taxable value to inform the likely impact to taxable value if a large taxpayer were to leave the City of Detroit.

iv. Taxable Values: Industrial Property

- a) Ms. Sallee forecasted that industrial taxable value will decline 12% between FY 2013 and FY 2023, with real property taxable value declining 11% and personal property 14%.
- b) Ms. Sallee assumed continued decline of taxable value of between -1% and -2% between FY 2016 and FY 2018, continuing recent trends and following the long-run trend of reductions to industrial real property of -1% between 2000 and 2013.
- c) Industrial personal property taxable values have varied substantially year-to-year.
- d) Ms. Sallee assumed a slower decline for industrial personal property compared to real industrial property given the overall growth in the

- former. However, much of the industrial personal property qualifies for a Renaissance Zone exemption.
- e) Since industrial property, both real and personal, has performed worse than commercial property and historically has taken longer to recover, Ms. Sallee assumed that industrial property taxable value would continue to decline through FY 2021.

v. Taxable Values: Utility Property

- a) Ms. Sallee assumed that utility personal property would increase during the forecast period, following recent trends.
- b) Ms. Sallee applied 0% and 0.5% growth rates post-FY 2015 based on recent fluctuations in utility property taxable values. For example, in tax years 2011 and 2013, personal property taxable values fell, but in tax years 2012 and 2014, taxable values increased.

vi. Renaissance Zone

- a) The Renaissance Zone comprises primarily commercial and industrial property, with a small amount of residential and utility property. The classification of Renaissance Zone property fluctuates on a year-to-year basis.
- b) In FY 2015, 11% of the property in the City was classified as Renaissance Zone (\$809mm out of \$7.3b). Of the 11% classified as

Renaissance Zone property, 29% is real property and 71% is personal property.

vii. Tax Rate

- a) Ms. Sallee assumed that the City's tax rates will remain constant until 2053.
- b) The City's tax rate on property of 19.952/1000 is near the legal limit of 20/1000 and is among the highest in the State of Michigan.

viii. Adjustments for Upcoming Legal Changes

- a) If voters approve the plan to repeal personal property taxes on certain commercial and industrial property in August of 2014, the phase-out would begin in FY2015, with the exemption of commercial and industrial personal property owned by a single taxpayer if the taxable value of the property is less than \$40,000.
- b) Ms. Sallee has modeled a 50% chance of voters approving the repeal of personal property taxes.
- c) According to estimates from the Michigan Senate Fiscal Agency, if voters approve the repeal, it is likely that 20% of the property tax revenue from industrial and commercial property will not be replaced by a new funding mechanism. Ms. Sallee has modeled this uncertainty as an

- expected 10% decline in revenue from these personal property taxes for each year between FY 2015 and 2023.
- d) If the voters do not approve the plan, the change in the forecasts would be de minimis.

ix. Effective Collections Rate

- a) Ms. Sallee estimated the City's effective collections rate after a review of the City's historical collections rates on non-delinquent property by property class for FY 2007 FY 2011. Using this information,
 Ms. Sallee selected non-delinquent collection rates of approximately 50% for residential property, 83% for commercial property, 87% for industrial property, and 100% for utility property during the forecast period of FY 2015 to FY 2020. This came to a blended rate of 65-70%.
- b) Residential property accounts for approximately half of the City's taxable value.
- c) Ms. Sallee also relied upon the City's calculation of net revolving fund payments between the City and Wayne County. Using this information, Ms. Sallee assumed net payments from Wayne County on delinquent property between 12-15% of the tax levy during the forecast period.
- d) The effective collections rate is assumed to be 80% in FY 2015 –
 FY 2019. This is similar to the effective collections rate in recent years

- of 80% (2011) and 83% (2012) reported in the City of Detroit's 2012 Comprehensive Annual Financial Report (CAFR).
- e) Ms. Sallee assumed that the mass reappraisal study would be completed by FY 2020 and that the City would have a higher collections rate of 84% after that time. This improvement is due to residential non-delinquent collections rate increasing from 50% to 70%.

B. Impact of Reinvestment

- i. Ms. Sallee forecasted that planned City reinvestments would have a modest impact on tax revenues. The reinvestments that will impact tax revenues are improved collections of tax revenues and slightly better growth in taxable value compared to the baseline.
- ii. Ms. Sallee assumed higher collections rates because of slight improvements in commercial and industrial collections rates and improvements to residential collections rates. These would return the City to pre-recession collections rates on residential property by FY 2017. The collections rate is assumed to be 82% in FY 2017 FY 2019, and 87% after the mass reappraisal study is complete.
- iii. Commercial and industrial taxable values are also modeled to show slight additions to taxable value (1%) beginning in FY 2017 for both.

40-Year Forecast

Ms. Sallee extrapolated property tax revenues from FY 2023 to FY 2053. In the 40-Year Forecast of property taxes, Ms. Sallee made the following assumptions.

A. Population

- i. The City's population will continue to decline from FY 2024 until 2029.
 - a) Ms. Sallee based this assumption on Scenario 1a of the Southeast Michigan Council of Governments' population forecasts.
- ii. Ms. Sallee forecasted that there will be no population growth from 2029 until 2033, 0.2% annual population growth from 2034 until 2043, and 0.3% annual population growth from 2044 until 2053.
 - a) Ms. Sallee based these assumptions on an examination of population trends in comparable metropolitan areas that experienced a decade or more of declining population, as well as the Detroit metropolitan area's growth from 1990 and 2000.
 - b) These population forecasts estimate that the population in the City of Detroit will be greater by 3.4% than the SEMCOG scenario 1a forecasts.

 Ms. Sallee made this assumption because SEMCOG's population forecast was completed before the Plan of Adjustment, which provides for improvements in City services and operations. *See* Figure 3.

740,000 720,000 714,326 700,000 680,371 680,000 660,000 641,354 640,000 620,000 614,969 600,000 580,000 560,000 553,472 540,000 EY-QUEST SEMCOG - 1 SEMCOG - 2 SEMCOG - 3

Figure 3. E&Y and SEMCOG Population Forecasts for the City of Detroit (2010-2053)

B. Taxable Property Growth Rates

i. The citywide mass reappraisal study (projected to be included in the FY 2020 tax bills) will result in a decline in the taxable value of property in the City. After that, Ms. Sallee assumed that the value of property in the City in FY 2024 and FY 2025 would increase at a rate of 3.4% growth. This assumption is in line with national trends of growth in existing home prices of 3.3% projected by the Congressional Budget Office in 2022 and 2023.

- ii. Annual growth in general operating property tax revenues is projected to fall to 2% in years 2030-2033 and then average a 1.5% annual growth rate in the following years. Ms. Sallee selected these rates to reflect the business cycle and her assumption that the City would have slower growth than the rest of the nation.
- iii. This 1.5% rate is slightly better than the average annual 1.1% growth rate in Detroit between 2000 and 2013. Ms. Sallee completed an analysis of annual average growth of taxable value using ad valorem warrant information from the State Tax Commission.

State Revenue Sharing

I. Methodology

In reaching her opinions, Ms. Sallee used the following methodology:

A. Constitutional Revenue Sharing

i. Ms. Sallee forecasted constitutional revenue sharing based on the applicable formula, which takes into account the population by cities, villages, and townships, and the sales tax growth of the state. The amount of available constitutional revenue sharing payments is fixed at 15.0% of gross collections of the state sales tax collected at a 4.0% rate and is distributed to cities, villages, and townships on a per capita basis.

- ii. Ms. Sallee used constitutional revenue sharing amounts forecasted by the Michigan Treasury for the City of Detroit for FY 2016 to FY 2025.
- iii. For years after FY 2025, Ms. Sallee estimated constitutional revenue sharing based on forecasted average increases in revenues of between 2% and 3%. After each Census, she adjusted the constitutional payment based on population changes. Ms. Sallee forecasted constitutional payments falling with declining population.

B. Economic Vitality Incentive Payments (EVIP)

- i. EVIP payments that the City receives are based on the amount appropriated by the Legislature on a year-to-year basis. Ms. Sallee considered that the appropriations could be reduced, increased, or eliminated at any point. For example, statutory and incentive payments (EVIP) increased 17% between FY 2010 and FY 2011 before declining 24% in the next fiscal year. There is no set formula for EVIP payments for the City of Detroit.
- ii. Ms. Sallee's forecast follows current law and uses FY 2015 EVIP payments for all years after FY 2015.

II. Assumptions

Documents and other materials supporting Ms. Sallee's opinions have been or will be produced by the City. In addition, certain of the assumptions underlying

Ms. Sallee's analysis and opinions are set forth in the 10-Year and 40-Year Forecasts. Ms. Sallee also made the following assumptions.

A. Constitutional Revenue Sharing Payments

- i. The amount of constitutional revenue sharing payments is fixed at 15.0% of gross collections of the state sales tax collected at a 4.0% rate and is distributed to cities, villages, and townships on a per capita basis. This stream of payments is protected by Article IX, Section 10 of the Michigan Constitution. Ms. Sallee assumes that these percentages will not change during the forecast period.
- ii. The 10-Year Forecast includes the Legislature-approved FY 2015revenue sharing payments for Detroit.
- iii. For years FY 2015 FY 2025, the forecast uses projected constitutional revenue sharing payments completed by the Office of Revenue and Tax Analysis of the Michigan Department of Treasury.
- iv. Constitutional revenue sharing payments follow expected trends in sales tax growth. The forecast assumes between 2% and 3% sales tax growth for the forecast period.
- v. For those years following a decennial census, there are adjustments based on the projected population for the City of Detroit.

- vi. Ms. Sallee used the SEMCOG population forecast for Detroit between 2020 and 2029, with zero growth between 2029 and 2030. Using SEMCOG's forecast, Ms. Sallee assumed that Detroit's population will decline by 2.4% between 2020 and 2030, but she forecasts that the impact on constitutional revenue sharing will be -1%.
- vii. Modest growth in Detroit's population between 2030 and 2040 will result in an increase in constitutional payments of 1.4% between 2040 and 2041, and 1.7% between 2050 and 2051.

B. EVIP Payments

- i. Ms. Sallee assumed that the amount of annual EVIP payments will remain constant at the current law FY 2015 amount of \$140 million.
 This follows standard forecasting procedures and reflects the variable nature of the EVIP payments.
- ii. The amount of EVIP payments is determined each year by the

 Legislature. Over the past decade, the Legislature has appropriated nonconstitutional revenue sharing for cities, villages, and townships at less
 than full funding.

EXHIBITS

Attached as Exhibit A are exhibits Ms. Sallee will use to summarize or support her opinions.

DOCUMENTS AND OTHER MATERIALS CONSIDERED IN REACHING OPINIONS

Attached as Exhibit B is a listing of documents and other materials Ms.

Sallee considered in reaching her opinions. Ms. Sallee also considered discussions with City and State employees, as well as the City's third-party consultants and contractors. Ms. Sallee likewise had available to her the expertise of Gaurav Malhotra and Robert Cline, along with the materials they considered.

QUALIFICATIONS

Ms. Sallee's curriculum vitae is appended as Exhibit C.

PRIOR EXPERT TESTIMONY

Ms. Sallee has not previously testified as an expert.

COMPENSATION

Jones Day retained Ernst & Young LLP on behalf of the City to provide expert witness services to the City in connection with *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (Rhodes, J.). The City compensates Ernst & Young LLP at an hourly rate of \$550 for actual time incurred by Ms. Sallee, as well as reasonable out-of-pocket expenses. These fees are subject to a 10% hold-back contingent on plan confirmation by December 31, 2014.

Dated: July 8, 2014

Caroline Sallee

EXHIBIT A

Figure 1. Total Taxable Value for City of Detroit, FY 2012 – FY 2015

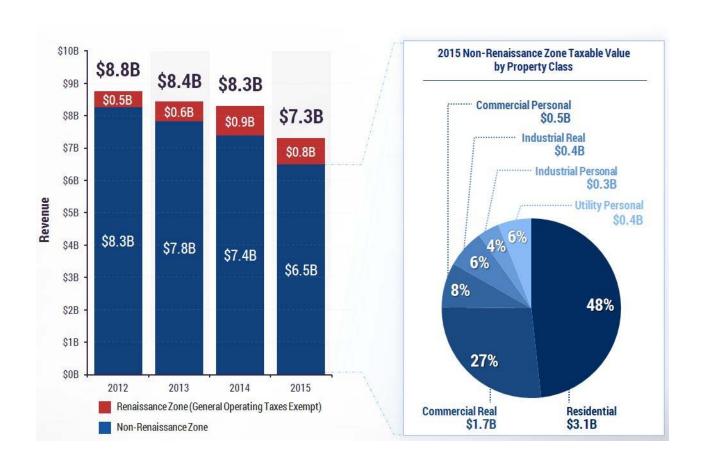


Figure 2. Percentage Change in Average Sale Price, Residential Taxable Value, and Residential State Equalized Value in Detroit, 2007-2014 (Indexed to 2007)

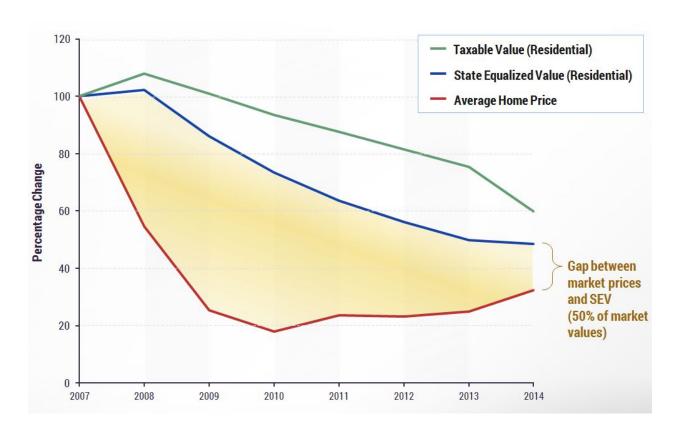


Figure 3. E&Y and SEMCOG Population Forecasts for the City of Detroit (2010-2053)

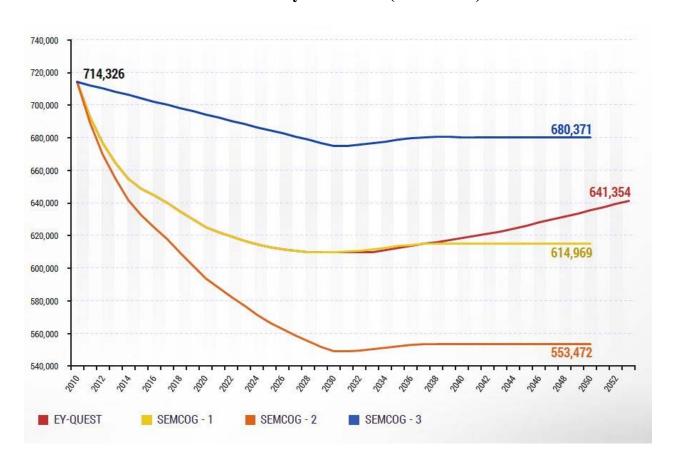


Figure 4. Steps to Forecasting Detroit General Operating Property Taxes

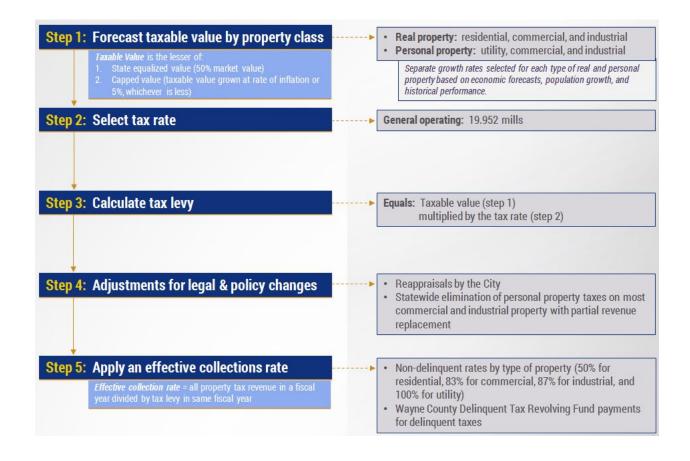


EXHIBIT B

List of Documents and Other Materials Considered

- 1. Ad Valorem State Tax Commission Assessment Roll Certification L-4037 (Board of Review) and Ad Valorem Warrant L-4022, City of Detroit, Tax Years 2011-2013, *available at* POA00535796 POA00535804, POA00629611 POA00629617, POA00629622 POA00629623.
- 2. Ad Valorem Parcels Minus Renaissance Zone, Miscellaneous Totals, City of Detroit, Tax Year 2014, *available at* POA00706439 POA00706447.
- 3. Case-Shiller Home Price Index for Detroit, Michigan, Federal Reserve Bank of St. Louis, Economic Research Division (1991-Apr. 2014), *available at* http://research.stlouisfed.org/fred2.
- 4. Citizens Research Council of Michigan, Detroit City Government Revenues (Apr. 2013), *available at* POA00111072 POA0011133.
- 5. City of Detroit 2011-2012 Executive Budget Summary, Section C, *available at* http://www.detroitmi.gov/Portals/0/docs/budgetdept/2011-12%20Budget/2011-2012%20Executive%20Budget%20Summary/EBS_Section%20C%20Summary%20General%20Fund_2011_2012.pdf.
- 6. City of Detroit 2012-2013 Budget, Ad Valorem Property Valuations, Tax Levies, and Tax Rates, *available at* POA00535773.
- 7. City of Detroit 2013-2014 Executive Budget Summary, Section B, *available at* http://www.detroitmi.gov/Portals/0/docs/budgetdept/2013-14_Budget/Budget%20Summary_14/EBS_Section%20B_Summary%20All%20Funds_2013_2014_stamped.pdf.
- 8. City of Detroit, Ten-Year Financial Projections (July 2, 2014), *available at* POA00706519 POA00706600.
- 9. City of Detroit, Ten-Year Plan of Adjustment, Restructuring and Reinvestment Initiatives (July 2, 2014), *available at* POA00706449 POA00706518.
- 10. City of Detroit, Plan of Adjustment 40-Year Projections (July 2, 2014), available at POA00706603 POA00706611.
- 11. City of Detroit, Property Tax Collection Summaries by Class (2007-2011), available at POA00545716 POA00545721.

- 12. City of Detroit, Renaissance Zone Taxable Values (2012-2013), *available at* POA00275527, POA00535838, POA00535853.
- 13. City of Detroit, *Revenue Consensus Conference Final Report*, Feb. 7, 2013, available at POA00650840 POA00650847.
- 14. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (Feb. 2013), *available at* http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf.
- 15. Data Sources, available at POA00275527.
- 16. David Zin, Chief Economist, *Personal Property Tax Reform Legislation*, State Notes (Winter 2013), *available at* http://www.senate.michigan.gov/sfa/publications%5Cnotes%5C2013notes%5Cnoteswin13dz.pdf.
- 17. Fourth Amended Disclosure Statement to the City's Plan of Adjustment, Exhibits J-K.
- 18. FY 2012 City of Detroit Comprehensive Annual Financial Report (CAFR), Revenue Capacity—Property Tax Levies and Collections, *available at* POA00272832 POA00272833.
- 19. FY 2012 City of Detroit Comprehensive Annual Financial Report (CAFR), Revenue Capacity—Principal Property Tax Payers, *available at* POA00275527 and POA00272830 POA00272831.
- 20. House Fiscal Agency, *Economic Outlook and Revenue Estimates for Michigan*, (May 2013, Jan. 2014, May 2014), *available at* http://www.house.michigan.gov/hfa/revenue.asp.
- 21. House Fiscal Agency, *Economic Vitality Incentive Program* (July 23, 2013), available at POA00536036 POA00536079.
- 22. Memorandum, Changes to Detroit Property Tax Forecasts, *available at* POA00275524.
- 23. Memorandum, Changes to Detroit Property Tax Forecasts Since June 2013, QUEST (Feb. 24, 2014), *available at* POA00275525 POA00275526.

- 24. Memorandum, Detroit Revenue Extrapolation—2024-2053 (Jan. 8, 2014), available at POA00536026 POA00536028.
- 25. Memorandum, Estimating Methodology, Detroit Tax Forecast, *available at* POA00535987 POA00535993, POA00707083 POA00707088.
- 26. Memorandum, Long-Term Projections Discussion Items, *available at* POA00275657 POA00275660.
- 27. Memorandum, Property Tax, available at POA00275537.
- 28. Memorandum, Property Tax Revenue Methodology—High-Level (May 21, 2014), *available at* POA00707089 POA00707090.
- 29. Michigan Association of Realtors, Detroit Board of Realtors Residential Sales Statistics, 1995, 1998, 2001-2013, *available at* POA00275527 *and* http://www.mirealtors.com/Housing-Statistics.
- 30. Michigan Compiled Laws § 211.27a(1).
- 31. Michigan Constitution, Article 9, §§ 3, 10.
- 32. Michigan Public Act 246 of 2003.
- 33. Michigan State Tax Commission, Taxable Valuation (2000-2012), *available at* http://www.michigan.gov/treasury/0,1607,7-121-1751 2228 21957 45819---,00.html.
- 34. Michigan State Tax Commission, Assessed & Equalized Valuation (2000-2012), *available at* http://www.michigan.gov/treasury/0,1607,7-121-1751_2228_21957_45818---,00.html.
- 35. Miller Canfield, Office Memorandum, Real Property Tax Collection and Enforcement in the City of Detroit (Apr. 23, 2014), *available at* POA00252071 –POA00252086.
- 36. Office of Revenue and Tax Analysis, Michigan Department of Treasury, 2012/2013 Millage Rate Comparison County and Local Unit Report (Apr. 29, 2014), available at http://www.michigan.gov/documents/taxes/20122013LocalUnitMilllageRep ort_20140429_454855_7.pdf.

- 37. Office of Revenue and Tax Analysis, Michigan Department of Treasury, *Michigan Sales Tax, Constitutional Revenue Sharing and City of Detroit Revenue Sharing Projections to FY2025, available at* POA00629605 POA00629606.
- 38. Office of the Wayne County Treasurer, City of Detroit, Revolving Fund Net Payment Summary, FY 2005-FY 2013, *available at* POA00275534 *and* POA00706429 –POA706438.
- 39. Plante Moran, *Michigan Personal Property Tax Changes* (Mar. 2014), available at POA00629649 –POA00629650.
- 40. Rebecca Ross, *Consensus Revenue Estimating: The Process*, Fiscal Forum (Apr. 2001), *available at* http://www.house.mi.gov/hfa/Archives/PDF/consens.pdf.
- 41. Report of Gaurav Malhotra.
- 42. Report of Robert Cline.
- 43. Southeast Michigan Council of Governments, Forecasts for Population and Employment Change, Scenario 1a (2012), *available at* POA00225109.
- 44. U.S. Bureau of the Census, Building Permits Survey for Wayne County, Michigan (1998-2013), *available at* POA00275527 *and* http://www.census.gov/construction/bps/.
- 45. U.S. Bureau of Census, Housing Starts for Wayne County (1998-2012), *available at* POA00275527 *and* http://www.census.gov/construction/bps/.
- 46. U.S. Census Bureau, *Statistical Abstract of the United States: 2012*, Table 20: Large Metropolitan Statistical Areas—Population: 1990 to 2010, *available at* http://www.census.gov/prod/2011pubs/12statab/pop.pdf.
- 47. William H. Frey, *Population Growth in Metro America Since 1980: Putting the Volatile 2000s in Perspective*, Metropolitan Policy Program at Brookings (Mar. 2012), *available at* http://www.brookings.edu/~/media/research/files/papers/2012/3/20%20population%20frey/0320_population_frey.pdf.

EXHIBIT C

Caroline M. Sallee

Ernst & Young, LLP Phone: 312-879-4443

Quantitative Economics and Statistics caroline.sallee@ey.com

EDUCATION

University of Michigan Ann Arbor, MI

Gerald R. Ford School of Public Policy, Master of Public Policy, April 2005

Coursework: Advanced Microeconomics, Macroeconomics, Public Finance, Econometrics, Valuation

Augustana College Rock Island, IL

Bachelor of Arts in Economics and History, May 2002

Honors: Summa cum laude, Phi Beta Kappa

WORK EXPERIENCE

Ernst & Young LLP, August 2012 - Present

Chicago, IL

Manager, Quantitative Economics & Statistics (QUEST)

- Manages projects involving economic impact analyses for public and private sector clients. Uses IMPLAN and REMI to model the direct, indirect, and induced impacts of proposed capital expenditures and current operations.
- Manages tax policy projects. Works with public and private sector clients, trade associations, and business coalitions to develop and analyze regulatory and tax policy changes, and tax forecasting.
- Works with clients to analyze the public rates of return on investments in state economic development and workforce programs. Oversees staff work on these projects.
- Author of Ernst & Young's annual 50-State Total State and Local Business Taxes study published with the Council On State Taxation in 2013.

Anderson Economic Group, LLC, June 2005 - July 2012

Chicago, IL

Director of Public Policy and Economic Analysis, September 2010-Present

- Managed the practice area, which included creating and following a business plan for the practice area, hiring, overseeing all project staffing and reports released, and completing monthly invoicing.
- Obtained business for the practice area, which included responding to "Request for Proposals," writing engagement letters, meeting with prospective clients, and interviewing for projects.
- Served as project manager for economic impact, fiscal impact, tax policy, and health care finance reports
 for public and private clients. Tasks performed as project manager include: preparing contract, managing
 project budget, supervising staff work, preparing analysis, writing report, and presenting findings to client.
- Developed economic models using Excel and Stata.
- Served on company's Management Advisory Council, which advised CEO on management and policy issues.
- Discussed report findings with press, including radio and television interviews.

Consultant, July 2007-2010 Senior Analyst, June 2005-2007

Government Accountability Office, May - August 2004

Washington, DC

Summer Intern in Education, Workforce, and Income Security Team

- Wrote a section of the GAO's report to Congress that evaluated the U.S. Commission on Civil Rights'
 management practices and compliance with the Government Performance and Results Act.
- Analyzed data for a final report to Congress on the presence and display of social security numbers in public documents.

Hábitus: Investigación de Mercados y Opinión, January - July, 2003

Quito, Ecuador

Market Analyst

- Created market research presentations for companies including Coca-Cola and Bell South.
- Analyzed survey data and designed presentations for clients.

Congressman Bill Luther's District Office, August - December, 2002

Woodbury, MN

Citizen Services Representative

- Managed outreach project that entailed sending three detailed legislative letters to 1500 households each week.
- Composed press releases and Letters to the Editor that appeared in local papers on behalf of Congressman.

Public reports with Ernst & Young, LLP

"Total state and local business taxes: State-by-state estimates for fiscal year 2012," with Andrew Phillips, Robert Cline, Michelle Klassen and Daniel Sufranski, July 2013.

Public reports with Anderson Economic Group, LLC

- "Review of Kentucky's Economic Development Incentives," with Jason Horwitz, Alex Rosaen, and Colby Spencer, 2012.
- "Benchmarking Michigan's URC," with Erin Grover and Colby Spencer, 2012.
- "The URC's Contributions to Automotive Innovation," with Alex Rosaen and Erin Grover, 2012.
- "Economic Benefits Study: Contributions of CVS Caremark to Michigan's Economy," with Jason Horwitz, 2012.
- "Life Sciences Industry in Michigan and the University Research Corridor," with Hillary Doe and Patrick Anderson, 2009.
- "The Role of MQC3 and Home Help," 2011.
- "The URC's Support for Information and Communication Technology in Michigan," with Erin Agemy, 2011.
- "University Research Corridor Annual Report, with Patrick Anderson, 2011.
- "The Economic Impact of Argonne National Laboratory," with Scott Watkins and Alex Rosaen, 2011.
- "The Economic Impact of Fermi National Accelerator Laboratory," with Scott Watkins and Alex Rosaen, 2011.
- "Costs and Benefits of Investing in Mental Health Services in Michigan," with Erin Agemy, 2011.
- "Building a New Bridge in Detroit: A Study Evaluating the Options" with Colby Spencer and Alex Rosaen, September 2011.
- "Dollars and Sense: How State and Local Governments in Michigan Spend Your Money," January 2011.
- "Research and Development in the URC," with Erin Agemy, 2010. "The URC's Support for Advanced Manufacturing in Michigan," with Erin Agemy and Alex Rosaen, 2010.
- "Empowering Michigan: Fourth Annual Economic Impact Report of Michigan's University Research Corridor," with Patrick Anderson, 2010.
- "Preliminary Report: Life Sciences Industry in Michigan and the University Research Corridor," with Hilary Doe and Patrick Anderson, 2009.
- "Michigan's University Research Corridor: Third Annual Economic Impact Report," with Patrick Anderson, 2009.
- "2008 State Business Tax Burden Rankings," with Patrick Anderson, 2009.
- "Economic Benefits of the Earned Income Tax Credit in Michigan," 2009.
- "A Hand up for Michigan Workers: Michigan's State Earned Income Tax Credit," with Patrick Anderson and Alex Rosaen, 2008.
- "Economic Impact of Proposed MSU Facility for Rare Isotope Beams (FRIB)," with Patrick Anderson, 2008.
- "Preliminary Report: Alternative Energy Research and Development in the URC," with Rebecca Cohen and Patrick Anderson, 2008.
- "Michigan's University Research Corridor: Second Annual Economic Impact Report," with Patrick Anderson, 2008
- "Tax Burden and Distribution of Stimulus Payments," with Patrick Anderson, 2008
- "2007 State Business Tax Burden Rankings," with Patrick Anderson, April 2008.
- "Economic and Fiscal Impact of LaSalle Bank Acquisition," with Alex Rosaen, Darci Keyes, and Tim Mahon, 2007.
- "Business Tax Burdens in Illinois" with Tim Mahon, June 2007.
- "Michigan's University Research Corridor: First Annual Economic Impact Report," with Patrick Anderson, 2007.
- "Economic Impact of Big Ten Football Games in Michigan, with Scott Watkins and Patrick Anderson, 2007.
- "Economic Impact of Michigan State University, with Alex Rosaen and Patrick Anderson, 2007.
- "Role of Blue Cross in Michigan's Health Insurance Market," with Darci Keyes and Patrick Anderson, 2007. "Benchmarking for Success: A Comparison of State Infrastructure," with Patrick Anderson, December 2006.
- "Benchmarking for Success: Education Performance Among the States," with Scott Watkins and Patrick Anderson, September 2006.
- "Benchmarking for Success: A Comparison of State Business Taxes," with Patrick Anderson, August 2006.
- "Costs and Benefits of a Wage Increase for Home Help Workers," with Alex Rosaen, 2006.
- "Review of the Proposed K-16 Initiated Law," with Alex Rosaen and Patrick Anderson, 2006.
- "Automation Alley Annual Technology Industry Report: Driving Southeast Michigan Forward," with Scott Watkins, 2006.
- "North-Central West Virginia's Technology Industry: A Pathway Through the 21st Century," with Scott Watkins, 2006
- "Likely Impact of Delphi Bankruptcy," AEG Working Paper, with Ilhan Geckil and Patrick Anderson, 2005.

SELECT PRESENTATIONS

- "Common Sense Reforms for a New Michigan," leadership summit presentation on "2011 Citizen's Guide to Michigan's Financial Health" with Michigan Governor Rick Snyder, January 2011.
- "Review of Kentucky's Economic Development Incentive Programs," presentation to the Kentucky Interim Joint Committee on Economic Development and Tourism with Jason Horwitz, July 19, 2012.

EXHIBIT 3

Report of Gaurav Malhotra

UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF MICHIGAN SOUTHERN DIVISION

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

REPORT OF GAURAV MALHOTRA

Pursuant to Federal Rule of Civil Procedure 26(a)(2)(B), made applicable to this proceeding by Federal Rule of Bankruptcy Procedure 7026, debtor the City of Detroit submits this report with respect to the expected expert testimony of Gaurav Malhotra.

INTRODUCTION

Gaurav Malhotra is a Principal and the Midwest Restructuring Leader at the firm Ernst & Young LLP ("EY"), as well as a Senior Managing Director at Ernst & Young Capital Advisors LLC. It is the City's intention to call Mr. Malhotra to testify about the forecasted revenues and expenses the City's General Fund may expect in future years. The information in this report is presented as of the date of this report and is based upon projections contained within the Fourth Amended Disclosure Statement With Respect to Fourth Amended Plan for the Adjustment of

Debts of the City of Detroit [Docket no. 4391] dated May 5, 2014 (the "Disclosure Statement"), as such projections were updated as of July 2, 2014. *See* Ten-Year Financial Projections [POA00706519 – POA00706600] ("10-Year Forecast"); Plan of Adjustment – 40 year projections [POA00706603 – POA00706611] ("40-Year Forecast").

OPINIONS

Mr. Malhotra will offer the following opinions:

I. Ten-Year Projections

A. For the period ending with the City's 2023 fiscal year, the projected revenues and expenditures the City's General Fund can expect are set forth in the 10-Year Forecast and in the 40-Year Forecast at Exhibit 3b.

B. These projected revenues and expenditures are reasonable forecasts and represent a realistic picture of the City's General Fund's ability to afford its expenditures and satisfy its obligations under the Plan while maintaining an adequate level of municipal services.

II. Forty-Year Projections

A. For each of the next four ten-year periods ending with the City's 2053 fiscal year, the projected revenues and expenditures the City's General Fund can expect are set forth in the 40-Year Forecast.

B. These projected revenues and expenditures are reasonable forecasts and represent a realistic picture of the City's General Fund's ability to afford its expenditures and satisfy its obligations under the Plan while maintaining an adequate level of municipal services.

BASIS AND REASONS FOR OPINIONS

Mr. Malhotra based his opinions upon analyses of historical trends, reviews of departmental budgets, and discussions with City management regarding steady-state projections. In addition, Mr. Malhotra relied upon the assumptions made, analyses conducted, and opinions offered by other experts, including Robert Cline and Caroline Sallee of EY's Quantitative Economic & Statistics ("QUEST") practice, Charles Moore of Conway MacKenzie, Kenneth Buckfire of Miller Buckfire, and the City's actuaries at Milliman. In reaching his opinions, Mr. Malhotra followed standard forecasting procedures used in the field of financial forecasting and analysis.

I. Ten-Year Projections

The revenues and expenditures the City's General Fund may expect in each of the next ten years are set out in the 10-Year Forecast and the 40-Year Forecast,

in particular at Exhibit 3b of the 40-Year Forecast.¹ In developing these forecasts, Mr. Malhotra employed the following methodologies and assumptions:

A. Methodology

- (1) Developing forecasts of the City's General Fund revenues, expenditures, and funds available for unsecured creditors in each of the next ten fiscal years, by:
- (a) Projecting the annual revenues the City's General Fund can expect in each of the next ten fiscal years from 2014 to 2023.
- (i) Mr. Malhotra directed Robert Cline and Caroline Sallee of EY's QUEST practice to develop projections of the City's revenues in five key areas—income taxes, property taxes, wagering taxes, state revenue sharing, and utility users' taxes. Mr. Malhotra relied upon these projections in making his ten-year revenue projections.
- (ii) Mr. Malhotra forecasted the City's other General Fund operating revenues based largely on historic trends, making adjustments where necessary, as explained in the Assumptions section below.
- (iii) Mr. Malhotra incorporated the additional revenues expected to be generated for the General Fund from the City's departmental

¹ The forecasted revenues and expenditures set forth in Exhibit 3 of the 10-Year Forecast and Exhibit 3b of the 40-Year Forecast are equivalent. These two Exhibits differ only in the manner of their presentation.

revenue initiatives. To do so, Mr. Malhotra relied on the forecasts of these additional revenues provided to him by Conway MacKenzie.

- (iv) Finally, Mr. Malhotra incorporated the net proceeds of Quality of Life financing in FY2014 and FY2015, as well as the assumed proceeds from exit financing between FY2015 and FY2016.
- (b) Projecting the City's expected operating expenditures and restructuring-related expenses over this ten-year period.
- (i) Mr. Malhotra's team conducted a department-by-department review of historical and current staffing levels, payroll, and benefits, in order to determine the salary, overtime, and fringe benefit costs for both Public Safety and Non-Public Safety departments.
- (ii) Mr. Malhotra relied upon the terms of the Plan to forecast active pension plan and OPEB payments for future retirees.
- (iii) Mr. Malhotra forecasted the expenditures associated with the City's restructuring by relying on various sources, as explained in the Assumptions section below.
- (iv) Finally, Mr. Malhotra included a contingency reserve to account for unanticipated events and made adjustments to the timing of certain reinvestment spending to ensure adequate cash liquidity.

- (c) Determining the amount of "funds available for unsecured claims" after providing adequate municipal services, by taking the difference between the City's General Fund's expected revenues and expenditures in each of the next ten fiscal years.
- (2) Adding other sources of cash to the funds available for unsecured claims to arrive at a "total hypothetical sources" of funds, by:
- (a) Projecting and adding additional sources of cash, including
 (i) the revenue stream from the Detroit Water/Sewerage Department ("DWSD");
 (ii) reimbursements from other funds (Library and non-General Fund Parking operations); and (iii) the proceeds of the "grand bargain." This "grand bargain" is comprised of foundation fundraising, DIA contributions, and State settlement proceeds.
- (3) Developing projections for the hypothetical distributions to unsecured creditors ("uses") of these hypothetical sources throughout the ten-year period based on the terms of settlements or the Plan, by:
- (a) Scheduling the projections of cash distributions to the retiree pension systems as well as other post-employment benefits (OPEB) based on the terms of settlements reached with the Retirement Systems and Retiree Committee.

- (b) Scheduling the projections of cash distributions to satisfy unsecured UTGO (Note A1) and LTGO (Note A2) claims based on the terms of settlements reached with the respective parties.
- (c) Scheduling the projections of cash distributions on account of Note B, which encompasses payments to satisfy other unsecured creditor claims, including OPEB, POC, Notes/loans payable, and other unsecured items.
- (d) Summing the aforementioned schedules of cash distributions to arrive at "total hypothetical distributions / total uses."
- (4) Calculating the implied surplus / (deficit) and cash balances for the ten-year period, by:
- (a) Subtracting total hypothetical distributions / total uses from total hypothetical sources to arrive at surplus / (deficit) projections for the ten-year period.
 - (b) Rolling forward a June 30, 2013 cash balance of \$36 million.

B. Assumptions

- (1) Mr. Malhotra made the following assumptions in forecasting the revenues the City can expect over the forecast period:
- (a) Mr. Malhotra relied on the projections made by Robert

 Cline and Caroline Sallee of EY's QUEST practice to forecast the City's revenues

from income taxes, property taxes, wagering taxes, state revenue sharing, and utility users' taxes.

- (b) Mr. Malhotra forecasted sales and charges for services based on historical trends, adjusted primarily for the transition of the Public Lighting Department's distribution business. Remaining revenues were projected based on FY2013 levels, as adjusted to achieve targeted levels provided through discussions with department management.
- (c) Mr. Malhotra forecasted other operating revenues listed on Exhibit 4 of the 10-Year Forecast—including (i) parking/court fines and other revenue, (ii) grant revenue, (iii) licenses, permits and inspection charges, and (iv) revenues from the use of assets based upon recent trends, as adjusted to account for recent or expected events. Mr. Malhotra assumed that (i) parking/court fines and other revenue primarily consist of revenues from parking violations, traffic violations, and court fines, which will continue to reflect recent trends; (ii) grant revenue will decrease due to the transition of the Health and Wellness department and the expiration of certain public safety grants; (iii) revenues from licenses, permits and inspection charges will continue to reflect recent trends; and (iv) revenues from the use of assets include investment earnings, real estate rentals, and the sale of assets, which will include proceeds from the sale of the Veteran's Memorial Building in FY2015.

- (d) As reflected in Exhibit 4 of the 10-Year Forecast, General Fund reimbursements include (i) Street Fund reimbursements, (ii) DDOT risk management reimbursements, and (iii) Parking and Vehicle Fund reimbursements. The projections assume that (i) Street Fund reimbursements will decrease beginning in FY2015 due to an assumed outsourcing of solid waste operations, which will no longer reimburse GSD for maintenance costs; (ii) DDOT risk management reimbursements will continue to reflect the portion of risk management costs allocated to DDOT based on recent trends; and (iii) parking reimbursements will continue to reflect recent trends.
- (e) The projections assume that the City will be able to continue to collect the UTGO property tax millage at an amount equal to the originally scheduled debt service.
- (f) Mr. Malhotra relied upon the revenues expected to be generated from the City's departmental revenue initiatives as provided by Conway MacKenzie.
- (g) The projections assume that the City will receive net Quality of Life (QOL) financing proceeds of \$118 million between FY2014 and FY2015, and \$175 million of net additional proceeds from exit financing between FY2015 and FY2016.

- (2) Mr. Malhotra made the following assumptions in forecasting the expenditures the City can expect over the forecast period:
- (a) The projections for salaries and wages assume (i) a 10.0% wage reduction for uniformed employees beginning in FY2014 for contracts that expired in FY2013; (ii) a ramp-up of headcount to begin in FY2015 in order to return to previous staffing levels after a decline in the actual headcount for FY2014; and (iii) wage inflation rates for all employees of 5.0% in FY2015, 0.0% in FY2016, 2.5% annually from FY2017 to FY2019, and 2.0% in FY2020 and thereafter.
- (b) Expenditures for overtime are projected to continue to reflect recent trends as a percentage of salaries and wages. Elimination of 12-hour shifts for police officers are projected to result in an increase in overtime costs for the Police Department.
- (c) Other benefits are projected to continue to reflect recent trends, with assumed bonus payments of 2.5% of salary for non-uniform employees and 3.0% of salary for uniform employees in FY2016.
- (d) Health benefit expenditures for active employees are projected based on per-head medical cost estimates provided by Milliman through FY2019 (based on the cost of plan designs being offered for 2014 enrollment).

 Milliman projects the average annual inflation rate between FY2014 and FY2019

to be 6.8%. Medical inflation is capped (for city contribution purposes) at 4.0% after FY2019.

- (e) OPEB contributions will be \$1 million annually for future public safety retirees and 2.0% of salary for non-public safety future retirees, as required by the Plan.
- (f) As required by the Plan, for FY2015 and beyond, the City will make contributions of 12.25% of salary for active public safety employees and 5.75% for active non-public safety employees.
- (g) Other operating expenses consist of (i) professional and contract services, (ii) materials and supplies, (iii) utilities, (iv) purchased services, (v) risk management and insurance, (vi) maintenance capital, (vii) other expenses, (viii) contributions to non-enterprise funds, and (ix) the DDOT subsidy, as reflected in Exhibit 4 of the 10-Year Forecast. Mr. Malhotra made the following assumptions with respect to these other operating expenses:
- (i) *Professional and contractual services*:

 Expenditures for professional and contractual services are projected to decrease beginning in FY2014 due to the transition of the Health and Wellness department.

 The projections assume a 1.0% annual cost inflation beginning in FY2015.
- (ii) *Materials and Supplies*: Expenditures for materials and services will decrease beginning in FY 2015 due to the transition of

the Public Lighting Department distribution business. The projections assume a 1.0% annual cost inflation beginning in FY2015.

(iii) *Utilities*: Expenditures for utilities are projected to continue to reflect recent trends. The projections assume the cost of electricity purchased by PLD for internal consumption will increase to account for an increase of billing to retail rates from wholesale rates beginning FY2015. The projections assume a 1.0% annual cost inflation beginning in FY2015, except for water/sewer rates, as to which the projections assume an average annual cost inflation of 3.5%.

(iv) *Purchased Services*: Expenditures for purchased services will increase beginning in FY2014 due to increased prisoner prearraignment function costs, and in FY2016 due to additional payroll processing management. The projections assume a 1.0% annual cost inflation beginning in FY2015.

(v) *Risk Management and Insurance*: Risk management includes costs associated with litigation, workers' compensation, and claims. The projections assume a 1.0% annual cost inflation beginning in FY2015.

(vi) *Maintenance Capital*: One-time capital outlays are included in FY2013. The projections assume a 1.0% annual cost inflation beginning in FY2015.

(vii) *Other Expenses*: The projections assume a 1.0% annual cost inflation beginning in FY2015 for other expenses, such as printing, rental, and other operating costs.

(viii) *Contributions to Non-Enterprise Funds*: The projections assume that contributions to the Public Lighting Authority for operations begin in FY2015.

(ix) *DDOT Subsidy*: The DDOT subsidy is projected to increase, due primarily to personnel and operating cost inflation. The subsidy increases projected in FY2015 and FY2016 are largely driven by the revised methodology utilized by the State in calculating State operating assistance revenue (Act 51).

- (h) Mr. Malhotra relied upon the amount of additional operating expenditures necessary to provide adequate municipal services as provided by Conway MacKenzie.
- (i) Mr. Malhotra assumed that payments to secured claims will be unaltered by a restructuring, with the exception of the POC swaps, as provided in the Plan.
- (j) Mr. Malhotra and his team estimated the level of required contributions to the Pension Income Stabilization Funds contemplated by the Plan.Mr. Malhotra and his team relied upon (i) information on pension payments

received by retirees that was classified by age group and payment amount, and (ii) census data for Detroit residents that could be used to estimate sources of income other than pension payments. Mr. Malhotra's team used this information to estimate total household income for pension recipients. Mr. Malhotra's team compared this amount to the Federal Poverty Level in order to estimate the potential required payments from the Income Stabilization Funds.

- (k) Mr. Malhotra relied upon the terms of the settlement agreement (assuming a liquidity event, such as the exit financing) reached with the POC swap counterparties in order to determine the payments required in connection with the settlement of the POC swaps as provided in the Plan.
- (l) The exit financing is assumed to be an 11-year note funded on October 31, 2014, with interest-only payments in the first 4 years and equal principal payments made in years 5 through 11. This assumes an interest rate of 6.0%, which was provided to Mr. Malhotra by Miller Buckfire.
- (m) Mr. Malhotra relied upon the amount of capital investments projected to be undertaken by the City in the ten-year period as provided by Conway MacKenzie.
- (n) Mr. Malhotra's team relied upon original estimates provided by each professional firm to calculate the projected payments by the City to its restructuring advisors in FY2014 and FY2015. Mr. Malhotra assumed that any

incremental professional fees to be funded by the State escrow account would be subject to State approval.

- (o) Mr. Malhotra relied upon the forecasted expenditures to remove blight (excluding heavy commercial) as provided by Conway MacKenzie for the ten-year period.
- (p) The projections reflect preliminary estimates for the decommissioning of 31 Public Lighting Department substations. This does not include costs associated with decommissioning the City's Mistersky power plant.
- (q) Mr. Malhotra included a contingency reserve amount to reflect unanticipated events that cannot be assigned to specific programs. The contingency reserve is calculated as 1.0% of revenue per year throughout the forecast period.
- (r) Mr. Malhotra assumed that to maintain the amount of funds necessary to ensure adequate cash liquidity, minimum cash reserves amounting to two months of payroll expenses would be required. To accomplish this, and to ensure that the City did not run a deficit in any fiscal year, Mr. Malhotra made certain timing adjustments, including the assumed deferral of some reinvestment spending.

II. Forty-Year Projections

The revenues and expenditures the City's General Fund may expect in each of the next four decades are set out in the 40-Year Forecast, in particular at Exhibit 3a. In developing these forecasts, Mr. Malhotra employed the following methodologies and assumptions:

A. Methodology

- (1) Determining the amount of the City's operating revenues available for unsecured claims over the next 40 years, by:
- (a) Extending the recurring revenue items within the ten year projections' for thirty additional years (through 2053).
- (b) Subtracting the City's projected expenditures over the entire forty-year period, after utilizing debt service schedules or applying inflationary growth rates to the City's operational and restructuring expenses. These calculations produced an amount of "funds available for unsecured claims" for the forty-year period.
- (2) Adding other sources of cash to the funds available for unsecured claims from operating revenues to arrive at a "total hypothetical sources" of funds.
- (3) Developing projections for the hypothetical distributions to unsecured creditors of these hypothetical sources throughout the forty-year period based on the terms of settlements or the Plan.

- (4) Calculating the surplus / (deficit) and cash balances for each decade, by:
- (a) Summing the schedules of the aforementioned cash distributions to arrive at "total hypothetical distributions / total uses."
- (b) Subtracting total hypothetical distributions / total uses from total hypothetical sources to arrive at surplus / (deficit) projections for each decade during the forty-year period.
 - (c) Rolling forward each decade's ending cash balance.
- (5) Determining illustrative recoveries for unsecured creditors, as reflected in Exhibit 2 of the 40-Year Forecast, to represent the present value of distributions to each unsecured creditor based on the projected uses, by:
- (a) Applying a discount rate of 5.0% to calculate illustrative recoveries consistently for each creditor.
- (b) Dividing each recovery amount by its respective claim amount to arrive at an illustrative recovery percentage.

B. Assumptions

- (1) Mr. Malhotra made the following assumptions in forecasting the revenues the City can expect over the forecast period:
- (a) *Key tax revenue drivers*: Mr. Malhotra directed Robert Cline and Caroline Sallee of EY's QUEST practice to develop projections of the

City's General Fund revenues in five key areas—income taxes, property taxes, wagering taxes, state revenue sharing, and utility users' taxes. Mr. Malhotra relied on these projections in making his forty-year projections.

- (b) *Other operating revenues*: Other operating revenues consist of sales and charges for services, other revenue, General Fund reimbursements, and department revenue initiatives. Mr. Malhotra based his post-FY2023 forecast of these revenues on their respective FY2023 estimates from the ten year projections. An inflationary growth rate of 2.0% is assumed annually beginning in FY2024 based upon the long-term inflationary rate developed by Robert Cline and others in EY's QUEST practice.
- (c) *Transfers in (UTGO millage)*: Consistent with the ten-year projections, Mr. Malhotra projected the expected revenues from the UTGO property tax millage based upon debt amortization schedules provided by the City's Finance Department with the assumption that sufficient tax revenues would be generated to cover required the debt service.
- (2) Mr. Malhotra made the following assumptions in forecasting the expenditures the City can expect over the forecast period:
- (a) Salaries/Overtime/Fringe Public Safety: The projections assume 2.0% annual wage growth for employees beginning in the second decade and 2.25% annual wage growth in the third and fourth decade.

- (b) Salaries/Overtime/Fringe Non-Public Safety: The projections assume 2.0% annual wage growth for employees beginning in the second decade and 2.25% annual wage growth in the third and fourth decade.
- (c) *Health Benefits*: The projections assume a 4.0% annual inflation rate for hospital costs. Under the terms of the Plan, medical cost inflation greater than 4.0% is borne by the employees.
- (d) *OPEB payments future retiree*: OPEB payment contributions will be \$1 million annually for future public safety retirees and 2.0% of salary for non-public safety future retirees, as required by the Plan.
- (e) *Active pension plan*: As required by the Plan, the City will make contributions of 12.25% of salary for active public safety employees and 5.75% for active non-public safety employees.
- (f) Other operating expenses and additional operating expenditures: Other operating expenses consist of (i) professional and contract services, (ii) materials and supplies, (iii) utilities, (iv) purchased services, (v) risk management and insurance, (vi) maintenance capital, (vii) other expenses, (viii) contributions to non-enterprise funds, and (iv) the DDOT subsidy. Mr. Malhotra based his post-FY2023 forecast of these expenses on their respective FY2023 estimates from the ten-year projections. Mr. Malhotra assumed that the impact of the first decade increase in the DDOT subsidy (primarily associated with reduced

State operating assistance revenue) will be offset by operational savings beyond FY2023. He assumed an annual inflationary growth rate of 2.0% beginning in FY2024.

- (g) *Secured debt service*: The projections assume that payments to secured claims will be unaltered by a restructuring. Mr. Malhotra relied on debt amortization schedules provided by the City's Finance Department.
- (h) Contributions to the Income Stabilization Funds:

 Consistent with the ten year projections, Mr. Malhotra relied on his team to estimate the level of required contributions to the Pension Income Stabilization

 Funds contemplated by the Plan. Mr. Malhotra's team relied upon (i) information on pension payments received by retirees that was classified by age group and payment amount, and (ii) census data for Detroit residents that could be used to estimate sources of income other than pension payments. Mr. Malhotra's team used this information to estimate total household income for pension recipients.

 Mr. Malhotra's team compared this amount to the Federal Poverty Level in order to estimate the potential required payments from the Income Stabilization Funds.
- (i) *QOL/Exit financing*: The projections assume exit financing will be an 11-year note funded on October 31, 2014, with interest-only payments in the first 4 years and equal principal payments made in years 5 through 11.

- (j) *Reorganization (Capital investment)*: Mr. Malhotra relied upon the level of capital expenditures provided by Conway MacKenzie. This normalized level of annual capital expenditures is assumed to grow at an inflationary growth rate of 2.0% annually.
- (k) Contingency and reinvestment deferral: Consistent with the ten-year projections, Mr. Malhotra included a contingency reserve amount to reflect unanticipated events that cannot be assigned to specific programs. The contingency reserve is calculated as 1.0% of revenue per year throughout the forecast period. Mr. Malhotra also maintained the amount of funds necessary to ensure adequate cash liquidity by establishing minimum cash reserves amounting to two months of payroll expenses. To accomplish this, Mr. Malhotra made certain timing adjustments, including the assumed deferral of some reinvestment spending, to ensure that the City did not run a deficit in any fiscal year.
- (3) Mr. Malhotra made the following assumptions in determining the other sources of funds for unsecured claims:
- (a) Revenue stream from DWSD: Under the Plan no pension contributions are required of DWSD after 2023. Mr. Malhotra also incorporated DWSD's reimbursement of the General Fund for its restructured OPEB and POC costs (see Uses section below). DWSD's portion of OPEB (12.1%) was calculated based on its portion of fiscal year 2013's actual retiree healthcare costs. DWSD's

portion of POC (11.5%) was calculated based on their allocated principal from the 2006 POC refunding transaction. Relatedly, Mr. Malhotra determined that even with these payments, DWSD will realize savings under the Plan relative to a norestructuring scenario.

- (b) *Reimbursement from other funds*: The projections reflect reimbursements from Library and Municipal Parking (non-General Fund) for POC and pension expenses. For POC reimbursements, Mr. Malhotra relied upon the allocation of principal from the 2006 POC refunding transaction, as well as all fiscal year 2013 payroll by department. For pension reimbursements, Mr. Malhotra relied upon fiscal year 2012 General Retirement System UAALs (per Gabriel Roeder Smith's 74th Annual Actuarial Valuation Report dated November 5, 2013) as well as the fiscal year 2013 payroll.
- (c) Proceeds from the "grand bargain" (foundation fundraising, DIA contributions, State settlement): The projections reflect the terms of the grand bargain between the City of Detroit, the State of Michigan and the Detroit Retirement Systems. Included herein are one-time proceeds from the State of Michigan as well as foundation fundraising and DIA contributions to be collected over a nineteen-year period (2015-2033).
- (4) Mr. Malhotra made the following assumptions in determining the projected uses of funds available for unsecured claims:

- (a) *Hypothetical retiree payments*: Mr. Malhotra relied upon the terms of settlements made with the Retirement Systems and the Retiree Committee for the projected PFRS and GRS pension payments in years 2015 through 2023. Mr. Malhotra then relied upon Milliman's calculation of value for each System's UAAL at June 30, 2023. These UAAL figures were then amortized over thirty years (2024-2053).
- (b) *Note A1 (UTGO)*: Mr. Malhotra relied upon the terms of the settlement with unsecured UTGO creditors for the projections of Note A1. Mr. Malhotra assumed that \$287.5 million in principal of the UTGO bonds was reinstated pro-rata upon confirmation of the Plan.
- (c) *Note A2 (LTGO)*: Mr. Malhotra relied upon the terms of a settlement with unsecured LTGO creditors for the projections of Note A2. Mr. Malhotra assumed that the full amount of the \$55 million Note A2 would be paid in FY2015.
- (d) *Note B*: These projections reflect the principal and interest payments on a \$632 million thirty-year note paying interest only for the first ten years. The interest rates for each of the three decades covered by this note are 4.0%, 4.0%, and 6.0%. The face value of this note was divided amongst the remaining unsecured creditors: OPEB, POC, Notes/loans payable, and other unsecured items.

EXHIBITS

Attached as Exhibit A are exhibits Mr. Malhotra intends to rely upon during his testimony. The City reserves its right to use other exhibits during Mr. Malhotra's testimony, including demonstrative exhibits created from or summarizing existing exhibits.

MATERIALS CONSIDERED IN REACHING OPINIONS

Attached as Exhibit B is a listing of materials Mr. Malhotra considered in reaching his opinions. Mr. Malhotra also had available to him City officials, advisors, and consultants, as well as the expertise of Robert Cline and Caroline Sallee and the materials they considered.

QUALIFICATIONS

Mr. Malhotra is a Principal and the Midwest Restructuring Leader at EY, as well as a Senior Managing Director at Ernst & Young Capital Advisors LLC. Mr. Malhotra received his undergraduate degree from the University of Delhi and a Masters of Business Administration degree from Case Western Reserve University, where he had a dual major in Finance and Business Policy. Mr. Malhotra has

nearly 14 years of financial and operational restructuring experience. Prior to joining EY in 2009, Mr. Malhotra was a Director in the restructuring division of Macquarie Capital (USA) Inc., a leading merchant bank. Mr. Malhotra is a Chartered Financial Analyst and a member of both the Turnaround Management Association and the Association of Insolvency and Restructuring Advisors.

Mr. Malhotra has advised numerous entities, both in the public and private sectors, in evaluating strategic alternatives and executing complex restructuring transactions. As part of this work, Mr. Malhotra has developed significant experience in liquidity analyses, cash-flow forecasting, and business plan development, among other things. Mr. Malhotra's private-sector engagements include Liberty Medical Supply, Inc., Schutt Sports, Collins & Aikman Corporation, Delta Airlines, Inc., and Eagle Pitcher. Mr. Malhotra also has significant experience in the public sector, including involvement in the recent restructuring efforts of the Detroit Public Schools and through his work on behalf of the City of Detroit since May 2011. These engagements have involved liquidity analyses, cash forecasting, and related projections of revenue and expenses.

PRIOR EXPERT TESTIMONY

Mr. Malhotra has previously testified in this case as an expert in financial analysis.

COMPENSATION

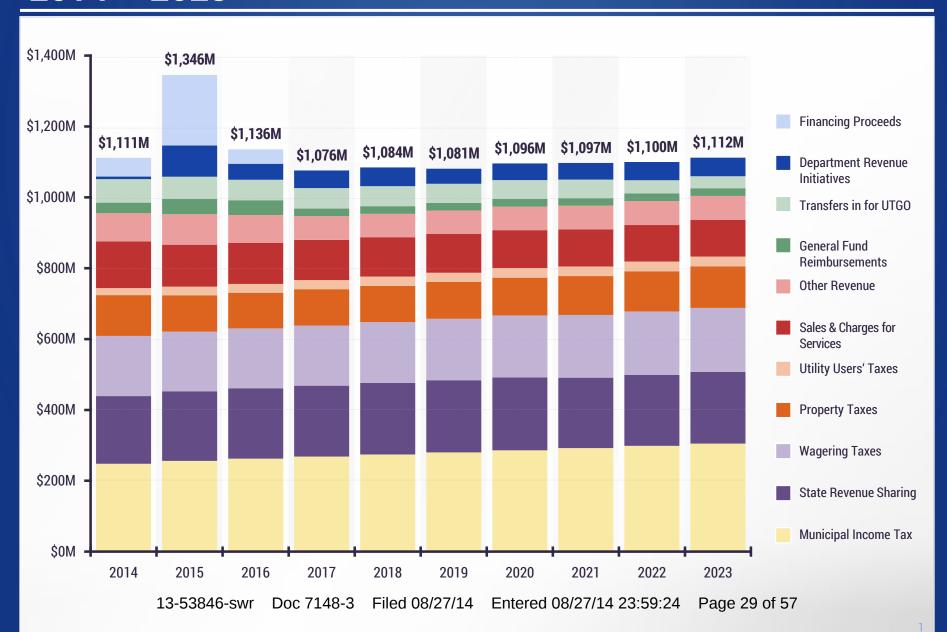
The City retained Ernst & Young LLP to provide expert witness services to the City in connection with *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (Rhodes, J.). The City compensates EY at an hourly rate of \$800 for actual time incurred by Mr. Malhotra, as well as reasonable out-of-pocket expenses. These fees are subject to a 10% hold-back contingent on plan confirmation by December 31, 2014.

Dated: July 8, 2014

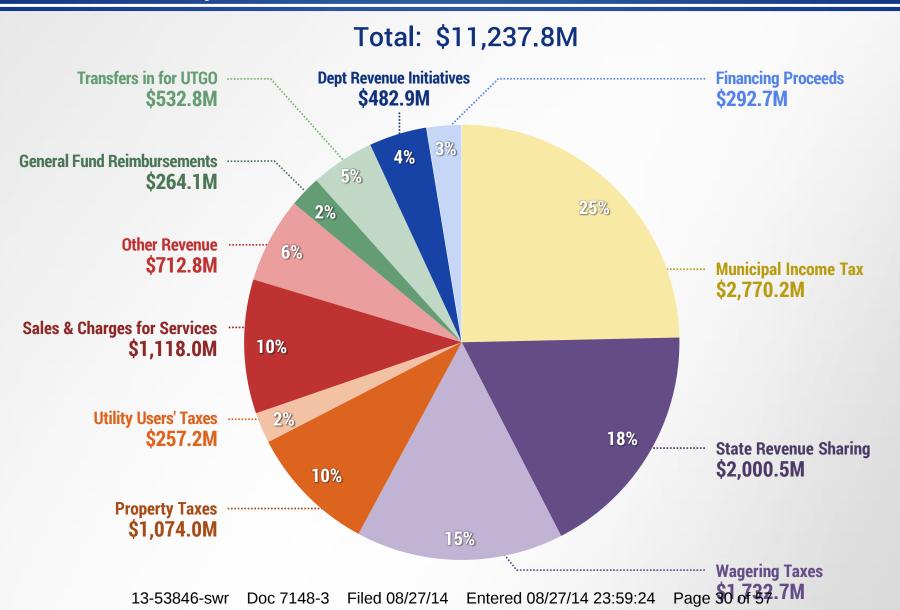
Gaurav Malhotra

EXHIBIT A

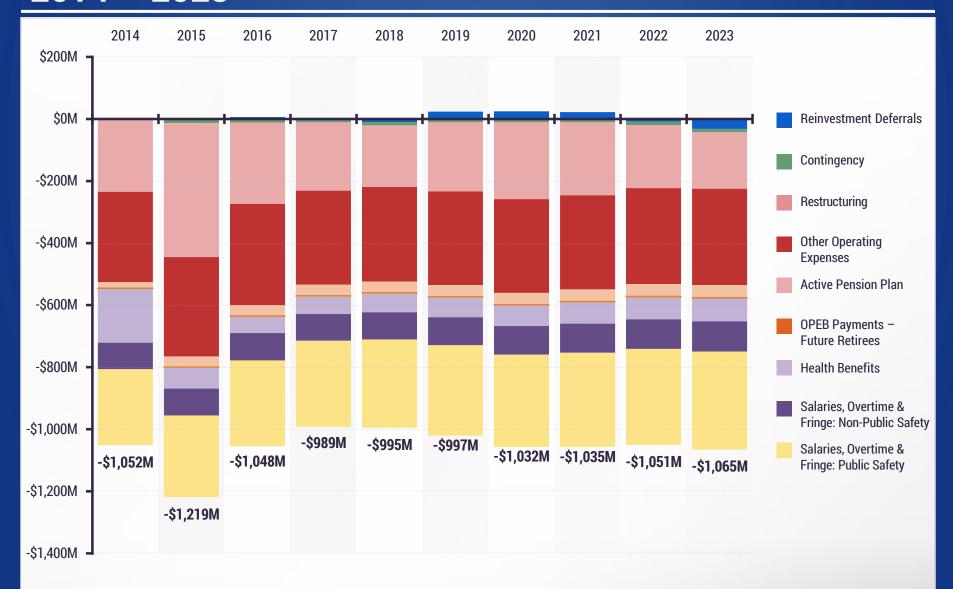
Revenues, 2014 - 2023



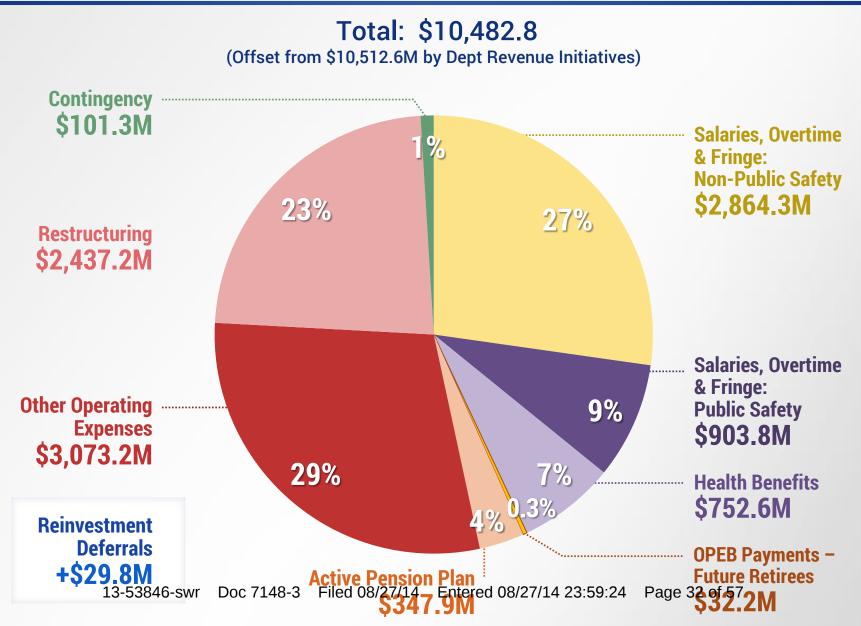
Revenues, 2014 - 2023, Ten-Year Total



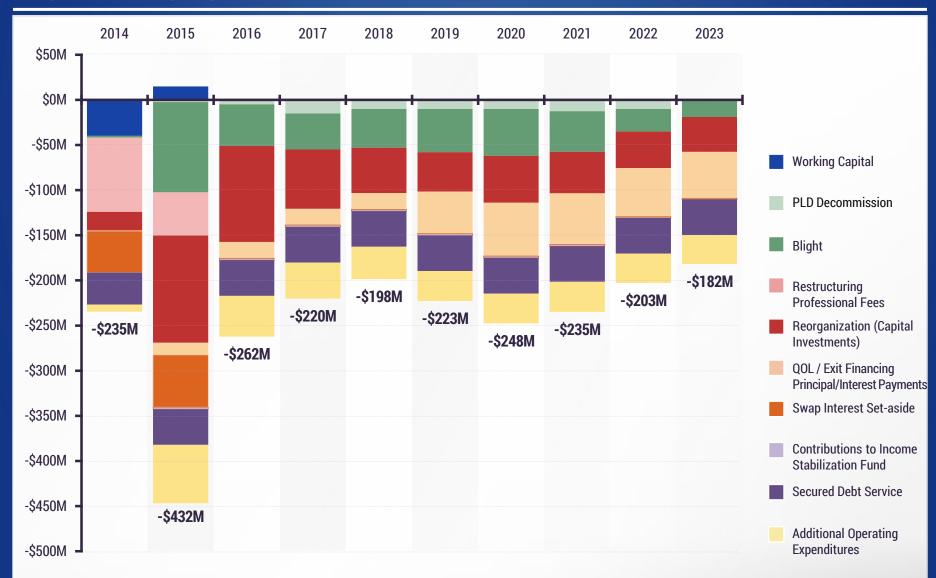
Expenditures, **2014 – 2023**



Expenditures, 2014 - 2023, Ten-Year Total

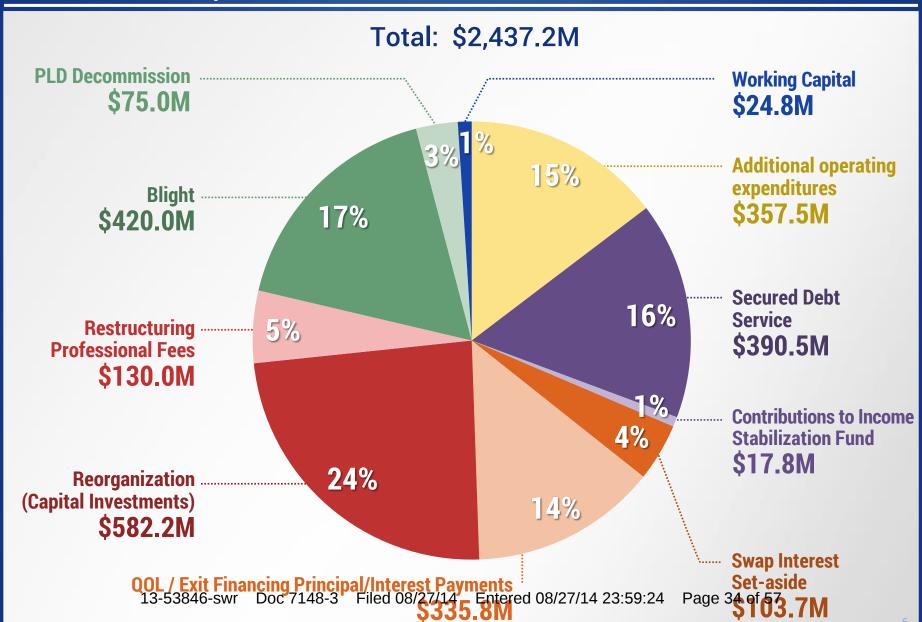


Restructuring Expenditures, 2014 – 2023



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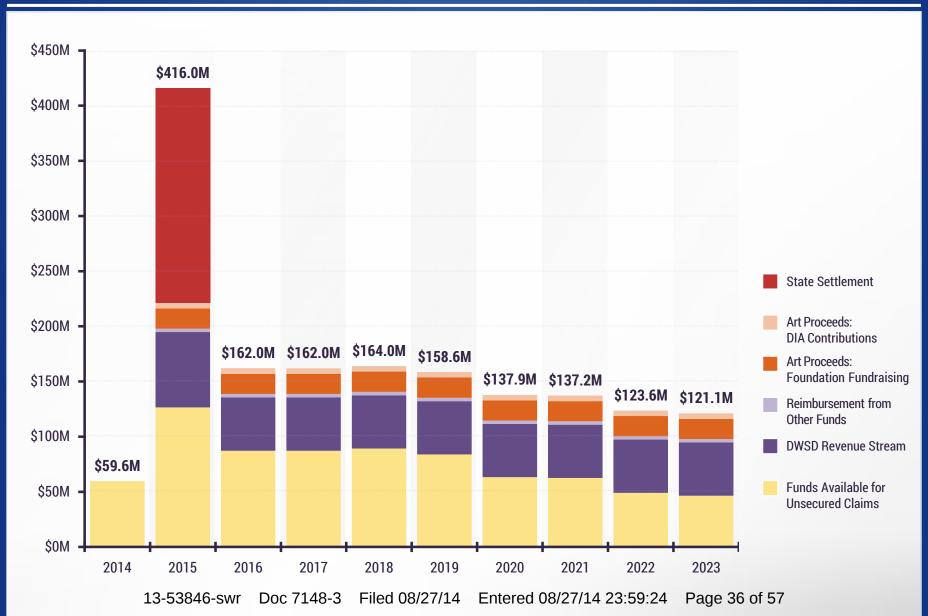
Restructuring Expenditures, 2014 - 2023, Ten-Year Total



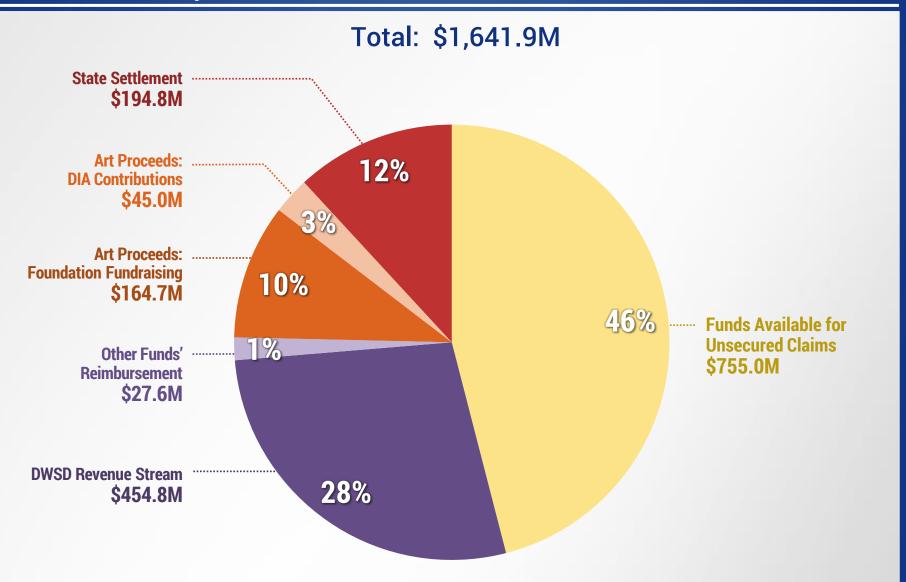
Adjusted Funds Available for Unsecured Claims, 2014 - 2023



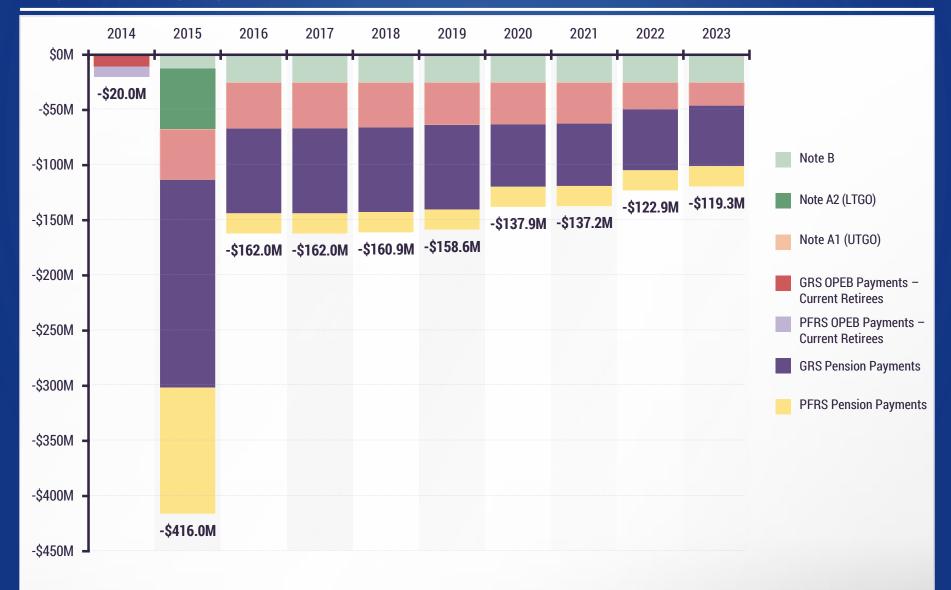
Forecasted Sources of Funds for Unsecured Claims, 2014 – 2023



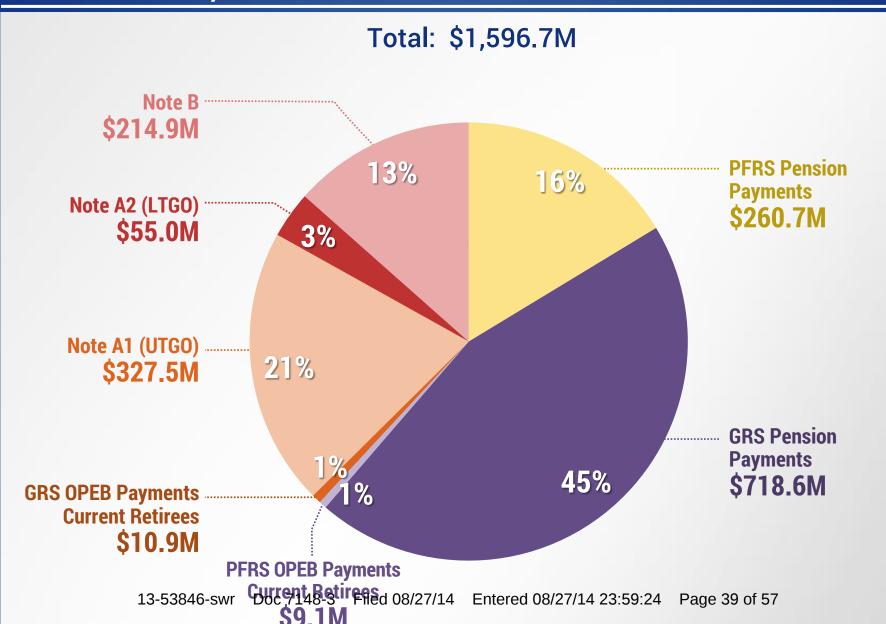
Forecasted Sources of Funds for Unsecured Claims, 2014 – 2023, Ten-Year Total



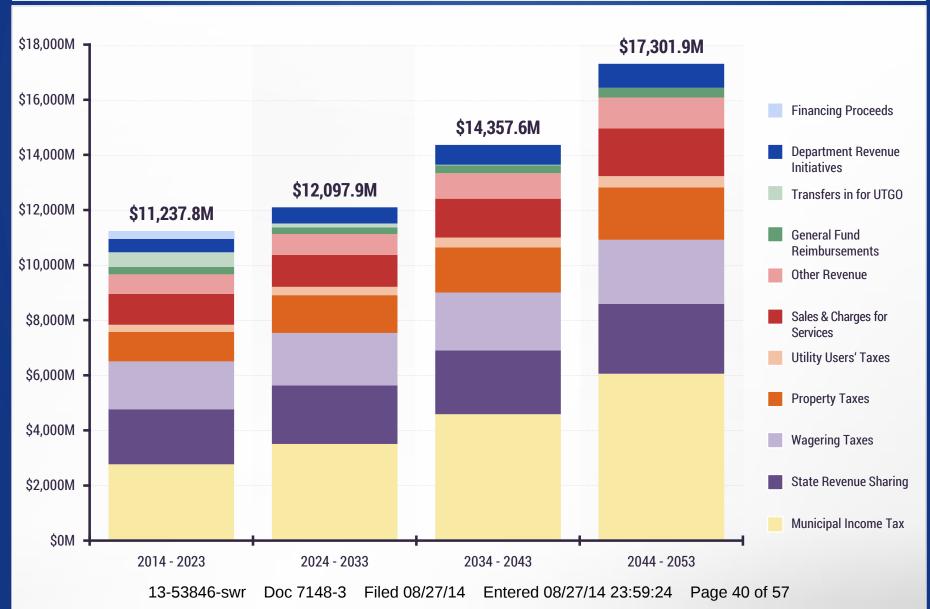
Forecasted Distributions for Unsecured Claims, 2014 – 2023



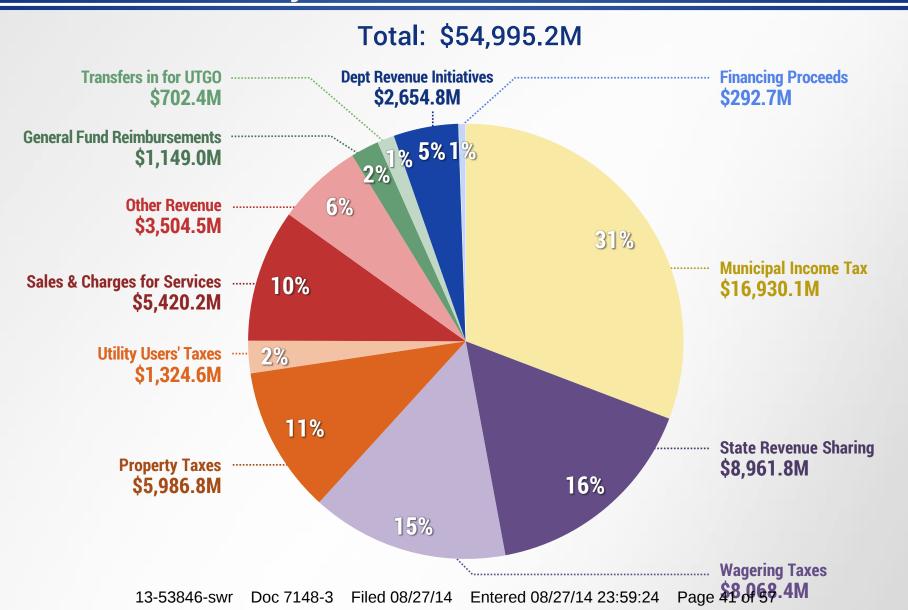
Forecasted Distributions for Unsecured Claims, 2014 – 2023, Ten-Year Total



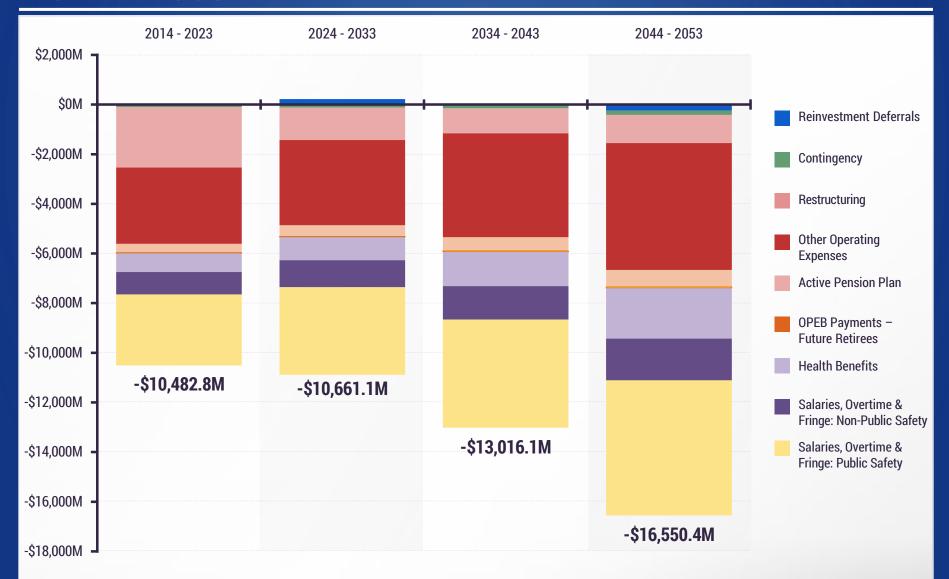
Revenues, 2014 - 2053



Revenues, 2014 - 2053, Forty-Year Total

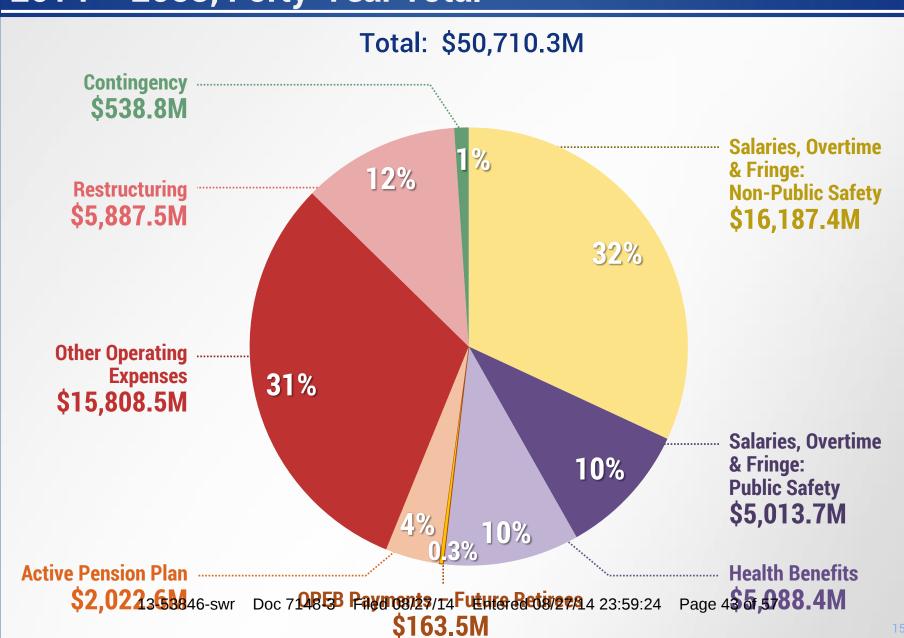


Expenditures, 2014 – 2053

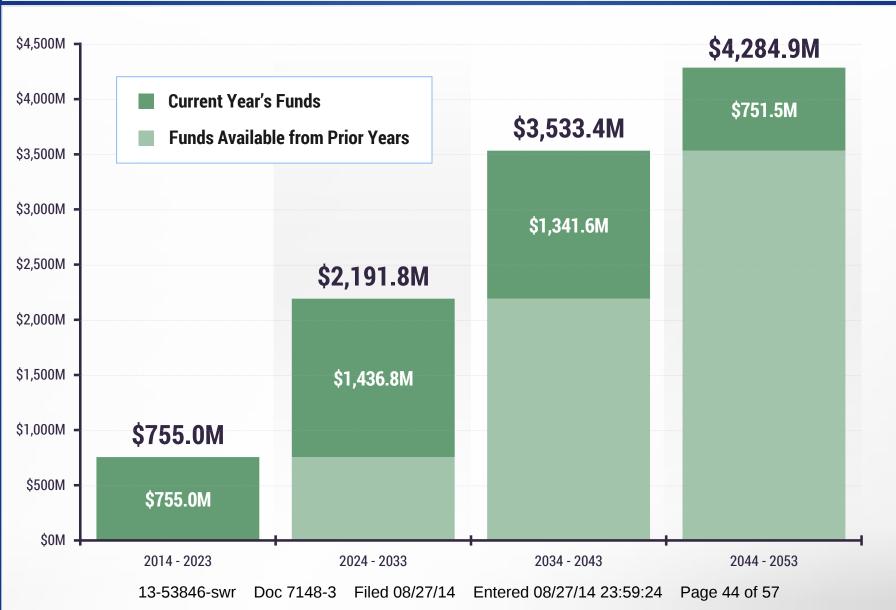


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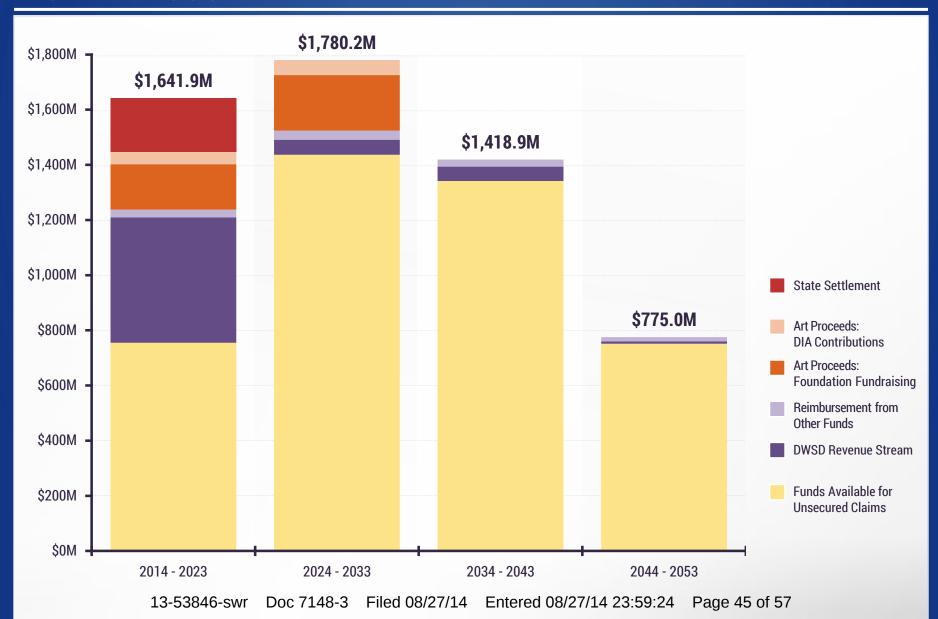
Expenditures, 2014 - 2053, Forty-Year Total



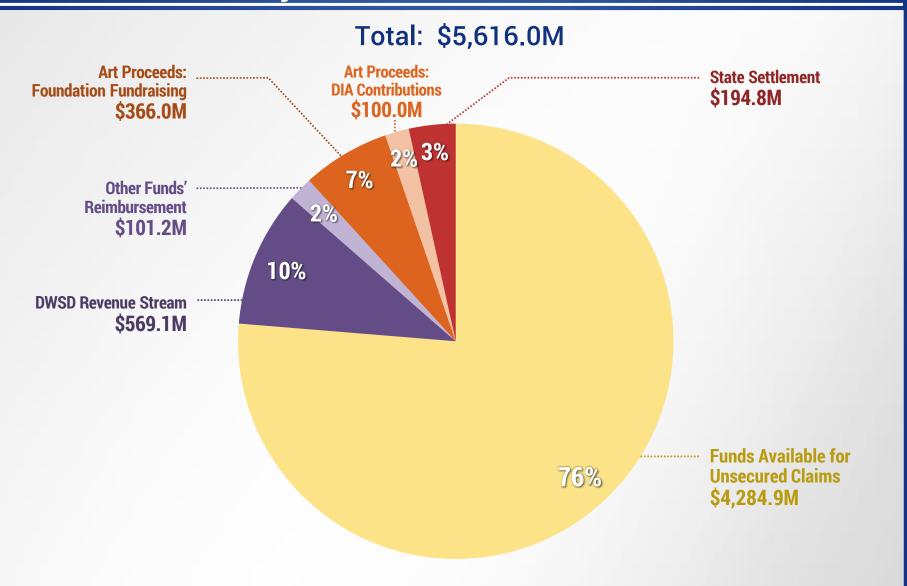
Funds Available for Unsecured Claims, 2014 - 2053



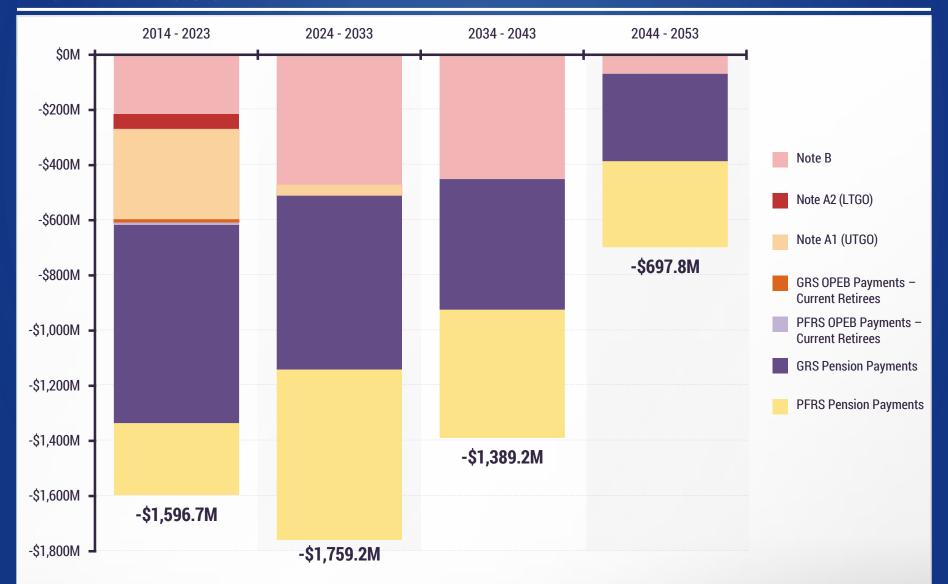
Forecasted Sources of Funds for Unsecured Claims, 2014 – 2053



Forecasted Sources of Funds for Unsecured Claims, 2014 - 2053, Forty-Year Total

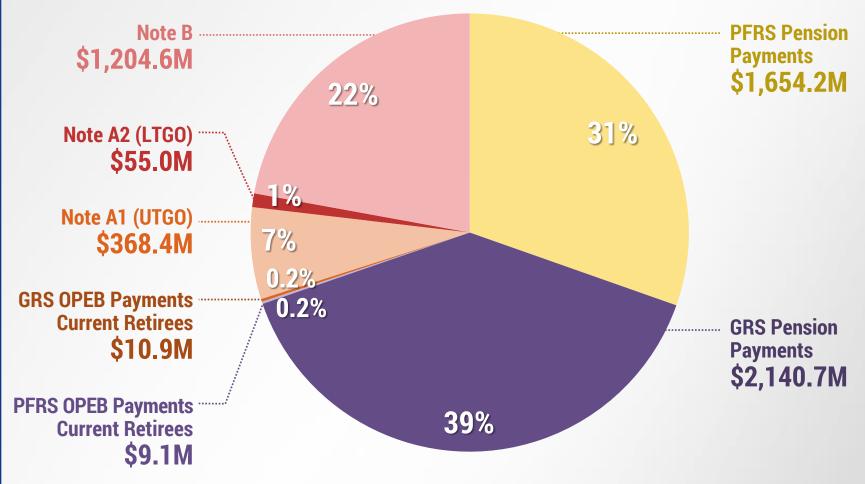


Forecasted Distributions for Unsecured Claims, 2014 – 2053



Forecasted Distributions for Unsecured Claims, 2014 – 2053, Forty-Year Total





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EXHIBIT B

Name	Bates Range	
10-Year Forecast as of 5.5.2014	POA00275421	POA00275502
40-Year Forecast as of 5.5.2014	POA00275503	POA00275511
2011 L-4037 - Ad Valorem and Special Acts - STC Assessment Roll Certification (Board of Review)	POA00275512	POA00275513
2012 L-4037 Warrant (Ad Valorem) - STC Asssessment Roll Certification (Board of Review) with Supporting Documents	POA00275514	POA00275520
2013 L-4037 Warrant (Ad Valorem) - STC Asssessment Roll Certification (Board of Review)	POA00275521	POA00275522
Budget Departmentt Ad Valorem Tax Levies Rates	POA00275523	POA00275523
Changes to Detroit Property Tax Forecasts (11.18.2013)	POA00275524	POA00275524
Changes to Detroit Property Tax Forecasts (2.24.2014)	POA00275525	POA00275526
Data Sources for Property Tax Projections	POA00275527	POA00275527
Detroit Property Tax Collection Rates	POA00275528	POA00275533
FY13 Wayne County Revolving Fund Settlement	POA00275534	POA00275534
Major Tax Payers (commercial & industrial)	POA00275535	POA00275536
Property Tax Estimating Methodology (Version 1)	POA00275537	POA00275537
Property Tax Revenue Calculations	POA00275538	POA00275538

Name	Bates	Range
Renaissance Zone Taxable Value	POA00275539	POA00275539
2013 Long term budget outlook inflation projections 2013-2088	POA00275848	POA00275849
BEA Data GDP Inflation 1992 2012	POA00275850	POA00275850
Census On the Map data Detroit worker flow (2002-2012)	POA00275851	POA00275851
Detroit income tax forecast information (08.09.2013)	POA00275852	POA00275854
Income Tax Revenue Calculations	POA00275855	POA00275855
MI Economic & Revenue Forecast Presentation	POA00275856	POA00275895
MI Economic & Revenue Forecast Presentation	POA00275929	POA00275978
SEMCOG 2040 Forecast Summary (April 2012)	POA00275979	POA00276041
SEMCOG Population Estimates	POA00276042	POA00276042
SFA Economic Outlook May 2013	POA00276043	POA00276112
US Bureau of Labor Statistics LAUS MI Detroit (1990 - 2013)	POA00276113	POA00276113
MGCB Casino Adjusted Gross Receipts	POA00276114	POA00276114
FY14 State Revenue Sharing Amounts	POA00276115	POA00276115

Name	Bates Range	
FY15 State Revenue Sharing Amounts	POA00276116	POA00276116
SEMCOG 2040 Forecast Summary (April 2012)	POA00276117	POA00276179
SEMCOG Population Estimates	POA00276180	POA00276180
State Revenue Sharing - Detroit Projections Through FY2025 (05.23.2013)	POA00276181	POA00276182
2013 IAFF News, FEMA Announces SAFER Grant Awards	POA00276183	POA00276184
DPD Grant Projection Summary	POA00276185	POA00276185
Vehicle Fund & UTGO Data	POA00276186	POA00276186
Sales and Charges fo Services Data	POA00276187	POA00276187
Description of Estimating Methodology (06.06.2013)	POA00276188	POA00276193
Detroit Tax Forecast Information (07.24.2013)	POA00276194	POA00276195
June 2012-October 2013 monthly headcount by department	POA00276196	POA00276196
Public safety and DDOT headcount ramp-up projection	POA00276197	POA00276197
Average salary by department	POA00276198	POA00276198
Estimated fringe rates by funding group	POA00276199	POA00276199

Name	Bates Range	
Salary, Headcount and Ramp-Up Data	POA00276200	POA00276200
Milliman Report - Active Healthcare	POA00276201	POA00276211
Milliman Report - Retiree Healthcare	POA00276212	POA00276250
FY13 healthcare by funding group	POA00276251	POA00276251
Milliman report, GRS	POA00276252	POA00276258
Milliman report, PFRS	POA00276259	POA00276265
Pension 10 Year Summary	POA00276266	POA00276266
Baird - LTGO debt service	POA00276267	POA00276271
Baird - Detroit Debt Book (05.19.2011)	POA00276272	POA00276272
Baird - POC debt service	POA00276273	POA00276274
POC Allocation Data	POA00276275	POA00276275
Wolinski and Co., CPA, POC Allocation Memo	POA00276276	POA00276296
POC & SWAP 10 Year Summary	POA00276316	POA00276316
Post-petition financing - Bond Purchase Agreement	POA00276317	POA00276343

Name	Bates Range	
Post-petition financing - Trust Indenture	POA00276344	POA00276405
QOL & Post-Petition Financing Data	POA00276406	POA00276406
Baird - UTGO Debt Service	POA00276407	POA00276412
Purchased services, payroll processing	POA00275540	POA00275584
Purchased services, benefits processing II	POA00275585	POA00275589
Purchased services, benefits processing	POA00275590	POA00275610
Purchased services, MI Department of Corrections	POA00275611	POA00275614
Solid Waste Outsourcing	POA00275615	POA00275615
Contributions to non-enterprise funds	POA00275616	POA00275616
10 year DDOT subsidy projection	POA00275617	POA00275617
FY 2008 - 2013 Actuals	POA00275618	POA00275618
Emergency Manager Order 6 - Approval of Initial Funding Agreement for the PLA	POA00275619	POA00275620
Active Pension & Future Retiree OPEB Plan	POA00275621	POA00275621
Swap settlement agreement	POA00275622	POA00275646

Name	Bates Range	
CBO - 2013 Long term budget outlook inflation projections 2013-2088	POA00275647	POA00275648
BEA Data - GDP Inflation (1992 - 2012)	POA00275649	POA00275649
Detroit Retirees - Income Stabilization Fund Data (05.01.2014)	POA00275650	POA00275650
40 Year Revenue Projections	POA00275651	POA00275651
40 Yr Projections - Revenue and Dept Summary Overview (01.08.2014)	POA00275652	POA00275654
CBO 2013-02-Economic Projections (Property Taxes)	POA00275655	POA00275655
Metro Populations (30 Years) Data	POA00275656	POA00275656
QUEST Revenue Discusison Items (01.11.2014)	POA00275657	POA00275660
Hypothetical Art Proceeds	POA00275661	POA00275661
State Settlement Present Value Calculation	POA00275662	POA00275669
Milliman Report - GRS (no settlement)	POA00275670	POA00275690
Milliman Report - PFRS (no settlement)	POA00275691	POA00275710
Milliman Report	POA00275711	POA00275734
Milliman Report	POA00275735	POA00275756

Name	Bates	Range
Baird - Municipal-Bond-Market-Commentary (03.03.2013)	POA00275757	POA00275766
DWSD Pro Fee Allocation (Version 1)	POA00275767	POA00275767
DWSD Reimbursements	POA00275768	POA00275768
Milliman Report	POA00275769	POA00275792
PFRS & GRS UAAL Amortization Data	POA00275793	POA00275793
Gabriel Roeder Smith & Co GRS 74th Annual Actuarial Valuation (06.30.2012)	POA00275794	POA00275846
Other Reimbursements (POC & Pension) Data	POA00275847	POA00275847
Emergency Manager's Financial and Operating Plan (May 2013)	POA00649726	POA00649769
Emergency Manager's Financial and Operating Plan slidedeck (June 2013)	POA00231448	POA00231468
City of Detroit's Proposal for Creditors (June 2013)	POA00215882	POA00216015
Quarterly Report of the Emergency Manager for the Period April 2013 - June 2013 (July 2013)	POA00111033	POA00111044
Emergency Manager's Report (September 2013)	POA00165156	POA00165283
Quarterly Report of the Emergency Manager for the Period July 2013 - September 2013 (October 2013)	POA00706415	POA00706427
Quarterly Report of the Emergency Manager for the Period September 2013 - November 2013 (December 2013)	POA00297491	POA00297543

Name	Bates	Range
Quarterly Report of the Emergency Manager for the Period October 2013 - December (January 2014)	POA00109594	POA00109608
Quarterly Report of the Emergency Manager for the Period December 2013 - February 2014 (March 2014)	POA00296194	POA00296251
Quarterly Report of the Emergency Manager for the Period January 2014 - March 2014 (April 2014)	POA00700417	POA00700433
Draft 2013 Comprehensive Annual Financial Report (June 2014)	POA00531266	POA00531512
10-Year Plan of Adjustment Restructuring and Reinvestment Initiatives Bridge (June 2014)	POA00706448	POA00706448
40-Year Plan of Adjustment Financial Projections Bridge (July 2014)	POA00706601	POA00706602

EXHIBIT 4

Expert Report of Martha E.M. Kopacz

UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF MICHIGAN SOUTHERN DIVISION

In re:	Chapter 9
City of Detroit, Michigan,	Case No. 13-53846
Debtor,	Hon. Steven W. Rhodes
/	

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

On April 22, 2014, Judge Rhodes entered an Order¹ appointing me as the Court's expert witness. Pursuant to that Order, "(t)he Court's expert shall investigate and a reach a conclusion on:

- (a) Whether the City's plan is feasible as required by 11 U.S.C. § 943(b)(7); and
- (b) Whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."

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

¹ Docket #4215, Order Appointing Expert Witness

Section A – Introduction, Scope and Approach

Introduction

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

Scope and Approach

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

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

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

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

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

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

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

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

We then approached the analytical phase, which was iterative. We reviewed and analyzed documents relevant to the City's Plan and the financial projections. We reviewed other City data and third party information to provide background and

perspective on the Ten Year ("10 Yr") and Forty Year ("40 Yr") projections and the Restructuring and Reinvestment Initiatives ("RRIs"). We asked more questions of the City, its advisors and other stakeholders, requested more information, and analyzed that information. This process was repeated as necessary until our questions were answered. Some general categories of data, documents and information we reviewed and analyzed are identified below. A more complete listing is included in Exhibit 2.

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

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

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

The Report

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

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

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

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

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Section B – Statement of Expert's Opinion

On April 22, 2014, Judge Rhodes entered an Order⁵ appointing me as the Court's expert witness. Pursuant to that order, "(t)he Court's expert shall investigate and a reach a conclusion on:

- (c) Whether the City's plan is feasible as required by 11 U.S.C. § 943(b)(7); and
- (d) Whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."

This Report contains my expert opinion and the basis for that opinion. I was assisted by my colleagues at Phoenix Management Services LLC. My work has been guided by the approach that was outlined in my proposal⁶ and discussed during

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⁵ Docket # 4215, Order Appointing Expert Witness

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

my interview on April 18, 2014⁷. I, and members of my team, have conducted more than two hundred interviews and fact gathering meetings with persons involved in this matter or with persons I believed to be helpful to me in forming my opinion.

Based on this work, I conclude that:

- (a) The City's plan is feasible as required by 11 U.S. C. § 943(b)(7); and
- (b) The assumptions that underlie the City's plan of adjustment projections regarding its revenues, expenses and plan payments are reasonable.

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

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

⁷ Transcript of Hearing, April 18, 2014

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

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

Section C – Feasibility Definition

Defining a Feasibility Standard

Section 943(b)(7) of the Bankruptcy Code requires that before a plan of adjustment may be confirmed the Court must determine that the plan is feasible. However, the Bankruptcy Code does not define "feasible." Few chapter 9 cases address the feasibility requirement⁸ and there is little in the way of authoritative writing published regarding feasibility. ⁹

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

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

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

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

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

Two Dimensions of the Standard

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

Quantitative

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

Qualitative

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

The quantitative assessment of feasibility is straightforward but exacting. As will be more fully discussed in Part II, the projections¹⁰ in the POA are (correctly

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

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

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

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

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

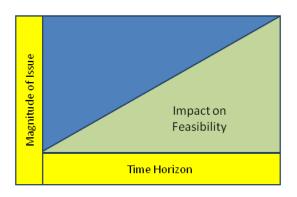
The qualitative aspects of the Standard include what I have come to refer to, as "skill and will" and are as important as the quantitative assessment. Qualitative aspects also include external influences that can affect the implementation of the Plan. Part III, Section K – Leadership and Human Capital,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

The Aspect of Time on the Standard

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

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

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



The Standard Allows for a Range of Values

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

Detroit differs from a company emerging from chapter 11 in that the City does not have to be service delivery solvent to emerge from bankruptcy. It will be on a

trajectory towards service delivery solvency¹² and in some areas, the current level of service is adequate. I do not need to envision that Detroit will become a best in class municipality to determine that the POA is feasible. For Detroit, emerging from essential services failure to adequate and reasonable service delivery will be a success.¹³

What Feasibility is Not

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

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¹² Eligibility Opinion of Judge Rhodes

 $^{^{13}}$ Anderson, Michelle Wild "The New Minimal Cities" http://yalelawjournal.org/article/thenew-minimal-cities; March $2014\,$

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

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

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

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

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

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

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

Section D - Context

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

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

Bankruptcy Process Impact

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

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

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

Detroit "As Is"

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

The City of Detroit's chapter 9 filing has justifiably received extensive attention across international media and within legal and financial circles. The outcomes will be referenced extensively for years, for what was accomplished and arguably, what could have been accomplished during the proceedings. As the largest chapter 9 to date, if any municipality ever needed the protection and tools of the bankruptcy process, it is Detroit. At every level, Detroit was failing as a city – as measured by the shrinking of its population, useful infrastructure and purposeful

enterprises - and as a government – as measured by its inability to deliver essential services. Having spent a large amount of time in Detroit since my appointment, my interaction with citizens, City employees and stakeholders in the bankruptcy have influenced my view of both the in-court restructuring and the out-of-court work that is equally important to Detroit's ability to effectuate its POA.

The Plan of Adjustment

Even after many years of practice with dysfunctional, insolvent, operationally troubled enterprises, I was confused by the City's projections in POA. Section E of this Report provides detail on how the projections and RRIs are structured. Suffice it to say that the "10 Yr projections", the "10 Yr/40 Yr projections," and the "Restructuring and Reinvestments Initiatives" form an unusual construct for a financial plan for an enterprise attempting to emerge from bankruptcy. The baseline projections ("10 Yr projection, Exhibit J to the Disclosure Statement) were prepared in June 2013 to show what would happen to the City without a restructuring, which they did very well. The "10 Yr/40 Yr projection" (Exhibit K in the Disclosure Statement) expands the baseline, steady state projection for the 40 Yr time horizon of the POA. Then, in order to begin to understand how the restructured Detroit might operate – delivering services and paying creditors – one must factor in the RRIs

contained in Exhibit J to the Disclosure Statement. This is convoluted and contributes to the feelings amongst many creditors in this case that the financial projections in the POA are a "black box" and that it was the City's intent to obfuscate important information. I choose to believe that is was simply an unfortunate result of two advisory firms sharing responsibilities¹⁸ rather than one firm "owning" the financial projections start to finish, as is, and should be, the norm.

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

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

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

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

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

approved June budget for the numerous anticipated changes post confirmation, harmonizing the current headcounts and spending levels with the RRIs that the City intends to execute in the coming year, and submit a new budget to the City Council for approval.

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

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

Financing¹⁹ and the projected structural surplus in the POA projections; that is: the projected revenues must exceed the projected expenses of the City for the foreseeable future. It is important that readers of the POA understand there is no cash in a bank account to fund the RRIs. The cash for the investments will come from the Mayor and the departmental leaders delivering services as economically and efficiently as the POA forecasts.

Outside Factors of Influence

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

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

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

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

Section E - City of Detroit Financial Forecast Summary

Introduction

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

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

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

Plan of Adjustment – Ten Year Financial Projections

The 10 Yr Plan, built and modified by Ernst & Young ("E&Y"), is the City's financial forecast for the fiscal years 2014-2023. This plan was originally developed to show how Detroit would operate exclusive of the chapter 9 bankruptcy proceeding. That is, it is effectively the baseline plan. This forecast was built on a department level basis and does not include the quantitative impacts of the restructuring initiatives, the cancellation of debt, the cash flow ramifications from the alterations in the City's pension plans and OPEB²⁰, and other impacts of the bankruptcy proceedings.

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

²⁰ Other Post Employment Benefits

of the City's financial forecasts. The following analysis²¹ identifies the quantifiable variances between the most recent iterations of the City's financial forecasts. While the net of all changes only impacted the Plan by \$5.2 million, on an absolute value basis, the July 2nd version of the 10 Yr Plan contains changes that are in aggregate \$491 million versus the May 5th version for the FY2014-2023 time period.

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

		7.2.14 PO	A vs 5.	5.14 POA
	10 Y			ute Value Change
Base Model Revenue				_
State Revenue Sharing	\$	36.6	\$	36.6
Wagering Taxes	\$	(13.1)		13.1
Property Taxes	\$	(15.7)	\$	15.7
Sales and Charges for Services	\$	(0.9)		0.9
Total Base Model Revenue	\$	6.9	\$	66.3
Base Model Operating Expenditures				
DDOT Subsidy	\$	(59.7)		59.7
Delay in Payroll Processing	\$	(4.4)		4.4
PLD LED Lights	\$	(2.7)		2.7
Total Base Model Operating Expenditures	\$	(66.8)	\$	66.8
A. Total Changes to Base Model	\$	(59.9)	\$	133.1
Reinvestment Revenue				
GSD Grant	\$	5.7	\$	5.7
Total Reinvestment Revenue	\$	5.7	\$ \$	5.7
Total Remyestikent Revenue	Ψ	3.1	Ψ	3.7
Reinvestment Operating Expenditures				
Fire Department Labor Change	\$	(49.8)	\$	50.7
Police Department - Adjust Avg Salary to Act. in Base Forecast	\$	22.5	\$	22.5
Fire Department- Adjust Avg Salary to Act. in Base Forecast	\$	45.2	\$	45.2
All Other Labor	\$	1.5	\$	2.5
DPD - Increse in Annual Facility Costs of New Precincts	\$	(6.2)		6.2
Training	\$	(1.1)		1.1
Purchased Services	\$	(0.7)		0.7
Total Reinvestment Operating Expenditures	\$	11.4	\$	129.0
Capital Investments				
Police Fleet Spending	\$	10.0	\$	10.0
GSD Facility Maintenance and Other Capex	\$	6.1	\$	6.1
Deferral of Airport Bay Upgrades and T-Hangars	\$	5.0	\$	5.0
R&M Fire Dept Facilities	\$	3.0	\$	3.0
Rec Facilities	\$	2.5	\$	2.5
311 System	\$	0.6	\$	0.6
Total Capital Investments	\$	27.3	\$	27.3
B. Total Changes to RRI's	\$	44.4	\$	162.0
-				
Potential Deals				
Public Safety 3% Bonus in FY 16	\$	(5.6)		5.6
OPEB now \$1MM for PFRS	\$	11.7		11.7
Pension now 12.25% of wages	\$	(21.1)		21.1
Total Potential Deals	\$	(15.0)	\$	38.4
Non Operating				
Adjusted Note B	\$	(55.0)	\$	55.0
Add Note A2	\$	6.1	\$	6.1
QOL Exit Financing P&I	\$	85.1	\$	85.1
Deferrals	\$	(10.7)	\$	10.7
Contingency	\$	(0.2)	\$	0.2
Total Non Operating	\$	25.3	\$	157.1
C. Total Changes due to New Deals/Non Operating	\$	10.3	\$	195.5
The ALIVE CLASS (A.P. C)	Φ.	/# #*·	ф	100.6
Total Net Change (A+B+C)	\$	(5.2)	\$	490.6

Plan of Adjustment – Forty Year Financial Projections

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

Plan of Adjustment - Restructuring and Reinvestment Initiatives

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

detailed initiatives included highly detailed inputs, risks, constraints and other factors in how the initiatives will be implemented.

City of Detroit - Triennial Executive Budget

The City annually develops a Triennial Executive Budget that forecasts the financial operations of the City for the subsequent three fiscal years. This budget historically forms the basis for how the City intends to operate on a departmental level and is developed in line with historical government reporting protocols. The Triennial Budget is developed in a manner that allows for reconciliation with the City's fund accounting²² and only includes items for which funding has been received, approved and allocated. The City's FY2015 budget was unanimously approved by the Detroit City Council on June 5, 2014.

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

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

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

Phoenix Review

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

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

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

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

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

Section F - Revenue and Macro Assumptions

Summary²⁴

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

		FY201	14-20	023		FY2024-2	033	FY2034-2	043	FY2044-2	2053
	Withou	t		With		With		With		With	
General Fund Revenues	 Reinvestn	nent		Reinvestn	ne nt	 Reinvestn	ne nt	 Reinvestn	nent	 Reinvestr	nent
Municipal income tax	\$ 2,566	25%	\$	2,770	25%	\$ 3,510	29%	\$ 4,591	32%	\$ 6,059	35%
State revenue sharing	\$ 2,000	19%	\$	2,000	18%	\$ 2,121	18%	\$ 2,307	16%	\$ 2,533	15%
Wagering taxes	\$ 1,733	17%	\$	1,733	15%	\$ 1,906	16%	\$ 2,105	15%	\$ 2,325	13%
Sales and charges for services	\$ 1,118	11%	\$	1,118	10%	\$ 1,161	10%	\$ 1,415	10%	\$ 1,725	10%
Property taxes	\$ 964	9%	\$	1,074	10%	\$ 1,370	11%	\$ 1,640	11%	\$ 1,903	11%
Other revenue	\$ 713	7%	\$	713	6%	\$ 754	6%	\$ 918	6%	\$ 1,120	6%
General Fund reimbursements	\$ 260	2%	\$	260	2%	\$ 239	2%	\$ 291	2%	\$ 355	2%
Utility users'	\$ 252	2%	\$	257	2%	\$ 304	3%	\$ 353	2%	\$ 410	2%
Department Revenue Initiatives	\$ -	0%	\$	483	4%	\$ 586	5%	\$ 715	5%	\$ 871	5%
Transfers in	\$ 829	8%	\$	829	7%	\$ 148	1%	\$ 22	0%	\$ -	0%
Total General Fund Revenues	\$ 10,434	100%	\$	11,237	100%	\$ 12,098	100%	\$ 14,358	100%	\$ 17,302	100%

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

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

Municipal Income Tax

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

As mentioned above, the City's POA projections estimate revenues for the 10 year period covering FY2014-2023 with and without the incremental revenue impact

of the RRIs. The following analysis illustrates the "without Restructuring and Reinvestment Initiatives" scenario.

10 Yr Plan - Without RRIs

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

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

The taxable income growth assumptions appear to be reasonably conservative relative to the recent uptick in taxable income in FY2011-2013. For Detroit residents, taxable income growth has averaged 3.4% annually for those three years. During the same period, taxable income growth has averaged 3.5% for non-residents and 2.2% for corporations. The annual taxable income growth during FY2011-2013

is likely reflective of the recovery from the 2008-2009 financial crisis, when the City's taxable income base suffered double-digit YoY percentage declines.

10 Year Plan – Municipal Income Tax (Without RRIs)

					Prelimina	ry forecast					FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Tota
City Residents (A)											
Taxable income growth	1.94%	1.45%	0.46%	0.46%	0.46%	0.46%	0.65%	0.65%	1.00%	1.00%	0.85%
Taxable income	\$ 6,294.0	\$ 6,385.5	\$ 6,414.7	\$ 6,444.0	\$ 6,473.5	\$ 6,503.3	\$ 6.545.8	\$ 6,588.6	\$ 6,654.5	\$ 6,721.1	\$ 65,025.1
Income tax rate	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
Total City Resident income taxes	151.1	153.3	154.0	154.7	155.4	156.1	157.1	158.1	159.7	161.3	1,560.6
Non-Residents (B)											
Taxable income growth	2.23%	1.70%	0.70%	0.70%	0.70%	0.69%	0.50%	1.19%	1.69%	1.69%	1.18%
Taxable income	\$ 6,065.0	\$ 6,168.1	\$ 6,211.2	\$ 6,254.5	\$ 6,298.0	\$ 6,341.7	\$ 6,373.4	\$ 6,449.4	\$ 6,558.5	\$ 6,669.3	\$ 63,389.0
Income tax rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Total Non-Resident income taxes	72.8	74.0	74.5	75.1	75.6	76.1	76.5	77.4	78.7	80.0	\$ 760.7
Corporations (C)											
Net tax collection growth	2.34%	2.50%	2.00%	2.00%	2.00%	1.50%	1.00%	1.00%	1.00%	1.00%	1.63%
Taxable income (implied)	\$ 1,128.3	\$ 1,156.5	\$ 1,179.6	\$ 1,203.2	\$ 1,227.3	\$ 1,245.7	\$ 1,258.2	\$ 1,270.7	\$ 1,283.5	\$ 1,296.3	\$ 12,249.3
Corporate tax rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Net tax collections	22.6	23.1	23.6	24.1	24.5	24.9	25.2	25.4	25.7	25.9	\$ 245.0
Total Municipal income taxes (D) = (A+B+C)											
Taxable income	\$13,487.3	\$13,710.2	\$13,805.5	\$13,901.7	\$13,998.8	\$14,090.7	\$14,177.4	\$14,308.8	\$14,496.5	\$14,686.7	\$ 140,663.5
Calculated tax rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Total Municipal income taxes	246.4	250.4	252.1	253.8	255.5	257.1	258.7	260.9	264.1	267.3	\$ 2,566.3
Adjustment Municipal income taxes											
Adjustment for actuals											<u>\$</u> -
Total Adjusted Municipal income taxes	\$ 246.4	\$ 250.4	\$ 252.1	\$ 253.8	\$ 255.5	\$ 257.1	\$ 258.7	\$ 260.9	\$ 264.1	\$ 267.3	\$ 2,566.3

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

Wage Growth (Without RRIs)

The 10 Yr Plan estimates – for both the City residents and nonresident categories – an average wage growth of 1.25% for the FY2014-FY2023 period, an

estimate that appears reasonable when compared to the state and national forecasts highlighted below. The income growth forecast for corporations is 1.63% and is conservative relative to the State forecast. The Michigan Senate Fiscal Agency assumed an average 2.65% wage growth rate for Detroit which is reflective of the average state forecast of 3.65% reduced by a 1% structural adjustment for the City of Detroit.

Employment Growth (without RRIs)

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

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

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

10 Yr Plan with RRIs

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

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

Due primarily to the more optimistic City residents' taxable income growth assumptions in the "With Reinvestment Initiatives" scenario, the latter scenario

assumes an additional \$204 million in municipal income tax revenue in the 2014-2023 time period. A Sensitivity Analysis is provided below to gauge the impact of the City's actual results materially deviating from the 10 Yr Plan's forecast.

10 Year Plan – Municipal Income Tax (With RRIs)

					Prelimina	ry forecast					FY2014-202
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Tota
City Residents (A)											
Taxable income growth	2.57%	3.17%	2.25%	2.19%	2.15%	2.16%	2.18%	2.18%	2.18%	2.18%	2.32%
Taxable income	\$ 6,332.7	\$ 6,533.4	\$ 6,680.7	\$ 6,827.2	\$ 6,974.0	\$ 7,124.5	\$ 7,279.5	\$ 7,437.9	\$ 7,599.7	\$ 7,765.0	\$ 70,554.5
Income tax rate	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
Total City Resident income taxes	152.0	156.8	160.3	163.9	167.4	171.0	174.7	178.5	182.4	186.4	1,693.3
Non-Residents (B)											
Taxable income growth	2.91%	3.29%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.37%
Taxable income	\$ 6,105.4	\$ 6,306.5	\$ 6,444.0	\$ 6,584.5	\$ 6,728.0	\$ 6,874.7	\$ 7,024.6	\$ 7,177.7	\$ 7,334.2	\$ 7,494.1	\$ 68,073.8
Income tax rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Total Non-Resident income taxes	73.3	75.7	77.3	79.0	80.7	82.5	84.3	86.1	88.0	89.9	\$ 816.9
Corporations (C)											
Net tax collection growth	2.80%	4.70%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.65%
Taxable income (implied)	\$ 1,133.4	\$ 1,186.6	\$ 1,234.1	\$ 1,271.1	\$ 1,296.5	\$ 1,322.5	\$ 1,348.9	\$ 1,375.9	\$ 1,403.4	\$ 1,431.5	\$ 13,004.0
Corporate tax rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Net tax collections	22.7	23.7	24.7	25.4	25.9	26.4	27.0	27.5	28.1	28.6	\$ 260.1
Total Municipal income taxes (D) = (A+B+C)											
Taxable income	\$13,571.4	\$14,026.5	\$14,358.7	\$14,682.8	\$14,998.6	\$15,321.7	\$15,653.0	\$15,991.5	\$16,337.3	\$16,690.6	\$ 151,632.2
Calculated tax rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Total Municipal income taxes	247.9	256.2	262.3	268.3	274.0	279.9	286.0	292.2	298.5	304.9	\$ 2,770.3
Adjustment Municipal income taxes											
Adjustment for actuals											<u>\$</u> -
Total Adjusted Municipal income taxes	247.9	256.2	262,3	268.3	274.0	279.9	286.0	292.2	298.5	304.9	2,770.3

Wage Growth (with RRIs)

The 10 Yr projections estimate – for both the City residents and nonresident categories – an average wage growth of 2.16% for the FY2014-2023 period, or

roughly 91 basis points²⁵ higher than the "without RRIs" scenario. The wage growth forecast for corporations is 2.65%, or equivalent to the Michigan Senate Fiscal Agency assumption.

Employment Growth (with RRIs)

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

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

											TT 70.04 4 00.00
					Preliminar	•					FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average/Total
City Residents (A)											
Wage Growth	2.53%	3.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.16%
Employment Growth	-0.13%	0.14%	0.25%	0.19%	0.15%	0.16%	0.18%	0.18%	0.18%	0.18%	0.15%
Taxable income growth	2.57%	3.17%	2.25%	2.19%	2.15%	2.16%	2.18%	2.18%	2.18%	2.18%	2.32%
Non-Residents (B)											
Wage Growth	2.53%	3.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.16%
Employment Growth	0.38%	0.26%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.21%
Taxable income growth	2.91%	3.29%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.37%
Corporations (C)											
State CIT forecast (SFA est. May 2013)	3.80%	5.70%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.65%
Detroit structural adjust.	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Taxable income growth	2.80%	4.70%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.65%

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

Comparable Assumptions

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

Comparable Metric Analysis	
Wage Growth	
10 Year Plan - without Reinvestment	1.25%
10 Year Plan - with Reinvestment	2.16%
<u>State</u>	2.0004
Michigan Dept. of Treasury - FY2014	3.90%
Michigan Dept. of Treasury - FY2015	3.90%
Michigan Dept. of Treasury - FY2016	3.90%
Michigan Senate Fiscal Agency - FY2014	2.30%
Michigan Senate Fiscal Agency - FY2015	2.60%
<u>Federal</u>	
CBO - Real Wage Growth	2.47%

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

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

Sensitivity Analysis

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

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

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

State Revenue Sharing

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

municipalities in Michigan, while the statutory revenue sharing is distributed to municipalities that comply with certain "best practices" and reporting requirements.

								Pr	relimina	ry fe	orecast								1	0 Year
	201	4	2	015	 2016	2	2017		2018		2019	_ :	2020	2	021	 2022	2	2023		Total
State Revenue Sharing Calculations Constitutional Payment		53.5		54.8	56.9		58.5		60.2		62.0		63.8		57.3	59.0		60.7	\$	586.8
Statutory Payment	13	36.3		140.5	140.5		140.5		140.5		140.5		140.5		140.5	140.5		140.5	\$	1,400.5
Estimated State Revenue Sharing	\$ 18	89.8	\$	195.3	\$ 197.4	\$	199.0	\$	200.7	\$	202.5	\$	204.3	\$	197.8	\$ 199.5	\$	201.2	\$	1,987.3
Other shared taxes (including liquor and beer licenses	\$	1.3	\$	1.3	\$ 1.3	\$	1.3	\$	1.3	\$	1.3	\$	1.3	\$	1.3	\$ 1.3	\$	1.3	\$	13.2
Total State Revenue Sharing	\$ 19	91.2	\$	196.6	\$ 198.7	\$	200.3	\$	202.0	\$	203.8	\$	205.6	\$	199.1	\$ 200.8	\$	202.5	\$	2,000.5

Constitutional Payments

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

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

Statutory Payments

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

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

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

Sensitivity Analysis

The following analysis illustrates the incremental impact to the City if State Revenue Sharing deviates from the assumptions in the 10 Yr forecast. The analysis

below estimates the impact of a 5% change in the 2020 Census forecasted population and a 5% change in the statutory payment allocation. Because the constitutional payment is based on the 2010 Census figure through FY2021, the impact of a 5% population change would only be realized in FY2022 and FY2023. For the statutory payment, a 5% change in the allocation would have a cumulative impact of \$70 million to the General Fund during the FY2014-2023 period.

	20	014	201	5	2016	2	2017	Prelimin 2018		orecast 2019	202	0	2021		2022	202	23	0 Year Total
For Every 5% Change in Applicable State Revenu																		
Constitutional Payment		-		-			-	-		-		-	-		3.0		3.0	\$ 6.0
Statutory Payment		6.8		7.0	7.	0	7.0	7.0	_	7.0		7.0	7.	_	7.0		7.0	\$ 70.0
Total State Revenue Sharing	\$	6.8	\$	7.0	\$ 7.	0 \$	7.0	\$ 7.0	\$	7.0	\$	7.0	\$ 7.0) \$	10.0	\$	10.1	\$ 76.0

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

Wagering Taxes

The City of Detroit, per the Michigan Gaming Control and Revenue Act, is authorized to impose a 10.9% wagering tax on casinos operating within the City. In addition, the City collects other fees from the casinos in the City based on operating

agreements with each. Wagering tax revenues are forecasted to account for 17% of General Fund revenue in the FY2014-2023 period.

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

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

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

Sensitivity Analysis

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

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

Sales and Charges for Services

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

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

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

Property Taxes

The City of Detroit levies property taxes to fund general operations and

support various tax obligations. Detroit also levies additional property taxes to fund

the Detroit Public Library, Detroit Public Schools, Wayne County Community

College, the State of Michigan, and a number of special authorities.

City of Detroit Millage

• Non-Departmental (General City): 19.9520 mills

• Debt Service: 9.771 mills

• Library: 4.631 mills

Property tax revenues are forecasted to account for approximately 9% of

General Fund revenue in the FY2014-2023 period. As previously mentioned, the

City's Plan of Adjustment estimates revenues for the 10 year period covering

FY2014-2023 both with and without the incremental revenue associated with the

RRIs. The following analysis illustrates the "without RRIs" scenario.

10 Yr Projections - Without RRIs

The City's forecasted property tax revenues, due to the relatively-constant

millage rates, are largely predicated upon the assumed changes in assessed property

values and the estimated collection rates going forward.

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Assessed Property Values

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

Collection Rates

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

									Pr	eliminar	y f	orecast										10 Year
		2014		2015		2016	2	017		2018		2019	2	2020	2	2021		2022		2023		Total
el																						
Change in assessed values		C 40/		1.4.00/		2.00/		2.70/		2.40/		2.20/		0.6%		0.10/		0.70/		0.70/		4.00
Real Property Personal Property		-6.4% -1.5%		-14.0% -1.2%		-3.8% -1.1%		-2.7% -0.7%		-2.4% -0.2%		-2.3% -0.1%		-9.6% 0.3%		-0.1% 0.3%		0.7% 0.4%		0.7% 0.4%		-4.0% -0.3%
Renaissance Zone	_	47.3%		-11.8%		1.0%		1.0%	_	1.0%	_	1.5%		2.0%		2.0%	_	2.0%	_	2.0%		4.8%
Values																						
Real Property	_ \$6	,200.3	\$5	,335.3	\$5	,134.4	\$4,	993.6	\$4	1,874.8	\$4	4,762.7	\$4	,307.4	\$4	,303.0	\$4	1,333.2	\$4	1,363.7		
Personal Property	1	,183.7	1	1,169.0	1	,156.0	1,	148.3	1	1,145.8	1	1,144.6	1	,147.9	1	,151.2	1	1,155.7	1	1,160.3		
Total Valuation (for Non-Departmental & Library)	\$7	,384.0	\$6	5,504.3	\$6	,290.4	\$6,	141.9	\$6	5,020.6	\$5	5,907.3	\$5	,455.3	\$5	,454.1	\$5	5,488.9	\$5	5,524.0		
Renaissance Zone		917.2		809.1		817.2		825.4		833.7		846.2		863.1		880.4		898.0		915.9		
Total Valuation (for Debt Service)	\$8	,301.2	\$7	7,313.4	\$7	,107.6	_	967.4	\$6	5,854.3	\$6	5,753.5	\$6	,318.4	\$6	,334.5	\$6	5,386.9	\$6	5,439.9		
Millage																						
Non-Departmental (General City)		19.952		19.952		19.952	1	9.952		19.952		19.952		19.952		19.952		19.952		19.952		
Deht Service		9.771		10.699		10.143		0.343		10.311		10.013		10.060	-	9.896		7.030		6.270		
Library		4.631		4.631		4.631		4.631		4.631		4.631		4.631		4.631		4.631		4.631		
Adjusted tax levy																					١.	
Non-Departmental (General City)	\$	147.3	\$	128.2	\$	124.0	\$	121.0	\$	118.6	\$		\$	107.3	\$	107.3	\$	108.0	\$	108.7	\$	1,186.9
Debt Service		81.1		78.2		72.1		72.1		70.7		67.6		63.6		62.7		44.9		40.4		653.3
Library		34.2		30.1		29.1		28.4		27.9		27.4		25.3		25.3		25.4		25.6		278.6
Tota	I \$	262.6	\$	236.6	\$	225.2	\$	221.5	\$	217.2	\$	211.3	\$	196.2	\$	195.3	\$	178.3	\$	174.7	\$	2,118.9
Collection rate																						
Non-Departmental (General City)		78.0%		80.0%		80.0%		80.0%		80.0%		80.0%		84.0%		84.0%		84.0%		84.0%		81.4%
Debt Service		82.0%		80.0%		80.0%		80.0%		80.0%		80.0%		84.0%		84.0%		84.0%		84.0%		81.8%
Library		82.0%		82.0%		82.0%		84.0%		85.0%		85.0%		85.0%		85.0%		85.0%		85.0%		84.0%
City collections																						
Non-Departmental (General City) [A]	_ \$	114.9	\$	102.6	\$	99.2	\$	96.8	\$	94.9	\$	93.1	\$	90.2	\$	90.1	\$	90.7	\$	91.3	\$	963.8
Debt Service		66.5		62.6		57.7		57.6		56.5		54.1		53.4		52.7		37.7		33.9		532.8
Library		28.0		24.7		23.9		23.9		23.7		23.3		21.5		21.5		21.6		21.7		233.8
Tota	I \$	209.5	\$	189.9	\$	180.7	\$	178.4	\$	175.1	\$	170.4	\$	165.0	\$	164.3	\$	150.0	\$	147.0	\$	1,730.3
			_		_				_		_		_				_		_			
General fund collections [A]+[B]	Ş	114.9	Ş	102.6	\$	99.2	\$	96.8	\$	94.9	\$	93.1	\$	90.2	\$	90.1	\$	90.7	\$	91.3	\$	963.8

Components of Property Tax Value

					Preliminar	y forecast					10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Components of Property Taxable Value (non - RZ)											
Residential Property	3,948.1	3,138.7	2,981.7	2,862.5	2,748.0	2,638.0	2,176.4	2,165.5	2,187.2	2,209.0	
Real Property - Commercial	1,786.9	1,750.0	1,715.0	1,697.8	1,697.8	1,697.8	1,706.3	1,714.8	1,723.4	1,732.0	
Real Property - Industrial	465.4	446.7	437.7	433.4	429.0	426.9	424.7	422.6	422.6	422.6	
Total - Real Property	6,200.3	5,335.3	5,134.4	4,993.6	4,874.8	4,762.7	4,307.4	4,303.0	4,333.2	4,363.7	
Forecasted YoY Change - Real Property											
Residential Property	-7.4%	-20.5%	-5.0%	-4.0%	-4.0%	-4.0%	-17.5%	-0.5%	1.0%	1.0%	-6.1%
Real Property - Commercial	-5.0%	-2.1%	-2.0%	-1.0%	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%	-0.8%
Real Property - Industrial	-2.5%	-4.0%	-2.0%	-1.0%	-1.0%	<u>-0.5%</u>	-0.5%	<u>-0.5%</u>	0.0%	0.0%	-1.2%
Total - Real Property	-6.4%	-14.0%	-3.8%	-2.7%	-2.4%	-2.3%	-9.6%	-0.1%	0.7%	0.7%	-4.0%
Personal Property - Commercial	529.5	524.1	513.6	508.5	508.5	508.5	511.0	513.6	516.2	518.7	
Personal Property - Industrial	290.4	253.7	251.2	248.7	246.2	244.9	243.7	242.5	242.5	242.5	
Personal Property - Utility	363.7	391.2	391.2	391.2	391.2	391.2	393.1	395.1	397.1	399.0	
Total - Personal Property	1,183.7	1,169.0	1,156.0	1,148.3	1,145.8	1,144.6	1,147.9	1,151.2	1,155.7	1,160.3	
Forecasted YoY Change - Personal Property											
Personal Property - Commercial	-3.8%	-1.0%	-2.0%	-1.0%	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%	-0.6%
Personal Property - Industrial	3.2%	-12.6%	-1.0%	-1.0%	-1.0%	-0.5%	-0.5%	-0.5%	0.0%	0.0%	-1.49
Personal Property - Utility	-1.6%	<u>7.5%</u>	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%	0.89
Total - Personal Property	-1.5%	-1.2%	-1.1%	-0.7%	-0.2%	-0.1%	0.3%	0.3%	0.4%	0.4%	-0.3%

10 YR Projections - With RRIs

Assessed Property Values

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

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

Collection Rates

The POA forecast assumes improving property tax collection over the FY2014-2023 timeframe. The 10 Yr projections assume collections for non-

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

									Pre	eliminar	y fo	recast									1	10 Year
		2014	20	015	20	016	20	17	2	2018	2	019	20	020	20	021		2022		2023		Total
Change in assessed values																						
Real Property		-6.4%		14.0%		-2.0%		-1.3%		0.0%		1.2%		-4.1%		2.8%		3.5%		3.5%		-1.7%
Personal Property		-1.5%		-1.2%		-0.3%		1.0%		1.0%		1.8%		1.8%		2.0%		2.2%		2.2%		0.9%
Renaissance Zone	_	47.3%	-	11.8%		1.0%		1.0%		1.0%		1.5%		2.0%		2.0%		2.0%		2.0%		4.8%
Values																						
Real Property	– se	,200.3	\$5.3	335.3	\$5.	228.1	\$5.1	158.6	\$5	,158.4	\$5.	218.0	\$5.0	005.5	\$5.	146.4	\$5	,328.1	Ś	5,516.5		
Personal Property	-	,183.7		169.0		164.9		176.6		,188.4		209.5		231.1		255.7		,283.7		1,312.5		
Total Valuation (for Non-Departmental & Library)	\$7	,384.0	_	504.3		393.0	\$6,3	335.2	\$6	,346.8		427.5	\$6,2	236.5	\$6,	402.1	\$6	,611.9	\$6	5,828.9		
Renaissance Zone	_	917.2	8	809.1	:	817.2	8	325.4		833.7		846.2	8	363.1	:	880.4		898.0	_	915.9		
Total Valuation (for Debt Service)	\$8	3,301.2	\$7,3	313.4	\$7,	210.3	\$7,1	160.6	\$7	,180.4	\$7,	273.6	\$7,0	99.6	\$7,	282.4	\$7	,509.9	\$7	7,744.9		
Millage																						
Non-Departmental (General City)		19.952	15	9.952	1	9.952	19	9.952	1	19.952	1	9.952	19	9.952	1	9.952		19.952		19.952		
Debt Service		9.771	10	0.699		9.999	9	9.818		9.603		9.070	8	3.645	ě	8.311		5.773		5.034		
Library		4.631	4	4.631		4.631	4	1.631		4.631		4.631	4	1.631		4.631		4.631		4.631		
Adjusted tax levy																						
Non-Departmental (General City)	_ \$	147.3	\$:	128.2	\$	126.0	\$ 1	124.8	\$	125.1	\$	126.6	\$ 1	122.8	\$	126.1	\$	130.2	\$	134.5	\$	1,291.8
Debt Service		81.1		78.2		72.1		70.3		69.0		66.0		61.4		60.5		43.4		39.0		640.9
Library		34.2		30.1		29.6		29.3		29.4		29.8		28.9		29.6		30.6		31.6		303.2
Tota	1 \$	262.6	\$ 2	236.6	\$:	227.7	\$ 2	224.5	\$	223.4	\$	222.4	\$ 2	213.1	\$:	216.3	\$	204.2	\$	205.1	\$	2,235.9
Collection rate																						
Non-Departmental (General City)		78.0%	å	80.0%	ě	80.0%	8	32.0%		82.0%		82.0%	8	37.0%	ě	87.0%		87.0%		87.0%		83.2%
Debt Service		82.0%	ä	80.0%	ě	80.0%	8	32.0%		82.0%		82.0%	8	37.0%	ě	87.0%		87.0%		87.0%		83.6%
Library		82.0%	ě	82.0%	ě	82.0%	8	34.0%		85.0%		85.0%	8	35.0%	ě	85.0%		85.0%		85.0%		84.0%
City collections	_																					
Non-Departmental (General City) [A]	\$	114.9	\$:	102.6	\$	100.8	\$ 1	102.4	\$	102.6	\$		\$ 1	106.8	\$	109.7	\$	113.3	\$	117.0	\$	1,074.0
Debt Service		66.5		62.6		57.7		57.6		56.5		54.1		53.4		52.7		37.7		33.9		532.8
Library		28.0		24.7		24.3		24.6		25.0		25.3		24.5		25.2		26.0		26.9	l	254.6
Tota	1 \$	209.5	\$:	189.9	\$	182.8	\$ 1	184.7	\$	184.1	\$	183.2	\$ 1	184.8	\$	187.5	\$	177.0	\$	177.8	\$	1,861.3
General fund collections [A]+[B]	\$	114.9	\$:	102.6	\$:	100.8	\$ 1	102.4	\$	102.6	\$	103.9	\$ 1	106.8	\$:	109.7	\$	113.3	\$	117.0	\$	1,074.0

Components of Property Tax Value

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

Sensitivity Analysis

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

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

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

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

Utility Users' Taxes

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

									Pr	elimina	ry fo	orecast									1	0 Year
		2014	:	2015		2016	2	017	_ :	2018	- 2	2019	_ :	2020	2	2021	_ :	2022	2	2023		Total
WITHOUT REINVESTMENT																						
Utility users tax collections - Gross	\$	37.0	\$	37.0	\$	37.0	\$	37.4	\$	37.8	\$	38.2	\$	38.6	\$	38.9	\$	39.3	\$	39.7	\$	381.0
Less: PLA transfer	_	(16.9)		(12.5)		(12.5)		(12.5)		(12.5)		(12.5)		(12.5)		(12.5)		(12.5)		(12.5)		(129.4)
Utility users tax collections - Net	\$	20.1	\$	24.5	\$	24.5	\$	24.9	\$	25.3	\$	25.7	\$	26.1	\$	26.4	\$	26.8	\$	27.2	\$	251.6
YoY % Change		-43.0%		22.1%		0.0%		1.5%		1.5%		1.5%		1.5%		1.5%		1.5%		1.5%		-1.0%
WITH REINVESTMENT																						
Utility users tax collections - Gross	\$	37.0	\$	37.0	\$	37.4	\$	38.0	\$	38.5	\$	38.9	\$	39.3	\$	39.7	\$	40.1	\$	40.5	\$	386.6
Less: PLA transfer	_	(16.9)	_	(12.5)	_	(12.5)		(12.5)	_	(12.5)		(12.5)	_	(12.5)	_	(12.5)	_	(12.5)	_	(12.5)	_	(129.4)
Utility users tax collections - Net	\$	20.1	\$	24.5	\$	24.9	\$	25.5	\$	26.0	\$	26.4	\$	26.8	\$	27.2	\$	27.6	\$	28.0	\$	257.2
YoY % Change		-43.0%		22.1%		1.5%		2.3%		2.2%		1.5%		1.5%		1.5%		1.5%		1.5%		-0.8%

Other Revenues

The City of Detroit annually generates revenues for City-services related to permits, licenses, parking fines, grant revenues, and 36th District Court fees. Grant revenue is comprised of approximately \$11 million in Fire Department SAFER grants in FY2015 and 2016, \$4-5 million annually in Police Department grants, with the balance related to Homeland Security, health initiatives, and the planning and

development department. Other revenues are forecasted to account for approximately 7% of General Fund revenue in the FY2014-2023 period.

					P	reliminaı	ry fo	orecast					1	LO Year
	2014	2015	2016	2017		2018	- 2	2019	 2020	 2021	2022	 2023		Total
Parking/court fines and other revenue	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$	29.2	\$	29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$	291.9
YoY % Change	-7.1%	0.0%	0.0%	0.0%		0.0%		0.0%	0.0%	0.0%	0.0%	0.0%		-0.7%
Grant revenue	\$ 27.9	\$ 27.1	\$ 25.6	\$ 14.2	\$	14.5	\$	14.8	\$ 15.0	\$ 15.3	\$ 15.5	\$ 15.8	\$	185.7
YoY % Change	-52.0%	-3.1%	-5.3%	-44.7%		2.5%		1.7%	1.7%	1.7%	1.6%	1.6%		-9.4%
Licenses, permits and inspection charges	\$ 9.0	\$ 9.1	\$ 9.1	\$ 9.1	\$	9.2	\$	9.2	\$ 9.3	\$ 9.3	\$ 9.3	\$ 9.4	\$	92.0
YoY % Change	-15.5%	0.4%	0.4%	0.4%		0.4%		0.5%	0.5%	0.5%	0.5%	0.5%		-1.1%
Revenue from use of assets	\$ 4.1	\$ 11.7	\$ 5.2	\$ 5.2	\$	3.6	\$	3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$	47.6
YoY % Change	-64.3%	185.7%	-55.4%	0.0%		-31.9%		0.0%	0.0%	0.0%	0.0%	0.0%		3.4%
Other Taxes	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$	9.6	\$	9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$	95.6
YoY % Change	-16.7%	0.0%	0.0%	0.0%		0.0%		0.0%	0.0%	0.0%	0.0%	0.0%		-1.7%
Total - Other Revenue	\$ 79.8	\$ 86.6	\$ 78.7	\$ 67.3	\$	66.0	\$	66.3	\$ 66.6	\$ 66.9	\$ 67.2	\$ 67.5	\$	712.8
	-28.6%	8.5%	-9.1%	-14.5%		-1.9%		0.4%	0.5%	0.4%	0.4%	0.4%	ı	-4.3%

Section G - Operating Expenditures

Summary²⁶

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

General Fund Operating Expenditures	FY2014-	2023	FY2024-	2033	FY2034-	2043	FY2044-	2053
Salaries/Overtime/Fringe	\$ 3,768	47.3%	\$ 4,612	48.8%	\$ 5,700	48.1%	\$ 7,121	47.5%
Health Benefits	\$ 753	9.4%	\$ 928	9.8%	\$ 1,374	11.6%	\$ 2,034	13.6%
Active Pension	\$ 348	4.4%	\$ 444	4.7%	\$ 548	4.6%	\$ 683	4.6%
OPEB Future Retirees	\$ 32	0.4%	\$ 37	0.4%	\$ 43	0.4%	\$ 51	0.3%
Other Operating Expenses	\$ 3,073	38.5%	\$ 3,437	36.3%	\$ 4,190	35.3%	\$ 5,108	34.1%
Total General Fund Operating Expenditures	\$ 7,974	100.0%	\$ 9,458	100.0%	\$ 11.855	100.0%	\$ 14,997	100.0%

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

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

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

The detailed operating expenditures in the 10 Yr forecast are as follows²⁷:

	FY201	14-2023
General Fund Operating Expenditures	\$	% of Costs
Salaries & Wages	\$ 3,165	39.7%
Health Benefits	\$ 753	9.4%
Overtime	\$ 326	4.1%
Other Benefits	\$ 278	3.5%
Active Pension	\$ 348	4.4%
OPEB Future Retirees	\$ 32	0.4%
Professional and contractual services	\$ 559	7.0%
Risk management and insurance	\$ 445	5.6%
Materials & supplies	\$ 376	4.7%
Utilities	\$ 296	3.7%
Purchased services	\$ 230	2.9%
Other expenses	\$ 359	4.5%
Maintenance capital	\$ 62	0.8%
Contributions to non enterprise funds	\$ 216	2.7%
DDOT subsidy	\$ 530	6.7%
Total General Fund Operating Expenditures General Fund	\$ 7,974	100.0%

Operating Surplus Prior to Legacy, Non Operating Expenses and RRI's \$ 2,781

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

Salaries & Wages

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

Headcount

City-wide headcount in FY2013 was 10,043²⁸ versus the prior 5 year average of 12,610. The City projected headcount using the projected FY2013 headcount by department and assuming that headcount remained constant over the next ten years except for the following exceptions:

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

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

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

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

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

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

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

Average Salary

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

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

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

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

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

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

Projected average salary by department by year:

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

Department Salaries and Wages

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

Salarie	s an	d Wages - C	General Fund		Salaries and Wages - All Other Funds						
General Fund	FY	2014-2023	% of Salaries	% of Revenue	All Other Funds	FY 2	2014-2023	% of Salaries			
Police	\$	1,654	52.3%	14.7%	Sewer	\$	637	36.1%			
Fire	\$	765	24.2%	6.8%	Water	\$	395	22.4%			
36th District Court	\$	187	5.9%	1.7%	DDOT	\$	363	20.5%			
Finance	\$	106	3.3%	0.9%	Waste	\$	98	5.6%			
General Services	\$	103	3.2%	0.9%	BSED	\$	96	5.5%			
Law	\$	68	2.2%	0.6%	Streets	\$	84	4.7%			
Recreation	\$	38	1.2%	0.3%	Planning & Development	\$	61	3.5%			
Human Resources	\$	37	1.2%	0.3%	All Other Depts.	\$	31	1.8%			
Planning & Development	\$	31	1.0%	0.3%	Total Other Funds	\$	1,765	100.0%			
Mayor	\$	25	0.8%	0.2%							
ITS	\$	24	0.8%	0.2%							
All Other GF Depts.	\$	127	4.0%	1.1%							
Total General Fund	\$	3.165	100.0%	28.2%							

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

Health Benefits

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

²⁹ See Milliman Letter Re: City of Detroit Active Health Plan Projections Dated

November 3, 2014.

FY2014

		Milliman Per Employee Estimate										
	Headcount	N	Iedical	Dent	al	Vision		Tot	al	2014	Total	
TT :C	2.057	Ф	0.450	ф	667	d.	70	ф	0.205	d)	26	
Uniform	3,957	\$	8,459	\$	667	\$	79	\$	9,205	\$	36	
General	2,532	\$	7,378	\$	667	\$	79	\$	8,124	\$	21	
DOT	936	\$	9,087	\$	667	\$	87	\$	9,841	\$	9	
Water/Sewer	1,815	\$	7,675	\$	667	\$	79	\$	8,421	\$	15	
Library	384	\$	6,695	\$	667	\$	79	\$	7,441	\$	3	
Total	9,624									\$	84	

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

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

Health benefits in the General Fund include \$142.8³⁰ million of OPEB payments for current retirees including \$123.8 million in FY2014 and \$19 million in FY2015. The City continued to pay healthcare costs for retirees after filing bankruptcy in the form of a stipend. The total amount projected to be paid was deducted when calculating total recovery for the OPEB claim via UTGO Note A.

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

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

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

Overtime

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

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

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

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

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

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

The majority of overtime in the General Fund is driven by Police, Fire and General Services. Overtime for DDOT is projected to be \$145 million over the 10

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

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

Other Benefits

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

Benefit Per Head	Fire	Police		DOT	G	en City	BSED	36DC	Sewer	Water	I	ibrary
As a % of Payroll												
Emp Benefits-Social Security	0.00%	0.00%)	7.65%		7.65%	7.65%	7.65%	7.65%	7.65%		7.65%
Per Head Cost												
	s -	\$ -	\$	400	\$	1,900	\$ 200	\$ _	\$ 200	\$ 125	\$	100
Mar Daniella	\$ 23	\$ 23			\$	52	\$ 87	\$ _	\$ 30	50	\$	38
II 1 C'1- I	\$ 3,892				\$	991	\$ 650	_	\$ 1,025	\$ 1,026	\$	298
Longevity	\$ -	\$ -	\$	257	\$	-	\$ _	\$ 491	\$ · -	\$ _	\$	388
C I 'C. I	\$ 802	\$ 802	\$	287	\$	287	\$ 287	\$ 1,053	\$ 287	\$ 287	\$	287
Income Protection	\$ -	\$ -	\$	244	\$	37	\$ 31	\$ 614	\$ 34	\$ 60	\$	36
DOT Sick & Accident	\$ -	\$ -	\$	802	\$	-	\$ -	\$ -	\$ -	\$ -	\$	-
Total Benefit Per Head	\$ 4,717	\$ 2,249	\$	2,109	\$	3,266	\$ 1,254	\$ 2,158	\$ 1,575	\$ 1,548	\$	1,146

Total Fringe Benefits	Fire	Police	DOT	Gen City	BSED	36DC	Sewer	Water	Library
FY13 Heads (estimated)									
Uniform	917	2,632	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Civilian	271	277	1,060	2,107	192	362	1,016	873	335
FY13 Payroll (estimated)									
Uniform	\$ 53,491,447	\$ 138,515,971							
Civilian	\$ 15,813,821	\$ 14,577,797	\$ 30,283,777	\$ 80,289,491	\$7,844,088	\$ 18,577,833	\$ 33,315,825	\$ 34,893,517	\$ -
Heads x per head costs	\$ 4.898.103	\$ 6,503,401	\$ 2,235,541	\$ 6.882.139	\$ 241.370	\$ 780,081	\$ 1.601.205	\$ 1,352,018	\$ 383,974
•	,,	,,	, ,,-	,,			, , , , , , , , , , , , , , , , , , , ,	, , ,-	
Payroll x % of payroll costs	\$ 1,209,757	\$ 1,115,201	\$ 2,316,709	\$ 6,142,146	\$ 600,073	\$ 1,421,204	\$ 2,548,661	\$ 2,669,354	\$ -
Total fringe costs	\$6,421,533	\$ 7,939,065	\$4,552,250	\$ 13,024,285	\$ 841,443	\$2,201,285	\$4,149,865	\$4,021,372	\$ 383,974
Fringe costs as % of payroll	9.3%	5.2%	15.0%	16.2%	10.7%	11.8%	12.5%	11.5%	n/a

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

					Prelin	nina	ry Forecas	t							
Fringe Benefits	2014	2015	2016	2017	2018		2019		2020	2021	2022	2	2023	10 Y	ear Total
PFRS	\$ 13.4	\$ 14.5	\$ 14.8	\$ 15.2	\$ 15.6	\$	16.0	\$	16.3	\$ 16.6	\$ 17.0	\$	17.3	\$	156.6
General	\$ 8.6	\$ 8.8	\$ 8.7	\$ 8.6	\$ 8.8	\$	9.0	\$	9.2	\$ 9.4	\$ 9.5	\$	9.7	\$	90.4
36 District Court	\$ 2.0	\$ 2.1	\$ 2.1	\$ 2.1	\$ 2.2	\$	2.2	\$	2.3	\$ 2.3	\$ 2.4	\$	2.4	\$	22.1
Total General Fund	\$ 23.9	\$ 25.4	\$ 25.6	\$ 26.0	\$ 26.6	\$	27.3	\$	27.8	\$ 28.3	\$ 28.9	\$	29.5	\$	269.2
One Time 2.5% Bonus to AFSCME			\$ 1.8											\$	1.8
One Time 3% Bonus to all Uniform			\$ 6.9											\$	6.9
Total General Fund Fringe Benefits	\$ 23.9	\$ 25.4	\$ 34.3	\$ 26.0	\$ 26.6	\$	27.3	\$	27.8	\$ 28.3	\$ 28.9	\$	29.5	\$	277.9

Active Pension

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

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

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

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

Active OPEB

The city is establishing a Voluntary Employment Benefit Account ("VEBA") for its active employees' future healthcare costs. The City assumed a contribution

of \$1 million per year to PFRS and 2% of payroll for non-uniform employees based on the most recent negotiations. Summarized below is the City's yearly estimated contribution to the VEBA:

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

Professional and Contractual Services

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

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

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

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

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

Risk Management & Insurance

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

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

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

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

Materials and Supplies

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

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

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

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

Utilities

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

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

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

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

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

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

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

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

Purchased Services

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

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

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

Other Expenses and Capital Outlays

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

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

Section H – RRIs and Non-Operating Expenditures

Summary³¹

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

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

General Fund	FY20	014-2023	FY2	014-2023	FY	2014-2023	FY2	014-2023
Operating Surplus Prior to Legacy, Non Operating Expenses and RRI's	\$	2,781	\$	2,054	\$	1,788	\$	1,434
Reinvestment Initiatives								
Department revenue initiatives	\$	483	\$	586	\$	715	\$	871
Less:								
Additional operating expenditures	\$	357	\$	359	\$	438	\$	534
Capital investments	\$	582	\$	443	\$	501	\$	605
Blight	\$	420	\$	-	\$	-	\$	-
Reinvestment Deferrals	\$	(30)	\$	(223)	\$	11	\$	242
Total Reinvesment Expenditures	\$	1,330	\$	579	\$	950	\$	1,381
Other Non Operating Expenses								
Less:								
PLD Decommission	\$	75	\$	-	\$	-	\$	-
Contributions to Income Stabilization Fund	\$	18	\$	2	\$	-	\$	-
Professional Fees	\$	130	\$	-	\$	-	\$	-
Working Capital	\$	25	\$	-	\$	-	\$	-
Secured Debt	\$	391	\$	391	\$	67	\$	-
Swap Interest	\$	104	\$	-	\$	-	\$	-
QOL Exit Financing	\$	336	\$	110	\$	-	\$	-
Contingency	\$	101	\$	121	\$	144	\$	173
Total Non Operating Expenses	\$	1,179	\$	624	\$	211	\$	173
Funds Available for Unsecured Claims	\$	755	\$	1,437	\$	1,342	\$	752

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

Revenue	2	014	2	2015	2	2016	- 2	2017	- 2	2018	2	2019	2	2020	- 2	2021	2	2022	2	2023	10	Year Total
Pricing/Fees	\$	0.4	\$	10.0	\$	15.5	\$	16.8	\$	21.5	\$	23.2	\$	27.3	\$	26.8	\$	30.9	\$	31.8	\$	204.1
Faster Collections	\$	2.2	\$	12.6	\$	15.0	\$	18.3	\$	18.6	\$	18.9	\$	19.2	\$	19.4	\$	19.8	\$	20.1	\$	164.3
Grant Revenue	\$	3.1	\$	40.6	\$	9.0	\$	12.2	\$	12.9	\$	0.5	\$	0.5	\$	0.6	\$	0.6	\$	0.6	\$	80.6
Other	\$	(0.1)	\$	19.9	\$	(0.2)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	-	\$	(0.1)	\$	-	\$	19.3
Past Due Collections	\$	1.5	\$	4.9	\$	5.7	\$	2.5	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	14.7
Total Revenue	\$	7.2	\$	88.0	\$	45.1	\$	49.7	\$	52.9	\$	42.5	\$	46.9	\$	46.8	\$	51.3	\$	52.5	\$	482.9
Operating Expenditures	- 1	014	_	2015		2016		2017		2018		2019	_	2020		2021		2022		2023	10	Year Total
Permanent Labor	\$	2.7	\$	24.2	\$	20.1	\$	22.2	\$	21.7	\$	19.8	\$	19.7	\$	19.0	ф.	18.6	\$	17.7	\$	185.6
	-		-		Ψ.										Ψ		Ф		-		-	
Professional & Contract Services	\$	0.4	\$	(1.0)	\$	(1.3)	\$	(1.3)	\$	(1.2)	\$	(1.2)	\$	(1.1)	\$	(1.1)	\$	(1.1)	-	(1.0)		(10.0)
Active Benefits	\$	1.3	\$	10.2	\$	10.2	\$	12.7	\$	12.6	\$	11.8	\$	11.9	\$	11.6	\$	11.5	\$	11.3	\$	105.1
Training	\$	0.3	\$	7.3	\$	9.2	\$	6.3	\$	5.4	\$	5.2	\$	5.1	\$	5.2	\$	5.3	\$	5.0	\$	54.4
Materials and Supplies	\$	2.0	\$	6.6	\$	11.5	\$	10.2	\$	8.3	\$	8.8	\$	9.4	\$	9.6	\$	10.1	\$	10.6	\$	87.1
Utilities	\$	0.2	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	2.6
Purchased services	\$	0.4	\$	0.8	\$	(0.8)	\$	(0.5)	\$	(1.0)	\$	(0.5)	\$	(1.0)	\$	(0.5)	\$	(0.9)	\$	(0.4)	\$	(4.5)
Risk management/insurance	\$	(0.0)	\$	(2.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(50.7)
Transfers In/(Out) (General Fund)	\$	(0.4)	\$	4.4	\$	0.5	\$	(2.3)	\$	(2.7)	\$	(3.5)	\$	(3.5)	\$	(3.1)	\$	(3.6)	\$	(3.6)	\$	(17.7)
Grant related expenses	\$	1.2	\$	15.6	\$	3.5	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	20.3
All Other	\$	(0.1)	\$	(1.7)	\$	(1.7)	\$	(1.6)	\$	(1.6)	\$	(1.6)	\$	(1.5)	\$	(1.6)	\$	(1.6)	\$	(1.6)	\$	(14.8)
Total Operating Expenditures	\$	8.0	\$	64.6	\$	45.3	\$	39.9	\$	35.6	\$	33.0	\$	33.0	\$	33.3	\$	32.5	\$	32.1	\$	357.4
Reorganization/Investment	2	014	2	2015	- 2	2016	- 1	2017	-	2018	- 2	2019	- 2	2020	- 2	2021	- 2	2022	2	2023	10	Year Total
Technology Infrastructure	\$	3.1	\$	41.3	\$	34.4	\$	19.6	\$	10.1	\$	7.4	\$	10.7	\$	8.8	\$	8.8	\$	7.5	\$	151.7

5.9 \$ 33.5 \$ 41.7 \$ 26.1 \$ 22.4 \$ 19.5 \$ 22.7 \$ 20.0 \$ 16.7 \$ 16.8 \$

8.3 \$ 25.8 \$ 24.0 \$ 19.1 \$ 16.4 \$ 15.7 \$ 15.8 \$ 15.2 \$ 13.7 \$ 13.4

225.4

167.4

Revenue Initiatives

Capital Expenditures

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

Revenue Initiative	2014	20)15	20	16	2	017	20	018	20	019	2	020	20	021	20	022	2	023	10	Year Total
DDOT Expansion	\$ 0.4	\$	1.5	\$	5.7	\$	7.1	\$	11.7	\$	13.4	\$	17.5	\$	17.1	\$	21.2	\$	22.0	\$	117.6
Faster 36DC Collections	\$ -	\$	3.9	\$	5.5	\$	8.5	\$	8.7	\$	9.0	\$	9.2	\$	9.5	\$	9.8	\$	10.1	\$	74.1
Increased Parking Tickets	\$ -	\$	5.6	\$	6.8	\$	6.8	\$	6.8	\$	6.8	\$	6.8	\$	6.8	\$	6.8	\$	6.8	\$	60.3
Income Tax Collection Improvements	\$ 1.2	\$	4.9	\$	4.9	\$	5.2	\$	5.2	\$	5.2	\$	5.2	\$	5.2	\$	5.2	\$	5.2	\$	47.4
Increased Collections for New Fire Department Hires	\$ 0.9	\$	3.6	\$	3.6	\$	3.6	\$	3.6	\$	3.6	\$	3.6	\$	3.6	\$	3.7	\$	3.7	\$	33.7
New Billings for Services	\$ -	\$	2.9	\$	2.9	\$	2.9	\$	2.9	\$	2.9	\$	2.9	\$	2.9	\$	2.9	\$	2.9	\$	26.2
All Other	\$ 4.7	\$ (65.6	\$ 1	15.6	\$	15.6	\$	13.9	\$	1.5	\$	1.6	\$	1.6	\$	1.7	\$	1.8	\$	123.6
Total Revenue Initiatives	\$7.2	\$8	88.0	\$4	5.1	\$4	49.7	\$ 5	52.9	\$4	12.5	\$4	46.9	\$4	16.8	\$ 5	51.3	\$	52.5	\$	482.9

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

The City is also projecting increased revenue as a result of fare price increases.

The City has not had a fare price increase in the last 8 years. The following table shows the projected fare increases for DDOT:

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

The City took into account decreased ridership at each fare price increase, assuming ridership would decrease 2% for every 10% increase in fares. The

increased revenue associated with the fare increases, minus the reduced ridership, results in a total revenue increase over the ten year period of \$70 million.

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

The Emergency Manager implemented increases to parking ticket fines on April 3, 2014³². The City has long lagged comparable municipalities in this regard³³. The recent increase in the parking fines, in addition to additional parking officers, is expected to increase revenue by \$60 million over the ten year period.

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

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

³² See Emergency Manager City of Detroit Order Number 24

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

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

Operating Expenditures

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

Labor

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

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

Additional headcount by department projections can be seen below:

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

The total consolidated number of employees³⁴ for all departments by year including the base 10 Yr Plan and RRIs is highlighted below:

Total Employees	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2008-2012 Average	Variance
Total Employees Reinvestment		480	609	660	781	766	727	704	690	694	696		
Total Employees Base Model	10,043	9,578	9,634	9,770	9,747	9,745	9,745	9,745	9,744	9,742	9,742		
Total Employees	10,043	10,058	10,242	10,431	10,529	10,512	10,472	10,449	10,434	10,436	10,439	12,395	-15.8%
													_
New Hires by Year		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total	
Incremental Employees - Reinvestment		480	129	52	121	(15)	(40)	(23)	(14)	4	2	696	
Incremental Employees - Base Model		(465)	56	136	(23)	(2)	-	-	(1)	(2)	-	(301))
Total Additional Head Count		15	185	188	98	(17)	(40)	(23)	(15)	2	2	396	

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

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

2023 Employees by Department 2023 vs. 2008-2012 Avg.

2023 Empi	uyees by	Deparment		2023 VS	5. 4000-401.	4 Avg.
General Fund	Base	Reinvestment	Total	2008-2012 Avg	Var	% Variance
Police	2,895	149	3,044	3,322	(277)	-9.1%
Fire	1,228	117	1,345	1,358	(14)	-1.0%
36th District Court	362	(25)	337	301	36	10.5%
General Services	272	112	384	495	(111)	-28.9%
Waste/Public Works	284	-	284	416	(132)	-46.5%
Finance/Budget/ITS	260	112	372	373	(1)	-0.3%
Recreation	202	-	202	436	(233)	NM
Planning & Development	113	(34)	79	156	(77)	-98.3%
Law	86	17	103	112	(10)	-9.3%
Elections	60	-	60	72	(12)	-19.5%
Human Resources	60	33	93	159	(66)	-71.4%
Mayor	24	31	55	67	(12)	-22.0%
Non-Departmental	17	-	17	26	(9)	-54.6%
Auditor General	17	4	21	17	4	19.2%
City Clerk	15	(3)	12	22	(10)	-82.3%
Zoning	11	-	11	15	(3)	-30.9%
City Council	10	-	10	75	(65)	NM
Health & Wellness	9	-	9	271	(262)	NM
Ombudsperson	6	20	26	9	17	64.9%
Human Rights	5	6	11	10	2	14.4%
Administrative Hearings	4	-	4	6	(2)	-55.0%
Total General Funds	5,940	539	6,479	7,718	(1,239)	-19.1%

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

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

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

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

Incremental Salary & Wages	20	014	2	015	2	016	2	017	2	018	2	019	2	020	2	021	2	022	2	023	T	en Year Total
Finance/Budget	\$	0.3	\$	5.0	\$	6.3	\$	6.5	\$	6.7	\$	6.8	\$	7.0	\$	7.1	\$	7.2	\$	7.4	\$	60.4
Police	\$	1.5	\$	8.8	\$	9.4	\$	7.4	\$	5.6	\$	5.0	\$	4.5	\$	4.6	\$	4.7	\$	4.8	\$	56.2
Fire	\$	1.7	\$	5.6	\$	4.0	\$	8.0	\$	7.8	\$	5.6	\$	5.6	\$	3.9	\$	3.3	\$	2.0	\$	47.4
General Services	\$	0.7	\$	2.3	\$	4.4	\$	4.5	\$	4.7	\$	4.8	\$	4.9	\$	5.0	\$	5.1	\$	5.2	\$	41.6
DDOT - Transportation	\$	0.1	\$	1.9	\$	2.2	\$	3.3	\$	3.7	\$	3.8	\$	3.9	\$	4.1	\$	4.4	\$	4.7	\$	32.1
Law	\$	-	\$	0.7	\$	1.5	\$	1.5	\$	1.5	\$	1.6	\$	1.6	\$	1.6	\$	1.7	\$	1.7	\$	13.4
Mayor's Office	\$	0.8	\$	1.3	\$	1.3	\$	1.3	\$	1.4	\$	1.4	\$	1.4	\$	1.4	\$	1.5	\$	1.5	\$	13.3
Human Resources	\$	-	\$	0.9	\$	1.3	\$	1.4	\$	1.4	\$	1.4	\$	1.5	\$	1.5	\$	1.5	\$	1.5	\$	12.4
Planning & Development	\$	0.3	\$	0.9	\$	0.8	\$	0.9	\$	0.9	\$	0.9	\$	0.9	\$	0.9	\$	1.0	\$	1.0	\$	8.5
Ombudsperson	\$	-	\$	-	\$	0.4	\$	0.6	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	5.2
Labor Relations	\$	-	\$	0.1	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	3.7
Human Rights / Board of Ethics	\$	-	\$	0.2	\$	0.3	\$	0.3	\$	0.3	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	3.1
Auditor General / Inspector General	\$	-	\$	0.2	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	2.5
Airport	\$	-	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	1.6
Municipal Parking	\$	0.0	\$	0.2	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.2)
Buildings and Safety	\$	0.0	\$	0.0	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.3)
Elections	\$	-	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.4)
City Clerk	\$	-	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(0.2)	\$	(1.5)
Non-Departmental (36D Initiatives)	\$	-	\$	(0.3)	\$	(0.7)	\$	(0.8)	\$	(0.8)	\$	(0.8)	\$	(0.8)	\$	(0.8)	\$	(0.8)	\$	(0.9)	\$	(6.7)
Total Incremental Salary and Wages	\$	5.5	\$	27.6	\$	31.7	\$	35.6	\$	34.4	\$	32.2	\$	32.2	\$	31.1	\$	31.2	\$	30.7	\$	292.2

In the base model, the City assumes that overtime remains at the FY 2013 level as a percentage of payroll. The City assumes that the incremental employees

hired as a result of the RRIs do not increase or decrease the overtime assumed in the base model with the following exceptions:

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

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

DDOT Consolidated Payroll and Overtime	2	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	-	Total
Total Payroll Base Model	\$	30.1	\$ 33.9	\$ 34.4	\$ 35.3	\$ 36.1	\$ 37.1	\$ 37.8	\$ 38.5	\$ 39.3	\$ 40.1	\$	362.6
Total Overtime Base Model	\$	12.0	\$ 13.5	\$ 13.8	\$ 14.1	\$ 14.5	\$ 14.8	\$ 15.1	\$ 15.4	\$ 15.7	\$ 16.0	\$	145.0
As a % of Payroll		40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%		40.0%
New Payroll	\$	0.1	\$ 1.9	\$ 2.2	\$ 3.3	\$ 3.7	\$ 3.8	\$ 3.9	\$ 4.1	\$ 4.4	\$ 4.7	\$	32.1
Overtime Savings	\$	-	\$ (1.0)	\$ (5.6)	\$ (5.6)	\$ (5.7)	\$ (5.8)	\$ (6.0)	\$ (6.1)	\$ (6.1)	\$ (6.7)	\$	(48.7)
Consolidated DDOT Payroll	\$	30.2	\$ 35.7	\$ 36.6	\$ 38.6	\$ 39.8	\$ 40.9	\$ 41.7	\$ 42.6	\$ 43.7	\$ 44.8	\$	394.7
Consolidated Overtime	\$	12.0	\$ 12.6	\$ 8.2	\$ 8.5	\$ 8.7	\$ 9.0	\$ 9.1	\$ 9.3	\$ 9.6	\$ 9.3	\$	96.3
As a % of Payroll		39.8%	35.2%	22.3%	21.9%	21.9%	22.0%	21.8%	21.9%	22.0%	20.8%		24.4%

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

Prior to the July 2nd projections, the City reexamined the projections for salaries and wages for new hires in the Police and Fire departments in the baseline 10 Yr projections. In the May 5th projections the City assumed all new hires would be at the average salary of the department. In reality, the new entry level employees hired will likely be at a much lower pay scale. Recalculating the actual salaries for these new employees in the baseline model results in \$48.5 million³⁵ in total savings for the ten year period:

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

Professionals and Contractual Services

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

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

Benefits

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

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

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

Incremental Benefits	2	014	2	015	2	2016	2	017	2	018	2	019	2	020	2	021	2	022	2	023	Te	en Year Total
Finance/Budget	\$	0.2	\$	2.2	\$	2.8	\$	2.9	\$	3.0	\$	3.1	\$	3.1	\$	3.2	\$	3.3	\$	3.3	\$	27.2
Police	\$	0.6	\$	3.1	\$	1.3	\$	1.6	\$	1.2	\$	1.3	\$	1.4	\$	1.8	\$	1.8	\$	1.9	\$	16.0
Fire	\$	(0.4)	\$	1.3	\$	0.7	\$	1.9	\$	1.8	\$	0.7	\$	0.4	\$	(0.4)	\$	(0.9)	\$	(1.6)	\$	3.6
General Services	\$	0.3	\$	1.1	\$	2.0	\$	2.0	\$	2.1	\$	2.2	\$	2.2	\$	2.2	\$	2.3	\$	2.3	\$	18.7
DDOT - Transportation	\$	0.1	\$	0.7	\$	0.9	\$	1.6	\$	1.8	\$	1.9	\$	1.9	\$	2.0	\$	2.2	\$	2.4	\$	15.6
Law	\$	-	\$	0.3	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	0.8	\$	6.0
Mayor's Office	\$	0.5	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.7	\$	0.7	\$	6.1
Human Resources	\$	-	\$	0.4	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.7	\$	0.7	\$	0.7	\$	0.7	\$	5.6
Planning & Development	\$	0.1	\$	0.4	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	3.3
Ombudsperson	\$	-	\$	-	\$	0.2	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	2.4
Labor Relations	\$	-	\$	0.0	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	1.7
Human Rights / Board of Ethics	\$	-	\$	0.1	\$	0.1	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	1.4
Auditor General / Inspector General	\$	-	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	1.1
Airport	\$	-	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.7
Municipal Parking	\$	0.0	\$	0.1	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.1)
Buildings and Safety	\$	0.0	\$	0.0	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.1)
Elections	\$	-	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.0)	\$	(0.2)
City Clerk	\$	-	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.7)
Non-Departmental (36D Initiatives)	\$		\$	(0.2)	\$	(0.3)	\$	(0.3)	\$	(0.3)	\$	(0.4)	\$	(0.4)	\$	(0.4)	\$	(0.4)	\$	(0.4)	\$	(3.0)
Total Incremental Benefits	\$	1.3	\$	10.2	\$	10.2	\$	12.7	\$	12.6	\$	11.8	\$	11.9	\$	11.6	\$	11.5	\$	11.3	\$	105.1

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

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

Training

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

Training	20	14	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten	Year Total
Employee Training	\$	0.0	\$ 3.2	\$ 4.9	\$ 4.1	\$ 4.1	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$	36.3
Fire Training	\$	0.3	\$ 4.1	\$ 3.7	\$ 1.6	\$ 0.7	\$ 0.6	\$ 0.5	\$ 0.6	\$ 0.7	\$ 0.4	\$	13.3
HR Training	\$	-	\$ -	\$ 0.6	\$	4.8							
Total Training	\$	0.3	\$ 7.3	\$ 9.2	\$ 6.3	\$ 5.4	\$ 5.2	\$ 5.1	\$ 5.2	\$ 5.3	\$ 5.0	\$	54.4

Materials & Supplies

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

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

Materials and Supplies	2	014	2	015	2	016	20	17	2018	2019	2020	2021	2	022	2023	3	Ten Year Total
M&S to Achieve Desired Service Levels	\$	1.2	\$	5.5	\$	7.3	\$	7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$	7.3	\$ 7.	3 5	65.1
M&S due to Increased Miles Driven	\$	0.4	\$	0.9	\$	1.9	\$	3.0	\$ 4.0	\$ 4.5	\$ 5.0	\$ 5.4	\$	5.9	\$ 6.	4 5	\$ 37.4
Risk Management Technology	\$	-	\$	0.3	\$	2.6	\$	0.6	\$ 0.6	\$ 0.6	\$ 0.7	\$ 0.6	\$	0.6	\$ 0.	6 5	7.2
Miscellaneous Police Supplies	\$	-	\$	0.7	\$	0.7	\$	0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.6	\$	0.6	\$ 0.	6 5	6.0
Vest Replacement	\$	0.1	\$	0.3	\$	0.3	\$	0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$	0.4	\$ 0.	4 5	3.1
Finance - Purchasing Savings	\$	0.0	\$	(2.0)	\$	(2.0)	\$ ((2.0)	\$ (5.0)	\$ (5.0)	\$ (5.0)	\$ (5.0)	\$	(5.0)	\$ (5.	0) 5	(35.8)
All Other M&S	\$	0.3	\$	0.8	\$	0.6	\$	0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$	0.3	\$ 0.	3 5	\$ 4.2
Total Material and Supplies	\$	2.0	\$	6.6	\$	11.5	\$1	0.2	\$ 8.3	\$ 8.8	\$ 9.4	\$ 9.6	\$	10.1	\$10.	6 5	87.1

Risk Management & Insurance

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

Risk Management and Insurance	2	014	2015	2	016	2	017	2	018	2	019	2	020	2	021	2	022	2	023	Ten	Year Total
Workers Comp Savings	\$	-	\$ -	\$	(4.0)	\$	(4.0)	\$	(4.0)	\$	(4.0)	\$	(4.0)	\$	(4.0)	\$	(4.0)	\$	(4.0)	\$	(32.0)
Reduction in Lawsuits	\$	-	\$ (2.0)	\$	(2.0)	\$	(2.0)	\$	(2.0)	\$	(2.0)	\$	(2.0)	\$	(2.0)	\$	(2.0)	\$	(2.0)	\$	(18.0)
All Other	\$	-	\$ (0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.1)	\$	(0.7)
Total Risk Management & Insurance	\$	-	\$(2.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(6.1)	\$	(50.7)

Other Operating Expenditures

Other operating expenditures over the ten year period include:

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

Reorganization/Investment

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

Technology & Infrastructure

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

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

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

IT and Infrastructure	Department	20)14	2	015	2	016	2	017	2	018	2	019	2	020	20	021	2	022	2	023	Ten Y	ear Total
ERP System	Finance	\$	-	\$	7.4	\$	10.3	\$	9.0	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	29.0
Replacement of Radios	Police	\$	-	\$	7.5	\$	7.5	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	22.0
Implementation of Integrated Public Safety System	Police	\$	-	\$	4.5	\$	2.5	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	13.8
Hardware Upgrade	Finance	\$	-	\$	1.5	\$	2.0	\$	2.0	\$	1.2	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	11.7
Data Back Up Center	Finance	\$	-	\$	-	\$	4.9	\$	2.4	\$	0.2	\$	0.2	\$	2.7	\$	0.2	\$	0.2	\$	0.2	\$	10.9
Microsoft Application Department - 365 Cloud (Net of Savings)	Finance	\$	-	\$	1.3	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	10.4
311 System	Ombudsperson	\$	-	\$	-	\$	3.0	\$	0.5	\$	0.5	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	7.0
Document Imaging and Management System	Finance	\$	-	\$	3.0	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	5.4
Implementation of City Tax	Finance	\$	0.1	\$	1.7	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	5.2
Upgrades to 36th District Court Technology	Non Departmental	\$	-	\$	1.6	\$	0.8	\$	0.4	\$	0.4	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	4.2
Citywide Network Infrastructure	Finance	\$	-	\$	2.0	\$	-	\$	-	\$	1.1	\$	-	\$	-	\$	1.1	\$	-	\$	-	\$	4.2
Security Access System to Building	Finance	\$	-	\$	0.6	\$	0.6	\$	0.6	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	3.8
Workbrain Upgrades	Finance	\$	1.1	\$	-	\$	-	\$	-	\$	1.2	\$	-	\$	-	\$	-	\$	1.3	\$	-	\$	3.6
Fire Vehicle Technology Upgrade	Fire	\$	-	\$	0.7	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.7	\$	0.1	\$	0.1	\$	0.1	\$	2.2
Helpdesk Software	Finance	\$	-	\$	1.6	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	2.0
Active Directory Service Migration	Finance	\$	-	\$	1.3	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	2.0
Cashiering Controls	Finance	\$	-	\$	1.4	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.4
HR Learning Center and Implementation	HR	\$	-	\$	0.5	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	1.3
Operating System Upgrade	Finance	\$	-	\$	1.0	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.0
SQL Server Update	Finance	\$	-	\$	0.2	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.7
All Other	Various	\$	1.9	\$	3.6	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	0.6	\$	0.7	\$	0.5	\$	0.5	\$	9.8
Total IT and Infrastructure		\$	3.1	\$	41.3	\$	34.4	\$	19.6	\$	10.1	\$	7.4	\$	10.7	\$	8.8	\$	8.8	\$	7.5	\$	151.7

Capital Expenditures

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

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

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

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

Capital Expenditures	Department	2	014	2	2015	2	016	2	017	2	018	2	019	2	020	2	021	2	022	2	023	Ten \	ear Total
Department City Wide Projects and Space Consolidation	GSD	\$	1.2	\$	5.1	\$	7.2	\$	4.8	\$	3.8	\$	3.6	\$	3.6	\$	3.8	\$	3.7	\$	3.7	\$	40.3
Facility Improvements/Upgrades and Emergency Repairs	Recreation	\$	0.9	\$	4.8	\$	4.1	\$	4.8	\$	4.0	\$	4.5	\$	3.9	\$	3.3	\$	3.3	\$	3.3	\$	37.0
Department wide improvement projects, New Training Facility and New Precincts	Police	\$	0.7	\$	13.7	\$	6.5	\$	0.1	\$	0.5	\$	0.2	\$	3.3	\$	3.1	\$	3.0	\$	3.0	\$	34.2
R&M of Fire Department Facilities	Fire	\$	1.1	\$	3.0	\$	5.5	\$	2.4	\$	1.1	\$	2.0	\$	5.1	\$	4.1	\$	3.0	\$	4.0	\$	31.2
New Firehouses	Fire	\$	-	\$	-	\$	3.0	\$	3.0	\$	3.0	\$	6.0	\$	3.0	\$	3.0	\$	-	\$	-	\$	21.0
Gear and equipment	Fire	\$	2.0	\$	3.0	\$	1.4	\$	2.1	\$	1.7	\$	1.7	\$	1.7	\$	1.5	\$	2.4	\$	1.5	\$	19.0
Executive Bay Upgrades, New Jetway, Terminal Upgrades and Other Improvements	Airport	\$	-	\$	0.4	\$	5.0	\$	5.3	\$	5.0	\$	-	\$	-	\$	-	\$	-	\$	-	\$	15.7
ERP, Security, Fleet Mgt, Radio, AVL & APC System Upgrades (All Non Grant Funded)	DDOT	\$	-	\$	1.6	\$	2.0	\$	2.3	\$	2.5	\$	1.0	\$	1.0	\$	-	\$	-	\$	-	\$	10.3
Herman Keifer Demolition Costs	Health and Wellness	\$	-	\$	-	\$	5.1	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	5.1
R&M for buildings	Non Departmental	\$	-	\$	1.0	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	5.0
Upgrades to Caniff Impound Lot	Parking	\$	-	\$	0.7	\$	0.1	\$	0.1	\$	0.1	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	2.0
Training Location	HR	\$	-	\$	-	\$	1.0	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.0
All Other	Various	\$	-	\$	0.4	\$	0.3	\$	0.6	\$	0.3	\$	-	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	3.7
Total CapEx		\$	5.9	\$	33.5	\$	41.7	\$	26.1	\$	22.4	\$	19.5	\$	22.7	\$	20.0	\$	16.7	\$	16.8	\$	225.4

<u>Fleet</u>

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

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

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

Fleet	Department	2	014	2	2015	2	2016	2	017	2	018	2	2019	2	2020	2	021	2	2022	2	2023	Ter	n Year Total
Fleet replacement - Police	Police	\$	-	\$	9.5	\$	11.7	\$	10.0	\$	10.0	\$	10.0	\$	10.0	\$	10.0	\$	10.0	\$	10.0	\$	91.3
Fleet Replacement Program and Preventive Maintenance Program	n Fire	\$	6.2	\$	11.7	\$	9.0	\$	5.9	\$	5.7	\$	4.9	\$	5.1	\$	4.5	\$	3.0	\$	2.7	\$	58.6
Upgrade Parks	GSD	\$	1.2	\$	3.5	\$	2.5	\$	2.5	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	9.7
Replacement of vehicles	GSD	\$	0.9	\$	0.7	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	6.4
Fleet replacement - Parking	Parking	\$	-	\$	0.4	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	1.4
Total Fleet		\$	8.3	\$	25.8	\$	24.0	\$	19.1	\$	16.4	\$	15.7	\$	15.8	\$	15.2	\$	13.7	\$	13.4	\$	167.4

Reorganization

The City is expecting to incur various expenses related to implementing the

RRIs. These are generally one-time expenses and include:

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

Reinvestment Deferrals

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

Non Operating Expenditures

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

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

Professional Fees

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

Professional Fees	2	2014	2	2015	20	016	2	017	20	018	20)19	20)20	20)21	20	022	20)23	Ten	Year Total
City Professional fees																						
Conway Mackenzie (Ops)	\$	14.0	\$	6.5	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	20.5
Ernst & Young (FA)	\$	13.4	\$	4.9	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	18.3
Jones Day (Counsel)	\$	35.7	\$	10.9	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	46.6
Miller Buckfire (IB)	\$	5.4	\$	19.5	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	24.9
Milliman (actuary)	\$	1.0	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.0
Total City Professional Fees	\$	69.5	\$	41.8	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	111.3
Creditors Professional fees																						
Lazard (FA)	\$	1.8	\$	0.7	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	2.5
Denton (Counsel)	\$	13.8	\$	5.0	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	18.8
Brooks Wilkins Sharkey & Turco PLLC (local	\$	0.8	\$	0.3	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.1
Segal (actuary)		tbd		tbd	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Total	\$	16.3	\$	6.0	\$	-	\$	-	\$	-	\$	-	\$	•	\$	-	\$	-	\$	-	\$	22.3
Total Creditors Professional fees	\$	85.8	\$	47.8	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	133.6
Less: State reimbursements for advisor fees	\$	(3.6)	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	(3.6)
Total Professional fees	\$	82.2	\$	47.8	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	130.0

PLD Decommission

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

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

Working Capital

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

Identified risks and opportunities to 10-year plan	2	014	2	2015	7	otal
Higher Transportation Dept (DDOT) operating subsidy in CF	\$	2.0	\$	5.0	\$	7.0
Accounts payable vendor risk in CF	\$	30.0	\$	-	\$	30.0
Cash escrow reserve requirement for self-insurance	\$	7.8	\$	-	\$	7.8
Refunding bond proceeds drawn from escrow	\$	-	\$	(20.0)	\$	(20.0)
Total	\$	39.8	\$	(15.0)	\$	24.8

Income Stabilization Fund

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

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

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

Secured Debt

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

	2	2014	2	2015	2	2016	2	2017	2	2018	2	2019	2	2020	2	2021	2	2022	2023	Te	n Year Total
UTGO Secured Debt																					
Beginning Principal - UTGO DSA	\$	100.0	\$	98.4	\$	96.5	\$	94.4	\$	92.2	\$	89.8	\$	87.2	\$	84.5	\$	81.6	\$ 78.4	\$	100.0
Principal	\$	1.6	\$	2.0	\$	2.1	\$	2.2	\$	2.4	\$	2.5	\$	2.7	\$	2.9	\$	3.2	\$ 3.4	\$	25.0
Ending Balance	\$	98.4	\$	96.5	\$	94.4	\$	92.2	\$	89.8	\$	87.2	\$	84.5	\$	81.6	\$	78.4	\$ 75.0	\$	75.0
Interest	\$	8.0	\$	7.9	\$	7.8	\$	7.7	\$	7.5	\$	7.4	\$	7.2	\$	7.0	\$	6.8	\$ 6.6	\$	73.8
LTGO Secured																					
Beginning Principal - LTGO DSA	\$	249.8	\$	245.5	\$	238.8	\$	231.8	\$	224.5	\$	216.7	\$	208.6	\$	200.0	\$	191.0	\$ 181.7	\$	249.8
Principal (Based on Set-Asides)	\$	4.3	\$	6.7	\$	7.0	\$	7.4	\$	7.7	\$	8.1	\$	8.6	\$	9.0	\$	9.4	\$ 9.8	\$	78.0
Ending Balance	\$:	245.5	\$ 2	238.8	\$:	231.8	\$:	224.5	\$:	216.7	\$:	208.6	\$	200.0	\$	191.0	\$	181.7	\$ 171.8	\$	171.8
Interest (Based on Set-Asides)	\$	12.6	\$	12.4	\$	12.0	\$	11.7	\$	11.3	\$	10.9	\$	10.5	\$	10.1	\$	9.7	\$ 9.3	\$	110.3
LTGO Secured - 2012 Refinancing																					
Beginning Principal (For GF, actual Debt Service different)	\$	129.5	\$	126.6	\$	122.2	\$	117.6	\$	112.7	\$	107.6	\$	102.3	\$	96.7	\$	90.9	\$ 84.7	\$	129.5
Principal	\$	2.9	\$	4.4	\$	4.6	\$	4.9	\$	5.1	\$	5.3	\$	5.6	\$	5.8	\$	6.1	\$ 6.5	\$	51.3
Ending Balance	\$	126.6	\$:	122.2	\$	117.6	\$:	112.7	\$:	107.6	\$	102.3	\$	96.7	\$	90.9	\$	84.7	\$ 78.3	\$	78.3
Interest	\$	6.1	\$	6.0	\$	5.8	\$	5.6	\$	5.4	\$	5.1	\$	4.9	\$	4.7	\$	4.4	\$ 4.1	\$	52.2
Yearly Secured Debt Payments	\$	35.4	\$	39.4	\$	39.4	\$	39.4	\$	39.4	\$	39.4	\$	39.5	\$	39.5	\$	39.5	\$ 39.6	\$	390.5

Quality of Life/Exit Financing

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

Swap Interest

The City assumes the agreed upon settlement of the PFRS and GRS Swaps of \$85 million at emergence from bankruptcy. The City has continued to make quarterly swap payments while in bankruptcy. The payments made to date will be

deducted from the final payment made at settlement. Below are the projected payments in FY2014 and FY2015 and reconciliation of the final payment assumed to occur in October 2014:

	2	2014	2	2015	7	Total
POC Swaps						
PFRS Interest	\$	29.6	\$	10.2	\$	39.8
GRS Interest	\$	16.3	\$	5.5	\$	21.9
POC Swap Payment	\$	45.9	\$	15.7	\$	61.6
Swap Settlement			\$	42.1	\$	42.1
Total Swap Payments	\$	45.9	\$	57.8	\$	103.8

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

Contingency

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

Section I - Systems, Controls and Reporting

Introduction

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

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

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

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

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

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

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

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

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

Accounting Controls and Processes

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

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

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

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

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

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

Financial Reporting

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

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

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

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

Potential Plan Implications

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

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

.

⁴⁰ Emergency Manager's report

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

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

<u>Information Technology</u>

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

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

While the IT department expects to spend almost \$85 million on restructuring initiatives over the next 10 years, the total investment in IT related expenses by the City is upwards of \$150 million. It should be noted that this figure does not include

a budget of \$3 million for the implementation of a replacement payroll system, which is included in E&Y's base line financial projections. We believe the City would benefit with a more centralized control over all IT related investments. The following chart details the significant IT-related restructuring initiatives out of each of the departmental RRIs:

IT and Infrastructure	Department	2	014	2	015	2	016	2	017	2	018	2	019	2	020	2	021	2	022	2	023	Ter	n Year Total
ERP System	Finance	\$	-	\$	7.4	\$	10.3	\$	9.0	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	29.0
Replacement of Radios	Police	\$	-	\$	7.5	\$	7.5	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	22.0
Implementation of Integrated Public Safety System	Police	\$	-	\$	4.5	\$	2.5	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	13.8
Hardware Upgrade	Finance	\$	-	\$	1.5	\$	2.0	\$	2.0	\$	1.2	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	1.0	\$	11.7
Data Back Up Center	Finance	\$	-	\$	-	\$	4.9	\$	2.4	\$	0.2	\$	0.2	\$	2.7	\$	0.2	\$	0.2	\$	0.2	\$	10.9
Microsoft Application Department - 365 Cloud (Net of Savings)	Finance	\$	-	\$	1.3	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	1.1	\$	10.4
311 System	Ombudsperson	\$	-	\$	-	\$	3.0	\$	0.5	\$	0.5	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	0.6	\$	7.0
Document Imaging and Management System	Finance	\$	-	\$	3.0	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	0.3	\$	5.4
Implementation of City Tax	Finance	\$	0.1	\$	1.7	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	5.2
Upgrades to 36th District Court Technology	Non Departmental	\$	-	\$	1.6	\$	0.8	\$	0.4	\$	0.4	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	0.2	\$	4.2
Citywide Network Infrastructure	Finance	\$	-	\$	2.0	\$	-	\$	-	\$	1.1	\$	-	\$	-	\$	1.1	\$	-	\$	-	\$	4.2
Security Access System to Building	Finance	\$	-	\$	0.6	\$	0.6	\$	0.6	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	0.4	\$	3.8
Workbrain Upgrades	Finance	\$	1.1	\$	-	\$	-	\$	-	\$	1.2	\$	-	\$	-	\$	-	\$	1.3	\$	-	\$	3.6
Fire Vehicle Technology Upgrade	Fire	\$	-	\$	0.7	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.7	\$	0.1	\$	0.1	\$	0.1	\$	2.2
Helpdesk Software	Finance	\$	-	\$	1.6	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	2.0
Active Directory Service Migration	Finance	\$	-	\$	1.3	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	2.0
Cashiering Controls	Finance	\$	-	\$	1.4	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.4
HR Learning Center and Implementation	HR	\$	-	\$	0.5	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	1.3
Operating System Upgrade	Finance	\$	-	\$	1.0	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	1.0
SQL Server Update	Finance	\$	-	\$	0.2	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.1	\$	0.7
All Other	Various	\$	1.9	\$	3.6	\$	0.5	\$	0.5	\$	0.5	\$	0.5	\$	0.6	\$	0.7	\$	0.5	\$	0.5	\$	9.8
Total IT and Infrastructure		\$	3.1	\$	41.3	\$	34.4	\$	19.6	\$	10.1	\$	7.4	\$	10.7	\$	8.8	\$	8.8	\$	7.5	\$	151.7

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

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

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

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

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

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

⁴¹ Per the Conway McKenzie IT restructuring budget.

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

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

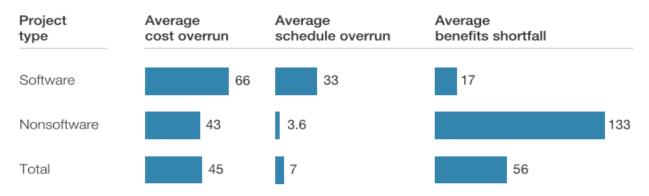
- Restructure the Organization to establish better functionality
 - o Implement a flatter, functionally-orientated organization chart
 - Strengthen mid-tier managers to provide better supervision and accountability
 - Establish centralized governance of City-wide Finance and Accounting functions with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

Risk of Failure

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

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

% of IT projects with given issue (for those with budgets >\$15 million in 2010 dollars)



Source: McKinsey-Oxford study on reference-class forecasting for IT projects

The root causes of cost overruns in IT systems implementations for projects over \$15 million include: unclear objectives and lack of business focus, shifting

requirements and technical complexity, unaligned teams, lack of skills, unrealistic schedule and reactive planning.⁴²

Impact on Feasibility

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

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

⁴² McKinsey Report on the City of Detroit, May 2011

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

Section J - Pensions

Introduction

Detroit's legacy retirement obligations, combining both pensions and OPEB, are the City's largest liability when combining the funded and unfunded liabilities. Additionally, these liabilities are arguably the most visible to the City's retirees, current employees, and to its citizens, generally. Despite the relative importance, the magnitude of the City's retirement obligations and the methods for calculating them are largely unknown. Assessing the City's future pension and OPEB responsibilities involves, among other factors, forecasted health care costs, complex actuarial models⁴³, and assumptions for the anticipated rate of returns on the pensions' assets and the rate used to discount the plans' future liabilities. Critical decisions made today will have a substantial impact on the City's liquidity in future

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

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

Background

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

Detroit's Plan, in an effort to mitigate the City's expanding legacy pension issues, proposes to fundamentally restructure the City's pension obligations for both its current retirees and its active employees, effective June 30, 2014. The Plan provides that, on the Effective Date, the City will assume the obligations related to already accrued benefits under the GRS and the PFRS pension plans *as those benefits will have been modified in the POA*. The POA pension proposal modifies

each plan under revised structures that impose reduced monthly pension amounts and/or reduced or eliminated COLA adjustments. The POA also proposes to restructure the accrual of pension benefits of active employees beginning on July 1, 2014, the parameters of which are detailed below.

City of Detroit Retirees Demographics

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

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

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

Pension Funding Level

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

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

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

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

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

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

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

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

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

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

- Using actual market returns for crediting purposes rather than the guarantee, the City believes that over \$387 million of excess investment earnings were credited to Annuity Savings Funds from 2003-2013
- GRS trustees, when the plan's actual returns were higher than the assumed rate of return, paid a portion of the positive variance between the actual investment return and the assumed rate of return in an additional pension check to already retired pensioners in what is commonly referred to as the "13th check" program
- The City periodically deferred its required year-end PFRS contributions, and then borrowed to pay those deferrals with debt priced at a rate of 8%;
- Retirement System officials have been accused and/or indicted of material fiduciary misconduct, allegedly draining the pension of necessary liquidity and contributing to the underfunding of the Retirement Systems.⁴⁷

Pension Treatment

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

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

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

Active City Employees

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

For active PFRS employees, the updated pension formula will be equivalent to their Final Average Compensation ("FAC") - defined as the average base compensation (excluding overtime, sick leave, longevity, etc. over the last ten consecutive years) times years of service times 2.0%. For example, a theoretical PFRS employee whose FAC was \$40,000 with 25 years of experience would accrue an annual pension of \$20,000 (\$40,000 x 25 x 2.0%). This calculation represents

the defined benefit portion of the new hybrid plan. The defined contribution portion of the new plan incorporates an annual 12.25% contribution from the City of employees' base compensation and requires an employee contribution of 6%, if the employee was hired before July 1, 2014, or 8% if hired after that date. In addition, PFRS employees will be eligible for retirement at ages 50-52, depending on their rank, with twenty-five years of service.

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

Proposed POA Restructured Terms

PFRS	GRS
FAC x # of years x 2.0%	FAC x # of years x 1.5%
6.75%	6.75%
11-12% of base compensation	5% of base compensation
Hired before 7/1/14: 6%; after 7/1/14: 8%	4% of base compensation
Age 50-52 with 25 years experience	Age 55 with 30 years experience
0-1% compounded, variable	Variable after 4 years and 100% funded
n/a	Interested credit at actual return (0-5%)
\$20,000 - \$40,000 v 25 v 2,00/	\$18,000 = \$40,000 x 30 x 1.5%
	FAC x # of years x 2.0% 6.75% 11-12% of base compensation Hired before 7/1/14: 6%; after 7/1/14: 8% Age 50-52 with 25 years experience 0-1% compounded, variable

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

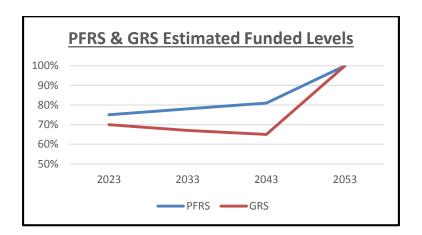
Current Retirees

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

The following graph illustrates, per the City's actuary – Milliman, Inc. – the estimated funding levels for PFRS and GRS at ten-year intervals during the period FY2014-2053⁴⁸. Based on the City's actuarial tables, the POA projections assume

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

that the pension plans' funding levels significantly improve in the last ten years of this forty year period in question⁴⁹.



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

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

The following table illustrates where the City's proposed 6.75% investment rate compares to other comparable municipal pension plan assumptions⁵⁰:

Public Pensions - Assumed Investment Returns - Dec 2013

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

Pension Funding

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

<u>Plan of Adjustment – Proposed PFRS Contributions – FY2014-2053</u>

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

(\$ Millions)	20)14 -	2	2024 -	2	034 -	2	044 -
	2	023		2033	2	2043	2	2053
City-specified Contributions								
State of Michigan	\$	96	\$	-	\$	-	\$	-
Foundations (DIA Settlement)	\$	165	\$	201	\$	-	\$	-
Other/City GF	\$	-	\$	416	\$	465	\$	311
Total	\$	261	\$	618	\$	465	\$	311

<u>Plan of Adjustment – Proposed GRS Contributions – FY2014-2053</u>

(\$ Millions)	_	014 -	_	2024 -	_	034 -	_	2044 -
	2	2023		2033		2043		2053
City-specified Contributions								
DWSD	\$	429	\$	-	\$	-	\$	-
UTGO	\$	32	\$	-	\$	-	\$	-
State of Michigan	\$	99	\$	-	\$	-	\$	-
DIA (DIA Settlement)	\$	45	\$	55	\$	-	\$	-
Other/City GF	\$	115	\$	575	\$	474	\$	318
Total	\$	719	\$	630	\$	474	\$	318

In order of magnitude, the City-specified contributions in the 2nd, 3rd, and 4th decades reflect the estimated 30-year amortization payments on the respective plans' UAALs at June 2023. The DWSD is expected to contribute to GRS roughly \$428 million from FY2015-2023, constituting DWSD's allocable share of the remaining GRS UAAL, after considering the pension modifications proposed in the POA. The State of Michigan has committed to contribute the present value of \$350 million, approximately \$194 million⁵¹, for the benefit of pensioners. The State's contribution, signed into law by Governor Snyder on June 20, 2014, requires the approval of Classes 10 and 11, requires support from the Retirement Systems,

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

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

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

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

Plan of Adjustment – Proposed PFRS Contributions – FY2014-2023

Fiscal Year	2	014	2015	2016	2	2017	2018	2019	2020	2021	:	2022	2023	0 Year Total
City-specified Contributions														
State	\$	-	\$ 96.0	\$ -	\$	-	\$ -	\$ -	\$ -	\$ -	\$	-	\$ -	\$ 96.0
Foundations	\$	-	\$ 18.3	\$ 18.3	\$	18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$	18.3	\$ 18.3	\$ 164.7
Other	\$	-	\$ -	\$ -	\$		\$ 	\$ 	\$ -	\$ -	\$	-	\$ 	\$
Total	\$	-	\$ 114.3	\$ 18.3	\$	18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$	18.3	\$ 18.3	\$ 260.7

<u>Plan of Adjustment – Proposed GRS Contributions – FY2014-2023</u>

Fiscal Year	2	2014	2015	2016	:	2017	2018	2019	2020	2021	2022	2023	1	0 Year Total
City-specified Contributions														
DWSD	\$	-	\$ 65.4	\$ 45.4	\$	45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$	428.6
UTGO	\$	-	\$ 4.4	\$ 4.0	\$	4.0	\$ 3.9	\$ 3.7	\$ 3.7	\$ 3.6	\$ 2.3	\$ 2.0	\$	31.6
State	\$	-	\$ 98.8	\$ -	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	98.8
DIA	\$	-	\$ 5.0	\$ 5.0	\$	5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$	45.0
Other/City GF	\$	-	\$ 14.6	\$ 22.5	\$	22.5	\$ 22.5	\$ 22.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$	114.6
Total	\$	-	\$ 188.2	\$ 76.9	\$	76.9	\$ 76.8	\$ 76.6	\$ 56.6	\$ 56.5	\$ 55.2	\$ 54.9	\$	718.6

Plan of Adjustment – PFRS (Class 10)

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

PFRS – Scenario A

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

PFRS – Scenario B

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

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

and 6.75% Investment Return⁵²

10 Year Fiscal Year 2014 2015 2019 2021 2022 2023 Total City-specified Contributions \$ 114.3 \$ 18.3 \$ 18.3 \$ 18.3 \$ 18.3 \$ 18.3 \$ 18.3 Ś Market Value of Assets \$ 3.071 \$ 3.096 \$ 3.024 \$ 2.946 \$ 2.863 \$ 2.775 \$ 2.681 \$ Actuarial Accrued Liability (553) \$ Unfunded Liability (477) \$ (497) \$ (518) \$ (541) \$ (565) \$ (590) \$ (619) \$ (648) \$ Funded Ratio - BOY 84.1% **Expected FY Benefit Payments** (285) \$ (283) \$ (284) \$ (284) \$ (283) \$ (283) \$ (284) \$ (285) \$ (283) \$ (2,554)**Expected FY Admin Expenses** (7) \$ (7) \$ (7) \$ (7) \$ (7) \$ (7) \$ (8) \$ (8) \$ (8) \$ (66) 201 \$ 200 \$ 195 \$ 190 \$ 184 \$ 178 \$

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

Final Van		2014	2015	2016	2017	2010	2010	2020	2024	2022	2022	1	l0 Year
Fiscal Year		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		Total
Market Value of Assets - Roll Forward													
Market Value of Assets - BOY			\$ 3,071	\$ 3,094	\$ 3,023	\$ 2,945	\$ 2,862	\$ 2,775	\$ 2,681	\$ 2,579	\$ 2,469	\$	3,071
City-specified Contributions			\$ 114	\$ 18	\$	261							
Expected FY Net Investment Return			\$ 201	\$ 200	\$ 195	\$ 190	\$ 184	\$ 178	\$ 172	\$ 165	\$ 157	\$	1,642
Expected FY Benefit Payments			\$ (285)	\$ (283)	\$ (284)	\$ (284)	\$ (283)	\$ (283)	\$ (284)	\$ (285)	\$ (283)	\$	(2,554
Expected FY Admin Expenses			\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (8)	\$ (8)	\$ (8)	\$	(66
Market Value of Assets - EOY	\$	3,071	\$ 3,094	\$ 3,023	\$ 2,945	\$ 2,862	\$ 2,775	\$ 2,681	\$ 2,579	\$ 2,469	\$ 2,354	\$	2,354
Actuarial Accrued Liability - Roll Forwa	rd												
Actuarial Accrued Liability - BOY			\$ 3,624	\$ 3,573	\$ 3,521	\$ 3,464	\$ 3,404	\$ 3,340	\$ 3,271	\$ 3,198	\$ 3,118	\$	3,624
Expected FY Benefit Payments			\$ (285)	\$ (283)	\$ (284)	\$ (284)	\$ (283)	\$ (283)	\$ (284)	\$ (285)	\$ (283)	\$	(2,554
Add'l Accrued Liability			\$ 234	\$ 231	\$ 227	\$ 224	\$ 219	\$ 214	\$ 211	\$ 205	\$ 200	\$	1,965
Actuarial Accrued Liability - EOY	\$	3,624	\$ 3,573	\$ 3,521	\$ 3,464	\$ 3,404	\$ 3,340	\$ 3,271	\$ 3,198	\$ 3,118	\$ 3,035	\$	3,035

Plan of Adjustment – GRS (Class 11)

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

GRS – Scenario A

In the event that both Classes 10 and 11 vote for the POA, with an assumed investment return of 6.75% and a targeted funding rate of 70% in 2023, GRS pensioners will receive 95.5% of their current/accrued pension, will have their lifetime COLAs eliminated, and pensions will be subjected to a maximum of a 15.5% recoupment of their Annuity Savings Fund excess return⁵³. The combined impact of these proposed changes represents an approximate 27% reduction in

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

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

<u>GRS – Scenario B</u>

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

General Retirement Systems of the City of Detroit Projection of Liabilities and Assets Scenario A

Assuming 4.5% Benefit Reduction, 100% COLA Reduction, 70% Funded Status, Annuity Savings Fund Recoupment, and 6.75% Investment Return⁵⁴

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

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	:	2023	0 Year Total
City-specified Contributions	\$ -	\$ 196.2	\$ 65.3	\$	65.3	\$ 718.6						
Market Value of Assets	\$ 2,027	\$ 2,106	\$ 2,057	\$ 2,005	\$ 1,951	\$ 1,893	\$ 1,831	\$ 1,764	\$ 1,695	\$	1,622	
Actuarial Accrued Liability	\$ 2,921	\$ 2,866	\$ 2,809	\$ 2,751	\$ 2,688	\$ 2,622	\$ 2,552	\$ 2,477	\$ 2,399	\$	2,317	
Unfunded Liability	\$ (894)	\$ (760)	\$ (752)	\$ (746)	\$ (737)	\$ (729)	\$ (721)	\$ (713)	\$ (704)	\$	(695)	
Funded Ratio		73.5%	73.2%	72.9%	72.6%	72.2%	71.7%	71.2%	70.7%		70.0%	
Expected FY Benefit Payments		\$ (243)	\$ (241)	\$ (239)	\$ (239)	\$ (239)	\$ (238)	\$ (238)	\$ (237)	\$	(235)	\$ (2,149)
Expected FY Admin Expenses		\$ (9)	\$ (9)	\$ (10)	\$ (10)	\$ (10)	\$ (10)	\$ (11)	\$ (11)	\$	(11)	\$ (91)
Expected FY Net Investment Return		\$ 135	\$ 136	\$ 133	\$ 129	\$ 125	\$ 122	\$ 117	\$ 113	\$	108	\$ 1,118

												1	0 Year
Fiscal Year		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		Total
Market Value of Assets - Roll Forward													
Market Value of Assets - BOY			\$ 2,027	\$ 2,106	\$ 2,058	\$ 2,007	\$ 1,952	\$ 1,893	\$ 1,833	\$ 1,766	\$ 1,696	\$	2,027
City-specified Contributions			\$ 196	\$ 65	\$	719							
Expected FY Net Investment Return			\$ 135	\$ 136	\$ 133	\$ 129	\$ 125	\$ 122	\$ 117	\$ 113	\$ 108	\$	1,118
Expected FY Benefit Payments			\$ (243)	\$ (241)	\$ (239)	\$ (239)	\$ (239)	\$ (238)	\$ (238)	\$ (237)	\$ (235)	\$	(2,149)
Expected FY Admin Expenses			\$ (9)	\$ (9)	\$ (10)	\$ (10)	\$ (10)	\$ (10)	\$ (11)	\$ (11)	\$ (11)	\$	(91)
Market Value of Assets - EOY	\$	2,027	\$ 2,106	\$ 2,058	\$ 2,007	\$ 1,952	\$ 1,893	\$ 1,833	\$ 1,766	\$ 1,696	\$ 1,624	\$	1,624
Actuarial Accrued Liability - Roll Forwa	rd												
Actuarial Accrued Liability - BOY			\$ 2,921	\$ 2,866	\$ 2,809	\$ 2,751	\$ 2,688	\$ 2,622	\$ 2,552	\$ 2,477	\$ 2,399	\$	2,921
Expected FY Benefit Payments			\$ (243)	\$ (241)	\$ (239)	\$ (239)	\$ (239)	\$ (238)	\$ (238)	\$ (237)	\$ (235)	\$	(2,149)
Add'l Accrued Liability			\$ 188	\$ 184	\$ 181	\$ 176	\$ 173	\$ 168	\$ 163	\$ 159	\$ 153	\$	1,545
Actuarial Accrued Liability - EOY	\$	2,921	\$ 2,866	\$ 2,809	\$ 2,751	\$ 2,688	\$ 2,622	\$ 2,552	\$ 2,477	\$ 2,399	\$ 2,317	\$	2,317

Pension Restoration

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

the pensioners if the investment performance of the pension plans is at least three percentage points above the targeted funding levels.

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

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

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

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

	P	FRS		irs
	Funding	Restoration	Funding	Restoration
	Target	Target	Target	Target
2014-2023	75%	78%	70%	73%
2024-2033	81%	84%	70%	73%
2034-2043	84%	87%	70%	73%

Impact on Feasibility

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

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

The Nelson A. Rockefeller Institute of Government's recent analysis on this issues - The Blinken Report - dated January 2014, notes⁵⁶:

The problem begins with mismeasurement of liabilities and the cost of funding them securely, for financial reporting purposes. The proper way to value future cash flows such as pension benefit payments is with discount rates that reflect the risk of the payments. This is separate from the question of the rate pension funds will earn on their investments.

This bears repeating: The proper rate for valuing pension liabilities on financial statements is separate from the question of what pension funds will earn on their investments. Different rates may be appropriate for valuing liabilities than for assumed investment returns — and we recommend, later, that different rates be used. The major

this chapter 9.

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

significance of valuing liabilities incorrectly is that it leads to inadequate funding policies, and encourages the mistaken belief that benefits can be greater, services can be greater, or taxes lower while still funding benefits securely. (Blinken Report Emphasis)

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

The City of Detroit, in its POA, has used a rate of 6.75% to discount the liabilities of the pension plans. This rate is lower than the historical rates that PFRS and GRS have previously used and lower than recent investment returns, although recent market returns are heavily impacted by the recovery from the Great Recession. It is also low relative to peers (see previous chart on comparison of Assumed Investment Returns of comparable public plans). In fact, there are few other major government sponsored plans that use a lower rate to discount the liabilities in their pension plans. On the surface, this appears to be a conservative

assumption. However, I am not convinced that the City appreciates the opportunity it has to provide stewardship in this area. Highlighting that the City's assumptions are low relative to history, a history that got them to this place, and low relative to their peers - peers who collectively may be underfunded by \$2 trillion or more, is not much consolation.⁵⁷

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

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

⁵⁷ Blinken Executive Summary pg. vii.

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

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

assumptions made, there does not appear to be recognition that a pension plan, someday, will need to be 100% funded. The City appears to adopt an institutional philosophy of underfunding.

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

Thus, order matters when returns are volatile. It is much better to receive high returns early and low returns later, even though both streams provide the same simple average growth rate. Examples of the impact of timing on returns in a given 10-year period are detailed in the Sensitivity section below. This is not a trivial

issue, even though it is quite technical. As pension funds mature and net outflows increase, asset values will be more volatile and more susceptible to the order in which returns occur. In an environment in which expected returns are low in the short term — as the current low-interest-rate, low-inflation environment may be — funds cannot simply balance low returns in the short term with high returns later; they will need much higher returns later because investible assets will be lower than they otherwise would have been.⁵⁸

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

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

⁵⁸ Blinken pg 25.

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

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

Legality of POA's Proposed Pension Cuts

Numerous parties in this bankruptcy, namely employees, retirees, Retirement Systems, and certain labor unions, have argued that the City is not legally able to

impair accrued pension benefits as they are protected under Article IX, Section 24 of the Michigan State Constitution of 1963. These same groups were granted permission to appeal the Bankruptcy Court's eligibility ruling to the U.S. Court of Appeals for the Sixth Circuit. To the degree that these parties are successful in their appeal of the Bankruptcy Court's eligibility ruling, the City's chapter 9 could be dismissed or may be unable to effectuate reductions in accrued vested pension benefits.

Sensitivity Analysis

The Society of Actuaries issued a *Report of the Blue Ribbon Panel on Public Pension Funding* in February 2014. The Blue Ribbon Panel recommended stress tests measuring the effect of investment returns over a 20-year period that are three percentage points above and below those used in calculating standardized plan contributions⁵⁹. The panel believes that +/- 3% points represents "plausible stresses" based on its review of prior market returns⁶⁰.

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

 $^{^{60}}$ The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

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

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

PFRS Average Rate of Return Scenario Analysis⁶¹

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

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

Recommendations on Reporting Requirements

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

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

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

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

⁶² Governmental Accounting Standards Board

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

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

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

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

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

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

Section K - Human Capital and Leadership

Detroit's fifty year decline was caused by changing demographics, economics and the failure of elected officials to respond effectively. The downward spiral finally resulted in the City filing for Bankruptcy. Beyond the financial crises, the City has suffered from a deterioration of the efficiency and effectiveness of its City's workforce, as measured by the cost of service delivery versus the benefit the citizens received from those services.⁶⁵ Inadequate investment in human capital and poor leadership during the decline served to exacerbate the situation.

At its core, this chapter 9 is a fundamental change project. The City, through the guidance of its bankruptcy advisors, has fundamentally changed the City's balance sheet and reduced its long term obligations. The Emergency Manager has begun the even harder task of reshaping the operations of the City for the benefit of the taxpayers. The Mayor, and other elected and appointed officials, will need to continue this part of the change project. Human capital and leadership are two of

⁶⁵ Docket # 14, page 29 of 106, Memorandum in Support of Statement of Oualifications Pursuant to Section 109 (c) of the Bankruptcy Code

the most important components to any successful restructuring⁶⁶. I believe the success, or failure, of Detroit's revitalization will hinge on the people employed by the City and the officials elected by the residents in the coming years. The skill level, on average, of City workers is low and outdated. Civil service requirements and historical collective bargaining agreements work against a merit or performance based employment culture in most municipalities and Detroit is no exception. Lack of even modest technology and up-to-date systems, as is the case with the City, ensure that employees will not perform at competitive levels to their peers in the private sector or even in municipalities that are efficient.

Impact on Feasibility

As I noted in my definition of feasibility, the second assessment prong of feasibility is "will and skill". Leadership, political and intestinal fortitude define "will" and talent and training equate to "skill".

For example, in order to arrest the downward trend of revenue, City employees must do a better job of collecting the taxes and fees that are currently due – that is skill. Better systems and more experienced management will be required

⁶⁶ I have written on this topic previously. See American Bankruptcy Journal, March 2014, "The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story"

to accomplish that goal. It was evident to me and my team that there are City employees who are knowledgeable, have good ideas about improving the operations and want to learn and advance. There are also employees who don't grasp that their job is to provide a service to the taxpayers versus the taxpayers owing them a job. This is a cultural malady that will have to change if Detroit is to be successful. Leadership that is focused on outcomes of service delivery and operating efficiency will be required, as will standards for personal and departmental performance.

Current Workforce Issues

The City employs more than 9,000 people and as a result of the RRIs expects add to almost 700 net new positions. After accounting for attrition, this is a significant mobilization. Further, my discussions with the leaders in the City indicate a universal understanding that increasing the average talent base of the employees is a cornerstone for success of the Plan and the City. This topic was acknowledged at the outset of the case and continues to present challenges to the City's management team. Throughout my team's discussions with City leaders and department managers, the issue of human resources has been a regular topic of discussion.

Throughout our discussion in the finance and accounting functions it has been noted:

"Many qualified and experienced employees have left their jobs over concerns about the long term prospects of their positions; Difficulty in replacing employees with qualified personnel because salary structure is no longer reasonable and competitive. This weakness has been partially mitigated by hiring employees outside the official system using Professional Service Contracts (PSC's), consultants and contractors."

Exacerbating the problem of historic skill level are the changes made to compensation prior to, and as a result of, the bankruptcy. Prior to the Bankruptcy,

"the City has also implemented a 10% reduction in the wages to majority of the workforce in the addition to furlough days of 10% to a majority of the non-uniform employees. Medical and prescription drug plan designs have been changed to reduce the costs associated with healthcare and increase the percentage of contributions from active employees." ⁶⁷

The POA eliminates future accrual of the defined benefit retirement plan and replaces with what is arguably a less generous hybrid pension plan. The Plan eliminates certain OPEB benefits, specifically, post-retirement healthcare and replaces with what is arguably a less generous VEBA plan.

Beth Niblock, the City's CIO, noted this concern in her Expert Report, "(a)ttracting and maintaining a highly skilled workforce is a challenging task,

⁶⁷ Declaration of Gaurav Malhotra in Support of the City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

particularly given the current and proposed compensation rates set forth in the Projections."68

There is little doubt that total compensation includes not only direct pay, but the benefits conferred to employees in the current time frame plus those that are expected to be conferred to the employee in the future. Individuals may possess differing views as to relative value of each category of pay; however, they do place some value on the deferred benefits. ⁶⁹ With all of these changes to compensation, it is unclear what the impact will be on retention and recruitment. While there are studies to suggest, and perhaps some experience in Detroit to confirm, that the elimination of post-retirement healthcare may offset the impact of the pension changes as a retention tool. Current employees, when they retire, will not have the benefit of receiving healthcare benefits prior to Medicare eligibility. Therefore, employees may be more likely to stay in their positions with the City.

While the specific impact of the compensation changes on retention is unknown at this time, the impact on current employees and future employees may be different. For current City employees, the City has necessarily lowered the

⁶⁸ Report of Beth Niblock, Chief Information Officer for the City of Detroit-Expert report submitted in support of the City's POA – page 15.

⁶⁹<u>Are Public Pensions Keeping up with the Times?</u> Richard W. Johnson, Mathew Chingos and Grover Whitehurst page 47."

overall economic value of City employment and changed the perception of the long term value in having worked for the City, once an employee leaves or retires. For future employees the economic and long term value analysis will be based on the individual's perception of alternative employment opportunities. The City is currently working with the consulting firm of Fox Lawson to complete a compensation review so that the City may have more than anecdotal evidence as it proceeds with the recruitment and staffing. We understand that the results of this study are not available and therefore were not considered when the City developed the POA projections.

In addition, the City has acknowledged the issue of skill development by including in the RRIs significant funding for employee training. The City has included an annual employee training budget of \$2,000 for each non-uniformed employee through 2017 and \$1,500 per year thereafter. The total RRI allocation to training over a 10 year period is \$54.4 million. While no actual allocation of training dollars has been made, I believe that this is a strong indicator of the City's commitment to helping its current employees develop the skills they need to contribute to the success of the City and to maintain competitive skills within its employee base.

Throughout our meetings with City leaders and the advisors to the City, it has been noted that if compensation is a barrier to hiring the skilled talent required, the City will likely adapt to this by hiring fewer but more skilled employees. I believe this approach can partially mitigate feasibility concerns regarding the City's ability to implement the Plan. Presently, the City is squeezed from both sides of the labor market: in order to do even the simplest routine task, the City has hired consultants yet maintains full time employees who should be able to manage those tasks but are not sufficiently trained to do so.

A significant challenge to acquiring the talent the City so desperately needs is the state of the Human Resources department. The Human Resources department is in need of an overhaul – recently, it has taken over six months to hire a new employee for an approved opening. As a result, department heads "work around" the department and find ways to recruit and hire employees more efficiently. The Mayor is well aware of the need for leadership in this key area.

Given the large number of recruits envisioned in the POA, a new approach to talent acquisition is needed. Consultants are in place to assess the skills needed to revamp key departments such as accounting and IT and the current leadership of those departments is experienced and capable. In fact, many of the Mayor's direct reports are experienced operational managers with successful employment histories. Overhauling the human resource function will be critical to a successful restructuring.

Leadership and Cultural Change

If the City is to counteract the vortex of underachievement that has defined Detroit, City leadership must make a long term, concerted effort to maintain the momentum needed to ensure effective City services. The Emergency Manager has made progress on the macro changes required and I believe the Mayor is developing a culture based on performance metrics and accountability and some of the *status quo* is going by the wayside.

I have confidence in Mayor Duggan. My opinion of feasibility is favorably influenced by my view of Mayor Duggan as a leader and an operational executive. I am encouraged by the manner in which he leads many of the City's departments given the real power is still held by the Emergency Manager. The Mayor has created simple metrics around which he can measure the performance of his department heads daily and/or weekly. This is a commendable workaround as the accounting and information systems, as noted elsewhere, are abysmal. While ultimately the City will need to address the core reporting system, the use of this simplistic metrics based approached is effective and understandable. When one is at the vortex of underachievement, having a few very simple and actionable goals can make a huge difference in the overall performance of the organizations. Having periodically attended the Mayor's Cabinet meetings, I know that if ambulance response times do

not decrease more rapidly, it will be evident to all and managers will be held accountable; this level of accountability can change the City for the better.

In the long term, the City's leadership is subject to the democratic process. There is clearly risk that future elected leaders stray from principals in the POA, but I am choosing to rely upon the combination of the electoral process and the oversight function implemented as part of the Grand Bargain legislation to keep future City leaders focused on strong stewardship.

Collective Bargaining Agreements

My team has not been privy to the negotiations between the City and its unions, or the resulting term sheets. The City's financial advisors have indicated that the economic issues addressed in the collective bargaining agreements ("CBAs") negotiated during the bankruptcy have been appropriately included in the POA projections. Based on discussions with long standing and former City officials and employees, I believe the more significant workforce issues are centered on the restrictive work rule provisions that have caused labor inefficiency, higher costs and inability to change outdated processes. I do not know if, or to what extent, any of these issues have been addressed in the recently negotiated CBAs. While I believe that the Emergency Manager's desire to negotiate 5 year contracts has been beneficial in mitigating the risk associated with adverse arbitration awards in the

future, I remain concerned that the City has missed an opportunity to make long term changes in its business processes and ability to manage through unforeseen events.

Section L - Blight

Detroit's Blight History

The City of Detroit, due to its shrinking population⁷⁰, depressed economy, and sagging property values, has experienced a metastasizing urban blight condition over the past several decades. Depending on which statistics are referenced, this City of approximately 139 square miles contains roughly 380,000 land parcels, of which 84,000 parcels (or 22%) have been identified as currently exhibiting blight characteristics or having indicators of future blight.⁷¹ These blighted parcels are geographically disbursed throughout the City, resulting in a ripple effect throughout most neighborhoods which further stretch the City's limited resources. An expanding blight crisis within Detroit is not just a land and property issue; rather, this epidemic has an exponential impact on the City's efforts with regards to public

 70 From roughly 1.8 million residents in the 1950's to the current estimate of under 700,000

⁷¹ Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

safety, education, job growth, property tax revenue, and the City's efforts to attract new residents and businesses.

As recently as 2010, under Mayor Bing's administration, the City of Detroit began a coordinated effort to tackle the City's growing urban blight, with an initial goal of razing 10,000 vacant structures, roughly 13% of the vacant structures within the City, at that time. The City reached approximately 50% of its stated blight removal goal by 2013, but lacked the necessary funding to continue its targeted efforts. Demolition expense estimates for blighted residential structures have ranged between \$8,500 - \$12,000 per structure, depending on the size of the building and the degree of blight and neglect. In addition to the incremental costs, the City's protracted payments to the demolition contractors have resulted in reducing the number of contractors willing to provide demolition services.

Current Blight Initiatives

Mayor Duggan has made blight eradication a top priority and has attempted to coordinate Detroit's multiple public and private organizations in an effort to streamline funding and execute a strategy toward this critical effort. To that end, the Duggan administration has created the Department of Neighborhoods and

empowered the Detroit Land Bank Authority ("DLBA") to aggressively move forward with multiple blight initiatives, including:

Nuisance Abatement

- Legal process of the City taking proactive legal remedies to seize abandoned properties within Detroit via the transfer of title to the DLBA (after the owner has been given the opportunity to bring the property "up to code")
- Enhanced Intake Process
 - DLBA performs a cost-benefit analysis to assess the estimated costs to restore a property as compared the assumed demolition expense
- Disposition
 - DLBA has been initially successful in selling viable houses via open houses and online auctions

In addition to the City's blight efforts, the Detroit Blight Removal Task Force ("Task Force") recently released its Blight Removal Task Force Plan that articulated the Task Force's efforts since it was founded in September 2013 and its view on the City's blight efforts. The Task Force, in partnership with Data Driven Detroit and Michigan Nonprofit Association, created the Motor City Mapping ("MCM") project that created a database cataloging the physical condition, tax status, and other pertinent information of all 380,000 parcels of land in Detroit. Also, these partners developed the Maximizing Community Impact ("MCI") software tool designed to identify neighborhoods where targeted funding could stem blight expansion. Going forward, the Task Force's mission – as it pertains to the City's blight – is to focus on removing blighted structures and cleaning vacant parcels. The Task Force

estimates it will cost the City approximately \$850 million to execute the Task Force's demolition strategy⁷².

While the City's blight action plan and the Task Force's recommendation appear to be directionally aligned, the City's overall mission to stabilize neighborhoods may result in the DLBA pursuing deconstruction efforts in lieu of demolition, where it makes more sense. If the DLBA is able to resell or recycle some of the building components of the blighted structures and create valuable job opportunities in the process, that approach may make better fiscal sense than an across-the-board demolition strategy.

<u>Plan of Adjustment – Blight Proposals</u>

The City's POA includes a Blight Reinvestment Initiative that proposes to allocate \$420 million of funding towards blight removal over the course of the next nine years. The projected funds dedicated for blight removal have changed in each iteration of the City's POA projections and funding has been allocated to other POA obligations. The forecasted annual blight RRI is as follows:

⁷² Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014.

(\$ millions)

City of Detroit's POA Proposed Blight Expenditures

Fiscal Year	20	14	2	015	20	016	20)17	20	018	20	019	2	020	20	21	20	22	20)23	T	otal
•																						
Blight Expenditures	\$	2	\$	100	\$	46	\$	40	\$	43	\$	48	\$	52	\$	45	\$	25	\$	19	\$	420

Funding for the intended blight removal efforts is forecasted to come from a variety of public and private sources, namely \$52 million from the federal government's allocation of its Hardest Hit fund, \$20 million from the Fire Escrow fund⁷³, various private sector contributions, with the balance coming from the City's annual cash flow. I have been told that the funding source for blight is flexible and is currently not necessarily dedicated only for this purpose. The Exit Financing contemplated appears to be the primary source for this funding.

Assuming the City can generate, or raise, the entire \$420 million dedicated for Blight removal over the next nine years, at an average demolition expense of \$11,000 per structure⁷⁴, the POA only allocates enough funding to remove about 50% of the structures designated by the Task Force blight removal.

⁷³It is not clear how the City intends to access these funds for its general blight initiative, as we understand the funds in escrow are designated for the demolition of particular properties destroyed by fire.

⁷⁴Phoenix assumed an average demolition expense of \$11,000 per structure, within the \$8,500-\$12,000 range proffered in the Disclosure Statement and in Phoenix's conversations with the DLBA.

I am not troubled by this apparent discrepancy between what the Task Force believes is required to eradicate blight and what the City is proposing. At some point during the next ten year period, assuming the City can dedicate sufficient funding to the blight initiative in the next few years, I believe that blight removal can become more self-sustaining by incorporating private capital or cost neutral solutions. If the City is initially successful in its blight remediation efforts, private owners and investors will see an economic opportunity to allocate private capital to take advantage of the revitalization efforts. It should be noted that, of the 79,000 structures (excluding lots) that are included as blighted or indicating blight, almost half have the lesser designation of 'structures with indicators of future blight'. To It is likely that some portion of these structures might create realistic opportunity for private investors.

⁷⁵Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

⁷⁶Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224- the Blight task force estimates that 80-90% of the properties with blight indicators marked for 'further analysis' will eventually require demolition.

Blight Summary

Quantifying the near- and long-term economic impact of a successful City of Detroit blight removal initiative is difficult due to the absence of a calculable immediate return on the City's investment. The City's POA forecast, embedding the positive cash flow impact of the proposed RRIs, assumes increased income tax revenues of \$204 million and property tax revenues of \$110 million in the ten year period ending June 2023. While other RRIs impact the reasonableness of these incremental revenue assumptions, the relative impact of the blight removal initiative cannot be overstated.

In order to maximize the benefits of the blight removal program, the City must ensure that the funding is committed and supported in the longer term. For better or worse, blight has an emotional impact on the perception of what Detroit is and can be. I believe that the blight initiatives are immensely important to creating and sustaining a positive trajectory for the City's revitalization efforts. With substantive, long term commitments to address blight, I believe that many of the external factors, including home ownership and job creation required to abate the City's decline, can be addressed. Conversely, a start and stop approach, will likely result in ineffective investment and do little to reverse the spread of blight throughout Detroit. This trend would ultimately constrict the City's liquidity and make Detroit a less desirous

location for new residents and employers. To effectively address blight, the City needs to achieve economies of scale. The Task Force estimates that through economies of scale, the average cost per structure may be reduced by 17%. Put differently, with proper planning and investment, the City's blight investment can produce 17% greater impact for the same money.⁷⁷

Finally, continued coordination between the City, the State of Michigan, the Federal government, DLBA, and various private constituencies will be critical to the long-term success of the blight initiative. Perpetual updating of MCM, and effective utilization of the MCI software tool to identify the neighborhoods that will benefit the most from allocation of the limited blight funding, will be important to the success of this most critical City initiative.

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⁷⁷ Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224

Section M – Post Confirmation Oversight

As noted in my definition of feasibility, I believe that the determination of feasibility stretches far into the future, although to impact feasibility, issues that extend further into time must be more significant. Beyond the strictly financial issues, one of the most significant issues impacting feasibility involves post confirmation oversight and governance. Ultimately, the City of Detroit will be largely run by an elected mayor and an elected city council. There are obvious inherent limitations to understanding how the City will be run without knowing who will occupy these critical positions. In the end, the success of the POA will largely rest on the will of these elected officials and whether the will to make the fundamental change is inherited by future leaders.

While the democratic process necessarily creates this limitation, the State of Michigan has created a framework that will provide a level of consistent oversight for the City. If implemented correctly, this oversight will institute financial accountability in the City's operations and greatly improve the ability to address small problems before they become significant factors to long term viability.

Public Act 181 of 2014 establishes a 9 member commission, the Financial Review Commission (FRC), with fairly broad oversight power over the City. Powers to be granted to the FRC include:

- Ensure the City is complying with the POA
- Review and approve the City's consensus revenue
- Require the City to submit 4 year financial plans
- Review, approve and modify proposed and amended operational budgets of the City
- Require relevant information from the City
- Review and approve requests by the City to issue debt
- Approve the appointment and termination of the City's CFO
- Approve collective bargaining agreements
- Approve all contracts that exceed \$750,000

I strongly believe that the appointment of the FRC improves the prospect of the City continuing to improve its fiscal health and therefore, provides some level of assurance to me regarding feasibility. I do note, that the FRC is populated by 9 non-compensated members. What we have learned about the City's finances, reporting and operations compels me to caution that the task the FRC is undertaking is not only challenging, but will require substantial time. Therefore, I believe that the positive prospects associated with the implementation of the FRC would be improved if the FRC hires permanent staff. My belief is that an executive director level professional with qualifications similar to a CFO would significantly improve the oversight functions associated with the FRC. I understand that the State has

appropriated funds for the operation of the FRC and these funds may in fact already be allocated to the above noted purpose.

As noted elsewhere in this Report, the pension plans are very complex. The accounting and actuarial assumptions are difficult to understand; it is even harder to understand how changes in assumptions may changes the City's future financial prospects. Therefore, I believe that it is important for the FRC to require annualized reporting from the City regarding each of the GRS and PFRS systems:

- The undiscounted liability of each of its pension plans.
- A sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel that provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan.

This reporting will allow outside observers to truly understand the nature of the City's continuing legacy pension obligations and insure that the City has foresight to deal with and significant deterioration of the pension UAAL during the time in which the City will not be making any direct cash payments to the pension funds, but the liability could nonetheless grow.

Public Act 182 of 2014 provides for the appointment of the City CFO, the identification of reporting requirements to the FRC and others, among other provisions. We do note that Public Act 181 and 182 requires the following:

That the City's financial plan include a general reserve fund for each fiscal year to cover potential reductions in revenues or increases in projected expenditures equal to not less than 5% of the project expenditures for the fiscal year.

I do not believe that the City's POA, as currently presented, complies with this requirement. The City has not identified how it intends to come into compliance with this provision.

As noted elsewhere in my Report, the City is unable to produce any reliable reporting in a timely manner. This will impact the FRC in their duties. At present, the City does not conduct monthly financial closes. That is, the City does not produce financial statements during the year. Further, it does not have a system to properly account for encumbrances. At present, the City relies on cash based information for what little information it does use to manage its operations. This cash based system is woefully inadequate for the purpose of running a major city long term. This will be compounded as the City begins to make large scale investments, such as blight remediation, which require the allocation of funding well in advance of the actual cash expenditure. The City has targeted an ERP system as one of its highest priorities in the RRIs. We fully support this initiative. However, it typically requires between 2-3 years, and sometimes even longer, for a full ERP implementation. During this time, the City will be required to continue to rely on ad hoc reporting. It is my observation that Mayor Duggan is using ad hoc operational

metrics to gain visibility. Given the lack of alternative options, I applaud this and believe that this can be a reasonable proxy for the immediate term, but it cannot replace the need for quick, integrated, systematic reporting over a longer period.

I have a significant concern regarding the City's intention with regard to the ad hoc reporting currently performed. It is my belief, the City is relying heavily on the cash team on site from E&Y. I understand that 3 full time E&Y personnel are allocated exclusively to cash management and reporting. I further understand that the POA does not have any direct funding allocated to retaining E&Y for this function. Further, I do not believe the City has recruited and trained personnel for this fairly complex and critical role. Failure to address this issue prior to confirmation could have a significant impact on the City's ability to manage cash and provide any level of reporting.

Section N - City of Detroit Unresolved Issues

In the event that the Plan of Adjustment is confirmed, the City of Detroit will continue to be challenged with operational, legal and financial issues critical to the City's long-term viability and its ability to execute the proposed restructuring initiatives, including:

- Bankruptcy Eligibility
- 2005-2006 Certificates of Participation
- Potential Swap litigation
- Impact of Collective Bargaining Agreements negotiations
- Potential City of Detroit Asset Sales
- Exit Financing
- Professional Fees post-bankruptcy

The immediate and long-term impacts to the City if it ultimately receives negative outcomes from any of these key issues cannot be quantified at this time. It is likely, though, that these (and possibly other) issues, both individually and collectively, will consume significant City resources, with regards to both human capital and financial reserves, in the period immediately following the conclusion of these chapter 9 proceedings.

Chapter 9 Eligibility

The central issue before the Court since the beginning of this municipal bankruptcy has been the ultimate determination as to whether the City of Detroit was eligible to be a debtor under chapter 9 of the Bankruptcy Code. At the petition date, the City filed its Statement of Qualifications and supporting memorandum demonstrating its compliance with the chapter 9 debtor requirements. Approximately 110 objections to the City's eligibility were filed, along with the Attorney General for the State of Michigan's argument that the Pension Clause of the Michigan Constitution prohibited the City from impairing its obligations to the City's pensioners.

After three months of multiple hearings and bench trial, on December 5, 2013, the Court entered the Eligibility Order stipulating that the City was eligible to be a debtor under chapter 9 and that its bankruptcy petition was filed in good faith. The objecting parties immediately requested an Order of Relief to the Sixth Circuit Court of Appeals. The Bankruptcy Court subsequently issued a memorandum recommending that the Sixth Circuit deny the appeal request entirely, and, if the Sixth Circuit did grant the appeal, that the appeal should not be expedited and therefore ruled upon prior to the City's Confirmation hearing. On February 21,

2014, the Sixth Circuit Court of Appeals granted the appeal petitions, but stated that the appeals would not be expedited.

At this juncture, the City's bankruptcy confirmation hearing and ultimate resolution is scheduled to occur prior to the Sixth Circuit's appellate hearing and decision. The potential impact of a reversal or modification of the Court's Eligibility Order is unknown at this time. It is conceivable that a reversal of the Bankruptcy Court's Eligibility ruling would completely negate the negotiated advances the City has made to date, specifically relating to employee compensation and pension/benefits reform.

Certificates of Participation

In 2005 and 2006, the City of Detroit, via its Retirement Systems and their related service corporations, issued multiple debt instruments known as certificates of participation ("COPs") totaling \$1.47 billion in an effort to reduce the pension plans' combined unfunded liability. At the petition date, three series of COPs were outstanding \$1.473 billion:

(\$ million) COP Series	 mount tstanding	Interest Rate				
2005-A	\$ 517.6	4.5-4.95%				
2006-A	\$ 153.7	5.989%				
2006-B	\$ 801.6	Floating				
	\$ 1,472.9					

Material legal debate currently exists as to whether the City of Detroit was legally able to issue the COP debt instruments. The City is bound by both the Home Rule City Act, which details the level of indebtedness a city may incur, and the Municipal Finance Act, which prohibits a city from issuing a municipal security except in accordance with provisions of the Municipal Finance Act. The 2005-2006 COP debt instruments may have been in violation of either or both of these legal statutes.

On January 31, 2014, the City filed a complaint against the Service Corporations and the Funding Trusts – the non-profit entities established to effect the COP debt issuances – stating the 2005-2006 debt issuances were in violation of state law and that the related COP claims should be disallowed in the chapter 9 proceedings. Contradictory complaints were subsequently filed by the Funding Trusts, COP holders, and the COP insurers citing multiple affirmative defenses to the City's complaint. At this time, hearings on the respective motions have been adjourned indefinitely. To the degree that such legal proceedings result in the COP

claims being fully or partially allowed, the City's POA could be materially weakened, and may result in incremental liquidity being required from future tax revenue to satisfy future obligations.

Potential Swap Litigation

As highlighted above, the City previously issued multiple COP debt issuances, the 2006-B series of which contained variable interest rates, thereby exposing the City to a rising interest rate environment. To hedge against this risk, the City entered into variable interest rate swap transactions in a notional amount of \$800 million, equivalent to the 2006-B COPs series. The swap contracts were insured by FGIC and Syncora to guarantee the quarterly payments defined in the swap agreements.

In 2009, due to the downgrade of the 2006-B series credit rating, the swap counterparties had the right to declare an early swap termination event which, at the time, would have required the City to make a lump sum payment of \$300-400 million to the swap counterparties. In an effort to avoid making such payment, the City pledged certain casino revenues and developer payments as collateral to the swap

counterparties. Approximately \$0.5 million per day is held in a lockbox until the City makes its \$4 million monthly swap payment.

The City's UTGO bond ratings were downgraded in 2012, exposing the City to a subsequent termination event and additional, costly termination payments due to the swap counterparties. In efforts to protect its interest in the collateralized Casino revenues, the City of Detroit entered into multiple mediations and litigation with both the swap counterparties and the swap insurers. The mediation with the swap counterparties resulted in reaching the Forbearance and Optional Termination Agreement that, after significant prodding from the Court, resulted in an agreement for a reduced Optional Termination Payment of \$85 million, payable when the City raises the required Exit Financing or in installments within 180 days of the case's Effective Date.

The Court entered a Swap Settlement order on April 15, 2014, which was subsequently appealed by multiple swap insurers contesting the swap counterparties ability to exercise any optional right of termination of the swap contracts without the insurers' written consent (Syncora Guarantee Inc. v. UBS AG, et al., Adv. Proc. No. 13-05395)⁷⁸. The litigation appears to essentially hinge on two primary issues: 1)

⁷⁸ Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

whether the swap insurers have the right to prevent the City from gaining access to its wagering tax revenues (City of Detroit, Michigan v. Syncora Guarantee Inc. et al., Adv. Proc. No. 13-04942)⁷⁹, and 2) whether the swap counterparties had the "standing" to enter into the FOTA without the swap insurers' consent. On the first issue, the District Court – in a July 14, 2014 decision - ruled the swap insurers did not have the right to trap the City's wagering tax revenues. That decision, as well as the ruling on the swap counterparties authority to execute the FOTA without the swap insurers' consent, will thus be decided by the Sixth Circuit Court of Appeals. To the degree the insurers' appeal is successful, any clarity of the City's financial exposure to a potential swap termination payment would be lost and would possibly result in the future restricted access to some portion of the vital Casino revenues.

Collective Bargaining Agreements

The City of Detroit, throughout this bankruptcy process, has been negotiating to reach CBAs with its various labor unions representing the City employees. A total of 47 labor unions represent the City's employees, all of which had their CBAs

⁷⁹ Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

expire as of June 30, 2013. The City's employees have been subject to City Employment Terms ("CETs") since the expiration of the respective CBAs. The City estimates that the CETs have resulted in more than \$200 million of annualized labor savings.

The City has negotiated many new CBAs with the goal of having them mirror the effective terms of the CETs. Phoenix has recently received the majority of negotiated CBAs, some of which have been fully approved by the State of Michigan, and some of which have been ratified but await the State's approval. Due to the timing of when Phoenix received these CBAs relative to our Report deadline, we have not fully reviewed each of these CBAs. To the degree that the final, agreed-upon terms of the respective CBAs contain aspects that are costlier to the City than the current CETs or contemplated in the projections, the City's liquidity could be negatively impacted. I am further concerned that the newly negotiated CBAs may not have sufficiently addressed the City's historic work rule issues.⁸⁰

 $^{^{80}}$ I have received assurance from City advisors that all agreed-upon CBAs are included in the projections.

Potential Asset Sales

Concurrent with the City's bankruptcy process, the City and its representatives have been in discussions with multiple constituencies in efforts to ascertain the optimal utilization of certain assets of the City of Detroit, whether that may be the outright sale of certain assets or the proposed leasing and/or partnership of non-core City assets.

The City has been engaged in longstanding discussions pertaining to the Detroit Water and Sewerage Department ("DWSD") with the surrounding counties with regards to the potential formation of a regional water authority. It is conceivable that a new authority could assume operating control of the majority of DWSD assets. To date, the City has not able to reach an agreement on any disposition of the DWSD assets and, as such, the discussions have migrated to bankruptcy-ordered mediation.

In addition to a possible disposition of the DWSD assets, the City has also inquired with interested parties about the possibility of a public-private partnership. Such partnership would entail the operation and management of the DWSD by qualified candidates who have demonstrated the financial and operational capabilities required to execute the DWSD's operations.

The City, via its Auto Parking System ("APS"), owns and manages seven parking garages containing 6,793 spaces and controls roughly 3,400 on-street metered parking spaces. At the request of the City, Miller Buckfire & Co. has been tasked with exploring the potential monetization of the City's parking assets. At this time, no definitive decisions have been made by the City regarding these assets.

Lastly, options related to the City's Coleman A. Young Airport are currently being considered, specifically a possible sale or lease transaction. As the airport is currently a cash drain on the City's budget, the transfer of this asset could be beneficial to the City's overall liquidity.

Exit Financing

The City of Detroit is seeking to enter into a \$300 million financing facility ("Exit Facility"), commensurate with the City's anticipated emergence from bankruptcy. Per the POA, an estimated \$120 million of the Exit Facility will be used to refinance the City's existing, previously-funded Quality of Life loan. The balance of the Exit Facility is intended to provide the City with liquidity and begin to fund the POA's restructuring initiatives.

Miller Buckfire & Co. has been engaged to solicit respective parties' interest in the proposed \$300 million financing. To date, an Exit Financing introductory letter and an Exit Financing Indicative Term Sheet have been released to prospective lenders. Phoenix has no visibility into the receptiveness of the financing sources to the proposed debt offering. To the degree the City is not able to procure the anticipated Exit Financing in the amount or at a reasonable interest rate will materially impact the City's cash flow liquidity at its emergence from bankruptcy. As of the date of this Report, it appears that the assumed interest rate of 6% could be low for a high yield instrument like the proposed Exit Financing.

Professional Fees

According to the Plan, the City intends to establish and fund the Professional Fee Reserve, effectively allocating funds for the accrued expenses of professionals during the Chapter 9 bankruptcy. Those funds have been identified in the City's financial forecast.

The services provided by these professional advisors – both legal and financial – are likely to be required by the City after the bankruptcy is confirmed, whenever that occurs. In addition to various litigation matters referenced above, the City's

treasury function, as well as multiple, other financial and departmental functions, are largely performed by outside professionals at this time. This results in two primary concerns: first, many of the everyday functions performed by these outside professionals need to be transitioned to City employees, some of whom may not be hired yet; and, second, the interim, post-bankruptcy costs associated with these outside professionals is not in the City's budget at this time. While the City may be able to transition the Finance-related roles to its employees in the short or mid term, the various ongoing litigations will require a significant near-term financial commitment by the City to its retained legal counsel. The estimated, post-bankruptcy professional fees should be included in the City's near-term financial forecasts as they have the potential to be an immediate use of funds.

Section O - Other Risks and Opportunities

The POA and the projections that support the POA have been developed by the City to provide a reasonable forecast and represent a realistic picture of the City's General Fund.⁸¹ Based upon my team's analysis and numerous discussions with the City's advisors, I understand these projections were not developed either to: 1) account for every opportunity the City may have to generate cash flow in the future, or 2) account for every possible downside risk associated with a loss of revenue or an increase to expenses. While I do not disagree with the City's exclusion of certain items, I believe it appropriate to briefly summarize certain risks and opportunities not fully explored elsewhere in this Report.

⁸¹ Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 3, "These projected revenues and expenditures are reasonable forecasts and represent a realistic picture of the City's General Fund's ability to afford its expenditures and satisfy its obligations under the plan while maintaining an adequate level of municipal services."

Macro-Economic Issues

I believe the City's economic forecasts that informed the projections considered normalized economic conditions. I do not believe the City's projections accounted for any significant economic disruptions similar to those experienced recently during the Great Recession. Depending on the severity, longevity and the direct impact on urban centers, a long term and negative economic condition could cause serious concerns with meeting the Plan requirements.

State and Federal Funding

The POA relies on a number of external funding sources including the State of Michigan and to a lesser extent the Federal government. The State contributes through annual revenue sharing totaling almost \$2 billion over the first 10 years of the Plan as well as \$194 million as part of the Grand Bargain. Any additional support for Detroit at the State level is not committed and, in fact, revenue sharing could decrease over the life of the Plan.

There is obvious interest by the Mayor in identifying new and recurring support from the Federal government and other grant making bodies. The Plan projections have tended to apply conservative assumptions to the current grants and the availability of additional grants in the future, although it is clear that not all grants

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assumed in the projections are committed at this time. Any increase in direct Federal support or grants will help to make the projections more achievable.

Impact of Private Parties

Third party funders have made significant commitments to the City. In fact, the Grand Bargain represents a huge commitment by these City benefactors and is already accounted for in the projections. However, there are a lot of small ways that third party benefactors may directly and indirectly impact the future of the City. The work of the Blight Task Force and the Future Cities Initiative are an example of this and cannot be measured in dollars. There would also be an improvement in the feasibility of the POA if a surge in private investment favorably impacts real estate values, employment and other factors that could contribute favorably to the initiatives in the Plan.

There is a downside to third party involvement as well. It can be fickle; a change in priorities or fortune could reduce the level of funding or delay it. The POA calls for \$366 million from charities and foundations plus an additional \$100 million to be raised by the DIA Corporation as part of the Grand Bargain which will be paid over a 20 year period. Failure of these foundations or benefactors to execute

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on their commitments will result in further funding requirements from the City of Detroit.

Exit Financing and Access to Capital Markets

The POA contemplates the closing of an Exit Financing that will support the City's investment and liquidity needs. The projections assume Exit Financing will be a \$300 million facility with an 11 year term, funded on October 31, 2014, with interest only payments in the first 4 years and equal principal payments made in years 5-11. The interest rate is assumed to by 6%. We understand the City, through its advisors Miller Buckfire & Co., have commenced a process to solicit bids for this financing package. As of the date of this Report, the process is still underway. Mr. Buckfire believes that the Exit Financing process is likely to be successful on the terms outlined. In the event that this financing is unavailable to the City on reasonable terms, is significantly lower in terms of facility amount, or is otherwise different than the assumptions in the POA, it is unlikely the City will have sufficient liquidity to operate and satisfy its obligations.

⁸² Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 14.

⁸³ Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 page 3 Section 2.

In addition, I believe it is likely that the City will desire or require access to the capital markets in the future for potentially many different reasons. Mr. Buckfire believes the significant changes as a result of the POA and the State of Michigan's steps to remedy governance will allow the City to again access the capital markets.

84 The City's inability to access the capital markets beyond the Exit Financing may limit the City's working capital flexibility and its ability to respond to future, necessary changes in delivery of essential services or capital investments.

DWSD

Detroit Water and Sewerage Department is a significant portion of the City's operations, however, it has very little impact on the General Fund. DWSD largely operates independently from other City business units. While DSWD's debt is impacted by the POA, the DWSD operations are not included in the Plan. DWSD does play a significant role in funding the City's pension obligations during the forecast period⁸⁵. In the event of a significant disruption to the DWSD operations, significant loss of customers impairing its financial prospects, or in the event that

⁸⁴ Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 pages 3-5 Sections 3-6.

DWSD is expected to contribute a total of \$428 million from FY2015-FY2023.

the DWSD contributions are not made according the POA, this could negatively impact on the outcome of the POA.

Sale of Assets

The POA largely excludes the sale of assets. While the sale of certain assets will have established treatment in the POA, there are significant asset sales that are not contemplated in the POA that could positively impact the projections. These assets might include parking related assets and other real estate. I have no visibility into the value of potential asset sales, but I believe they could produce cash which could improve the City's liquidity or revitalization prospects.

Tipping Point

The concept of the Tipping Point was made popular by author Malcolm Gladwell. He characterizes the tipping point as a moment of critical mass or boiling point where a group of small actions hit a threshold point and create an outsized impact. ⁸⁶ A tipping point can be either positive or negative. Presently, the City has

⁸⁶ The Tipping Point by Malcolm Gladwell, 2000 published by Little Brown.

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momentum and emotional optimism that it can build upon to energize its revitalization. There is no way to stochastically identify this impact and I do not believe the City has included this optimism in its projections. But there is no doubt that it is real.

I believe the City may be experiencing a tipping point that could be either positive or negative. There is a lot of press about support for the City from external parties making significant investment in Detroit. Press accounts suggest percolating interest in real estate and low availability of market rate apartments in small sections of the City. The City is addressing in small ways the quality of life issues, including street lights and blight.

It is beginning to feel like it could be an exciting time to be in Detroit. Tipping points also work in the opposite direction. If the momentum starts to slow in lots of small ways, or if the headlines change from investors buying, to investors selling, or if blight remediation reverses direction, the City could tip backwards. It is a critical point in time for the City of Detroit. My opinion is that it is more likely to tip forward than to tip backwards.

Section P - Conclusions

As noted in the Feasibility Section of this Report, I, along with the Phoenix team, have proffered the following Feasibility Standard for use in determining whether the City of Detroit's Plan of Adjustment is feasible:

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

We have further qualified the Standard into two components:

Quantitative

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

Qualitative

• Does the City have the human resources, or can it likely recruit the human resources, required to meet its obligations under the POA?

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

The Quantitative Issues

It is my opinion that, except where otherwise noted in my Report, the projections are generally mathematically correct and materially reasonably and therefore fall within the Feasibility Standard I have defined.

It is my opinion that, except where otherwise noted in my Report, the individual assumptions used to build the projections fall into a reasonable range and, that when taken as a group, these assumptions are also reasonable and fall within the Feasibility Standard.

While I have noted issues with the level of contingency in the projections, and feel this must be addressed both as a practical matter and in response to Public Acts 181 and 182 of 2014 controlling law, I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption

concerning the level of contingencies, particularly in the early years. While I do not believe a 1% contingency is adequate, I believe that the POA projections, taken as a whole, fall within the range of reasonableness and within my definition of the Feasibility Standard.

The Qualitative Issues

As noted in this Report, I believe that human capital and the City's leadership ability are immensely important for the success of this Plan. Current human resources are lacking and senior leadership, while generally capable is not plentiful. To meet the projections in the POA, the City will need to recruit a significant number of employees with improved skill level and continue to change the culture of performance and accountability, I believe that the City has identified human capital as an issue and is addressing this both formally and informally. I am relying on Mayor Duggan, CFO John Hill, and the other capable executives I have met at the City to execute effectively on the human capital strategy.

As noted in this Report, the City's IT systems and procedures are broken and insufficient. I believe that the City's Mayor, CFO and CIO recognize the critical importance of effective technology and systems to the City's revitalization. Each

of these executives has convinced me that correcting the City's IT systems issues is a very high priority. I believe the City has recognized these issues, has identified the magnitude of funding required, and has begun to address both the process and technology issues necessary to bring the systems up to a reasonable standard over the next few years. I do not believe that there is a reasonable alternative that would produce a better, or quicker, result for the City.

I have noted my concern and my personal preference that the CFO report to the Financial Review Commission. I believe this would have provided a greater level of confidence in the City's performance by outsiders, including the capital markets. However, I believe that the existence of the Financial Review Commission provides a reasonable level of oversight to the City and that the CFO is eminently capable and appropriately professional and independent.

The POA and the projections that support the POA are designed to allow the City to continue to improve its level of service to the citizens of Detroit. I believe that the RRIs are reasonable and well considered. If executed, they will allow the City to deliver essential services. It is my opinion that the City is beginning to emerge from the "service delivery insolvency" referenced in Judge Rhodes' opinion concerning eligibility.

By most accounts, there is forward progress being made in the City. I believe the combined efforts of the Emergency Manager and Mayor are addressing service shortfalls. Further, I believe that the expanding efforts of the private sector are also indicative of a City with a positive trajectory. The POA lays out a plan to continue to improve the City services and I believe some of the work done by the Blight Task Force and the Future Cities Initiative will continue to add additional support to the City's positive trajectory.

After extensive interviews with parties knowledgeable about the City and the POA, the review of hundreds of relevant documents and models, and significant independent research and analysis by my team and me, it is my opinion that:

It is likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default.

As noted in Section C of this Report, I believe that the Feasibility Standard exist on a reasonable continuum, therefore, there are actions that can make the POA "more feasible." Throughout my Report I have noted issues that caused me some level of concern. These are issues that, if addressed, would make the POA 'more feasible.' Without any expectation that my concerns will influence the City or the Court, I will briefly summarize my larger concerns.

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

Integrated Plan

As noted throughout this Report, there is not one controlling set of projections that will provide a financial road map to the City, its constituents and the Financial Review Commission. I recommend that the City immediately produce an integrated plan, which includes the expected initiatives, deferrals and other items, by department and fund. This will provide a longer term roadmap and assist the Mayor, the Financial Review Commission and other interested parties in understanding how the City is making progress towards the forecast detailed in the Plan. This business plan would also meet the requirements established in Public Acts 181 and 182 of 2014.

Oversight

As noted, I would have preferred an oversight model that included a CFO that did not report directly to the Mayor. This is not a statement about the quality of the current Mayor or CFO but rather my view that an oversight structure should be independent of who is the elected official. Given that the structure included in the Grand Bargain legislation does not include this independent CFO, I believe it is imperative that the Financial Review Commission have some permanent staff. My experience in other similar situations allows me to understand the complexity and sheer volume of information that must be analyzed and evaluated to properly execute the oversight function. The legislation provides for the Commission to hire professionals, which it will no doubt need to do, but it will be less costly and better for the long term effectiveness of the Commission, if it has a least a small permanent staff to support the part time, unpaid oversight board.

Pension Plan

One of the driving forces of the City financial problems was the City's, and the pension plans' trustees, failure to appropriately address the growing, unfunded pension liability. With finite resources, competing needs for dollars and the

willingness to push the problem to tomorrow, the pension UAAL continued to grow. This is not only a Detroit problem, but a general municipal finance problem throughout the United States. However, just because it is not *just* a Detroit problem does not mean that Detroit should not make some progress in addressing the macro problems. While the Plan makes progress in addressing this liability, the liability is not fixed. As noted in the Pension section of the Report, there is still risk that the liability could grow significantly. I recognize the difficulty and pain associated with the pension negotiations; and further, I understand the practical nature of the resulting settlements and the City's desire to manage its cash requirements related to pension contributions over the next 10 years. However, this does not fix the liability. The City cannot look away for 10 years and return in FY2023 to find the liability has again become an unmanageable burden. Therefore, I believe it is appropriate that the City be required to annually release the undiscounted liability of each of its pension plans. This will allow outside interested parties to independently evaluate the strength of the plans. Further, I believe that the City should provide a sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel on an annual basis and provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan. This level of reporting is not overly burdensome and will provide some level of sunshine into what is otherwise a very opaque process.

RRIs

The RRIs are one of the positive outcomes of the bankruptcy process. The

RRIs provide the backbone of improved services to the citizens of Detroit. I believe

that the development of a scorecard to track the implementation of the RRIs is an

important tracking mechanism that will enable the City and the Financial Review

Commission to understand the RRIs' implementation progress.

Respectfully submitted,

Dated: July 18, 2014

/s/__Martha E. M. Kopacz

Martha E.M. Kopacz

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Ms. Kopacz has over 25 years' experience assisting stakeholders in analyzing business operations and reorganization possibilities. She has led or participated in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks and Chapter 11 Trustees. Ms. Kopacz has advised in a broad range of industries including not for profit and public sector, retail, leisure and entertainment, technology and professional services. She was one of the first financial advisors to apply turnaround principles to public sector and not for profit organizations. She has served as an Interim President, Chief Restructuring Officer, Chapter 11 Trustee, Collateral Trustee, and Examiner.

General Experience

Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more, prepared by others. She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast. She has a deep understanding of the importance of developing assumptions based upon a thorough analysis of relevant data, including historical and prospective information as well as third party, independent data. Ms. Kopacz understands the nuanced area of municipal budgeting. Because municipal entities lack a "standard" in budgeting, forecasting and accounting, great variations occur in the manner in which public entities report financial results and develop forecasts. As such, preparing and evaluating projections for municipalities requires strong business acumen and deep appreciation for the challenges inherent in the forecasting methodology and approach available to the entities.

Relevant Engagements

Ms. Kopacz advised the **Nassau County Interim Finance Authority (NIFA)**, a New York state control board, in their oversight role. In early 2011, NIFA imposed a control period for Nassau County based on a substantial budget deficit. Nassau County has experienced financial difficulties for over a decade despite an annual budget that approaches \$3 billion. The structural deficit for 2012 was estimated at \$300 million. Ms. Kopacz advised NIFA on the financial requirements underpinning the control period, the nature and size of the likely budget deficit and the reasonableness of the County's forecasts. In addition, Ms. Kopacz and her team conducted and in depth review of the business operations of the County and developed over \$300 million of cost reductions and operational improvements, which if implemented would restore Nassau County to a balanced budget in the next few years.

Serving in the capacity of the Chief Restructuring Officer and Interim President, Ms. Kopacz designed, led and executed the out-of-court restructuring of the **Legal Aid Society**, a 135 year old charity with approximately \$150 million in revenue serving the legal needs of the needy in New York City.

Accomplishments included: reducing a \$20 million operating deficit to better than break even; negotiating workforce reductions, compensation and benefit modifications with the UAW (lawyers' union) and the SEIU 1199 (social workers and paralegals' union) representing approximately three-fourths of the Society's 1400 employees; restructuring pension obligations; consolidating real estate, third party suppliers and infrastructure; and restructuring over \$65 million of balance sheet and long term obligations with dozens of creditors and stakeholders, all of which returned the organization to solvency. In addition, Ms. Kopacz led the Society's first ever Strategic Business Planning effort, managed day-to-day operations in conjunction with the Attorney-in-Chief, and received the Society's Pro Bono service awards for 2004 and 2005.

Ms. Kopacz represented **The Educational Resources Institute, Inc. (TERI)**, a large not for profit organization providing college access to underprivileged and underserved populations. TERI's for profit subsidiary was the largest guarantor of private student loans in the country when the securitization market for student loans evaporated. The extensively negotiated plan of reorganization preserved the not for profit mission and return collateral to the original lenders.

Ms. Kopacz worked extensively with the **Archdiocese of Boston** during some of its darkest days. In addition to preparing this socially significant non-profit institution for a contingent bankruptcy filing, she worked with stakeholders to develop a crisis communication plan, arranged interim financing and designed a claims facility to adjudicate tort claims.

Prior Experience

Prior to joining Phoenix Management, Ms. Kopacz founded Brant Point Advisors, a boutique advisory firm. Previously, Ms. Kopacz co-founded and co-lead the U.S. Corporate Advisory and Restructuring Services practice at Grant Thornton LLP and lead the group's public sector initiatives. Earlier in her career she was a Managing Director with Alvarez & Marsal, focused on public sector and not for profit clients, and a Principal with PricewaterhouseCoopers LLP until the practice was sold to FTI Consulting, as which time she was a Senior Managing Director.

Education & Certifications

Masters of Business Administration in Finance and Investments – Kelley School of Business – Indiana University

Bachelor of Science degree in Marketing – Kelley School of Business - Indiana University Certified Management Accountant Certified Insolvency and Restructuring Advisor

Affiliations

American College of Bankruptcy – Fellow – Twelfth Class
Turnaround Management Association
American Bankruptcy Institute
International Women's Insolvency and Restructuring Confederation,
Association of Insolvency and Restructuring Advisors
Institute of Management Accountants.

Civic Engagement

Boston 2024 Organizing Committee – Board Member Legal Aid Society of New York – Board of Advisors Kelley School of Business - Indiana University – Dean's Council Graduate School of Business, Sunkyunkwan University – Dean's Council Inly School – former Board of Trustees

Speaking Engagements and Publications

"Municipal Insolvency and Bankruptcy Part 1: Introduction, Overview and Key Issues" – Rhode Island Bar Association Annual Meeting, June 2012

"Municipal Bankruptcy" – Association of Insolvency and Restructuring Advisors Webinar, February 2012

"The Municipal Restructuring under Chapter 9: Legitimate Option or Scare Tactic?" – American Bankruptcy Institute Winter Leadership Conference, La Quinta, CA, December 2011

"Municipal Insolvencies: Is This the Next Wave?" – Turnaround Management Association Northeast Chapter, Boston, MA, November 2011

"Leadership and Political Will – Fixing States' and Cities' Fiscal Woes" – Heyman Center Series: America's Fiscal Crisis – Depression, Recession or Recovery, Cardozo School of Law, New York, New York, October 2011

"Today's Problems in Municipal Finance – Should Chapter 9 be Extended to States?" – Commercial Finance Association Advocacy Conference, Washington, DC, September 2011

"Turnaround "Apps" for the Public Sector" - Grant Thornton white paper, July 2011

"Chapter 9 Update" - American Bankruptcy Institute Northeast Conference, Newport, RI, July 2011

"Turnarounds in the Public Sector" – Kellogg Turnaround Management Conference, Chicago, IL, May 2011

"Too Big to Fail or Too Big to Bail (Out): a Discussion of the Pros and Cons of Bankruptcy for States" – Grant Thornton white paper, March 2011

"That was Then, This is Now: Financing Your Business in the Current Environment" – Proskauer Grant Thornton Seminar, New York, New York, October 2010

"Navigating Your Portfolio Through Turbulent Waters - Facing The Reality of Being Over Leveraged - And Practical Strategies for Restructuring in Zero Gravity" – Association for Corporate Growth Intergrowth Conference, Miami, May 2010

"Who Has \$\$ and What Are They Buying?" – Caribbean Insolvency Symposium, Grand Cayman, Cl, February 2009

"Gaining Support from All of Your Constituencies" – American Bankruptcy Institute Northeast Conference, Brewster, MA, July 2008

Previous Dates – Guest Lecturer at Harvard Business School, Massachusetts Institute of Technology, Bentley College, Northeastern University, Pennsylvania State University and Indiana University concerning various corporate recovery topics. Panelist or Moderator at industry conferences hosted by Turnaround Management Association, American Bankruptcy Institute, Massachusetts Continuing Legal Education, National Credit Managers Association, Food Manufacturers Association, Barclays Bank among others.

Document/Source

- 1 All documents referenced in this report
- 2 All dockets located within KCC (Kurtzman Carson Consultants) data room in re: City of Detroit, Michigan
- 3 All documents located within the RR Donnelley Venue data room, located at http://www.kccllc.net/detroit/document/list/3666
- 4 All documents located within the data room constructed for Phoenix Management to catalog the Jones Day data productions, serviced by AlphaLit data room, located at www.go2edirect.com
- 5 All information located within the City of Detroit website, located http://www.detroitmi.gov/
- 6 All communications with City of Detroit personnel
- 7 All communications with Advisors of the City of Detroit
- 8 All communications with personnel responsible for the City's pension funds
- 9 All communications with the advisors of the City's pension funds
- 10 Emergency Manager Orders
- 11 Emergency Manager Announcement
- 12 Emergency Manager Reports
- 13 All documents released from the state of Michigan in regards to the City of Detroit Bankruptcy
- American Bankruptcy Journal article titled "The Missing Link to Successful Company Turnarounds Balance Sheet Management is Only Part of the Story" (March 2014)
- Detroit Blight Removal Task Force publication titled "Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan" (May 2014)
- 16 Daily Bankruptcy News article titled "\$4 Trillion In Hidden Muni Liabilities: SEC Commissioner Gallagher" (May 2014)
- 17 Journal of Corporate Renewal article titled "Chapter 9 May Be Tough to Swallow for Unions, Retirees" (June 2014)
- 18 The Society of Actuaries panel titled "Report of the Blue Ribbon Panel on Public Pension Plan Funding" (February 2014)
- 19 The Brookings Institution publication titled "Are Public Pensions Keeping Up With The Times?" (June 2013)
- The Rockefeller Institute of Government publication titled "The Blinken Report: Strengthening the Security of Public Sector Defined Benefit Plans(January 2014)
- 21 BenefitsPro article titled "Public Pensions Hiding Trillions in Liabilities, SEC Commissioner Says" (June 2014)
- 22 Goodwin Proctor article titled "Visionary Schemes Need Not Apply: The Chapter 9 Plan Feasibility Requirement" (June 2013)
- 23 WSJ article titled "Detroit's Bankruptcy Revival" (April 2014)
- Elizabeth Warren, U.S. Senator for Massachusetts press release titled "Rockefeller, Warren Introduce Legislation to Protect
- Employees and Retirees from Unfair Benefit Cuts"(June 2014)
- 25 Unionwatch Article titled "GASB Loopholes Created Illusions of Insolvency" (March 2013)
- 26 New York Times article titled "Panel Seeks Greater Disclosures on Pension Health" (February 2014)
- 27 The Detroit Free Press article titled "Judge Rhodes spars with Detroit fire union over bankruptcy objection" (July 2016)
- 28 Dow Jones Financial Information Services publication titled "Balancing Best Interests and Feasibility in Chapter 9" (March 2011)
- 29 The Detroit Free Press article titled "Monitor finds Detroit's 36th District Court much improved since May 2013" (May 2014)
- 30 The Detroit Free Press article titled "An energized Detroit Land Bank leads Duggan's blight effort" (May 2014)
- 31 Detroit News article titled "Clearing neighborhood blight to cost \$850M, Detroit group finds" (May 2014)
- California Policy Center article titled "How New Rules from Moody's and GASB Affect the Financial Reporting of Pensions in Seven California Countries" (March 2013)
- Journal of Public Economics article titled "Financial incentives and retirement: evidence from federal civil service workers" (March 2008)
- 34 Boston College Law Review article titled "Some Confirmed Chapter 11 Plans Fail. So What?" (Vol.47)(December 2005)
- 35 American Education Finance Association publication titled Teacher Pension Incentives, Retirement Behavior, and Potential for Reform in Arkansas"-2010
- 36 National Association of State Retirement Administrators publication titled "The 80-percent threshold: Its source as a healthy or minimum funding level for public pension plans)(January 2012)
- 37 C. Scott Pryor publication titled "Who Bears The Cost? The Necessity of Taxpayer Participation in Chapter 9" (June 2013)
- 38 C. Scott Pryor publication titled "Municipal Bankruptcy: When Doing Less Is Doing Best" (April 2014)
- 39 A Collier Monograph titled "Debt Adjustments for Municipalities Under Chapter 9 of the Bankruptcy Code"-2012
- 40 Bankruptcy of Mount Carbon Metropolitan Dist. Bankruptcy No. 91-20215 MSK(November 1999)
- 41 Bankruptcy of the City of Colorado Springs Spring Creek General Improvement District. Bankruptcy No. 94-15333.(January 1995)

Document/Source

- Detroit Blight Removal Task Force Plan titled, "Every Neighborhood Has a Future . . . And It Doesn't Include Blight," (May 2014)
- 43 McKinsey & Company Publication titled "Delivering large-scale IT projects on time, on budget, and on value" (October 2012)
- 44 City of Detroit Triennial Executive Budget 2015-2017
- 45 Detroit Future City Detroit Strategic Framework Plan(December 2012)
- 46 Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
- 47 Report of John Hill, Chief Financial Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
- 48 Report of Kenneth Buckfire, of Miller Buckfire & Co; in re: City of Detroit, Michigan Case No. 13-53846
- 49 Report of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
- 50 Declaration of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(July 2913)
- 51 Report of Robert Cline, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
- 52 Report of Alan Perry, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
- 53 Report of Caroline Sallee, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
- 54 Report of Suzanne Taranto, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
- 55 Report of Charles Moore, of Conway MacKenzie, Inc.; in re: City of Detroit, Michigan Case No. 13-53846
- 56 Third Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846.. Doc 4271(April 2014)
- 57 Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846. Doc 4391
- 58 Opinion Regarding Eligibility: in re: City of Detroit, Michigan Case No. 13-53846, Doc 1945, (December 2013)
- Order to Show Cause Why Expert Witness Should Not Be Appointed; in re: City of Detroit, Michigan Case No. 13-53846.

 Doc 3170. (March 2014)
- Declaration of Kevyn Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 "C" of the Bankruptcy Code. Doc 11(July 2013)
- 61 City of Detroit: Proposal for Creditors. Prepared by Miller Buckfire & Co., LLC, Jones Day. (June 2013)
- 62 City of Detroit: Operational Restructuring Summary. Prepared by Office of the Emergency Manager. Conway MacKenzie, Inc. (November 2013)
- 63 Independent Auditors' Report on Internal Control. Prepared by KPMG LLP. (December 2012)
- Quarterly Report of the Emergency Manager for the quarterly period of January 1, 2014 through March 31, 2014. (April 2014)
 - Letter from Robert Childree of AGA Financial Management Standards Board. Addressed to David Bean, Director of
- 65 Research and Technical Activities of Governmental Accounting Standards Board (GASB). Comments on Pension Accounting and Financial Reporting. (July 2009)
- 66 Email from Mike Duggan of the City of Detroit. Plan of Adjustment Due Diligence. (May 13, 2014)
- 67 David Whitaker, Director of Legislative Policy Division Staff for the City of Detroit. 2013-2015 Budget Analysis.(May 2014)
- Treasurers Report for 12/2011 Via: City of Detroit, Michigan Notice of Preliminary Financial Review Findings and Appointment of a Financial Review Team. Doc 11-3.(January 2012)
- 69 2012 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-4. (March 2012)
- 70 Treasury Report. Prepared by Andrew Dillon, Michigan State Treasurer. Doc 11-6(December 2012)
- 71 2013 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-7.(February 2013)
- 72 Kevyn Orr, Emergency Manager for the City of Detroit. Recommendation Pursuant to Section 18(1) of PA 436. Doc 11-10(July 2013)
- 73 Governor Rick Snyder. Authorization to Commence Chapter 8 Bankruptcy Proceedings. Doc 11-11(July 2013)
- 74 City of Detroit: Alternative Plan of Adjustment Proposal. Prepared by Houlihan Lokey. (September 2013)
- 75 City of Detroit Restructuring Plan; Mayor's Implementation Progress Report. (March 2013)
- 76 McKinsey Repot on City of Detroit. As posted on the City of Detroit website (May 2011)
- Report prepared by: Sekely, C.(Conway MacKenzie, Inc.), Redmond, C.(Pierce Monroe & Assoc., LLC), Hutchings, C. (Municipal Parking Department). Titled "Revenue Enhancement Actions For Parking Violations Bureau" (December 2013)
- 78
- 79 Kevyn Orr, Emergency Manager, City of Detroit. "Order No. 24: Order to Amend Chapter 55 of the 1984 Detroit City Code" (April 2014)
- 80 Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (
- 81 Order Appointing Expert Witness. Docket #4215
- 82 Notice Regarding Interviews of Expert Witness Applicants, Docket #4068

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Document/Source

- 83 Docket # 4216, Order Appointing Non-Testifying Consultant
- 84 Transcript of Hearing, April 18, 2014(April 18, 2014)
- 85 Milliman Letter Re: City of Detroit Active Health Plan Projections (November 2014)
- 86 NASRA Issue Brief: "Public Pension Plan Investment Return Assumptions"; April 2014; original source: U.S. Census Bureau
- 87 Milliman, Inc. letter(April 17, 2014)
- 88 Milliman, Inc. letter(April 20, 2014)
- 89 Milliman, Inc. letter(April 23, 2014)
- 90 Milliman, Inc. letter(April 25, 2014)
- 91 Milliman, Inc. letter(May 7, 2014)
- 92 Milliman, Inc. letter(July 2014)
- 93 Milliman, Inc. letter(November 2, 2013)
- 94 Milliman, Inc. letter(November 3, 2013)
- 95 Milliman, Inc. letter(July 9, 2014)
- The Blinken Report- Strengthening the Security of Public Sector Defined Benefit Plans, dated January 2014. Donald J Boyd and Peter J Kiernan
- 97 The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014
- 98 Governmental Accounting Standards Board
- 99 Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code. Docket No 14(July 2013)
- 100 State of Michigan Enrolled House Bill No. 5566 (June 2014)
- 101 State of Michigan Enrolled House Bill No. 5567(June 2014)
- 102 State of Michigan Enrolled House Bill No. 5568(June 2014)
- 103 State of Michigan Enrolled House Bill No. 5569(June 2014)
- 104 State of Michigan Enrolled House Bill No. 5570(June 2014)
- 105 State of Michigan Enrolled House Bill No. 5573(June 2014)
- 106 State of Michigan Enrolled House Bill No. 5574(June 2014)
- 107 State of Michigan Enrolled House Bill No. 5575(June 2014)
- 108 State of Michigan Enrolled House Bill No. 5576(June 2014)
- 109 State of Michigan Enrolled House Bill No. 5600(June 2014)
- Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 9, 2013)
- 111 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 20, 2013)
- 112 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(December 11, 2013)
- 113 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(March 31, 2014)
- 114 Comprehensive Annual Financial Report, City of Detroit FYE June 30, 2012
- 115 City of Detroit, IT Optimization Discussion Document (August, 2013)
- 116 FAB Financial Subcommittee Meeting (January 2014)
- 117 ERP Needs Assessment: City of Detroit. Prepared by Plante Moran
- 118 ERP Cost Analysis
- 119 HR Technology Assessment, City of Detroit (December 2013)
- 120 Plan of Adjustment (May 2014)
- 121 Plan of Adjustment (July 2014)
- 122 PVB Revenue Enhancement White Paper (December 2013)
- 123 NASRA Issue Brief titled "Public Pension Plan Investment Return Assumptions" (April 2014)
- 124 "The Tipping Point" by Malcom Gladwell (2000)
- 125 Yale Law Journal Publication titled "The New Minimal Cities" (March 2013)

Exhibit 3				
Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
4/22/2014	Marti Kopacz	Bob Fishman - Shaw Fishman	Call	Discuss procedures
4/22/2014	Marti Kopacz	Neal Munshi - Reporter at Financial Times	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Tom Hals- Reporter at Reuters	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Chris Christoff- Reporter at Bloomberg	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Steve Buchanan - Reporter at NYTimes	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Seth Brumby - Reporter at Debt wire	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Pat Halligan- Reporter at The Deal	Call	Discuss Phoenix's role in Detroit Bankruptcy
				In regards to the contact info for the City's Advisors and
4/22/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	CFO
4/23/2014	Marti Kopacz	Judge Rosen	Meeting	Case Background
4/23/2014	Marti Kopacz	Peter Hammer	Call	In regards to the city history
4/23/2014	Marti Kopacz	Eugene Drinker	Call	Schedule tour
4/23/2014	Marti Kopacz	Stephen Lerner - Squire Sanders	Call	In regards to representation
4/24/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Email	Scheduling emails for meeting with public safety unions
		Gregory Clash - Municipal Credit		
4/25/2014	Marti Kopacz	Consultants	Email	Offer of service on project team
4/25/2014	Marti Kopacz	Arthur O'Reilley - Honigman	Email	Scheduling Meeting with DIA
4/25/2014	Marti Kopacz	Robert Gordon - Clark Hill	Email	Scheduling with Pension System
4/28/2014	Marti Kopacz	Richard Levin - Cravath	Email	In regards to the DIA meeting
4/28/2014	Marti Kopacz	Heather Lennox - Jones Day	Email	In regards to work space
.,20,201.	Mari Hopaez	Rodney Sizemore, Mark Diaz, Mark Young,		in regular to work space
	Marti Konacz Pob Children Brian	Jeffery Pegg, Barbara Patek, Chris Legin, Elise Osbourne, Jim Moore, Donna		General discussion of Police and Eine Union issue
4/20/2014	Marti Kopacz, Bob Childree, Brian Gleason		Meeting	General discussion of Police and Fire Union issues, positions on the POA
4/29/2014	I .	Lato, Stacy Carin	Meeting	r · · · · · · · · · · · · · · · · · · ·
4/29/2014	Marti Kopacz	Sharma Liveria - Sandler	Email	Schedule meeting
4/29/2014	Marti Kopacz	Robert Duffy - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	David Parker - Goldin & assoc.	Email	Schedule meeting
4/29/2014	Marti Kopacz	Albert Koch - Alix Partners	Email	Schedule meeting
4/29/2014	Marti Kopacz	Scott Davido - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	Eunice Hayes - City of Detroit	Email	Schedule meeting
	Marti Kopacz, Al Mink, Bob Childree,	Eugene Drinker, Attorney and Jeri Stroupe,		
	Michael Gaul, Brian Gleason, Kevin	Office of Economic Development at Wayne		
4/30/2014	Barr	State	Bus Tour	Tour of the city
4/30/2014	Marti Kopacz	Thomas Mayer - Kramer	Call	To get contact info for COPs and insurer contact
4/30/2014	Marti Kopacz	Vincent Marriott-Ballard Spahr	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Alfredo Perez - Weil	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Ryan Bennett- Kirkland & Ellis	Email	Schedule Meeting
	*	Kevyn Orr , Sonya Mays, Stacy Fox -		Discuss City, Kevyn's role, long-term risks culture,
5/1/2014	Marti Kopacz, Bob Childree	Emergency Manager	Meeting	behavior
		Robert Gordon, JosephTurner, Ronald King		
		Clark Hill, Michael VanOverbeke -		
5/1/2014	Marti Kopacz	VanOverbeke, Michaud	Meeting	Case Background
5/1/2014	Marti Kopacz	Scott Davido - FTI	Call	Scheduling Scheduling
3/1/2014	Watti Kopacz	Scott Davido - 1 11	Can	Scheduling
		Alfredo Perez, client and colleagues - Weil		
5/1/2014	Monti Voncon		Call	Coop Booksmound
5/2/2014	Marti Kopacz	Steve Spencer and John Popehn - Houlihan Kenneth Buckfire - Miller Buckfire	Call	Case Background
3/2/2014	Marti Kopacz	Keillietti Buckfife - Willief Buckfife	Meeting	Case Background
5/2/2014	M 277	W 4 7 7 8	G 11/ '1	D . 16
5/2/2014	Marti Kopacz	Heather Lennox- Jones Day	Call/email	Protocol for meeting with City employees and advisors
# (0 (0 O d d	26		a "	Jones Day request for JD attorney participation in City
5/2/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	contacts
5/5/2014	Marti Kopacz	Michael Imber & team- Alvarez & Marsal	Call	Access to A&M insights and work product
		Ryan Bennett, Steve Hackney- Kirkland &		
5/5/2014	Marti Kopacz	Ellis	Call	Case Background
5/7/2014	Marti Kopacz	Judge Rosen- US District Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Sheila Cockrel-Former Councilwoman	Meeting	Detroit financial and operational history
5/7/2014	Marti Kopacz, Brian Gleason	Dick Ravitch-Judge's Expert	Meeting	Introductory meeting
		Gene Gargaro, Graham Beal, Annemarie		
5/7/2014	Marti Kopacz	Erickson-DIA	Meeting	Art disposition; grand bargain feasibility
		Bob and Susie Bluestein, Gerald Rosen,		
		Kevyn Orr, Mike Duggan, Richard Ravitch,		
		Rip Rapson, Tom Lewand, Victoria Roberts,	,	
		Gene Drinker, Gene Gargaro (plus spouses)-		
5/7/2014	Marti Kopacz	Various	Dinner Party	Introduction to Detroit
5/8/2014	Marti Kopacz, Brian Gleason	Mike Duggan-Mayor of Detroit	Meeting	POA Due Diligence
5/9/2014	Marti Kopacz, Brian Gleason Marti Kopacz	Dan Moss-Jones Day	Call	Access to info; Counsel participation in interviews
5/12/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Retention and hearing
5/12/2014				
J114/2014	Marti Kopacz	Vince Marriott-Ballard Spahr	Meeting	Case Background
5/12/2014	Marti Kopacz, Bob Childree, Michael	Poh Klina Ernet & Venne	Call	Povenue eccumptions
5/13/2014	Gaul, Kevin Barr	Bob Kline - Ernst & Young	Call	Revenue assumptions
		Kurt Beckerman, Albert Koch -		
		AlixPartners, Samuel Kohn - Chadbourne &		POA, projections, EM, Areas of opportunity Labor,
5/13/2014	Marti Kopacz, Bob Childree	Park LLP, Guy Neal, Sidley	Meeting	DWSD, Discuss Alix Partners' work product and insights
5/13/2014 Marti Kopacz David Prager, Jay Goldin-		David Prager, Jay Goldin-Goldin & Assoc.	Call	Case Background and their work product
				Document control procedures for our requests to E&Y,
5/13/2014	Marti Kopacz	Dan Moss-Jones Day	Call	CM, MB and City
5/13/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Expert witness procedures
5/13/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Supplemental Order
				, ^^

Exhibit 3				
Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
	Marti Kopacz, Michael Gaul, Brian	Juan Santambrogio and Gaurav Malhotra -	a 11	
5/14/2014	Gleason, Kevin Barr Marti Kopacz, Bob Childree, Michael	Ernst & Young Stephen Lerner and Scott King - Squire	Call	10 year - 40 Year plan Instructions re: document control; access to E&Y
5/14/2014	Gaul, Brian Gleason, Kevin Barr	Sanders	Call	working model
5/14/2014	Marti Kopacz, Brian Gleason	Mike Duggan & staff-City of Detroit	Meeting	Attend Cabinet meeting
5/14/2014	M .: W D : GI	Rip Rapson, Laura Trudeau-Kresge		
5/14/2014 5/15/2014	Marti Kopacz, Brian Gleason Marti Kopacz	Foundation Richard Ravitch-Judge's Expert	Meeting Call	Detroit Future Cities, Grand Bargain due diligence Engagement Update
3/13/2014	Watt Kopacz	James Craig and Lesley Warmuth -Chief of	Can	Engagement Optiate
5/19/2014	Marti Kopacz	Police and Pepper Hamilton	Meeting	Background interview re: Police Department
5/19/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Meeting	Pensions
5/20/2014	Marti Kopacz	Dan Dirks and team-DDOT Director	Meeting	Background interview re: Transportation Department
5/20/2014	Marti Kopacz	Stacy Fox-Deputy EM	Meeting	Information Requests Outstanding
		Chuck Moore and Glenn Kushiner-Conway	<i>3</i>	
5/20/2014	Marti Kopacz	Mackenzie	Meeting	Pensions
5/20/2014	Marti Kopacz, Brian Gleason Marti Kopacz, Michael Gaul, Brian	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding
5/21/2014	Gleason	Mayor Duggan and Cabinet-City of Detroit	Meeting	General POA discussion
5/22/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding; Letter to Judge
				Returning my emails re: Information Request
5/22/2014	Marti Kopacz	Gaurav Malhotra -Ernst & Young	Call	Outstanding and letter to the Judge
5/23/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Follow up on his conversations with Jones Day re: info requests
5/27/2014	Marti Kopacz	Stephen Lerner- Squire Sanders Stephen Lerner- Squire Sanders	Call	Prep for hearing on Wednesday
5/28/2014	Marti Kopacz, Brian Gleason	Richard Ravitch-Judge's Expert	Meeting	Report development discussion
		Mike Imber, Nancy Zielke, Bill Roberti - Alvarez & Marsal, Marianna Marysheva - Martinez, Joe Nichols, David Lawrence - FTI Consulting, Ryan Bennett, Noah Ornstein - Kirkland & Ellis, Jennifer Rothschild - Rothschild, Steven Spencer, John Popehn, Michael Lin, John Pepehn,		
	Marti Kopacz, Brian Gleason, Kevin	Daniel Mn - Houlihan Lokey, Alfredo Perez	,	
5/29/2014	Barr	Kelly DiBlasi, Dana Kaufman - Weil	Meeting	Review other financial advisors' inquiries and learnings
5/29/2014 5/30/2014	Marti Kopacz Marti Kopacz	Erica Ward-Land Bank Authority Melissa Smiley-City of Detroit	Call Call	Blight Blight
3/30/2014	Marti Kopacz, Michael Gaul, Brian	Judge Rhodes, Jones Day, and Squire	Cun	Digit.
6/2/2014	Gleason	Sanders	Call	Bankruptcy discovery transmission issues
	Marti Kopacz, Michael Gaul, Brian			
6/2/2014	Gleason Marti Kopacz	Stephen Lerner - Squire Sanders Richard Ravitch - Judge's Expert	Call Call	Bankruptcy discovery transmission issues Catch up on case developments
6/3/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Update on document requests
	•			
6/3/2014	Marti Kopacz	Erica Ward - Detroit Land Bank Authority Kevin Hand & Glenn Kushiner - Conway Mackenzie, Gaurav Malhotra, Juan	Call	Blight
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Santambrogia & Dan Jerneycic - Ernst & Young, Melissa Smiley - City of Detroit, & Jones Day	Meeting	10 yr and 40 yr projections and reinvestment initiatives
6/3/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Call	Schedule meeting with firefighters and police unions
6/3/2014	Marti Kopacz	Chris Leggio - Counsel to Firefighters	Call	Schedule meeting with firefighters
6/3/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler	Email	Schedule meeting with AFSCME
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Jones Day, E&Y, CM	Call	Open Information Request list
				Follow up on conversation from Mayor's Cabinet
6/4/2014	Marti Kopacz, Brian Gleason	John Hill - City of Detroit/EM	Meeting	meeting
6/5/2014	Marti Kopacz, Brian Gleason	Mary Martin - City of Detroit	Meeting	Discuss Lean initiatives
6/5/2014	Marti Kopacz, Brian Gleason	Gaurav Malhotra - Ernst & Young, Chuck Moore - Conway Mackenzie	Meeting	POA Issues re: Feasibility
	Marti Kopacz, Michael Gaul, Brian	Representatives of Detroit Land Bank		
6/5/2014	Gleason	Authority, CM, and Sonya Mays	Meeting	Blight remediation
6/5/2014	Marti Kopacz, Michael Gaul, Brian	Mayor Duggan & Staff	Mosting	Pagangiliation of DOA and Triangial Party
6/5/2014	Gleason	Mayor Duggan & Staff Mayor Duggan, Melissa Smiley, Trish Stein.	Meeting	Reconciliation of POA and Triennial Budget
C/C/D014	Matikana	Tom Lewand - City of Detroit, Michelle - Consultant to Planning and Development		Budget review meeting for planning department and
6/6/2014	Marti Kopacz Marti Kopacz	Department Mike Imber - Alvarez & Marsal	Meeting Call	economic development Inquired about report deadline extension
6/6/2014	Marti Kopacz	Chris Gannon - Conway Mackenzie	Meeting	BSEED restructuring initiatives
		Mayor Duggan, Gary Brown, Melissa Smiley, Pam Scales - City of Detroit, Dan Dirks and team - DDOT - City of Detroit, Beth Niblock - ITS - City of Detroit, Ron Brundidge and team - DPW - City of Detroit, Beau Taylor and team - DLP - City of Detroit, Norman White and team -		
6/7/2014	Marti Kopacz	Parking - City of Detroit	Meeting	Budget reviews and POA reconciliation
6/9/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Scheduling status
410 IB 5 : :	Marti Kopacz, Michael Gaul, Brian	Judge Rhodes, Jones Day, E&Y, CM, and	G 11	
6/9/2014	Gleason	Squire Sanders	Call	Bankruptcy discovery transmission issues

Exhibit 3 Date			Type of Meeting	Topics
		Mayor Duggan, Melissa Smiley, Pam Scales	i.	
6/10/2014	Marti Kopacz	Law Department team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
	•			
6/10/2014	Marti Kopacz	Brenda Jones, Stephen Grady - City Council Mayor, Melissa Smiley, Pam Scales, Chief	Meeting	Plan of Adjustment
		Craig and team - City of Detroit,		
6/11/2014	Marti Kopacz	Representatives of E&Y and CM	Meeting	Budget Review
		Judge Boson - US District Court Mediators		
		Judge Rosen - US District Court, Mediators Various, Jones Day, E&Y, CM - Advisors		
		to the City, Richard Ravitch - Judge Rhodes'		
6/11/2014	Marti Kopacz, Brian Gleason	Consultant, Stephen Lerner - Squire Patton Boggs (via phone)	Meeting	Feasibility for the POA
0/11/2014	Marti Kopacz, Michael Gaul, Brian	Boggs (via phone)	Weeting	reasonity for the 1 o/1
6/11/2014	Gleason	Mayor Duggan & Staff	Meeting	Departmental meetings - DPD and DFD
		Mark Diaz and team - DPOA, Barbara Patek - Counsel to DPOA, Richard Ravitch -		
6/12/2014	Marti Kopacz	Judge Rhodes' Consultant	Meeting	Police Department
		Kevyn Orr - Emergency Manager, Stacy Fox		
6/12/2014	Marti Kopacz, Brian Gleason	 Office of the EM, Richard Ravitch - Judge Rhodes' Consultant 	Meeting	Status of Assignment
0/12/2014	Mart Robacz, Brian Greason	John Hill - City of Detroit, Representatives	Weeting	Status of Assignment
		of E&Y and CM, Leslie Warmuth - Pepper		
6/12/2014	Marti Kopacz	Hamilton, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Review Finance, Accounting and IT issues
5.12.2017		Heather Lennox - Jones Day, Gaurav		Thance, recounting und 11 issues
6/14/2014	Marti Kopacz	Malhotra - Ernst & Young	Call	New POA date and projections update
6/14/2014	Marti Kopacz	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Status on Report completion
0/14/2014	Mart Ropacz	Stephen Letter Squite Fatton Boggs	Cun	Work on Report sections - Pensions and Post
6/16/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Confirmation Issues
		Sharon Levine - Lowenstein Sandler, Stephen Kreiser - AFSCME, Richard		
6/17/2014	Marti Kopacz	Ravitch - Judge Rhodes' consultant	Meeting	Union issues
		Kenneth Buckfire, Jim Doak and team -		
6/17/2014	Marti Kopacz, Brian Gleason	Miller Buckfire Stephen Lerner - Squire Patton Boggs,	Meeting	Update on Asset Dispositions and Exit Financing Document production; "Big Issues" Meeting; projections
6/18/2014	Marti Kopacz	Geoff Stewart and others - Jones Day	Call/email	v.11
				Round table conference call to discuss state of the
	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin	John Naglick, Glenn Kushiner, Dan Jerneycic, E&Y, Rick Drum, Accounting,		monthly reporting that the City is generating, and ability to do post emergence reporting against budget. Post call
6/19/2014	Barr	Renee Shorts, budgets	Call	with Bob Childree
		Juan Santambrogio and Gaurav Malhotra -		
	Marti Kopacz, Michael Gaul, Brian	Ernst & Young, Chuck Moore and Glenn Kushiner - Conway Mackenzie, Jones Day		
6/19/2014	Gleason, Kevin Barr, Stephen Lerner	Team	Meeting	"Big Issues" Meeting and feasibility assessment
6/19/2014	Marti Kopacz	Noah Ornstein - Kirkland & Ellis	Call	Inquiry re: confirmation issues for creditors
6/20/2014	Marti Kopacz, Brian Gleason	Melissa Smiley - City of Detroit	Call	New projections and impact on Mayor's Budget Reviews
	· · · · · · · · · · · · · · · · · · ·	Mayor, Melissa Smiley, Pam Scales, Brad		1 July 1
6/24/2014	Mari Vanan	Dick and team - City of Detroit,	Martina	Product Province Marrian Co. CCD
	Marti Kopacz Marti Kopacz	Representatives of E&Y and CM Mike Imber - Alvarez & Marsal	Meeting Call	Budget Review Meeting for GSD Inquiry re: contingency provisions in HB 5567
				Discuss financial requirements in Grand Bargain
6/24/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	legislation
6/25/2014	Marti Kopacz	Melissa Smiley - City of Detroit, Dan Jerneycic - Ernst & Young	Call	Utility cost estimates in POA projections
6/25/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Information Requests
6/26/2014 6/27/2014	Marti Kopacz, Brian Gleason Marti Kopacz	Prof. Scott Pryor - Regent University Melissa Smiley - City of Detroit	Call Call	Ch. 9 feasibility article Future utility costs
0/2//2014	тин корасг	Mayor, Melissa Smiley, Pam Scales, Dan	Cuil	1 daile daility Costs
		Dirks and team - City of Detroit,	L .	n
6/30/2014	Marti Kopacz Marti Kopacz, Michael Gaul, Kevin	Representatives of E&Y and CM	Meeting	Budget Review for DDOT
7/1/2014	Barr	Daniel Jerneycic - Ernst & Young, Chris Gannon - Conway Mackenzie	Call	40 year revised draft projections discussion
7/2/2014	Marti Kopacz, Michael Gaul	Melissa Smiley - City of Detroit	Call	New Projections Pending
7/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Call	Departmental meeting - DFD
7/2/2014	Gicason	mayor Duggan & Stall	Cuil	Departmental incetting - Di D
7/3/2014	Marti Kopacz	Mayor Cabinet Members - City of Detroit	Meeting	Mayor's weekly status meeting
7/9/2014	Marti Konacz Brian Glasson	Richard Ravitch - Judge Rhodes' Consultant,	, Meeting	Revised projections and impact on feasibility
7/9/2014	Marti Kopacz, Brian Gleason Marti Kopacz	Peter Kiernan - Shiff Hardin Steven Hackney - Kirkland & Ellis	Call	District Court decision on wagering revenues
		Stephen Lerner - Squire Patton Boggs,		
7/10/2014 7/10/2014	Marti Kopacz Marti Kopacz	Geoff Stewart - Jones Day Heather Lennox - Jones Day	Call/email Call	Outstanding information requests DWSD
7/10/2014	Iviarii Kopacz	Judge Rhodes - US Bankruptcy Court,	Cail	ענווען
L		Stephen Lerner - Squire Patton Boggs,		
7/14/2014	Marti Kopacz, Brian Gleason Marti Kopacz, Michael Gaul, Brian	Geoff Stewart - Jones Day	Call	Status call re: scheduling and report due date
7/16/2014	Gleason, Kevin Barr	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Report development discussion
7/17/214	Marti Kopacz	Stacy Fox-Deputy EM	Call	Requesting draft of report
7/17/214	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Requesting draft of report

Exhibit 3 Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
	Al Mink, Bob Childree, Michael Gaul,		-,,rg	
4/29/2014	Brian Gleason, Kevin Barr	Barbara Patek	Meeting	Debrief on meeting with Fire and Police Unions
				Discussed John Hills vision for the Finance and
4/30/2014	Al Mink, Bob Childree	John Hill CFO	Meeting	Accounting function and the major issues he believes the Department faces
		Juan Santambrogio and Daniel Jerneycic -	Ü	
4/30/2014	Michael Gaul, Kevin Barr	Ernst & Young	Meeting	10 Year Plan Development Issues facing the Finance department, specifically those
				departments reporting to John Hill. John walked us
				through his view of the status of each of the departments
5/1/2014	Al Mink, Bob Childree	John Naglick, Finance Director Kevin Hand, Chris Gannon and Glenn	Meeting	reporting to him. General Restructuring and Reinvestment
5/2/2014	Michael Gaul, Kevin Barr	Kushiner - Conway Mackenzie	Meeting	discussion/development
				Meeting to discuss his views of the issues facing the
5/5/2014	Al Mink	Michael Jameson, Deputy Finance Director	Meeting	departments reporting to John Hill.
		Glenn Kushiner, Conway, Chris Gannon,		Discussed finance department and begin to get into details. Discussed more specifics on each of the
5/5/2014	Al Mink	Conway	Meeting	departments
				Discussed their views of finance department and begin to
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	get into details. Discussed more specifics on each of the departments
3/3/2014	71 Milk	Kevin Hand, Chris Gannon and Glenn	Meeting	General Restructuring and Reinvestment
5/5/2014	Michael Gaul	Kushiner - Conway Mackenzie	Meeting	discussion/development
				Overview and details of the Risk Management department. Discussed the existing structure, and
				restructuring alternatives being investigated including
		Donald Cattles Distriction C		potentially outsourcing the Third party administration of
5/6/2014	Al Mink, Bob Childree	Donald Settles, Risk Manager, Glenn Kushiner, Conway	Meeting	Workers Comp and engaging a third party insurance policy to cover auto
				Accepted reassessment plan, impact on forecasted
5/6/2014	Al Mink, Bob Childree Al Mink, Bob Childree	Gary Evanko, Glenn Kushiner	Meeting	revenues, and restructuring of the Assessors department
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Chief Assessor Glenn Kushiner and Chris Gannon - Conway	Meeting	Property tax process, organization, issues, problems
5/6/2014	Al Mink, Bob Childree	Mackenzie	Meeting	DWSD, CFO restructuring, Plante Moran's role
5/7/2014	Michael Gaul, Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Maatina	Eine and Bas Depositments
3/1/2014	Michael Gaul, Kevili Ball	Chris Gannon and Emily Petrovski - Conway	Meeting	Fire and Rec Departments
5/7/2014	Kevin Barr	Mackenzie	Meeting	Ombudsperson and Mayors Office
5/7/2014	Al Mink, Bob Childree	Boysie Jackson, Director Purchasing and Glenn Kushiner - Conway Mackenzie	Meeting	Procurement processes, issues, contracts, personal services contracts, RFP process, people, POA,risks
3/1/2014	At White, Boo Children	Pam Scales, Budget Director and Glenn	iviceting	Budget process, Staffing, organization, POA staffing,
5/7/2014	Al Mink, Bob Childree	Kushiner	Meeting	and issues
		Boise Jackson purchase director, Glenn		Over view of the Purchasing department including restructuring initiatives, processing of contracts,
5/8/2014	Al Mink, Bob Childree	Kushiner	Meeting	approvals for expenditures
		Class Kashara Dan Carles Dada (the development of 2015 Budget submission to Council
5/8/2014	Al Mink, Bob Childree	Glenn Kushner, Pam Scales, Budget Director	Meeting	using the Budget in the plan of adjustment. Also discussed challenges in reporting against budget.
		Chris Gannon and Danielle Iafrate - Conway		0 1 00
5/8/2014	Kevin Barr	Mackenzie Kevin Hand and Emily Petrovski - Conway	Meeting	Police Department
5/8/2014	Kevin Barr	Mackenzie	Meeting	Blight
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	General Services Department
5/8/2014 5/8/2014	Kevin Barr Al Mink, Bob Childree	Todd Eddy - Conway Mackenzie Glenn Kushiner - Conway Mackenzie	Meeting Meeting	36th District Court and DDOT Conway's role, scope of work, issues
5,6,201.	TH MINK, BOO CHINATO	Orem Rasimer Convay Paterionale		Financial reporting, CAFR, Reporting post bankruptcy
5/8/2014	Al Mink, Bob Childree	Eric Higgs	Meeting	reconciliations, staffing issues
5/8/2014	Al Mink, Bob Childree	Leighton Duncan and Glenn Kushiner	Meeting	Treasury functions, revenue collections outsourcing, organization, retention,
				audits, internal controls, findings, organization,
5/8/2014 5/8/2014	Al Mink, Bob Childree Michael Gaul	Mark Lockridge, Auditor General	Meeting Call	functions, issues 10 year - 40 Year plan
5/0/2014	iviiciidei Odui	Juan Santambrogio - Ernst & Young Leighton Duncan, Project Manager,	Cail	Discussed status of Treasury department functions and
5/9/2014	Al Mink, Bob Childree	Treasury, and Glenn Kushner.	Meeting	restructuring.
5/9/2014	Al Mink, Bob Childree	Glenn Kushner	Meeting	Discussed Conway activities; restructuring activities in departments and helping to implement changes.
J. J. 2014		Eric Higgs, Chief accounting officer, Glen		Discuss the current activities of the Accounting
5/9/2014	Al Mink, Bob Childree	Kushner.	Meeting	department and the issues.
		Mark Lockridge, Auditor General, Glenn		Mark is going to provide us with audit reports on the Accounting and finance functions he has conducted in
5/9/2014	Al Mink, Bob Childree	Kushiner	Meeting	recent years.
5/0/2014	Varia Dom	Chris Connon Connon M. J.	Call	Planning & Development, City Council and Building &
5/9/2014 5/9/2014	Kevin Barr Kevin Barr	Chris Gannon - Conway Mackenzie Kevin Hand - Conway Mackenzie	Call Call	License Airport
5/9/2014	Kevin Barr	Danielle Iafrate - Conway Mackenzie	Call	Law
		Compa Maria Dan Cuttan Nalah Iaka		
5/9/2014	Al Mink, Bob Childree	Sonya Mays, Dan Sutton, Nakia Johnson, Chris Gannon - Conway Mackenzie	Meeting	Grants Managementprojects, plans, timeframes,
			Ü	Review global 10 year forecast spread sheets and then
5/12/2014	Al Mink	Glann Kushinar	Mosting	focused on the restructuring spreadsheets for each of the
5/12/2014	Al Mink	Glenn Kushiner	Meeting	finance and accounting functions

Exhibit 3 Date	Phoenix Attendees	Attondoos	Type of Meeting	Topics
Date	r noemx Attendees	Attendees Michael Swartz, Plante Moran, Adam Rujan,	Type of Meeting	Discuss status of new ERP proposal. Discuss with
		Plante Moran, Laurie Zyla, Plant Moran,	,	Michael Swartz, Plante Moran's contribution to the Yea
		Glenn Kushiner, Chris Gannon, Sonya Mays		End Closing process. Discuss issues with doing monthly
5/12/2014	Al Mink	Nakia Johnson	Meeting	financial statements.
		Glenn Kushiner, Beth Niblock, CIO and		Overview of current status of Department and the vision
5/12/2014	Al Mink	Charles Dodd.	Meeting	for implementation of an integrated ERP System.
				10 year reorganization budget spreadsheets for the
5/13/2014	Al Mink	Glenn Kushiner	Meeting	finance and accounting departments.
5/12/2014	ALMColo Deli Children	Chair Comman Comman Marco Nabia Islamon	Martina	Development of the new Grants administration department.
5/13/2014 5/13/2014	Al Mink, Bob Childree Al Mink	Chris Gannon, Sonya Mays, Nakia Johnson Glenn Kushiner	Meeting Meeting	Review organization Chart.
5/15/2014	71 WINK	Geim Rushmer	Weeting	Review of Finance and Accounting pre-reorganization
5/14/2014	Al Mink	Glenn Kushiner	Meeting	organization charts
5/14/2014	Bob Childree, Michael Gaul, Brian	Juan Santambrogio, Gaurav Malhotra and	G II	n i longn d
5/14/2014	Gleason, Kevin Barr	Daniel Jerneycic - Ernst & Young	Call	Pension and OPEB Conversation Meeting to discuss centralization of Accounting and
5/19/2014	Al Mink	Glenn Kushiner	Meeting	Finance
				Discuss E&Y Cash Flows and Cash flow procedures.
				Also discuss EM reports and discuss post emergence
5/19/2014	Al Mink	Dan Jerneycic, an Juan Santambrogio E&Y Juan Santambrogio, Daniel Jerneycic and	Meeting	monthly reporting
5/19/2014	Al Mink, Kevin Barr	Nick Bugden - Ernst & Young	Meeting	Cash Forecasting
5/20/2014	Al Mink	Glenn Kushiner	Meeting	Review Data Requests
F/01/20::	and brazin	Tanya Stoudemire, Income Tax Manager		Over view of the Income Tax Department, initiatives and
5/21/2014	Al Mink, Bob Childree	and Glenn Kushiner	Meeting	plans for Restructuring
				Review process for submitting and following up on past
5/21/2014	Al Mink	Niki Timmons	Meeting	due real real-estate submissions to Wayne County
		Juan Santambrogio and Daniel Jerneycic -		
5/21/2014	Al Mink, Bob Childree, Kevin Barr	Ernst & Young	Meeting	Cash Forecast vs. 10 Year Plan variance
		Executive Director of GRS/PFRS, RS legal		
5/21/2014	Bob Childree, Michael Gaul	counsel, RS actuary, and RS financial advisor	Meeting	POA treatment re: Retirement Systems
5/27/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss Payroll and Governance
				CAFR audit. Review with him the 2012 management
5/28/2014	Al Mink	Joel Kowalski	Meeting	letter from KPMG
5/28/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Nick Bugden - Ernst & Young	Call	Detailed 10 Year-40 Year Working Model Review
3/20/2014	Wichael Gaul, Revin Ball	Kevin Hand and Glenn Kushiner - Conway	Can	Detailed to Teal-40 Teal Working Woder Review
5/28/2014	Kevin Barr	Mackenzie	Call	Deferred Reinvestments
5/29/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss payroll
5/30/2014 5/31/2014	Michael Gaul Michael Gaul	Jones Day personnel Brian Leatherman - Jones Day	Call Call	Bankruptcy discovery transmission issues Bankruptcy discovery transmission issues
3/31/2014	Wichael Gaui	Niki Timmons, Leighton Duncan, Glenn	Call	Bankrupicy discovery transmission issues
6/2/2014	Al Mink, Bob Childree	Kushiner	Meeting	Discuss Wayne County payments
		Kyle Herman, Miller BuckfireKarl Sankey		
		(not present), Leighton Duncan, Niki, Jeff Addison- Conway Mackenzie, Peter		
6/2/2014	Al Mink, Bob Childree	Baywold-Conway Mackenzie	Meeting	Wayne County Property tax issues, process
		Ursula Holland, Michael Hall, Glenn	-	
6/3/2014	Al Mink, Bob Childree	Kushiner	Meeting	Payroll systems and procedures
		D : D : I X SS A I II' S G		
		Devin Patel, Jeffrey Addison from Conway, Geoffrey Stewart, Chris DiPompeo, Jones		
6/3/2014	Al Mink	Day, Sheshian Swamnathan, E&Y	Meeting	Discuss Cash Reporting
		Mike Hall, Ursula Holland , Glenn Kushiner	-	
6/3/2014	Al Mink, Bob Childree	Conway Mackenzie	Meeting	Payroll
		Jeff Addison, Devin Patel - Conway Mackenzie, Jeff Stewart, Dan Jerneycic -		Cash flows, reconciliations, disburesements, A/P,
6/3/2014	Al Mink, Bob Childree	E&Y	Meeting	encumbrances
		Representatives of Detroit Land Bank		
6/3/2014	Michael Gaul	Authority	Call	Required funding for Blight remediation
6/4/2014	Al Mink Rob Children	John Hill, John Naglick and Glenn Kushiner	Meeting	Finance Reorganization, CFO position, ERP, Payroll,
6/4/2014	Al Mink, Bob Childree Al Mink, Bob Childree	Lena Willis, Boysie's deputy	Meeting	monthly reporting Encumbrances, A/P
6/4/2014	Michael Gaul	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
		-		
6/5/2014	Al Mink	John Naglick, Glenn Kushiner	Meeting	Continue discussion on finance and accounting issues
6/5/2014	Al Mink	Larry King, Kevin Hand Larry King and Chris Gannon - Conway	Meeting	Work being performed on Accounting Organization
6/5/2014	Al Mink, Bob Childree	Mackenzie Mackenzie	Meeting	Finance reorganization, Job descriptions, Hr
6/5/2014	Al Mink, Bob Childree	John Naglick and Glenn Kushiner	Meeting	Financial reporting,
6/6/2014	Michael Gaul, Kevin Barr	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/10/2014	Bob Childree, Michael Gaul, Brian	Robert Gordon, Joe Turner, Michael , Ron	Call	Patiesment existence
6/10/2014	Gleason Bob Childree, Michael Gaul, Brian	King Evan Miller, Alexander Blanchard - Jones	Call	Retirement systems
6/10/2014	Gleason, Kevin Barr	Day	Call	Pensions and OPEB
6/10/2014	Michael Gaul	RS legal counsel	Call	Pension governance
		Kevin Hand and Emily Petrovski - Conway		
6/11/2014	Kevin Barr	Mackenzie	Meeting	Fire Dept. Review
6/12/2014	Michael Gaul	Tina Tolliver - DPD Nick Bugden and Juan Santambrogio - Ernst	Meeting	DPD RRI's
6/13/2014	Kevin Barr	& Young	Call	10 Year model
6/13/2014	Michael Gaul	Erica Raleigh - Data Driven Detroit	Meeting	Data gathering re: Detroit

Exhibit 3						
Date	Phoenix Attendees	Attendees Type of Meeting Topics				
		Kevin Hand and Emily Petrovski - Conway				
6/17/2014	Kevin Barr	Mackenzie Call Fire Dept. Review				
		Daniel Jerneycic and Shavi Sarna - Ernst &				
6/26/2014	Kevin Barr	Young Call Utilities				

Phoenix Management Services, Inc. In re: City of Detroit, Michigan, Debtor Case No. 13-53846

Open Information Requests as of July 18, 2014

REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	STATUS
OUTSTANDING REQU	<u>UESTS</u>		
Jones Day	6/10/14	Any stochastic or sensitivity analyses undertaken by City advisors or advisors to the Retirement Systems relevant to use of a 6.75% investment return assumption for GRS.	
Ernst & Young	5/21/14	Comparison of the Revenue and Expenditures as reported on E&Y's Actual Cash Flow reports for the fiscal years 2012 and 2013 against the completed CAFR	
Ernst & Young	5/29/14	Pension: All pension plan sensitivity analyses; including, those that look at how changes in investment returns impact unfunded level	Received for PFRS; not received for GRS
Ernst & Young	5/29/14	Pension: Sensitivities on how different pension return rates impact the pension restoration provisions in the plan	Received for PFRS; not received for GRS
		If none exist, please run Pensions UAAL calculation at 3%, 5%, 6%, and 8% assumed rate of return	
Ernst & Young	5/30/14	Actuary reports/analysis that provide detailed support behind yearly contributions to pensions for active employees in the 40 Year Plan	
Ernst & Young	5/29/14	Modified version of 10 Year Plan that fully integrates CM's Restructuring Initiatives within the departmental budgets – including the department-level detail of Restructuring deferrals	

REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	<u>STATUS</u>
Ernst & Young	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Conway MacKenzie	5/22/14	Reconciliation of 10 Year Plan and City's Triennial Budget	
Conway MacKenzie	5/27/14	Status of Fox Lawson review of White Book; anticipated changes to pay grades and classification post- petition; estimated Plan impact of said changes	
Conway MacKenzie	5/27/14	Total budget - by line item - for each department in Finance, Accounting and IT if Centralized Governance was approved. How much City wide the ten year plan envisions spending on IT, Accounting and Finance?	
Conway MacKenzie	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Ernst & Young/CM	7/9/14	City employee headcount by department— as of 6/30/14; gross payroll cost (excluding OT) for FYE 6/30/14; annualized gross payroll run rate (excl. OT) as of 6/30/14	

EXHIBIT 5

Cline Deposition Transcript

Page 1 1 IN THE UNITED STATES BANKRUPTCY COURT 2 FOR THE EASTERN DISTRICT OF MICHIGAN 3 4 JEFFREY S. BEELAERT, ESQ. SIDLEY AUSTIN, LLP 4 1501 K Street, N.W.	Page 3 Suarantee Corp.
2 FOR THE EASTERN DISTRICT OF MICHIGAN 3 JEFFREY S. BEELAERT, ESQ. SIDLEY AUSTIN, LLP	uarantee Corp.
3 4 3 JEFFREY S. BEELAERT, ESQ. SIDLEY AUSTIN, LLP	
SIDLEY AUSTIN, LLP	
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5 Washington D.C. 20005	ļ
6 In Re:) Chapter 9 5	ļ
7 CITY of DETROIT, MICHIGAN,) Case No. 13-53846 6 8 Debtor) Hop Steven Phodes 7 For Creditor Financial Guaranty Insura	nnaa Campanyu
Debtor.) Hori. Steven knowes	ince company:
WEIL COTSHAL & MANGES LIP	ļ
10 9 1395 Brickell Avenue	ļ
11 Suite 1200 12 The Videotaped Deposition of ROBERT CLINE. 1.0 Miami Florida 33131	ļ
Wildlin, Horida 55151	ļ
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1451 Louisiana Avenue, NW12Also Appearing:15Washington, DC13Jonathan Perry, Videographer	
16 Commencing at 9:05 a m	via telephone
17	
16 18 Before Marjorie Peters, RMR, CRR 17	
19 18	
20 19	
21 20	ļ
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22 23	ļ
24 24	
25 25	
Page 2	Page 4
1 APPEARANCES: 1 INDEX	
2 For the Debtor City of Detroit and the witness: 3 GEOFFREY S. STEWART, ESQ., 2 WITNESS	PAGE
SARAH A. HUNGER, ESQ., 3 Robert Cline	6
4 CHRISTOPHER DIPOMPEO, ESQ. 4	ļ
JONES DAY 5 51 Louisiana Avenue, N.W. 5 EXHIBITS	PAGE
Washington, D.C. 20001-2113 6 Exhibit No. 1	112
7 Exhibit No. 2	149
8 For the Official Committee of Retirees: 8 Exhibit No. 3	164
9 DAN BARNOWSKI, ESQ. 9 Exhibit No. 4 DENTONS US, LLP	179
10 1301 K Street, N.W. 10 Exhibit No. 5	278
Suite 600, East Tower 11 Exhibit No. 6	280
12 Exhibit No. /	281
13 For Syncora Guarantee, Inc., and Syncora Capital 13 Exhibit No. 8 Assurance, Inc.	285
14 EXHIBIT NO. 9	292
15 DOUGLAS G. SMITH, P.C.	
KIRKLAND & ELLIS, LLP 16 16 300 North LaSalle 17	
Chicago, Illinois 60654	
17 18 19 19	
19 For Creditor Assured Guaranty:	
20 LISA SCHAPIRA, ESQ. CHADBOURNE & PARKE, LLP 21	
21 30 Rockefeller Plaza	
New fork, New fork TOTIZ	
1 22	ļ
22 23 24 24	1

Page 5 Page 7 1 R CLINE 1 R. CLINE 2 THE VIDEOGRAPHER: This is disk number one 2 revenue estimates for the City of Detroit. 3 of the video deposition of Robert Cline taken in 3 Okay. And what is your area of expertise? 4 4 the matter of the City of Detroit, Michigan in the A. For my professional career, I've worked in 5 U.S. Bankruptcy Court for the Eastern District of 5 public finance, the economic aspects of public finance. 6 6 Michigan. Chapter 9, Case No. 13-53846. Okay. So, you would be an expert in public 7 7 finance and the economic aspects of public finance; is We are at the offices of Jones Day, 51 8 8 that correct? Louisiana Avenue Northwest, Washington, D.C. The 9 time is approximately 9:04 a.m. The date is July 9 A. My professional career has been doing state 10 10 tax work, whether it's revenue estimating, tax bill 14th, 2014. The court reporter is Marjorie Peters 11 11 analysis or forecasting. and the videographer is Jonathan Perry, both here 12 12 Okay. You wouldn't hold yourself out as an on behalf of Elisa Dreier Reporting Company. 13 Would counsel please introduce yourselves 13 expert in urban policy, correct? 14 14 I would not. and state whom you represent. 15 MR. SMITH: Doug Smith for Syncora. 15 And you wouldn't hold yourself as an expert on 16 MR. STEWART: Geoffrey Stewart and Sarah 16 health benefits? 17 Hunger of Jones Day for the City of Detroit and for 17 A. I would not. 18 18 You're not an expert on government in general? the witness. 19 MS. SCHAPIRA: Lisa Schapira from 19 20 20 Chadbourne & Parke for Assured Guaranty. Q. You're not an expert on blight reduction? 21 21 MR. BEELAERT: Jeff Beelaert from Sidley Α. No, I'm not. 22 22 Austin for National. Ο. Not an expert on art valuation? 23 23 MR. PATEL: Pravin R. Patel from Weil A. 24 Not an expert on pensions? 24 Gotshal & Manges representing Financial Guaranty Ο. 25 25 Α. No. Insurance Company. Page 6 Page 8 1 R. CLINE 1 R. CLINE 2 THE VIDEOGRAPHER: And would the reporter Q. Not an expert on government grants? 3 swear in the witness, please. 3 A. 4 ROBERT CLINE. 4 Q. Do you hold yourself out as an expert on 5 5 a witness, having been first duly sworn, was examined and casinos or wagering revenue? 6 testified as follows: 6 I do not. 7 7 BY MR. SMITH: 0 Do you hold yourself out as an expert on state 8 Q. Good morning, Mr. Cline. You have been 8 revenue sharing? 9 deposed before; is that correct, or not? 9 I've studied state revenue sharing. 10 10 A. I have testified in a court case before. Ο. In what context? 11 Okay. Have you ever given a deposition? 11 Α. The State of Michigan, I was responsible for 12 I don't remember. I have prepared reports. I 12 various revenue estimates. 13 13 don't remember whether I actually participated in this Q. And other than that, do you have any 14 type of deposition. 14 experience with state revenue sharing? 15 Okay. I'll be asking you a series of 15 I do not. 16 questions, and you will let me know if you don't 16 Q. You're not an expert on Detroit's government, 17 17 understand any of my questions? correct? 18 18 A. I am not. 19 19 Ο. Okay. And feel free to take a break whenever Not an expert on information technology? 20 2.0 you need to, okay? Α. 21 A. All right. 21 Ο. Not an expert on transportation systems. 22 The report you filed, your report in this 2.2 A. 23 matter, you're acting as an expert in tax policy; is that 23 Ο. Have you ever done forecasting for a city? 24 24 correct? A. I have not done forecasting for a city. 25 My responsibility in this project was to do 25 And you're not an expert in accounting, are

	Page 9		Page 11
1	R. CLINE	1	R. CLINE
2	you?	2	that. I don't recall.
3	A. I am not.	3	Q. Okay. But sitting here today, you can't
4	Q. You're not an expert on Chapter 9	4	identify any forecasts you ever did that was longer than
5	bankruptcies?	5	six years?
6	A. No, I'm not.	6	A. I do not remember one.
7	Q. You're not a restructuring expert, correct?	7	Q. And I mean, just to get make the record
8	A. No.	8	clear, the standard forecast for purposes of tax
9	Q. You're not holding yourself out as a legal	9	forecasting in Michigan state was four years; is that
10	expert, correct?	10	correct?
11	A. No, I'm not.	11	A. I believe it is. The budget cycle would be
12	Q. And you're not a lawyer, correct?	12	either two years or four years of forecasts.
13	A. I am not.	13	Q. Okay. So, the standard forecast length in
14	Q. Have you ever done a tax forecast for a	14	Michigan and the accepted forecast length for tax
15	wagering tax before?	15	forecasting is either two or four years; correct?
16	A. No, I have not.	16	A. Correct.
17	Q. And have you ever done a tax forecast for a	17	Q. And you previously worked as an expert in one
18	corporate tax?	18	case; is that correct?
19	A. I have for the State of Michigan, and I did	19	A. I did.
20	for the State of Minnesota.	20	Q. And is that the only case you worked as an
21	Q. Okay. But in the context of corporate tax	21	expert?
22	revenues to a city, you haven't done a forecast?	22	A. As I can recall, that was the only case where
23	A. I have not.	23	I testified as an expert.
24	Q. You haven't done a municipal income tax	24	Q. And when you testified as an expert, it wasn't
25	forecast before, have you?	25	in forecasting, correct?
	Page 10		Page 12
1	R. CLINE	1	R. CLINE
2	A. I have not.	2	A. It was not.
3	Q. You haven't done a municipal property tax	3	Q. When did you begin your work for Detroit?
4	forecast, have you?	4	A. It would have been in the spring, I believe,
5	A. I have not.	5	of 2013.
6	Q. Have you ever done a tax forecast over a	6	Q. Your work in this case, you have prepared some
7	period of as long as ten years?	7	expert opinions for the confirmation hearing, correct?
8	A. I have not.	8	A. I have I don't understand the question.
9	Q. Okay. Typically, what was the length of time	9	Q. Okay. Well, you know you filed an expert
10	of the forecasts you have done previously?	10	report.
11	A. The forecasts were usually tied to the budget	11	A. Correct.
12	cycle, determined by the legislature. You might go out	12	Q. You know that, right?
13	four to six years.	13	A. Correct.
14	Q. Okay. So, the standard forecast length that	14	Q. And you're acting as an expert who is going to
15	Michigan used was four to six years?	15	testify at the confirmation hearing?
16	A. I would say it was four, in Michigan.	16	A. I understand that, yes.
17	Q. Okay. So, the generally accepted standard	17	Q. Okay. And I'm just wondering, other than your
18	length of a forecast in Michigan was four years?	18	work as an expert in the testimony you're going to give
19	A. That was the forecast tied to the budget	19	at the confirmation hearing, have you done any other work
20	cycle. You would do forecasts longer term for other	20	for the City of Detroit?
21	types of projects.	21	A. If you could clarify that question. Are you
22	Q. Okay. So, and the longest term forecast you	22	referring to all of the work I have done as an EY
23	ever performed in the ordinary course of your work as a	23	employee for the City of Detroit?
24	forecaster was six years; is that correct?	24	Q. Well, yes. Basically, what I'm trying to
25	I might have done forecasts that went beyond	25	figure out is I have a copy of your expert report, and

Page 13 Page 15 1 R. CLINE R CLINE 2 2 you've talked about your forecasting work that you have done for the City of Detroit relates to offering expert 3 3 done in order to provide expert opinions in this case. opinions in this case; is that fair? 4 4 MR. STEWART: Objection. So, I have seen that already, and I'm just trying to 5 understand whether you did any other work for the --5 THE WITNESS: I don't think that's an 6 6 A. No. accurate description. 7 -- City of Detroit. 7 BY MR. SMITH: 8 8 Q. Well, the only work you've done in this case 9 9 relates to doing the forecasting work that's the subject 10 10 A. No. The work that we did was the forecasting of your expert opinions in this case; correct? 11 10-year forecasts for the City of Detroit, plus an 11 A. What we were asked to do is to provide a 12 extension beyond that period. 12 10-year forecast of expected revenues from the major tax 13 Okay. So all of the work that you've done for 13 sources for the City of Detroit. 14 14 the City of Detroit is reflected in your expert report Q. And the reason you were asked to provide that 15 15 was for purposes of a confirmation hearing and you're that --16 MR. STEWART: Objection. 16 testifying as an expert, correct? 17 MR. SMITH: -- that you've provided, 17 A. I don't think that's an accurate description. 18 18 What other purpose is that forecast being used correct? 19 THE WITNESS: There is a very extensive 19 for; any other purpose? 20 2.0 amount of material that lies behind those summary A. To my knowledge, it's been part of the 21 21 budgetary discussions for the City of Detroit. numbers 22 BY MR. SMITH: 22 So, you've done some forecasting work that the 23 23 results of which are reflected in your expert report that Q. Okay. Well, let me rephrase the question, 24 24 the City has also used for budgetary purposes; is that then. All of the work that you've done for the City of 25 25 Detroit is reflected in your expert report or the Page 14 Page 16 R. CLINE 1 R. CLINE 1 MR. STEWART: Objection. 2 supporting materials that you produced with it, correct? 3 MR. STEWART: Objection. 3 THE WITNESS: I do not know how the 4 4 THE WITNESS: I don't believe that's information that we have provided has been used. 5 5 It's beyond my knowledge. correct. BY MR. SMITH: 6 6 BY MR. SMITH: 7 7 Q. Okay. So, the only thing you know is that Q. Okay. What materials haven't we been provided 8 that reflect your work? you've provided expert opinions reflected in your expert 9 9 A. I don't know the answer to that question. report, and that's the work you've done for the City of 10 10 Detroit? Well, I'm trying to -- you just told me that 11 you have prepared some materials, right? I'm trying to 11 MR. STEWART: Objection. 12 figure out if we have got them all. That's a fair 12 BY MR. SMITH: 13 13 question, right? Correct? 14 MR. STEWART: So, what's the question? 14 A. We prepared revenue estimates over a 10-year 15 MR. SMITH: The question is, have we been 15 period for the City of Detroit. 16 16 Okay. And that's the only work you've done provided all of the materials that reflect your 17 17 work in this case. for the City of Detroit, correct? 18 THE WITNESS: I don't know the answer to 18 That has been my responsibility in this. 19 that question. 19 Okay. And your forecasting work that you just 20 20 BY MR. SMITH: referenced is reflected in your expert report? 21 Okay. So, you can't represent to the Court 21 A. It is a summary of the results of the work we 22 22 that we've been provided a complete set of the did. 23 23 materials --Okay. You weren't involved in putting 24 together forecasts for use with the creditor proposal? 24 A. I cannot personally represent that. 25 25 But just to clarify, the only work that you've Not to my knowledge.

Page 17 Page 19 1 R. CLINE 1 R. CLINE 2 2 Did you know if there was anybody else at MR. SMITH: Okay. 3 Ernst & Young who worked on tax issues for purposes of 3 BY MR. SMITH: 4 4 the creditor proposal? Did you do the calculations in your expert 5 Not to my knowledge. 5 report or did staff members do them? 6 6 And do you know if the City has sought out I would say staff members constructed the 7 experts other than yourself to testify in the area of 7 mechanics of the model. 8 8 taxes? Okay. And you haven't -- have you ever 9 A. I am not familiar with anyone else. 9 constructed the mechanics of a forecasting model before? 10 10 Did you personally calculate the numbers that I have. 11 are in your expert report, or did someone else do the 11 But you didn't do it in this case; correct? 12 actual, you know, number calculations that are reflected? 12 I don't think that's an accurate summary. 13 A. My responsibility was to construct the general 13 Well, I'm trying to get at who did the actual 14 14 framework of the estimating model and to evaluate the computations in your report? 15 15 results at each step of the way. I worked very closely with my staff at all 16 Okay. So, you didn't do the actual 16 phases of the estimation process. 17 calculations that are reflected in your expert report; is 17 Okay, but did you actually personally do the 18 that fair? 18 computations that appear in the report? 19 A. I do have a staff with -- several staff 19 A. I personally reviewed each of the spreadsheets 20 20 members who worked on the actual estimation. that were used to do the calculations. 21 How many staff members assisted you in your --21 Ο. And who actually created the spreadsheets that 22 I would say --22 A. did the calculations that appear in your report? 23 23 -- in developing your expert opinions? Under my direction, my staff constructed the 24 24 -- we may have three staff members in addition individual spreadsheets. 25 25 to myself. Ever forecast inflation rates before? Page 18 Page 20 1 R. CLINE 1 R. CLINE 2 Who are those --I have. 3 MR. STEWART: And you have to let him 3 Have you ever forecasted municipal population 4 finish his question and then pause so I can object 4 levels before? 5 5 before you start your answer, or you end up talking A. I have not. 6 over each other which complicates the reporter's 6 Have you ever forecast population levels of 7 7 job. individuals commuting into a city to do work? 8 BY MR. SMITH: 8 I have not. 9 9 Who are the staff members that assisted in You never forecast population levels of 10 10 formulating your expert opinions? individuals living inside a city but working outside of 11 A. Caroline Sallee and Katie Ballard. Those were 11 it? 12 the two principal people. 12 A. I have not. 13 13 Q. And so it's fair to say that you didn't Have you ever done any economic forecasting to Q. 14 personally calculate the numbers in your report; it was 14 assess income levels? 15 people on your staff, correct? 15 I don't understand the question. 16 A. Could you define "calculate" for me. 16 Q. Have you ever forecasted income levels of a 17 17 population over time? Well, there are numbers that are plugged into 18 the model, right, and then out pops some results, right? 18 What do you mean by income levels? 19 MR. STEWART: Objection. 19 Well, the levels -- there's a population of 20 BY MR. SMITH: 20 working people, and they're receiving income from doing 21 And I'm wondering, did you actually do any of 21 work. Have you ever forecast what their income will be 22 22 the computations that are reflected in your expert in the future? 23 23 report? As tax research director, I was responsible 24 24 MR. STEWART: That's a compound question. for forecasting taxable income for taxpayers. 25 25 Which one do you want answered? The State of Michigan, when you worked there,

	Page 21		Page 23
1	R. CLINE	1	R. CLINE
2	they don't do any forecasting for the City of Detroit, do	2	A. They do.
3	they?	3	Q. And among the factors that could influence
4	A. Not that I know of.	4	utility tax rates are use of the utility, the rate of
5	Q. Ever forecast a city employment growth rate?	5	collection of the taxes, the general economic conditions,
6	A. No, I have not.	6	correct?
7	Q. Ever forecast wage growth rate in a city?	7	A. Correct.
8	A. Do you mean prior to the Detroit project?	8	Q. Anything else you can think of?
9	Q. Prior, yes.	9	A. I think those would be key drivers.
10	A. No, I have not.	10	Q. But do you can you think of other key
11	Q. But you're doing that in your report here; is	11	drivers?
12	that fair?	12	A. I have no others.
13	A. It is part of the analysis that we did.	13	Q. Have you ever forecast a utility tax revenue
14	Q. Ever forecast income tax rates for a city?	14	before?
15	A. No, I have not.	15	
16	Q. Ever forecast corporate tax rates for a city?	16	' '
17	A. No, I have not.	17	Michigan or Minnesota; I don't recall.
18	'	18	Q. Okay. But a municipal utility tax, have you
19			ever forecast that?
20	A. I may have done some local work in Michigan	19	A. No, I have not.
21	for a city related to property taxes.	20 21	Q. I wanted to ask you about some of the inputs
22	Q. Which city was that?		from your model. There are various inputs that you use
	A. Holland, Michigan.	22	in your model to do your forecasting, correct?
23	Q. And what work did you do?	23	A. Correct.
24	A. I was a member of the public school board. I	24	Q. And many of the inputs that you use in your
25	may have looked at property tax forecasts for the school	25	model are inputs that you've taken from other people, or
	Page 22		Page 24
1	Page 22	1	Page 24
1 2		1 2	_
	R. CLINE		R. CLINE
2	R. CLINE district.	2	R. CLINE other sources, correct?
2	R. CLINE district. Q. Okay. But you didn't do any	2	R. CLINE other sources, correct? A. Some of them did come from other sources.
2 3 4	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish	2 3 4	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that
2 3 4 5	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish his answer before you ask your next question. He	2 3 4 5	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model?
2 3 4 5 6	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish his answer before you ask your next question. He had not really finished.	2 3 4 5 6	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection.
2 3 4 5 6 7	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish his answer before you ask your next question. He had not really finished. MR. SMITH: Okay. You didn't do any kind	2 3 4 5 6 7	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources
2 3 4 5 6 7 8	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish his answer before you ask your next question. He had not really finished. MR. SMITH: Okay. You didn't do any kind of forecasting when you're sitting on the school	2 3 4 5 6 7 8	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the
2 3 4 5 6 7 8	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish his answer before you ask your next question. He had not really finished. MR. SMITH: Okay. You didn't do any kind of forecasting when you're sitting on the school board in Holland, Michigan?	2 3 4 5 6 7 8 9	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model.
2 3 4 5 6 7 8 9	R. CLINE district. Q. Okay. But you didn't do any MR. STEWART: You've got to let him finish his answer before you ask your next question. He had not really finished. MR. SMITH: Okay. You didn't do any kind of forecasting when you're sitting on the school board in Holland, Michigan? THE WITNESS: I reviewed the forecast	2 3 4 5 6 7 8 9	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH:
2 3 4 5 6 7 8 9 10	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some
2 3 4 5 6 7 8 9 10 11	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to
2 3 4 5 6 7 8 9 10 11 12	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time,
2 3 4 5 6 7 8 9 10 11 12 13 14	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research
2 3 4 5 6 7 8 9 10 11 12 13 14 15	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research seminar in quantitative economics and consensus forecast
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research seminar in quantitative economics and consensus forecast for the State.
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research seminar in quantitative economics and consensus forecast for the State. Q. And those are forecasts that are created by experts other than yourself?
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research seminar in quantitative economics and consensus forecast for the State. Q. And those are forecasts that are created by experts other than yourself? A. They're created by economists that work for the State of Michigan, or
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research seminar in quantitative economics and consensus forecast for the State. Q. And those are forecasts that are created by experts other than yourself? A. They're created by economists that work for the State of Michigan, or Q. And
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model? MR. STEWART: Objection. THE WITNESS: We used a number of sources as input to the model and in determining the parameters of the model. BY MR. SMITH: Q. And for example, you use expert some materials from expert economists at Michigan to A. We used the latest at that point in time, the latest available statewide forecast from the research seminar in quantitative economics and consensus forecast for the State. Q. And those are forecasts that are created by experts other than yourself? A. They're created by economists that work for the State of Michigan, or Q. And Q. And
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	R. CLINE district. Q. Okay. But you didn't do any	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	R. CLINE other sources, correct? A. Some of them did come from other sources. Q. And what are some of the expert sources that you're relying on for inputs in your model?

Page 27 Page 25 1 R. CLINE 1 R. CLINE 2 2 We did receive information from the City of MR. STEWART: Objection. 3 THE WITNESS: I'm not sure I understand 3 Detroit. 4 4 Q. And what information did you rely on from the what you mean. 5 BY MR. SMITH: 5 City? 6 6 Well, I mean, here's another example. You're We relied upon their actual tax collection 7 7 relying on the forecasts that have been created in this information, and their update of the flow of revenue 8 case for the City of Detroit by experts other than 8 collections. 9 yourself, such as Mr. Malhotra, correct? 9 And you're aware that there have been a number 10 10 of independent experts who have criticized the City of MR. STEWART: Objection. 11 11 Detroit's recordkeeping as unreliable, correct? THE WITNESS: The economic forecast I was 12 12 MR. STEWART: Objection. referring to was created for the State of Michigan. 13 BY MR. SMITH: 13 THE WITNESS: I'm not aware of that. 14 14 BY MR SMITH: Q. No, I know. I'm just trying to found out what 15 15 sources you've used. That's one source, correct? Have you done any investigation to look into 16 16 assessments of the City of Detroit's recordkeeping? 17 17 Another thing that you say in your expert A. No. 0. 18 18 So, you haven't done any analysis or testing report that you're relying on is Mr. Malhotra's forecast 19 for the City of Detroit. Do you recall that? 19 to ensure the reliability of the information you were 20 20 provided from the City of Detroit for your model? I don't recall saying that in the report. 21 21 MR. STEWART: Objection. Did you write your report? 22 22 THE WITNESS: We worked very closely with A. I did work with... 23 Why is your report written in the third person 23 the City of Detroit to clarify and understand the talking about Mr. Cline all the time? 24 24 information that was provided to us. 25 I'm not sure. 25 BY MR. SMITH: Page 26 Page 28 1 R. CLINE 1 R CLINE 2 The Michigan employment growth rate; did you But you didn't do any independent analysis or 3 testing to verify the accuracy of the information create that input to your model, or did you derive that 3 4 from somebody else? 4 provided to you by the City, correct? 5 5 A. It was a combination of beginning with the A. I did not. 6 forecast, the consensus forecast for the State of 6 And nobody on your team did, correct, as far 7 7 Michigan. For the out years when that forecast was not as you're aware? 8 available, EY provided the forecast. Not that I know of. 9 9 When you say EY provided the forecast, who The -- did you rely on information provided by 10 10 provided it? Conway & MacKenzie? 11 A. My shop. 11 Α. Not to my knowledge. 12 The ratio of Detroit employment to Michigan 12 Were there any consultants for the City that 13 13 employment, who provided that number? you relied on for information for your analysis? 14 A. I believe we calculated that number. Beyond the EY team? 15 The lag of Detroit's recovery behind the 15 Yeah. Beyond the EY team. 16 16 Michigan recovery; who calculated that? Not that I know of. 17 I believe that was part of our analysis. 17 Who on the EY team did you rely on for A. Ο. 18 The Detroit population growth rate; where did 18 information for your analysis? 19 that come from? 19 A number of folks in working with the City of 2.0 A. I believe it originally came from SEMCOG as 20 Detroit. 21 reported in -- I believe it's Detroit City -- Detroit 21 Q. Like who? 2.2 First City Organization that has done economic analysis 22 Gaurav was our primary contact. 23 23 And Mr. Malhotra? of the City. Ο. 24 Did you rely on information from the City of 24 Α. Mr. Malhotra. 25 Detroit for your analysis? 25 Anybody else?

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1	R. CLINE	1	R. CLINE
2	A. There were others.	2	THE WITNESS: I'm not sure what that
3	Q. And who were the others?	3	process would look like.
4	A. I don't have a full list of names.	4	BY MR. SMITH:
5	Q. Would it be fair to say that you've relied on	5	Q. Well, for example, you didn't go back and look
6	information from a number of people whose identities are	6	at records well, how many hours did you spend on your
7	unknown to you?	7	work in this case?
8	MR. STEWART: Objection.	8	A. I do not know what the total is.
9	THE WITNESS: I would not agree with that	9	Q. Can you give me a ballpark?
10	statement.	10	A. I really cannot.
11	BY MR. SMITH:	11	Q. Was it more than 100 hours?
12	Q. Okay. Can you other than Mr. Malhotra,	12	A. As I say, I do not know what the exact number
13	you there's other people, and can you identify any of	13	of hours is.
14	them?	14	Q. Would it be fair to say that there were a
15	A. I would have to get that list of names for	15	number of individuals who were not designated as experts,
16	you.	16	haven't submitted an expert report in this case, whose
17	Q. Okay. So, sitting here today, you can't	17	opinions you relied on as inputs to your model?
18	identify all of the people who you relied on for	18	A. I don't understand what the word "expert"
19	information for your model, correct?	19	means.
20	MR. STEWART: Objection.	20	Q. Well, you understand that there's some people
21	THE WITNESS: No, I cannot.	21	that have submitted expert reports, like Mr. Malhotra,
22	BY MR. SMITH:	22	Miss Sallee, correct?
23	Q. And in general, you didn't do anything to	23	A. Yes, I understand that they did submit
24	independently verify the accuracy or reliability of the	24	reports.
25	information you were provided by other people for your	25	Q. Okay. And by "expert," I'm talking about the
	Page 30		Page 32
1	R. CLINE	1	R. CLINE
2		2	
3	forecasting models, correct? A. We evaluated all of the information we were	3	people that submitted reports in this case A. Yes.
4	provided to see if we thought it was reliable in the	4	Q for the City.
5	sense that it looked consistent over time, there weren't	5	A. I'm aware of those reports.
6	unexplained differences. We looked carefully at all of	6	Okay. So, we're on the same page about how
7	the information that's provided to us.	7	I'm using the term expert, correct?
8	Q. But you didn't do any independent testing or	8	A. I believe that I do understand.
9	analysis to go back and actually check or audit the	9	
10	information you were provided in order to ensure that it	10	Q. But there were a number of individuals who were not submitting reports in this case who you relied
11	was reliable, correct?	11	on for your analysis, correct?
12	MR. STEWART: Objection.	12	A. There are a number of people who provided us
13	THE WITNESS: We were not asked to audit	13	inputs for our analysis, including people at the State
14	figures for the analysis.	14	level as well as the City level.
15	BY MR. SMITH:	15	Q. And those are experts in their fields, but
16	Q. And so, you didn't do it, correct?	16	they're not people who have submitted expert reports in
17	A. As I mentioned, we carefully reviewed all of	17	this case, correct?
18	the information that we were given before we plugged it	18	MR. STEWART: Objection.
19	into the model.	19	THE WITNESS: I don't know excuse me.
20	Q. Okay. I understand you reviewed information,	20	MR. STEWART: Go ahead.
21	but you didn't go back and check the information against	21	
22	the sources of the information to ensure that it was	22	THE WITNESS: I don't know what "expert" means in that context.
23	reliably reported before you plugged it into your model,	23	BY MR. SMITH:
24	correct?	24	Q. Did you cooperate closely with people from the
	COLLECT:	47	Q. Did you cooperate closely with people from the
25	MR. STEWART: Objection.	25	State in developing your analysis?

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1	R. CLINE	1	R. CLINE
2	A. I would say we did.	2	MR. STEWART: Objection.
3	Q. And was that facilitated by the emergency	3	You can answer.
4	manager or how did that come about?	4	THE WITNESS: As I believe I've answered,
5	MR. STEWART: Objection.	5	we used existing law statutory tax rates in our
6	THE WITNESS: It was also based upon my	6	revenue estimates.
7	contacts with the State over a long period of time,	7	BY MR. SMITH:
8	so that we knew the people to talk to to provide us	8	Q. No, I know, you assumed the tax rates would
9	with additional information.	9	remain constant for 10 and 40 years, correct?
10	BY MR. SMITH:	10	A. The accurate description is that we accepted
11	Q. And who were those people that you talked to?	11	current law as the tax rates that we put into the model.
12	A. Jay Wortley would be one exam example.	12	Q. And so, I'm what I'm asking, though, is did
13	Q. Who is that?	13	you ask bother to ask anybody whether there might be
14	A. He's the tax research director for the State	14	changes in the tax rates over the next 10 years or 40
15	of Michigan.	15	years.
16	Q. Anyone else?	16	A. I believe I've answered that question.
17	A. There may have been others. I don't know the	17	Q. And the answer was, no, you didn't do that,
18	names.	18	correct?
19	Q. Okay. Did anyone from the State tell you that	19	A. We did not ask about future tax rates. We
20	the tax rates that you look at in your model would not be	20	discussed the current law statutory rates for Detroit.
21	raised within the 10-year period you looked at?	21	Q. And you didn't ask anybody from the City
22	A. In our revenue estimates, we assumed current	22	whether tax rates could increase, correct?
2.3	law in the determination of the tax rates. So, we did	23	A. We did not.
24	understand what current law rates are, and under current	24	Q. And you didn't ask anybody from the State that
25	law, there's no scheduled increase in those tax rates.	25	you had been talking to whether current tax rates would
	Page 34		Page 36
1	R. CLINE	1	R. CLINE
2	Q. But nobody from the City nobody from the	2	increase, correct?
3	State or the City that you talked to represented to you	3	A. Are you saying would increase or could
4	that the rates, the tax rates in your model would not	4	increase?
5	rise during the 10-year or 40-year period you looked at,	5	Q. Either, could or would.
6	correct?	6	A. Current law
7	A. We did not ask that question.	7	MR. STEWART: Reask the question. And it's
8	Q. And so, nobody from the State or the City	8	a compound question.
9	represented to you that there would be no increase in tax	9	BY MR. SMITH:
10	rates over a 10-year or 40-year period, correct?	10	Q. Okay. Did you ask anybody from the State
11	A. We didn't ask that question.	11	whether current tax rates might increase over the next 10
12	Q. And so nobody represented to you that there	12	years or 40 years?
13	would be any increase in tax rates, correct?	13	MR. STEWART: Objection. Asked and
14	A. We had no discussion of increases in tax	14	answered.
15	rates.	15	THE WITNESS: I believe I've answered that
16	Q. Okay. So, you didn't in developing your	16	question.
17	model, you didn't investigate whether tax rates would	17	BY MR. SMITH:
18	increase, correct?	18	Q. And the answer is, no, you didn't, correct?
19	A. As I mentioned, in developing the model,	19	A. Correct.
19	faller sings the grouped persons action at the group and the	20	Q. Are there individuals who have some expertise
20	following the normal revenue estimating procedures, we		
20 21	assumed tax rates would remain as they are under current	21	that you lack that you relied on for your inputs or
20 21 22	assumed tax rates would remain as they are under current law.	21 22	opinions in the report?
20 21 22 23	assumed tax rates would remain as they are under current law. Q. So, you didn't conduct an investigation to	21 22 23	opinions in the report? A. As I mentioned, we used a number of sources,
20 21 22	assumed tax rates would remain as they are under current law.	21 22	opinions in the report?

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	Page 37		Page 39
1	R. CLINE	1	R. CLINE
2	information as we could.	2	Mr. Malhotra is doing, that's an even more complex task
3	Q. So, the answer is yes, correct?	3	with a lot of moving parts, correct?
4	MR. STEWART: Objection.	4	A. I'm not sure I have a judgment about the level
5	THE WITNESS: We did use input from other	5	of complexity of the expenditure side because we were not
6	people in doing our analysis.	6	doing that analysis.
7	BY MR. SMITH:	7	Q. Okay. But your analysis gets plugged into
8	Q. And you used input from people that have	8	Mr. Malhotra's analysis, correct?
9	expertise that you lack in doing your analysis, correct?	9	A. It's my understanding that that is how it
10	MR. STEWART: Objection.	10	was the product of our analysis was used.
11	BY MR. SMITH:	11	Q. Okay. And in order to perform the analysis,
12	Q. Such as people from the City, correct?	12	you needed to rely on numerous people other than
13	A. For example, we talked to people at the City	13	yourself; correct?
14	to find out what current revenue collections were, which	14	MR. STEWART: Objection.
15	we did not have direct access to.	15	THE WITNESS: We relied upon information
16	Q. Okay. So, you did rely on individuals who	16	provided to us by other people.
17	have expertise that you lack in performing your analysis,	17	BY MR. SMITH:
18	correct?	18	Q. And you relied on information provided to you
19	A. We used other people as sources of information	19	by other people who have expertise that you lack,
20	that we used in our revenue forecasts.	20	correct?
21	Q. And that included people who have expertise	21	MR. STEWART: Objection. Is this the sixth
22	that you lack.	22	time, eighth time you've asked that question,
23	MR. STEWART: Objection.	23	Mr. Smith?
24	MR. SMITH: Correct?	24	THE WITNESS: And I'm still a little
25	THE WITNESS: Again, I'm not sure what you	25	confused by what you mean by "expertise."
	Page 38		Page 40
			rage 10
1	R. CLINE	1	R. CLINE
1 2	R. CLINE mean by "expertise."	1 2	
			R. CLINE
2	mean by "expertise."	2	R. CLINE BY MR. SMITH:
2	mean by "expertise." BY MR. SMITH:	2	R. CLINE BY MR. SMITH: Q. Okay. Well, experts can have different kinds
2 3 4	mean by "expertise." BY MR. SMITH: Q. Well, you're not an expert on the City of	2 3 4	R. CLINE BY MR. SMITH: Q. Okay. Well, experts can have different kinds of expertise, correct?
2 3 4 5	mean by "expertise." BY MR. SMITH: Q. Well, you're not an expert on the City of Detroit for example, right? We talked about that, right? Do you recall that? You can't answer whether you recall? MR. STEWART: Don't badger the witness.	2 3 4 5	R. CLINE BY MR. SMITH: Q. Okay. Well, experts can have different kinds of expertise, correct? A. I don't understand the general concept of
2 3 4 5 6	mean by "expertise." BY MR. SMITH: Q. Well, you're not an expert on the City of Detroit for example, right? We talked about that, right? Do you recall that? You can't answer whether you recall?	2 3 4 5	R. CLINE BY MR. SMITH: Q. Okay. Well, experts can have different kinds of expertise, correct? A. I don't understand the general concept of "expert" and "expertise."
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2 3 4 5 6 7 8 9 10	mean by "expertise." BY MR. SMITH: Q. Well, you're not an expert on the City of Detroit for example, right? We talked about that, right? Do you recall that? You can't answer whether you recall? MR. STEWART: Don't badger the witness. MR. SMITH: I'm not badgering. MR. STEWART: You are, too. MR. SMITH: I'm waiting for an answer. MR. STEWART: Well, no, you're badgering	2 3 4 5 6 7 8 9 10	R. CLINE BY MR. SMITH: Q. Okay. Well, experts can have different kinds of expertise, correct? A. I don't understand the general concept of "expert" and "expertise." Q. Okay. So, even though you're holding yourself out as an expert in this case, you don't understand what an expert is, correct? A. I'm not holding myself out to be an expert. I am was responsible for the revenue forecasts that we
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24 gesture like that. 24 constrain my question to a particular time frame. Are	
goodare into that:	
1011. Sivit 11. Thi waiting for all answer. 23 you aware you're not aware or any formal studies that	
Page 42 Page	44
1 R. CLINE 1 R. CLINE	
2 We're sitting here waiting for a long time. 2 have been conducted to ascertain whether the City can be seen conducted to ascertain whether the conducted to ascertain whethe	า
There's delaying tactics going on and he's not 3 increase revenues, correct?	
4 responding to the questions. 4 A. I am aware of one study, which I actual	y did
5 MR. STEWART: The fact of the matter is 5 myself.	
6 you're asking very poor questions and it's your own 6 Q. Okay. Other than your expert analysis, you're	ţ
7 fault. Let's repeat the question and the witness 7 not aware of any formal studies conducted to ascerta	ነ
8 can answer or have the question. 8 A. Not that I looked at.	
9 MR. SMITH: You wouldn't call yourself 9 Q. I'll ask the question so I can finish it, and	
10 MR. STEWART: Go ahead. 10 then you can answer.	
11 BY MR. SMITH: 11 MR. STEWART: You do have to give him ti	ne
12 Q. You wouldn't call yourself an expert in this 12 to finish.	
13 case, correct? 13 BY MR. SMITH:	
14 A. I don't know what you mean by the term 14 Q. Other than your analysis, you're not aware o	
15 "expert." 15 any formal studies conducted to ascertain whether the	:
16 Q. And so, the answer is, no, you wouldn't call 16 City can increase revenues, correct?	
17 yourself one, correct? 17 A. I am not.	
18 A. The answer is: I don't know what you mean by 18 Q. And you're not aware of any formal studies	
19 "expert." 19 conducted to ascertain costs that the City conducted	
20 Q. Did you rely on reinvestment numbers from 20 cut, correct?	
21 Conway & oh, wait. I think we covered that question. 21 A. Do you mean from the expenditure side	of the
22 You have had no interaction with Conway & MacKenzie; is 22 budget?	
23 that correct? 23 Q. Yes.	
24 A. I don't know if the question that is a 24 A. I'm not aware of any.	
25 question, but it sounds like you posed a separate 25 Q. You're not aware of any formal studies	

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1	Page 45	Page 47
	R. CLINE	1 R. CLINE
2	conducted on Detroit income tax, wagering tax, utility	2 Q correct, that's ever been done?
3	users' tax or corporate tax, correct?	3 A. I don't know if that's correct.
4	A. I am aware of the forecasts the City of	4 Q. Okay. Sitting here
5	Detroit did for those tax sources.	5 MR. STEWART: Do let him finish his
6	Q. Is that the forecast that you have done, or is	6 question before you answer, because you're making
7	that a different forecast?	7 his life harder, too.
8	A. That would be the forecast prepared as the	8 BY MR. SMITH:
9	normal budgetary cycle for the City of Detroit.	9 Q. Sitting here today, you can't identify any
10	Q. All right. Did you perform that, or did	forecasts using the type of methodology that you used for
11	somebody else perform that?	11 the City of Detroit, correct?
12	A. It was done my understanding is it was done	·
13	by the City.	13 Q. What forecast has been done for the City
14	Q. And the City what time period do they use	14 that's used the methodology you used?
15	as their standard period for forecasting?	15 A. The methodology that we have used is a fairly
16	A. I believe they go out two years, might be	16 standard forecasting methodology that's been used
17	three, but I believe it's a two-year forecast.	extensively in the City of Detroit and for the State of
18	Q. You're not aware of any forecast conducted for	18 Michigan and in other cities.
19	the City of Detroit that's longer than three years,	19 Q. Have you reviewed any depositions in this
20	correct?	20 case?
21	A. I'm not aware of any studies of forecasting	21 A. I have not, other than my own.
22	tax revenues beyond that period of time.	22 Q. The you say that the methodology used is a
23	MR. STEWART: You mean by the City of	23 standard methodology that's been used before, correct?
24	Detroit not for the City of Detroit, right,	24 A. The methodology we used in constructing the
25	Mr. Smith?	25 forecasting model is based upon my experience as a
	Davis 46	Page 40
-	Page 46	Page 48
1	R. CLINE	1 R. CLINE
2	MR. SMITH: No, I mean for.	2 revenue forecaster, and I believe it is fairly standard
3	BY MR. SMITH:	3 in terms of how State revenue forecasting is done.
3 4	BY MR. SMITH: Q. You're not aware of any forecasts for the City	 in terms of how State revenue forecasting is done. Q. Can you point me to any treatise or other
3 4 5	BY MR. SMITH: Q. You're not aware of any forecasts for the City of Detroit going out more than three years, whether	 in terms of how State revenue forecasting is done. Q. Can you point me to any treatise or other publication that lays out the methodology you've used for
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1	R. CLINE	1	R. CLINE
2	or the State of Michigan where you constructed a tax	2	A. An Excel spreadsheet had been put together
3	forecast that looked at a period of time as long as 10	3	that identified the major revenue sources, and that had
4	years, correct?	4	done some initial estimates for a 10-year period of time
5	A. The tax forecasts that we that I have done	5	Q. And do you know who specifically put that
6	at the State level, that have been published, have been	6	together?
7	the forecasts related to the budget cycle, which is	7	A. I do not.
8	determined by the legislature.	8	Q. But you used that spreadsheet, the
9	Q. And that length of time would be much less	9	pre-existing spreadsheet as the basis or at least as a
10	than 10 years, correct?	10	source for your work on the case?
11	A. It would be.	11	A. It was a starting point for our modeling.
12	Q. And there's a model that you used that you	12	Q. Did you look at the experience in any other
13	plug the numbers into. Where did that actual model come	13	cities in developing your forecast?
14	from; is that something you constructed for purposes of	14	A. We did at one point.
15	this case?	15	Q. What other cities did you look at?
16	MR. STEWART: Objection.	16	A. We looked at the economic recovery in various
17	THE WITNESS: We prepared our revenue	17	cities that had suffered population decline over a period
18	estimates using a model of the specific taxes that	18	of time. I could get you a list of those cities. I
19	we looked at that we constructed.	19	believe it was about a dozen separate cities.
20	BY MR. SMITH:	20	Q. In any of the cities that you looked at that
21	Q. For purposes of this litigation, correct?	21	had suffered population decline, did anybody file for
22	A. For purposes of making a 10-year forecast for	22	Chapter 9?
23	the City of Detroit.	23	A. I don't know the answer to that.
24	Q. Okay. So, the model that you use in your	24	Q. Sitting here today, though, you can't identify
25	to generate the numbers in your expert report is	25	any cities suffering population decline that filed for a
	Daga 50		Dama 52
	Page 50		Page 52
1	R. CLINE	1	R. CLINE
2	something that you constructed for purposes of your work	2	Chapter 9 as a result, correct?
3	on for the City of Detroit, correct?	3	A. Not to my knowledge.
4	A. That is correct.	4	Q. Have you had any interaction with Mr. Hill?
5	Q. Did you personally construct that model, or	5	A. I have not personally.
6	was that somebody on your staff?	6	Q. Have you had any interaction with Gary Evanko?
7	A. As I believe I've answered, I was the director	7	A. Not personally, I have not.
8	of the construction of the model. The calculations, the	8	Q. To your knowledge, has anybody on your team?
9	creation of the revenue estimating formulas was done by	9	A. Don't know the answer to that. I'd have to
10	my staff.	10	check. I'm just not aware of any interactions they may
11	Q. And so, before you started your work in the	11	have had.
12 13	spring of 2013, the model that you're using did not	12 13	Q. Have you worked with Eric Scorsone at Michigan State?
14	exist, correct? A. Prior to our joining the project, I believe	14	
15	the team in Detroit had created the framework of a	15	A. I have not personally worked with him. Q. And do you view him as an expert?
16	10-year revenue forecasting model.	16	A. Again, I'm not sure what you mean by "expert."
17	Q. Okay. Who did that?	17	Q. Okay. Do you know who he is?
18	A. We got that information from the EY team in	18	A. I do know who he is.
19	Detroit. I'm not sure who put that model together	19	Q. Okay. What do you know about him?
20	initially.	20	A. I know that he has been providing the City of
21	Q. Okay. So, the model was put together by the	21	Detroit with revenue estimates at various points in time.
22	time you started your work on the case; is that correct?	22	Q. Okay. And have you reviewed revenue estimates
23	A. I don't think that's accurate.	23	that have been provided by Mr. Scorsone to the City of
24	Q. Well, what was put together by the time you	24	Detroit?
25	started your work on the case?	25	A. I have.
1	,		

Pages 49 to 52

	Page 53		Page 55
1	R. CLINE	1	R. CLINE
2	Q. And are there ways in which your revenue	2	A. I don't know the answer to that question.
3	forecasts differ from Mr. Scorsone's?	3	Q. Okay. Do you know why you why aren't you
4	A. They differ in terms of the results.	4	forecasting fees and other revenues from the City?
5	Q. And could you explain how in what ways they	5	A. We were not asked to do that.
6	differ in terms of the results?	6	Q. Do you have any idea why you're not you
7	A. When we looked at his revenue estimates that	7	weren't asked to do forecasting for fees or other
8	were made available to us about late spring, perhaps June	8	revenues from the City?
9	of 2013, we noticed that his current forecast, or the	9	A. I do not.
10	most recent that we saw, had revenue estimates that were	10	Q. Other than the income tax, corporate tax,
11	higher than the actuals that were coming in at that point	11	utility users tax, wagering tax and property tax, are
12	in time.	12	there any other taxes collected by the City?
13	Q. And so, Mr. Scorsone's revenue estimates are	13	A. There is another revenue source that we were
14	generally higher than the ones that you've provided in	14	responsible for.
15	this case, correct?	15	Q. What's that?
16	MR. STEWART: Objection.	16	A. That was State revenue sharing payments, the
17	THE WITNESS: I don't I don't know.	17	forecast of State revenue sharing payments to the City o
18	BY MR. SMITH:	18	Detroit.
19	Q. Mr. Scorsone, is he a Professor at Michigan	19	(Off the record.)
20	State University?	20	BY MR. SMITH:
21	A. I believe he is.	21	Q. Do you have any idea about what fees the City
22	Q. Does he have any he works with the State in	22	collects?
23	some capacity; is that correct?	23	A. I do not.
24	A. I don't know the answer to that question.	24	Q. In your view, what are the biggest sources of
25	Q. I'll probably mispronounce this name, but	25	untapped revenue for the City?
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1		1	Page 56
1 2	R. CLINE	1	R. CLINE
2	R. CLINE Shavi Sarna, do you know who that is?	2	R. CLINE MR. STEWART: Objection.
2	R. CLINE Shavi Sarna, do you know who that is? A. I do.	2	R. CLINE MR. STEWART: Objection. THE WITNESS: I don't have an opinion on
2 3 4	R. CLINE Shavi Sarna, do you know who that is? A. I do. Q. Do you work with that person?	2 3 4	R. CLINE MR. STEWART: Objection. THE WITNESS: I don't have an opinion on that.
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Page 59 Page 57 1 R. CLINE 1 R. CLINE 2 emergency manager's office has communicated any desire to 2 THE WITNESS: As I believe I've said, we 3 increase revenues to you, correct? 3 relied upon a number of other people for 4 No one has communicated that to me personally, 4 A. information that we used in our modeling exercise. BY MR. SMITH: 5 no. 5 6 6 No one from the City or the emergency manager But you're not in a position to comment on the 7 7 expertise of the people you relied on for information for has ever sought out your expertise to try to help the 8 City increase its revenues so it can pay more to the your model, correct? 9 creditors, correct? 9 No, I'm not. 10 MR. STEWART: Objection. 10 Do you agree that some of the assumptions that 11 THE WITNESS: No one has asked us to do tax 11 you used for your model are based on expert judgments 12 policy analysis of alternatives for the City. 12 made by other third parties? 13 BY MR. SMITH: 13 A. Outside of the area of the population 14 Q. So that's correct? I mean, I'm just trying to 14 forecast, I believe we are responsible for the major 15 get a yes or no that -- nobody from the City has reached 15 assumptions in the model. 16 out to you to try to get your expertise to increase 16 Q. As far as the population forecast, though, you 17 17 revenues for the City so it can pay more to its had to rely on expert judgments by individuals outside of 18 creditors, correct? 18 Ernst & Young, correct? 19 MR. STEWART: Objection. 19 A. We relied upon the forecasts that were 20 20 THE WITNESS: The analysis that we did for prepared by SEMCOG for the City of Detroit. 21 the City, and summarized in the expert report, is 21 So the answer is correct, you did do that, 22 what we were asked to do for the City. 22 relied on the expert judgment of a third party for the BY MR. SMITH: 23 23 population forecast, correct? 24 24 A. We relied upon the forecast that SEMCOG had Q. Okay. So, nobody from the City or the 25 emergency manager's office has reached out to you to get 25 prepared. Page 58 Page 60 1 R. CLINE 1 R. CLINE And just so the record is clear, could you 2 your expertise to try to help increase revenues for the 3 tell me what SEMCOG stands for? City to pay the creditors more, correct? 3 4 A. I believe it's the Southeast Michigan 4 MR. STEWART: Objection. 5 Organization of Governments? I'll have to check that to MR. SMITH: That's not something you were 6 asked to do, correct? 6 verify that. 7 7 MR. STEWART: Objection. Do you know whether that's a State entity or 8 THE WITNESS: No one has contacted me to what kind of entity that is? 9 9 ask to do that type of analysis. I believe it's a regional entity that 10 10 represents governments in that region of the state. BY MR. SMITH: 11 Q. And as far as you're aware, nobody has 11 Have you updated your forecasts over time? 12 contacted anybody at Ernst & Young to do that type of 12 We have. 13 13 Have you changed assumptions in your forecast analysis, correct? Ω 14 A. I don't know the answer to that. 14 over time? 15 You can't identify anybody that's been asked 15 We have. 16 16 What assumptions in your forecast have changed to do that type of analysis to increase revenues for the Q. 17 17 City through tax policy or otherwise, correct? over time? 18 18 A. There are two areas. One, the starting points A. I just don't know if EY was asked to do that. 19 19 Sitting here today, you're not aware of any for actual revenue collections were updated continually 20 20 as new information became available. So, in a sense, the such request, correct? 21 I don't know of any such requests. 21 starting point changed over time. Secondly, based upon 22 Okay. Do you agree that the forecasts that 2.2 actual revenue collection experience and changes in the 23 23 Ernst & Young has performed rely on people with diverse state economic forecast, we altered some of the growth 24 24 expertise? rate assumptions over time. 25 25 MR. STEWART: Objection. And when you say the starting point changed

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1	R. CLINE	1	R. CLINE
2	over in the various iterations of your forecast, what	2	A. I believe in this case, that is correct.
3	specifically are you referring to?	3	Q. Were there any other changes that we haven't
4	A. The estimate, for example, of actual property	4	discussed, any changes to the inputs or assumptions that
5	tax collections in the city changed over time. One	5	we haven't discussed?
6	example was the composition of enterprise zone property.	6	A. There may be a number of other changes.
7	As the City updated its estimates of the dollar amounts	7	Q. Okay. Do you agree with me that forecasting
8	in those buckets of property assessed property, we	8	models such as you've developed in this case has to be
9	updated the model.	9	constantly updated because, you know, numbers are
10	Q. And did that result in your model showing less	10	changing and assumptions and inputs change?
11	revenue than it previously had?	11	A. I would agree that to get the most accurate
12	A. There were a number of changes. Some may have	12	estimate or forecast, you should start with the most
13	increased revenue, some may have decreased revenues. I	13	recent, actual information in the model.
14	don't have a score sheet to show the change	14	Q. And that requires updating the model over
15	Q. Okay.	15	time, correct?
16	A at each step of the way.	16	A. That is correct.
17	Q. So, since you began your work, the model has	17	Q. And in order to ensure the reliability of a
18	been changed multiple times, correct?	18	forecasting model, you need to continuously update it as
19	A. The model structure hasn't changed.	19	information becomes available, correct?
20	Q. But the inputs and assumptions to your model	20	A. I'm not sure I would use the word
21	have changed multiple times since you started your work,	21	"reliability." You certainly want to get the most
22	correct?	22	accurate starting point for the forecast.
23	A. That is correct.	23	Q. In order to ensure that a model is not
24	Q. And multiple different inputs have been	24	materially wrong, you need to continuously update the
25	changed in your model since you began your work, correct?	25	model for forecasting, correct?
			•
	Page 62		Page 64
1	R. CLINE	1	R. CLINE
2	A. That is correct.	2	MR. STEWART: Objection.
3	Q. And those inputs and assumptions have changed	2	MR. STEWART: Objection. THE WITNESS: I don't know what you mean by
3 4	Q. And those inputs and assumptions have changed based on information from third parties such as the City,	2 3 4	MR. STEWART: Objection. THE WITNESS: I don't know what you mean by "materially," right or wrong.
3 4 5	Q. And those inputs and assumptions have changed based on information from third parties such as the City, correct?	2 3 4 5	MR. STEWART: Objection. THE WITNESS: I don't know what you mean by "materially," right or wrong. BY MR. SMITH:
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3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	O. And those inputs and assumptions have changed based on information from third parties such as the City, correct? A. Yes, and the State would be another example. O. Okay. And overall, though, the changes to the property tax modeling, did that increase overall or decrease overall revenue projected to be available to the City? A. I can't recall the answer to that. Caroline Sallee, I believe, would have those details. O. The starting point, could you elaborate on what you are talking about when you say the starting point for the projections changed? A. One example would be user utility user tax collections. They have been trending downward over the last two to three years, and the latest figures show that they had decreased faster than we had initially forecasted in the short run. So, we updated the starting point for utility user taxes to reflect the lower current collection levels. O. Okay. So your changes to the utility tax	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	MR. STEWART: Objection. THE WITNESS: I don't know what you mean by "materially," right or wrong. BY MR. SMITH: Q. Okay. Why did you update the model, the forecasting that you had performed in this case? A. Because it's very important, if we were going out to a 10-year forecast, to start from the most accurate starting point, which was the most recent actua collection data. Q. Has Ernst & Young been engaged to continue any work on the forecasting beyond the confirmation of the plan? A. I believe my practice is still involved in the project. The latest work we have done is summarized in my expert report. Q. Yeah. But my question is, there's going to be a confirmation hearing that you're going to testify at; you know that, right? A. The trial? Q. Yeah. A. Yes.

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	Page 65		Page 67
1	R. CLINE	1	R. CLINE
2	can exit bankruptcy?	2	correct?
3	A. I'm not familiar with the details.	3	A. To my knowledge, there is no measure of
4	Q. Well, after the bankruptcy, is there any plans	4	reliability before the fact of a tax revenue forecast.
5	as far as you're aware, for Ernst & Young to continue	5	Q. And inherent in doing forecasting work,
6	doing forecasting work for the City after the plan is	6	there's a certain amount of guesswork or speculation,
7	confirmed and the City gets out of bankruptcy?	7	correct?
8	A. No one has discussed with me providing that		MR. STEWART: Objection.
9	type of additional service.	9	THE WITNESS: I wouldn't characterize it as
10	Q. Okay. But if you were asked to perform	10	guesswork.
11	forecasting work beyond the City's exit from bankruptcy,	11	BY MR. SMITH:
12	you would want to continuously update the model in order	12	Q. Would you would it be fair to say that in
13	to ensure that it's accurate and scientifically reliable,	13	order to do forecasting work, you need to make some
14	correct?	14	educated guesses?
15	MR. STEWART: Objection.	15	A. You need to make a number of assumptions in
16	THE WITNESS: I don't know what you mean by	16	any forecasting model or exercise based upon your best
17	the term "scientifically reliable." It is best	17	judgment and professional knowledge of what you're
18	forecasting practice to always determine the latest	18	forecasting.
19	actual tax collection figures before you forecast	19	Q. And the assumptions you make dictate what
20	into the future, whether it's ten or two years,	20	results you achieve in forecasting, correct?
21	four years or ten years.	21	A. I would not describe it that way.
22	BY MR. SMITH:	22	Q. How do the assumptions you make impact the
23	Q. So, you wouldn't hold out the analysis you've	23	results of the forecast?
24	done in this case as being scientifically reliable,	24	A. If you change the assumptions of some of the
25	correct?	25	key drivers, the results would change.
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1	R. CLINE	1	R. CLINE
2	MR. STEWART: Objection.	2	Q. Okay. And with your forecasting, if you
3	THE WITNESS: I don't know what that means,	3	changed the assumptions, your results could change,
4	that term.	4	correct?
5	BY MR. SMITH:	5	A. If you changed the assumptions, the results of
6	Q. And so, you wouldn't represent to the Court	6	the forecasting model exercise would change.
7	that your analysis is scientifically reliable, correct?	7	Q. And in your forecasting, there are numerous
8	MR. STEWART: Same objection.	8	assumptions involved, correct?
9	THE WITNESS: I don't know what that phrase	9	A. As we discussed earlier, that is correct.
10	means.	10	Q. In order to ensure accurate results, though,
11	BY MR. SMITH:	11	if you were retained after the bankruptcy was over to do
12	Q. So, would you represent to the Court that your	12	forecasting for the City, in order to ensure that your
13	analysis is scientifically reliable? That's not	13	forecasting was accurate, it would have to be
14	something that you would say, correct?	14	continuously updated, correct?
14 15	something that you would say, correct? MR. STEWART: You're arguing with the	14 15	continuously updated, correct? A. The starting point, which is actual revenue
			· ·
15	MR. STEWART: You're arguing with the	15	A. The starting point, which is actual revenue
15 16	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question	15 16	A. The starting point, which is actual revenue collections, would be continuously updated. Any new
15 16 17	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for	15 16 17	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from
15 16 17 18	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for him, he could answer your question.	15 16 17 18	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from the State, would be fair new information to consider,
15 16 17 18 19	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for him, he could answer your question. BY MR. SMITH:	15 16 17 18	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from the State, would be fair new information to consider, and you could also consider whether or not the forecast
15 16 17 18 19 20	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for him, he could answer your question. BY MR. SMITH: Q. Can you, as an expert in this case, tell me	15 16 17 18 19 20	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from the State, would be fair new information to consider, and you could also consider whether or not the forecast growth rates were still reasonable in making a new
15 16 17 18 19 20 21 22 23	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for him, he could answer your question. BY MR. SMITH: Q. Can you, as an expert in this case, tell me what something what scientifically reliable means?	15 16 17 18 19 20 21 22 23	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from the State, would be fair new information to consider, and you could also consider whether or not the forecast growth rates were still reasonable in making a new forecast.
15 16 17 18 19 20 21 22 23 24	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for him, he could answer your question. BY MR. SMITH: Q. Can you, as an expert in this case, tell me what something what scientifically reliable means? A. Not in the realm of tax revenue forecasting.	15 16 17 18 19 20 21 22 23 24	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from the State, would be fair new information to consider, and you could also consider whether or not the forecast growth rates were still reasonable in making a new forecast. Q. And if tax rates changed or other assumptions
15 16 17 18 19 20 21 22 23	MR. STEWART: You're arguing with the witness, Mr. Smith. He has answered the question now three times. Maybe if you could define it for him, he could answer your question. BY MR. SMITH: Q. Can you, as an expert in this case, tell me what something what scientifically reliable means? A. Not in the realm of tax revenue forecasting. Q. There's no set of standard sources or	15 16 17 18 19 20 21 22 23	A. The starting point, which is actual revenue collections, would be continuously updated. Any new economic forecasts, for example, from the City or from the State, would be fair new information to consider, and you could also consider whether or not the forecast growth rates were still reasonable in making a new forecast. Q. And if tax rates changed or other assumptions became inaccurate after the bankruptcy was over, you

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1	R. CLINE	1	R. CLINE
2	A. As I mentioned earlier, the tax rates	2	collections under current law and estimated economic
3	themselves are all current law. So, they are either	3	conditions.
4	right or wrong. They don't change unless current law	4	Q. Okay. So, you're not providing the Court with
5	changes.	5	any forecast that tells us what will happen if there are
6	Q. Well, yeah, but now we're assuming that you	6	legal changes, correct?
7	were working for the City, say, two years after the	7	A. That is correct.
8	bankruptcy was over, and the tax rate changed, you would	8	Q. And you're not providing the Court with any
9	need to revise your model to make it accurate, right;	9	forecasts that will tell it what will happen if there are
10	otherwise it wouldn't be accurate, correct?	10	changes in the economy, correct?
11	A. We would revise the model to pick up any	11	MR. STEWART: Objection.
12	changes in tax law, whether it was tax rate or tax-based	12	THE WITNESS: Our forecast is based upon
13	changes.	13	changes in the economy.
14	Q. And in order to ensure your model was	14	BY MR. SMITH:
15	accurate, you would have to revise the model after the	15	Q. Your forecast, though you're not providing
16	bankruptcy was over, if any of the assumptions changed,	16	the Court with any forecast that tells us what revenues
17	correct?	17	will be based on actual economic conditions because
18	A. I would not say we make those we make those	18	nobody can predict what those will be, correct?
19	changes in order to do the best forecast of the expected	19	A. It wouldn't be a forecast.
20	revenue streams. Whether it's accurate or not depends	20	Q. But certainly, you've made forecasts in the
21	upon what actually happens in the future compared to the	21	past that have been wrong, correct?
22	forecast.	22	A. I imagine so.
23	Q. So, as a forecaster, you can't represent to	23	Q. And in fact, would it be fair to say that all
24	the Court that your forecast is actually going to be	24	of the forecasts that you've made in the past have been
25	accurate, correct?	25	wrong to some extent, correct?
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1	R. CLINE	1	R. CLINE
2	R. CLINE MR. STEWART: Objection.	2	R. CLINE A. I would be more generous and say it's true
2	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to	2	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not
2 3 4	R. CLINE MR. STEWART: Objection.	2	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result.
2	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to my knowledge, in evaluating forecasts. BY MR. SMITH:	2 3 4	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result. Q. Yeah. And in general, forecasts are off
2 3 4 5	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to my knowledge, in evaluating forecasts. BY MR. SMITH: Q. And that's because events can change in the	2 3 4 5	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result. Q. Yeah. And in general, forecasts are off because there's no perfect methodology for forecasting
2 3 4 5 6 7	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to my knowledge, in evaluating forecasts. BY MR. SMITH: Q. And that's because events can change in the future and nobody knows what they'll be, correct?	2 3 4 5 6 7	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result. Q. Yeah. And in general, forecasts are off because there's no perfect methodology for forecasting into the future, correct?
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2 3 4 5 6 7 8 9 10	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to my knowledge, in evaluating forecasts. BY MR. SMITH: Q. And that's because events can change in the future and nobody knows what they'll be, correct? A. It is correct that the forecast is based on assumed economics, current tax law, and the key assumptions in the forecast. If any of those change, the forecast will change.	2 3 4 5 6 7 8 9 10	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result. Q. Yeah. And in general, forecasts are off because there's no perfect methodology for forecasting into the future, correct? A. You use the best tool available to make your forecast using the best available information as a starting point, and your understanding of the economics that you're dealing with.
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2 3 4 5 6 7 8 9 10 11 12	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to my knowledge, in evaluating forecasts. BY MR. SMITH: Q. And that's because events can change in the future and nobody knows what they'll be, correct? A. It is correct that the forecast is based on assumed economics, current tax law, and the key assumptions in the forecast. If any of those change, the forecast will change. Q. And so, your forecast doesn't tell us anything about what the actual revenues of the City will be a year	2 3 4 5 6 7 8 9 10 11 12	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result. Q. Yeah. And in general, forecasts are off because there's no perfect methodology for forecasting into the future, correct? A. You use the best tool available to make your forecast using the best available information as a starting point, and your understanding of the economics that you're dealing with. Q. And even using the best available methodology and information, forecasts are frequently wrong, correct?
2 3 4 5 6 7 8 9 10 11 12 13	R. CLINE MR. STEWART: Objection. THE WITNESS: That's not a term we use, to my knowledge, in evaluating forecasts. BY MR. SMITH: Q. And that's because events can change in the future and nobody knows what they'll be, correct? A. It is correct that the forecast is based on assumed economics, current tax law, and the key assumptions in the forecast. If any of those change, the forecast will change. Q. And so, your forecast doesn't tell us anything about what the actual revenues of the City will be a year or two years or three years or 10 years from now,	2 3 4 5 6 7 8 9 10 11 12 13	R. CLINE A. I would be more generous and say it's true that anyone who made a forecast would find that it's not always the final result. Q. Yeah. And in general, forecasts are off because there's no perfect methodology for forecasting into the future, correct? A. You use the best tool available to make your forecast using the best available information as a starting point, and your understanding of the economics that you're dealing with. Q. And even using the best available methodology and information, forecasts are frequently wrong, correct? A. I believe that would be an accurate statement.
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Page 73 Page 75 R. CLINE 1 R. CLINE 2 And each additional year added to the length 2 tested the results of your forecast against actual 3 3 of a forecast adds increased -- an increased chance that results, correct? 4 4 MR. STEWART: Objection. your forecast will be wrong, correct? 5 A. I'm not sure I understand what you mean by 5 THE WITNESS: We did not backcast. 6 "increased chance." Those are statistical terms that are 6 BY MR. SMITH: 7 difficult to apply to the forecasting arena. 7 Q. Okay. So, it would have been possible to test 8 Okay. Well, how would you describe the your model by using this procedure of backcasting to see 9 difference between doing a 10-year forecast versus a 9 how accurately it predicted prior events; is that fair? 10 one-year forecast in terms of the chances that your 10 Not in this case. 11 11 predictions will accurately reflect what ultimately Why is that? 12 12 Because of the unique situation at the City of 13 A. I wouldn't make it a statement to try to 13 Detroit. 14 14 Q. And what is that unique situation that describe that. 15 Okay. So, you can't offer me any expert 15 prevented you from testing your model? 16 opinion that tells me whether a 10-year forecast is more 16 A. Basically, the challenge is that those models 17 or less reliable than a one-year forecast. 17 fit over earlier periods of time were not able to pick up 18 In the case of our forecasts for the City of 18 the structural break between Detroit and the rest of the 19 Detroit, we were asked to do a 10-year forecast. I have 19 state, and the cumulative impact of the financial crisis 20 20 no results to compare our forecast to, so I can't make in Detroit. 21 comments about reliability over a two-year, a five-year 21 What do you mean by that? 22 or a 10-year period in the City of Detroit. 22 I -- was there a -- part of the explanation 23 Okay. So you're offering no opinion on the 23 you would like for me to --24 24 reliability of your forecast over the next 10 years, Q. Well, maybe you could elaborate, just further 25 25 correct? explain what you are talking about. Page 74 Page 76 1 R. CLINE 1 R. CLINE 2 MR. STEWART: Objection. MR. STEWART: Objection. You have to ask a 3 3 THE WITNESS: I have no statistical question. You just can't say please tell me more. 4 4 statement to describe accuracy in that setting. MR. SMITH: I did, and then he asked me a 5 5 question and I'm trying to clarify. BY MR. SMITH: 6 6 THE WITNESS: Could you rephrase your Okay. The -- when you were doing the 7 7 question? forecast, I mean, did you develop forecast results that 8 you could test against actual results during the last 8 BY MR. SMITH: 9 9 year? Were there any results that you generated that you Q. Well, let me ask you this: Is there any 10 10 standard rule of thumb for how frequently a forecast such could even test within the last year's? 11 MR. STEWART: Can you just reread the 11 as you have developed here needs to be updated? 12 12 As revenue forecaster for the State of question? 13 13 (The record was read back by the reporter.) Michigan, we used to do monthly forecasts. 14 14 MR. STEWART: Objection. Q. So, the standard practice in Michigan was to 15 THE WITNESS: As I explained, we started 15 revise forecasts each month based on new data and inputs 16 16 into the model? our forecast with the most recent actuals, so in 17 17 A. But it depended upon the purpose. That was the year we started, they were the actual 18 18 for tracking actual tax collections against forecasts. collections. All of our forecasts move forward in 19 19 time from the starting point. For forecast purposes related to the budgetary cycle, we 20 20 would do two-year or four-year forecasts. BY MR. SMITH: 21 Okay. So, you never tested your forecast 21 So, depending on the purpose, forecasts should 22 22 be updated either monthly or every couple of years. Is results against actual results, correct? 23 23 We started with the most recent, actual that fair? 24 24 results and forecasted the unknown future. A. Depending upon the purpose, forecasts should 25 be updated as often as I -- I would say, as new Okay. So, the answer is correct, you've never

	Page 77		Page 79
1	R. CLINE	1	R. CLINE
2	information becomes available that's relevant to the	2	A. The legislature or the city council could
3	forecast.	3	change the law.
4	Q. So, a forecast should be updated as frequently	4	Q. And so the legislature or the city council
5	as new information becomes available that's relevant for	5	would increase tax rates over the 10-year period,
6	the forecast, correct?	6	correct?
7	A. I think that's a reasonable statement.	7	A. Yes, that's possible.
8	Q. And in with respect to your forecasts	8	Q. And if current law is changed over the 10-year
9	you've developed in this case, how frequently have you	9	period, that could significantly increase the amount of
10	updated those?	10	revenue available to the City, correct?
11	A. I would say there have been points in time	11	MR. STEWART: Objection.
12	when we looked at all of the estimates together. That	12	THE WITNESS: I believe the changes could
13	might have been in the fall of 2013 and spring of 2014,	13	go in either direction.
14	and then more recently in June of 2014.	14	BY MR. SMITH:
15	Q. So, how many times have you updated your	15	Q. So, changes in law could significantly
16	forecast?	16	increase revenue to the City, correct?
17	A. I believe that's three comprehensive updates	17	A. Or they could restrict the revenue available
18	where we have generated additional new spreadshee	18	to the City. The example would be the election that is
19	results for each of the major tax types.	19	coming up to deal with the tangible personal property
20	Q. And over what period of time did those three	20	reduction at the local level.
21	updates occur?	21	Q. And so, it's possible that changes in law over
22	A. As I believe I stated, I the original that	22	the next 10 years could restrict revenue to a degree that
23	we did was probably June 2013, fall of 2013 another,	23	the City has to go back into bankruptcy again, correct?
24	spring of 2014 is another, and then probably June,	24	MR. STEWART: Objection.
25	perhaps I think it was June 2014.	25	THE WITNESS: I can't comment on that.
	Page 78		Page 80
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1	R. CLINE	1	R. CLINE
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	R. CLINE		R. CLINE
2	R. CLINE Q. So you've updated your done a comprehensive	2	R. CLINE BY MR. SMITH:
2	R. CLINE Q. So you've updated your done a comprehensive update of your forecast about four times in the last	2	R. CLINE BY MR. SMITH: Q. Okay. Well, you would agree that changes in
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1	R. CLINE	1	R. CLINE
2	A. Unless unless it's in law.	2	current law what the tax rates in the City of
3	Q. Well, you don't know what the the law can	3	Detroit will be.
4	change within five years, correct?	4	BY MR. SMITH:
5	A. Correct, but the point is that in current law,	5	Q. But we know there's no way to tell whether
6	there may be scheduled future tax rate changes. If so,	6	current law will remain unchanged over the next 10 years,
7	we've taken those into consideration.	7	correct?
8	Q. Okay. I see what you are saying.	8	A. I agree.
9	But there's no way for you to know what the	9	Q. And so there's no way to tell what the actual
10	tax rate is going to be within the 10-year period that	10	tax rates will be, whether they'll be the current law tax
11	you model, correct?	11	rates or some other tax rates over the next 10 years,
12	A. We know with certainty what the tax rate is	12	correct?
13	under current law.	13	A. We know with certainty what the current law
14	Q. Yeah. Right now, we know what the with	14	rate is; we do not know what the legislature might do in
15	certainty what the tax rate is, but there's no way for	15	changing the rates.
16	you to know what the tax rate will be two, five or 10	16	Q. And we don't know what the City might do in
17	years from now, correct?	17	changing rates, correct?
18	A. We know with certainty what the rate will be	18	A. I do not know what the City might do.
19	over that period, if they do not change current law.	19	Q. And in fact, we don't even know who the
20	Q. But you have no way to know whether current	20	decision-makers will be with respect to many policies in
21	law is going to be changed with respect to tax rates	21	the City that could affect your forecast, correct?
22	within the next 10 years, correct?	22	A. I wouldn't answer that question.
23	A. That is correct.	23	Q. I mean, there's no way for you to know who's
24	Q. And so you have no way of knowing what the tax	24	going to be doing the decisionmaking in the City over the
25	rate is going to be over the course of the next 10 years,	25	next 10 years, correct?
	Page 82		Page 84
	rage 62		rade of
1	R. CLINE	1	R. CLINE
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2	correct? A. We know with certainty what the tax rate over	2	R. CLINE A. As I mentioned, our forecast is based upon current law. We are not we did not do alternatives
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1 F	R. CLINE	1	R. CLINE
2 in tax rates over 1	0 years, correct?	2 9	side," that means increasing taxes or increasing other
	e work that I have done, either in	3 9	sources of revenue, correct?
	nesota or for the City of Detroit. The	4	A. By increasing revenues, I mean either
_	come up with the best estimate of	5 (expansions in the tax base or perhaps changes in the tax
_	nues over a defined period of time,		rates.
_	ange in current law.	7	Q. Okay. And the City of Detroit could increase
_	identify any tax forecast that's	8 i	ncome tax revenues, correct?
	t the current tax rates will remain	9	A. Excuse me?
	period as long as 10 years, correct?	10	Q. The City of Detroit could increase income tax
g	nswer that question. I don't have		revenues and rates, correct?
12 knowledge to a	•	12	A. It's my understanding that the individual
	in't identify an example, correct?		ncome tax rates in Detroit are fixed. I believe they're
	personally I cannot personally		ixed by the State legislature.
15 give you an exa		15	Q. Okay. And has Detroit asked the State
g ,	WART: We have been on the record		egislature to increase the income tax rates?
		17	A. I don't know the answer that.
17 about 90 minu 18 break?	tes. Is this a good time to take a	18	
	TH. Veels Come We constalled		Q. Okay. So, as far as you're aware, Detroit has
	TH: Yeah. Sure. We can take a		not asked the State to increase income tax rates,
20 break.	AEOODADUED O : KU	20 (correct?
	DEOGRAPHER: Going off the record at		A. We were not asked to analysis alternative tax
101001 11110 15	the end of disk number one.	22 1	rates in the City of Detroit.
•	.m. to 10:47 a.m.)		Q. Okay. And so, as far as you're aware, the
	DEOGRAPHER: The time is 10:47. This		City of Detroit has not asked the State to increase tax
25 is the beginnin	g of disk number two in the	25 r	rates, correct?
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1 R. (CLINE	1	R. CLINE
2 deposition of Rob	pert Cline.	2	A. I haven't asked that question, if it's the
3 BY MR. SMITH:		3 (case, but I'm not aware of any discussions.
4 Q. Mr. Cline, yo	ou know that there are a number of	4	Q. Okay. The City of Detroit can increase tax
5 cities throughout the	country that are experiencing	5 r	revenue by increasing collections, correct?
6 fiscal distress or fiscal	al crisis, correct?	6	A. The City of Detroit can collect the dollar
7 A. I have not	been paying attention to what is	7 8	amounts that are currently owed in the existing tax
8 going on in other	cities.	8 9	system
9 Q. Okay. And	that includes in performing your	9	Q. And
10 analysis in this case,	you haven't sought to educate	10	A assuming they collect that revenue.
11 yourself about that,	correct?	11	Q. And you know that currently Detroit is not
12 A. As I believ	e I mentioned earlier, when we were	12 (collecting all of the revenue it's owed for taxes,
13 looking at populat	ion projections, that one of my staff	13 (correct?
14 persons looked at	experience in other cities.	14	A. I am not familiar with the specific collection
15 Q. Okay. But a	as an expert on tax policy, you	15 j	policies and success in Detroit. We did, in our model,
16 know in general that	one way cities respond to fiscal	16 (on the property tax side calculate what we called an
	and face comment?	17	effective collection rate. But it was based upon our
17 stress is to raise taxe	es and rees, correct?		
	pon the city and the circumstances.		calculation of two rate dividing one number by
18 A. Depends u		18 (calculation of two rate dividing one number by another.
18 A. Depends u 19 Q. Yeah, but th	pon the city and the circumstances.	18 (•
18 A. Depends u 19 Q. Yeah, but th	pon the city and the circumstances. here are a number of cities that	18 (19 a) 20	another.
18 A. Depends u 19 Q. Yeah, but th 20 have raised taxes in 21 stress, correct?	pon the city and the circumstances. here are a number of cities that	18 (19 a) 20 21 p	another. Q. And so, you haven't investigated at all what
18 A. Depends up 19 Q. Yeah, but th 20 have raised taxes in 21 stress, correct? 22 A. I believe a	pon the city and the circumstances. here are a number of cities that response to fiscal crises or fiscal	18 (19 a) 20 (21 p) 22 (19 c)	another. Q. And so, you haven't investigated at all what percent of taxes the City of Detroit is collecting,
18 A. Depends up 19 Q. Yeah, but th 20 have raised taxes in 21 stress, correct? 22 A. I believe a	pon the city and the circumstances. here are a number of cities that response to fiscal crises or fiscal number of cities have both reduced le changes on the revenue side in response	18 (19 a) 20 21 p) 22 (2) 23	another. Q. And so, you haven't investigated at all what percent of taxes the City of Detroit is collecting, correct?
18 A. Depends up 19 Q. Yeah, but th 20 have raised taxes in 21 stress, correct? 22 A. I believe a 23 spending and mac 24 to fiscal challenge	pon the city and the circumstances. here are a number of cities that response to fiscal crises or fiscal number of cities have both reduced le changes on the revenue side in response	18 (19 a) 20 21 p) 22 (2) 23	another. Q. And so, you haven't investigated at all what percent of taxes the City of Detroit is collecting, correct? A. As I mentioned, we do have an estimate of what

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	Page 89		Page 91
1	R. CLINE	1	R. CLINE
2	the income tax the City of Detroit is collecting,	2	Q. Okay.
3	correct?	3	A. We did not do that estimate.
4	A. We have not done analysis of that issue.	4	Q. Yeah. And it's not necessary to go into
5	Q. And nobody has provided you information about	5	Chapter 9 to increase tax collections, correct?
6	what the rate of collection of the income tax is,	6	MR. STEWART: Objection.
7	correct?	7	THE WITNESS: As I say, we did not look in
8	A. I'm not aware of that information. I don't	8	detail at collections.
9	know if someone else on the EY team may have received	9	BY MR. SMITH:
10	that information.	10	Q. Well, that's not my question.
11	Q. And you haven't done any investigation into	11	Cities increase tax collections all the time
12	the rate of collection of utility tax?	12	without going into bankruptcy, correct?
13	A. I have not, as part of this project.	13	A. I can't answer that question. You'll have to
14	Q. You haven't done any investigation into the	14	rephrase it.
15	rate of collection of the corporate tax?	15	Q. You can't tell me whether cities increase tax
16	A. I have not.	16	collections as an expert in this case?
17	Q. Have you done any investigation into whether	17	A. What we were asked to do by the City of
18	there are exemptions from the various taxes you analyzed?	18	Detroit was to estimate under current law the expected
19	A. As I mentioned earlier, certainly on the	19	revenue stream over the next 10 years. And that is what
20	property tax side, we've looked at different	20	we did in our analysis.
21	classifications of property because they have different	21	Q. Yeah, but I'm asking you you have a life
22	assessment ratios, different features of the tax law,	22	outside of working for the City of Detroit, right?
23	which we take into consideration in our revenue	23	A. I do.
24	estimates.	24	Q. Okay. And you're holding yourself out as an
25	Q. And there are reductions or exemptions for	25	expert on tax policy, right?
	Page 90		Page 92
1	R. CLINE	1	R. CLINE
2			R. CLINE
		2	A I don't describe muself as an expert on tax
	property taxes, correct? A Do you mean under current law?	2	A. I don't describe myself as an expert on tax
3	A. Do you mean under current law?	3	policy.
3 4	A. Do you mean under current law? Q. Yes.	3 4	policy. Q. Okay.
3 4 5	A. Do you mean under current law?Q. Yes.A. I imagine there are. We didn't look	3	policy. Q. Okay. A. It's not a phrase we use at Ernst & Young.
3 4	A. Do you mean under current law? Q. Yes. A. I imagine there are. We didn't look specifically at changing specific exemptions under	3 4 5	policy. Q. Okay. A. It's not a phrase we use at Ernst & Young. Q. Okay. Do you have any information about tax
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3 4 5 6	A. Do you mean under current law? Q. Yes. A. I imagine there are. We didn't look specifically at changing specific exemptions under current law. We accepted it as current law. Q. Okay. You haven't done any analysis or	3 4 5 6	policy. Q. Okay. A. It's not a phrase we use at Ernst & Young. Q. Okay. Do you have any information about tax collection efforts by anybody? Is that something you know anything about?
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1	R. CLINE	1	R. CLINE
2	change of any underlying economics of the City of	2	not offering an opinion that raising tax rates would be
3	Detroit.	3	unreasonable, correct?
4	Q. But the City can take actions that would	4	A. I'm not commenting on any tax policy options
5	change the underlying economics without going into	5	available to the City of Detroit.
6	Chapter 9, correct?	6	Q. You know that question there could be a yes
7	A. I don't know the answer to that.	7	or no answer to that question, right?
8	Q. Okay. As far as you're aware, though, your	8	A. My perspective is that we were asked to do
9	baseline scenario is not trying to forecast what would	9	revenue forecasts of the major revenue sources under
10	happen if the petition for bankruptcy was dismissed?	10	current law. We were not asked nor did I volunteer
11	A. I would describe our baseline forecast as a	11	information on alternatives available to the City of
12	continuation of the trends that have been affecting	12	Detroit.
13	Detroit over the last 10 years to 20 years.	13	Q. Okay. So, you haven't done any work that will
14	Q. And has anybody from the City told you that	14	allow you to testify that raising tax rates would be
15	they're going to allow the trends that have continued to	15	unreasonable or inappropriate, correct?
16	continue into the future?	16	A. I have not.
17	A. I haven't had those conversations myself.	17	Q. And you haven't done any work that says that
18	Q. I mean, do you have any understanding about	18	increasing tax revenues through increased collections
19	why you have this baseline scenario in your report?	19	would be
20	A. My understanding is that the baseline scenario	20	(Telephone interruption.)
21	reflects expected revenue streams under current law in a	21	MR. STEWART: Just hit one. Thanks.
22	continuation of recent economics in the City of Detroit.	22	BY MR. SMITH:
23	Q. Do you have any understanding of what	23	Q inappropriate or not feasible, correct?
24	activities the City will or will not perform in the	24	A. He we have not evaluated tax policy
25	baseline scenario?	25	opportunities alternatives for Detroit.
	Page 94		Page 96
1	Page 94 R. CLINE	1	Page 96 R. CLINE
1 2		1 2	_
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2	R. CLINE A. I do not. Q. Do you have any understanding of what	2	R. CLINE Q. And you haven't done any work that would allow you to testify that Detroit couldn't just add new taxes,
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1	Page 97		Page 99
2	R. CLINE	1	R. CLINE
2	to testify that Detroit can't significantly increase	2	question, please.
3	revenues by increasing tax rates or increasing tax	3	(The record was read back by the reporter.)
4	collections or by adding new taxes, correct?	4	THE WITNESS: We accepted the current law
5	MR. STEWART: Objection.	5	tax rates as what was available to Detroit. To the
6	THE WITNESS: We have done no analysis	6	extent that Detroit is at the maximum, and I
7	excuse me.	7	believe it may be the case for all of those tax
8	MR. STEWART: Go ahead.	8	rates, it would imply that under current law, that
9	THE WITNESS: We have done no analysis on	9	option is not available.
10	tax policy options in Detroit.	10	BY MR. SMITH:
11	BY MR. SMITH:	11	Q. But current law can change, correct?
12	Q. So, the answer is correct, correct?	12	A. Correct.
13	A. I am still having	13	Q. And you would agree with me that if current
14	MR. STEWART: Reread the question.	14	law changes, Detroit can increase tax revenue
15	THE WITNESS: Please, reread the question,	15	significantly by increasing tax rates, correct?
16	I think the double negative is still there.	16	MR. STEWART: Objection.
17	(The record was read back by the reporter.)	17	THE WITNESS: It is true that an increased
18	THE WITNESS: I believe the correct answer	18	rate, with no offsetting decrease in the base,
19	to that question is, as I mentioned, we have looked	19	could increase revenue, but if you were going to
20	at the collection rate of the property tax. We	20	forecast the increase of a tax rate in Detroit, you
21	calculated an effective collection rate, and we did	21	would also have to forecast the potential decrease
22	use that in our forecast.	22	in the tax base with mobile people and investment.
23	We did not were not asked to and did not	23	BY MR. SMITH:
24	provide forecasts under alternative policy options,	24	Q. And so, sitting here today, you haven't done
25	whether it's a tax rate change or adoption of a new	25	the work that would allow you to testify that increasing
	Page 98		Page 100
1	R. CLINE	1	R. CLINE
2	tax, or change, in the base of an existing tax.	1 2	tax rates wouldn't result in significant additional
3	BY MR. SMITH:	3	revenue for the City of Detroit, correct?
4	Q. So, you Ernst & Young concluded that the	4	MR. STEWART: Objection.
5	City could increase property tax revenues by increasing	5	THE WITNESS: As I believe I've answered
6	collections, correct?	6	several times, we did not evaluate alternative
	A. In our forecast of the property tax revenues,	7	several times, we did not evaluate alternative
7	A. In our forecast of the property tax revenues,		policies. We is acconted current law as the
7	we did vary the collection rate over time		policies. We is accepted current law as the
8	we did vary the collection rate over time. O And you increased the collection rate: is that	8	foundation for our forecast.
8 9	Q. And you increased the collection rate; is that	8 9	foundation for our forecast. BY MR. SMITH:
8 9 10	Q. And you increased the collection rate; is that correct, or do you not know?	8 9 10	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do
8 9 10 11	Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the	8 9 10 11	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct?
8 9 10	Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then	8 9 10 11 12	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question.
8 9 10 11 12	Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run.	8 9 10 11 12 13	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question. Q. You didn't do any work that would allow you to
8 9 10 11 12	 Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run. Q. Okay. But you haven't you haven't done any 	8 9 10 11 12 13	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question. Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not
8 9 10 11 12 13	Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run. Q. Okay. But you haven't you haven't done any work that would allow you to testify that Detroit can't	8 9 10 11 12 13 14	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question. Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues?
8 9 10 11 12 13 14 15	 Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run. Q. Okay. But you haven't you haven't done any 	8 9 10 11 12 13 14 15	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question. Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues? MR. STEWART: Objection.
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8 9 10 11 12 13 14 15 16 17 18 19 20 21	Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run. Q. Okay. But you haven't you haven't done any work that would allow you to testify that Detroit can't significantly increase revenues by increasing tax rates, correct? MR. STEWART: Objection. THE WITNESS: All of our revenue estimates are based upon current law rates. BY MR. SMITH:	8 9 10 11 12 13 14 15 16 17 18 19 20 21	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question. Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues? MR. STEWART: Objection. THE WITNESS: We did not run alternatives with our model at different tax rates. BY MR. SMITH: Q. That's something that you could have done, right? That's technically feasible for you to do, correct?
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8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	Q. And you increased the collection rate; is that correct, or do you not know? A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run. Q. Okay. But you haven't you haven't done any work that would allow you to testify that Detroit can't significantly increase revenues by increasing tax rates, correct? MR. STEWART: Objection. THE WITNESS: All of our revenue estimates are based upon current law rates. BY MR. SMITH: Q. So, the answer to my question is correct? You haven't done the work?	8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	foundation for our forecast. BY MR. SMITH: Q. Okay. So the answer is correct, you didn't do that work, correct? A. Would you rephrase the question. Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues? MR. STEWART: Objection. THE WITNESS: We did not run alternatives with our model at different tax rates. BY MR. SMITH: Q. That's something that you could have done, right? That's technically feasible for you to do, correct? A. We were not asked to do that analysis.

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Page 103 Page 101 1 R. CLINE 1 R. CLINE 2 We would have to do additional work compared 2 revenue options for the City of Detroit. 3 3 to what we have done to this point, because as I Okay. You only did the work that you were 4 mentioned, it's not just changing the rate, it's also 4 asked by the lawyers for the City to do, correct? 5 understanding the behavioral response of the base in 5 MR. STEWART: Objection. 6 response to the change in the rate. We are not set up to 6 THE WITNESS: We were given an assignment 7 do that in our current runs. 7 by Ernst & Young to provide a revenue estimate of 8 Q. And you also haven't done the work that would the major tax sources for the City of Detroit over 9 allow you to testify that Detroit couldn't significantly 9 the next 10 years. Then it was expanded to an 1.0 increase revenues by adding new taxes, correct? 10 additional 30-year perspective. That is the job 11 We have not analyzed the addition of new 11 that we were asked to do, and that is what we did 12 revenue sources for Detroit. 12 and is reported on in the expert report. 13 Okay. The -- one potential new revenue source 13 BY MR. SMITH: 14 would be imposing the commuter tax, correct? That's a 14 Q. Who asked you to do that job? 15 15 reasonable --That was a -- we were retained by the Ernst & 16 A. I don't know if it's legally available to 16 Young team working in Detroit. 17 17 Detroit as an option. Okay. So, it wasn't Mr. Malhotra that gave 18 Okay. But imposing a commuter tax is 18 you the scope of the work that you were to perform in 19 something that the City could either do by itself or in 19 20 20 conjunction with the State, correct? A. I believe our initial discussions of the scope 21 I don't know the answer to that. 21 of the work did come from him. 22 Okay. So, you haven't investigated whether 22 Would it be fair to say that you haven't done 23 Detroit could add a commuter tax, correct? 23 any analysis of the full range of potential revenue 24 24 A. I have not. sources available to the City? 25 MR. STEWART: Objection. All right. Another potential -- that you know 25 Page 102 Page 104 1 R. CLINE 1 R. CLINE 2 2 THE WITNESS: We haven't done an analysis that there's cities, though, that have commuter taxes, 3 3 right? of any of the revenue options available to the 4 4 A. There are selected cities that tax City. 5 5 BY MR. SMITH: non-residents who are working in the city, as Detroit 6 6 does. Some at differential rates, some at the same rate. And that would include both tax and non-tax 7 7 Q. Okay. And they do that through a variety of revenue options? 8 mechanisms, correct? 8 Correct. 9 9 A. I believe they look basically like income I mean, if you were advising a City in 10 financial distress, what actions would you advise them to 10 taxes. 11 Q. And sometimes they're parking lot-type -- you 11 take to increase revenue or cut costs? 12 know, charges for fees for parking or other services that 12 MR. STEWART: Objection. 13 might disproportionately fall on non-residents? 13 THE WITNESS: We are very careful in all of 14 MR. STEWART: Objection. 14 our projects at Ernst & Young not to make policy 15 THE WITNESS: I'm not familiar with the 15 recommendations to governments. 16 16 details of those taxes. BY MR. SMITH: 17 BY MR. SMITH: 17 Q. Okay. So, Ernst & Young -- is it that you 18 All right. You know that some cities have a 18 don't have the qualifications to make policy 19 city-only sales tax, correct? 19 recommendations to governments or is there some other 20 20 A. City-only sales tax. I believe that is the reason that you don't do that? 21 case. 21 We don't do that because those are political 2.2 And you haven't investigated whether Detroit 22 Q. decisions. We don't make policy recommendations to 23 23 could increase revenues by adding a city-only sales tax, individual units of government. 24 24 correct? So, ultimately, the amount of revenue 25 available to the City of Detroit and the amount of costs A. As I answered earlier, we did not analyze any

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	Page 105		Page 107
1	R. CLINE	1	R. CLINE
2	that it incurs are political decisions made by the people	2	Detroit, correct?
3	running Detroit, correct?	3	A. Let me be very clear, to be as accurate as
4	A. I believe they're made by the city council,	4	possible. My team, which resides in the National Tax
5	and to some extent by the State legislature.	5	Practice, here in Washington, D.C., part of Ernst &
6	Q. Okay. And currently, the emergency manager is	6	Young, has not been involved in analysis of specific
7	making the political decisions that dictate how much	7	activities related to collection. Other members of the
8	revenue the City has available and how much cost it's	8	EY team may have more knowledge, but we have not been
9	incurring; is that correct?	9	involved in the collection discussions.
10	A. I'm not familiar with the operations of the	10	Q. So, the team that did the tax forecasting at
11	emergency financial manager.	11	Ernst & Young has done no investigation into the tax
12	Q. Okay. So, you have no idea what the emergency	12	collection practices of the City of Detroit; is that
13	manager does or what the emergency manager's powers are?	13	fair?
14		14	A. That's not fair. As I've clearly stated, I
15	'	15	• •
	Q. Have you inquired as to whether the City's	16	hope, we inquired about changes in the assessment ratios
16 17	already started undertaking any of the restructuring	17	and the property tax components in terms of re-evaluation of existing property. You might call that collection
18	initiatives?	18	31 1 3 3
	A. I have not discussed specifically what is or	18 19	related. I would call it related to the administration
19	is not being done in Detroit on the expenditure side.	20	of current law, in order that we could do a more accurate
20	Q. And well, on the tax side, do you know	21	forecast when the reassessments start to flow through the
21	whether the State has undertaken any of its		property tax system.
22	restructuring? I mean, the City strike that.	22	Q. Okay. Other than the property tax collections
23	Let me start the question again, okay? Is	23	matters that you've discussed, the team that put together
24	that okay?	24	the tax forecasts for Ernst & Young didn't do any
25	A. Certainly.	25	investigation into collection practices with respect to
	D 106		
	Page 106		Page 108
1	R. CLINE	1	Page 108 R. CLINE
1 2	-	1 2	-
	R. CLINE		R. CLINE
2	R. CLINE Q. You have you don't know whether the City	2	R. CLINE any of the other taxes you addressed, correct?
2	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or	2	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection
2 3 4	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that	2 3 4	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for
2 3 4 5	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that fair?	2 3 4 5	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for forecasting, we did look into details on the State
2 3 4 5	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that fair? A. I do know that the City is undertaking	2 3 4 5 6	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for forecasting, we did look into details on the State revenue sharing program under current law, and worked
2 3 4 5 6 7	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that fair? A. I do know that the City is undertaking reassessment of the property tax base, and we've	2 3 4 5 6 7	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for forecasting, we did look into details on the State revenue sharing program under current law, and worked closely with State officials to understand the current
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2 3 4 5 6 7 8	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that fair? A. I do know that the City is undertaking reassessment of the property tax base, and we've discussed that with them. Primarily, we needed to know the timing of	2 3 4 5 6 7 8	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for forecasting, we did look into details on the State revenue sharing program under current law, and worked closely with State officials to understand the current law revenue sharing program. Q. Yeah, but you didn't do any investigation into
2 3 4 5 6 7 8 9	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that fair? A. I do know that the City is undertaking reassessment of the property tax base, and we've discussed that with them. Primarily, we needed to know the timing of that reassessment process, and yes, we found out	2 3 4 5 6 7 8 9	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for forecasting, we did look into details on the State revenue sharing program under current law, and worked closely with State officials to understand the current law revenue sharing program. Q. Yeah, but you didn't do any investigation into income or wagering or utility tax collections, correct?
2 3 4 5 6 7 8 9 10	R. CLINE Q. You have you don't know whether the City has already started undertaking restructuring or reinvestment activities that pertain to taxes; is that fair? A. I do know that the City is undertaking reassessment of the property tax base, and we've discussed that with them. Primarily, we needed to know the timing of that reassessment process, and yes, we found out additional information about that reassessment process	2 3 4 5 6 7 8 9 10	R. CLINE any of the other taxes you addressed, correct? A. We did not make any inquiries as to collection practices. For the other taxes we were responsible for forecasting, we did look into details on the State revenue sharing program under current law, and worked closely with State officials to understand the current law revenue sharing program. Q. Yeah, but you didn't do any investigation into income or wagering or utility tax collections, correct? A. We did not do separate analysis of collection
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Pages 105 to 108

	Page 109	Page	111
1	R. CLINE	1 R. CLINE	
2	A. Now you put me on the spot. Orr is his name.	2 THE WITNESS: I don't know that.	
3	Q. Do you know his first name?	3 BY MR. SMITH:	
4	A. I did at one point. Kevyn.	4 Q. So, you haven't done any investigation into	
5	Q. Do you know who the treasurer for the City of	5 that?	
6	Detroit is?	6 A. That is correct.	
7	A. I couldn't name the treasurer.	7 Q. Have you done any investigation into the step	ıs
8	Q. Can you name any of the officials in the City	8 that other cities have taken with respect to taxes in	
9	of Detroit that have involvement with taxes?	9 order to help address fiscal distress or crisis?	
10	A. I could not.	10 MR. STEWART: Objection.	
11	Q. Do you know what the Creditor Proposal was?	11 THE WITNESS: I have not.	
12	A. I'm not familiar with that.	12 BY MR. SMITH:	
13	Q. So, you don't know what measures with respect	Q. And that's not something you're aware of fron	n
14	to taxes were discussed in the Creditor Proposal?	14 your ordinary work?	
15	A. I do not.	15 A. No, it's not.	
16	Q. You do know that the State has significantly	16 Q. You just not you just don't have knowledge	
17	cut revenue sharing over the last few years, correct?	about what cities have done with respect to taxes in	
18	MR. STEWART: Objection.	responding to fiscal distress or fiscal crisis, correct?	
19	THE WITNESS: I know that there have been	19 A. I believe that's an accurate statement.	
20	significant changes in the structure of the revenue	20 Q. Have you done any investigation into	
21	sharing program with all local units of government	forecasting practices of other cities with respect to	
22	in Michigan, including Detroit, and it is still	22 taxes?	
23	under change, but through the last legislative	A. I have worked with other cities on some	of
24	session.	their revenue issues where I have seen their pra	actices
25	BY MR. SMITH:	but I haven't investigated practices of other citie	es.
	Page 110	Page	112
	i age ii o	1490	
1	D. CLIME	1 DOLLARS	
1	R. CLINE	1 R. CLINE	
2	Q. Yeah. But you know that the revenue sharing	2 (Cline Exhibit 1 was marked for identification)	
2	Q. Yeah. But you know that the revenue sharing for Detroit's decreased by hundreds of millions of	 (Cline Exhibit 1 was marked for identification) BY MR. SMITH: 	
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Pages 109 to 112

Page 115 Page 113 1 R. CLINE R. CLINE 2 2 Okay. And so, you didn't take into account in recommendation for the City. 3 3 Okay. Can you identify any city in fiscal your forecast the potential increase in income tax 4 4 distress that's reduced tax rates? collections from the City's efforts, correct? 5 There may have been, but I also don't know 5 MR. STEWART: Objection. 6 6 which cities recently increased their tax rates. I THE WITNESS: We were not familiar with the 7 7 specific items that are described on this page. haven't been tracking individual city changes. 8 8 So, you can't provide any example of a single BY MR. SMITH: 9 city that's reduced tax rates that's in fiscal distress 9 Q. Okay. So, you did no analysis to attempt to 10 or fiscal crisis, correct? 10 incorporate increased revenue from increased tax 11 11 I'm not familiar with recent tax changes at collection efforts that the City was involved in 12 12 previously, and continues to be involved in, correct? the municipal level. 13 Q. So, you can't provide any such example, 13 A. I don't believe that's correct. It's 14 14 important to understand that our starting point is correct? 15 15 A. I have not been tracking those changes. current law collections. Some portion, for example, 16 If you look down at the Section C at the 16 under the individual income tax -- some portion of 17 17 current law reflects collection activities from prior bottom of the page, it says, "The City is implementing 18 and will continue to implement initiatives designed to 18 years, which may be built into our base. 19 identify and collect taxes from individual and business 19 We did not add any additional adjustments for 20 20 collection activities that may be described here, but if non-filers, and improve the collection of past due taxes, 21 21 and enhance tax collection efforts on a prospective they were in existence in recent history, they are 22 22 basis." affecting our starting point. 23 23 Do you see that? But your assumption is the income tax 24 24 collections won't increase further over the 10-year A. I'm not sure what page you are on. 25 25 Q. period you looked at, correct? Page 114 Page 116 1 1 R. CLINE R. CLINE 2 Oh, I'm sorry. 2 A. That's not correct. A. 3 3 168. Section C. Q. For the baseline scenario, your assumption is 4 4 income tax collections won't increase over the 10-year Well, I have multiple numbers at the bottom of 5 5 each page. Which set of numbers is it? period, correct? 6 6 It's the one right in the middle of the page. A. I don't have the expert testimony, my expert 7 MR. STEWART: It's also 183 of 197. report in front of me. I think over the entire 10-year 8 THE WITNESS: Okay. Maybe that helps. period of time, our baseline forecast has minimal total 9 9 Okay. I have 168, 183 of 197. tax collection changes for the individual income tax, 10 10 whether from economics, collection efforts or otherwise. BY MR. SMITH: 11 Q. Okay. And you see that the disclosure 11 Q. You, sitting here today, you can't tell me how 12 statement says, "The City is implementing and will 12 the income tax minimal numbers are reported in your 13 13 expert report? continue to implement initiatives designed to identify 14 and collect taxes from individual and business 14 A. Yes. I'm saying -- what I'm saying is that I 15 non-filers, improve the collection of past due taxes, and 15 don't remember the specific numbers that are in that 16 16 report. I would be glad to look at that quickly, if you enhance tax collection efforts on a prospective basis." 17 17 would like for me to comment on the individual income tax Do you see that? 18 18 collection numbers. 19 19 And before you did your analysis and provided Q. Okay. You're not aware of anything preventing 20 20 the City from continuing to increase income or other tax your opinions in this case, you were unaware that the 21 21 City was engaged in these tax collection efforts? collections if the bankruptcy case is dismissed, correct? 22 22 A. I have no information related to collection A. As I mentioned, other than our effective 23 23 activities. collection rate for property taxes, we did not look in 24 detail at collection activities when we did our baseline 24 Q. Okay. So, there's no impediment as far as 25 you're aware, correct? forecast.

Pages 113 to 116

1	Page 117		Page 119
	R. CLINE	1	R. CLINE
2	A. I'm not aware I don't know the answer to	2	plug it into your analysis, correct?
3	that question.	3	A. That is not correct.
4	Q. Okay. Can you guess what the collection	4	Q. What do you can you even tell me a like
5	MR. STEWART: Objection. You're not going	5	in the ballpark what the collection rate is for the
6	to ask a question about guessing.	6	income tax in the City of Detroit today?
7	MR. SMITH: Well, I can ask whatever	7	A. I don't know the rate.
8	MR. STEWART: No, you can't.	8	Q. So, you can't even give me a ballpark figure?
9	MR. SMITH: Are you telling me I can't ask	9	MR. STEWART: Objection.
10	a question are you directing him not to answer?	10	THE WITNESS: As I mentioned, I don't know
11	MR. STEWART: If the word "guess" is in	11	the current rate.
12	your question, I am.	12	BY MR. SMITH:
13	MR. SMITH: Okay. You're directing him not	13	Q. Can you tell me whether the collection the
14	to answer?	14	income tax collection rate is greater or lesser than 50%
15	MR. STEWART: If your question is, "Will	15	in the City of Detroit?
16	you guess," yes.	16	A. I don't know the answer to that question.
17	MR. SMITH: Can you tell me what the income	17	Q. Do you know whether the collection rate for
18	tax collection rate is presently in the City of	18	the corporate tax is greater or lesser than 50% in the
19	Detroit?	19	City of Detroit?
20	THE WITNESS: For which tax type?	20	A. I don't know the answer to that question.
21	BY MR. SMITH:	21	Q. And you don't know the answer to the
22	Q. For the incomes tax, the municipal income tax.	22	forecast the collection rate questions about what the
23	A. Individual income tax or corporate income tax?	23	rates actually are, because you never investigated it,
24	Q. For the individual income tax.	24	correct?
25	A. I don't know the current rate.	25	MR. STEWART: Objection.
	Page 118		Page 120
1	R. CLINE	1	R. CLINE
2	Q. Do you know the current collection rate for	2	
			THE WITNESS: That is not correct. As I
3	the corporate income tax in the City of Detroit?	3	THE WITNESS: That is not correct. As I mentioned, we started with actual tax collections
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Page 123 Page 121 R. CLINE 1 R. CLINE 2 additional revenue would be generated by a significant 2 collection rate for property taxes, you didn't analyze 3 increase in the collection rates for those taxes, 3 the collection rate for the other taxes, that you 4 4 correct? examined? 5 We have not done a separate adjustment for a 5 Δ That is correct. 6 6 change in the collection rate for those other taxes that And is that because you weren't asked to do 7 you identified. 7 that analysis? 8 8 Q. Is the collection rate essentially fixed in A. 9 your model for those taxes? 9 You just didn't do it, but you could have done 10 MR. STEWART: Objection. 10 it? 11 THE WITNESS: As I said, the collection 11 We did not do it. 12 rate is embedded in the starting point. We have 12 I mean, do you have any explanation for why 13 not made a specific adjustment going forward for a 13 you did it with respect to one tax but not the other 14 collection rate change. 14 taxes? Was it just a lack of information or what was it? 15 15 BY MR. SMITH: MR. STEWART: Objection. 16 Q. And so, there's -- the collection rate remains 16 THE WITNESS: Also involved is 17 constant in your model for the income, wagering rate, 17 understanding what difference a change might make. 18 utility users' tax, and corporate tax, correct? 18 Some of those smaller taxes like the utility user 19 A. We have not dealt with a change in that 19 tax, corporate income tax are collecting 3% of the 20 collection rate as a separate adjustment to our revenue 20 total that we looked at. We did not feel that at 21 21 forecast. the margin a collection rate change was large 22 Okay. And is it possible for you to do that 22 enough to consider in the revenue estimate. 23 23 kind of analysis, to look at what would happen if So, it's partly an understanding of the 24 24 relative size of the taxes, and the importance of collection rates increased for those taxes? 25 At this point, we do not have information 25 compliance, adjustments, collection rate Page 122 Page 124 1 R. CLINE 1 R. CLINE 2 necessary to analyze that question. 2 differences going forward. 3 Q. Okay. And you haven't been asked to analyze 3 BY MR. SMITH: 4 4 that question, correct? Ω And --5 A. We have not, but as I mentioned, it is an 5 Not all taxes are equal in that evaluation. 6 important part of our property tax forecast. 6 The income tax is a significant source of 7 7 Okay. So, even though you have been asked to revenue for the City, correct? 8 analyze changes in collection rate for the property tax, It's about a third. 9 9 you haven't been asked to analyze changes in the Okay. And so, increasing the collection rate 10 collection rate for the other taxes that you analyzed, 10 could significantly increase revenue from the income tax 11 11 to the City, correct? 12 12 We were not asked separately to consider the I don't know the answer to that. 13 13 collection rate issue for the property tax. We did it as And you don't know the answer because you 14 part of our analysis of the property tax. 14 didn't look into it, correct? 15 15 So, even though you weren't asked to do it, I don't know the answer because we did not do 16 16 you looked at collection rates for the property tax, an analysis of the impact of changing collection rates in 17 correct? 17 our analysis of the 10-year forecast. 18 A. We were asked to estimate over a 10-year 18 And so -- but with respect to the income tax, 19 19 period what we thought the collection of the property so you would agree with me that changing the collection 20 taxes will be under current law. We did understand the 20 rate could result in significant increased revenue to the 21 issues of falling property values, the mismatch between 21 City, correct? 2.2 22 MR. STEWART: Objection. assessed values and market values and the other features 23 23 THE WITNESS: I don't know if it would be that were affecting the property tax system, which did 24 24 include the collection rate. significant. 25 25 BY MR. SMITH: Okay. So, even though you analyzed the

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1	Page 125		Page 127
I +	R. CLINE	1	R. CLINE
2	Q. And	2	Q. You're not offering any opinion that the City
3	A. I'm not sure I can't define the term	3	is unable to give creditors more than they're planning
4	"significant."	4	under the plan, correct?
5	Q. Okay. So, do you know whether there are	5	A. I'm only commenting on the forecast that we
6	differences in collection rates for the income tax	6	did of available State City revenues for the major
7	between the different categories of individuals that you	7	taxes that we looked at.
8	identified in your report?	8	Q. But you're not offering any opinion that the
9	A. I do not.	9	City is unable to give creditors more money, correct?
10	Q. As part of your analysis, did you look at	10	A. I am simply commenting on the revenue
11	population data for the City of Detroit?	11	forecasts that we did.
12	A. As part of our analysis, we did look at the	12	Q. So, is the answer "no" to that question?
13	SEMCOG population projections as recorded, I believe it	13	A. The answer is I'm not sure I understand the
14	was the Detroit Future City project.	14	question.
15	Q. Are there periods of time you looked at where	15	Q. Okay. Well, you understand that the creditors
16	Detroit's population increased?	16	and the bankruptcy aren't getting all the money they're
17	A. In the past, I believe that's correct.	17	owed, right? That's the City's plan
18	Q. And there were periods of time where Detroit's	18	A. I believe I'm
19	population increased in the past where there was no	19	MR. STEWART: Objection. That's okay.
20	restructuring or reinvestment activity, correct?	20	It's on the record. It's a legal objection. Go
21	A. I would assume so.	21	ahead and answer it.
22	Q. And were there times where Detroit's	22	THE WITNESS: I have not been following the
23	population has increased after a recession?	23	discussion of creditors for the City of Detroit.
24	A. I don't know the answer to that.	24	BY MR. SMITH:
25	Q. Just haven't looked into it?	25	Q. I mean, do you have any understanding about
	Page 126		Page 128
1	R. CLINE	1	R. CLINE
2	A. No, I have not.	2	what the allegations of the bankruptcy are at all or not
3	Q. You haven't looked into the causes of	3	really?
4	population increase or decrease in the City of Detroit,	4	A. I would say not really.
5	correct?	5	Q. Okay. Do you agree that it's reasonable and
6 7	A. We did not do a separate population forecast	6	appropriate policy for a City to adopt in facing fiscal
	for Detroit.	7	crisis to raise taxes?
8	Q. You just took the numbers from SEMCOG; is that	8	A. I'm not commenting on nor did we do work on
9	correct?	9	policy options for the City of Detroit.
10	A. I think the more accurate statement is we	10	Q. So you're refusing to answer that question?
11	started with the numbers from SEMCOG. We may have made	11	MR. STEWART: Objection.
12	adjustments over time.	12	THE WITNESS: Not at all. I'm simply
13 14	Q. Have you investigated at all what potential	13	stating we did not evaluate policy options for the
14	changes in the law relating to taxes the City may be	14	City of Detroit.
1 5	planning?	15 16	BY MR. SMITH:
15 16	A Modid no analysis of tay nation antions for	Тρ	 Q. Okay. The cities that you have worked with,
16	A. We did no analysis of tax policy options for	17	
16 17	the City.	17	have they increased taxes?
16 17 18	the City. Q. Did you personally speak with anybody at the	18	have they increased taxes? A. I don't know the answer to that.
16 17 18 19	the City. Q. Did you personally speak with anybody at the City?	18 19	have they increased taxes? A. I don't know the answer to that. Q. I mean, do you know what work did you do
16 17 18 19 20	the City. Q. Did you personally speak with anybody at the City? A. I was on telephone calls, conference calls,	18 19 20	have they increased taxes? A. I don't know the answer to that. Q. I mean, do you know what work did you do with other cities?
16 17 18 19 20 21	the City. Q. Did you personally speak with anybody at the City? A. I was on telephone calls, conference calls, that I believe included staff with the City.	18 19 20 21	have they increased taxes? A. I don't know the answer to that. Q. I mean, do you know what work did you do with other cities? A. Most recently, we worked with Cincinnati.
16 17 18 19 20 21 22	the City. Q. Did you personally speak with anybody at the City? A. I was on telephone calls, conference calls, that I believe included staff with the City. Q. Other than taxes, do you know what the major	18 19 20 21 22	have they increased taxes? A. I don't know the answer to that. Q. I mean, do you know what work did you do with other cities? A. Most recently, we worked with Cincinnati. Q. What work did you do there?
16 17 18 19 20 21 22 23	the City. Q. Did you personally speak with anybody at the City? A. I was on telephone calls, conference calls, that I believe included staff with the City. Q. Other than taxes, do you know what the major sources of City revenue are?	18 19 20 21 22 23	have they increased taxes? A. I don't know the answer to that. Q. I mean, do you know what work did you do with other cities? A. Most recently, we worked with Cincinnati. Q. What work did you do there? A. In Cincinnati, I think we were modeling the
16 17 18 19 20 21 22	the City. Q. Did you personally speak with anybody at the City? A. I was on telephone calls, conference calls, that I believe included staff with the City. Q. Other than taxes, do you know what the major	18 19 20 21 22	have they increased taxes? A. I don't know the answer to that. Q. I mean, do you know what work did you do with other cities? A. Most recently, we worked with Cincinnati. Q. What work did you do there?

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	Page 129		Page 131
1	R. CLINE	1	R. CLINE
2	Q. And what policies did Cincinnati develop that	2	don't have an individual income tax?
3	you were looking at?	3	A. I think that is correct.
4	A. I don't remember all of the specifics, but I	4	Q. And so, one source of revenue that Detroit has
5	think there were several tax changes.	5	that other cities lack is the individual income tax,
6	Q. Including what?	6	correct?
7	A. I think they were looking at all of the tax	7	A. We did not analyze revenue raising options for
8	sources available to the City.	8	, , , , ,
9	Q. Okay. And was the City of Cincinnati looking	9	the City of Detroit. We estimated what revenue we
10	at increasing revenue through taxes?	10	thought
11	ů ů	11	Q. That's got knowing to do with
12	, ,		MR. STEWART: Please, don't interrupt his
13	existing tax system to be more competitive economically. Q. Did the City want to increase revenues, or	13	answer.
14	Q. Did the City want to increase revenues, or decrease revenues?	14	MR. SMITH: This is really getting
15	A. I believe it could have been a revenue neutral	15	obstructive.
16	exercise.	16	MR. STEWART: Well, you have to let him
17		17	MR. SMITH: No. We can take the transcript
18	, and the second	18	to the judge later on.
19	all I mean, the City of Cincinnati, were they in	19	MR. STEWART: You can do that. You must
20	fiscal distress? A. I don't know the answer to that.	20	let him finish his answer, even if you don't like
21		21	it. Then ask your next question and do whatever
22	Q. Can you identify any city with as many different sources of tax revenue as Detroit has?	22	you want to do, but don't interrupt the witness's
23	A. I don't know the answer to that. I haven't	23	answer.
24		24	MR. SMITH: You interrupted my question and
25	done an in-depth evaluation of alternative cities. Q. So, you can't provide any example of a city	25	told him he couldn't answer it, so how is that any different?
	Page 130		Page 132
1	R. CLINE	1	R. CLINE
2	that has more potential revenue sources from taxes than	2	MR. STEWART: Finish your answer.
3	Detroit, correct?	3	THE WITNESS: What I what the expert
4	A. I'm not aware of the revenue structure of	4	report that you have in front of you reports are
5	specific cities, and whether or not under current law		
_		5	the results of our estimating expected revenue
6	they have the ability to change the tax collections.	6	under the current law tax structure in Detroit. We
7	Q. You're aware, though, that not all cities have	6 7	under the current law tax structure in Detroit. We did not do any analysis of revenue options, and I
7 8	Q. You're aware, though, that not all cities have a municipal income tax, correct?	6 7 8	under the current law tax structure in Detroit. We did not do any analysis of revenue options, and I have no speculation on what options the City should
7 8 9	Q. You're aware, though, that not all cities have a municipal income tax, correct? A. Correct.	6 7 8 9	under the current law tax structure in Detroit. We did not do any analysis of revenue options, and I have no speculation on what options the City should or could look at. We did not do that analysis.
7 8 9 10	 Q. You're aware, though, that not all cities have a municipal income tax, correct? A. Correct. Q. One advantage Detroit has compared to other 	6 7 8 9	under the current law tax structure in Detroit. We did not do any analysis of revenue options, and I have no speculation on what options the City should or could look at. We did not do that analysis. BY MR. SMITH:
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Page 135 Page 133 1 R. CLINE 1 R. CLINE 2 have to look at the combination of all of the tax 2 what will happen with Detroit if the bankruptcy plan is 3 3 not confirmed and the case is dismissed? sources, not one tax source in isolation. 4 4 No. I have not. Okay. You would agree that Detroit has many 5 tax sources that other cities do not have, correct? 5 Is it fair to say that the City has not 6 6 I'm not sure that's correct. engaged your services for any purposes after -- for the 7 7 period after the bankruptcy is over? Detroit has an income tax which other cities 8 8 A. My understanding is that the EY team in do not have, correct? 9 9 Washington is still part of the overall EY project Α. Correct. 10 10 working in Detroit. As far as I know, there's no Q. Detroit has a wagering tax which other cities 11 11 discussion about the team in D.C. stopping or starting do not have, correct? 12 12 another aspect of the project. A. Many do. 13 13 But there are plenty of cities that don't have Q. Okay. But as far as you're aware -- you're 14 14 not aware of any work that the City would retain you to wagering taxes, right? 15 15 A. Correct. do after the bankruptcy is contained, and when I say 16 And the corporate tax is a tax that Detroit 16 "you," I mean Mr. Cline? 17 17 has that other cities don't have, correct? A. I will shortly be leaving Ernst & Young as an 18 18 Correct. It raises 3% of their revenue. employee. I have committed to be available to provide Α. 19 Okay. And so, there are a number of tax 19 testimony at the upcoming hearing and be available 20 20 through that point in time. sources that Detroit has that you don't find in other 21 21 Why are you leaving? cities, correct? 22 22 Because I am retiring. A. Correct. And a number of tax sources other 23 23 cities have that Detroit does not. Okay. Congratulations. 24 24 Okay. And so, there are a number of sources Thank you. Α. 25 25 that other cities have that Detroit could contemplate Are you planning to do any work after you Page 134 Page 136 1 R. CLINE 1 R CLINE 2 adding to its taxes, correct? retire, or not really? 3 A. I don't know if that's correct because I don't 3 A. I am planning on retiring by taking a 4 know the full legal constraints the State imposes on the 4 full-time position at the OECD in Paris. 5 5 City of Detroit on revenue raising options. Okay. When is your retirement scheduled for? 6 Q. Okay. Well, you -- the City could work with 6 I believe today it's scheduled for August --7 7 the State -- there are a number of sources that the City probably August the 2nd. 8 could consider working with the State to add to the Are you going to have any association with 9 9 different taxes that are available to raise revenue for Ernst & Young after that time or --10 10 Detroit, correct? A. I will not. 11 A. I won't speculate on that. I'm not -- and did 11 Q. Is that prohibited by your next position, or 12 not analyze options available to the City of Detroit. 12 not? 13 13 Q. Do you know if tax collections for the income A. The OECD does not allow its employees to be 14 tax, wagering tax or utility tax or corporate tax were 14 employed by other associations unless they give 15 increasing or decreasing before Detroit went into Chapter 15 permission, and they have not given me permission. 16 16 So, as far as you're aware, the City hasn't 17 A. I do believe we looked at the recent history, 17 asked the State to cooperate in raising income tax rates? 18 let's say going back to 2009, 2010, and certainly the 18 I have no idea what conversations are taking 19 deep recession had a major impact on Detroit, as it did 19 place between the City and the State. 2.0 on the rest of the state of Michigan. 20 And the City hasn't -- would it be fair to say 21 But do you know what the -- whether collection 21 you're offering no testimony about tax policy with 2.2 22 rates were increasing or decreasing for taxes before respect to Detroit? 23 23 Detroit went into bankruptcy? A. That is correct. 24 24 No, I don't. The City, is it fair to say -- you're not 25 25 Have you been party to any discussions about aware of the City ever asking the State to cooperate in

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1	R. CLINE	1 R. CLINE
2	raising any of the other taxes that you discussed in your	2 current law?
3	report?	3 A. Some cases looking at tax returns and looking
4	A. I am not aware of the of any conversations.	4 at tax statutes to see whether or not, for example, there
5	Q. The as far as you're aware, the City hasn't	5 was a scheduled rate change in current law.
6	asked the State to cooperate in implementing new taxes?	6 Q. You haven't done any investigation into what
7	A. I'm not aware of any discussions.	7 policy choices Detroit's leaders are contemplating that
8	As far as you're aware, the City hasn't asked	8 might affect your tax forecasts; is that fair?
9	the State to cooperate in eliminating exemptions or	9 A. No.
10	reductions in applicable taxes?	10 Q. Is that correct?
11		
12	·	
13	, , , , , , , , , , , , , , , , , , , ,	
	it's important to follow generally accepted standards and	
14	procedures?	
15	A. I believe in forecasting State or local	15 A. I believe I've answered that question clearly.
16	revenues, you want to use the best available tools that	16 Q. And the answer is correct, right?
17	you have, starting with the most complete information on	A. The answer is that we have not done any
18	actual collections that you have.	evaluation of policy options for the City of Detroit.
19	Q. So, in doing forecasts, it's important to	19 Q. Do you agree with me that if, for example, tax
20	assemble the most complete and comprehensive set of	20 rates change or collection rates materially go up, your
21	information in order to accurately perform your forecast,	forecast could turn out to be off by hundreds of millions
22	correct?	22 of dollars?
23	A. That is correct, although different types of	A. If current law changes, you would need a new
24	information are of different value, and when we did our	forecast of what the expected revenues are.
25	forecast, I believe we incorporated what we thought were	25 Q. And you agree that it's possible that your
	Page 138	Page 140
	1496 150	
1	R. CLINE	1 R. CLINE
1 2		
	R. CLINE	1 R. CLINE
2	R. CLINE the key drivers in determining the baseline forecast.	1 R. CLINE 2 forecast, depending on changes in the assumptions that
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1	R. CLINE	1	R. CLINE
2	money, hundreds of millions of dollars more, correct?	2	your revenue estimates are accurate, correct?
3	A. I couldn't tell you what the magnitude of the	3	MR. STEWART: Objection.
4	change would be.	4	THE WITNESS: I'm not sure what "guarantee"
5	Q. And	5	means in this situation.
6	A. I'd have to run the model to see that.	6	BY MR. SMITH:
7	Q. So, you're incapable of offering any opinion	7	Q. Well, I mean, you wouldn't vouch for the
8	regarding what would happen in terms of the amounts	8	there's no way to vouch for the accuracy of your revenue
9	available to the City if the assumptions in your model	9	forecast, correct?
10	significantly change, correct?	10	MR. STEWART: Objection.
11	A. We did not simulate different revenue	11	THE WITNESS: We accept the responsibility
12	forecasts based upon alternative tax rates. We did not	12	for our revenue forecast. We believe we did it
13	do that.	13	using the best information available, appropriate
14	Q. Okay. But in general, for any of the	14	modeling approach, and we were very careful in
15	assumptions, if the assumptions significantly change,	15	what we were doing. That's what we can assert.
16	you're not in a position to offer an expert opinion	16	BY MR. SMITH:
17	regarding what the revenues would be to the City of	17	Q. Did anybody from the City ask you to change
18	Detroit, correct?	18	some of the assumptions in your models?
19	A. Not without re-running the model.	19	A. Not me personally, no.
20	Q. Do you know who the mayor of the City of	20	Q. And do you agree that there's no scientific
21	Detroit is?	21	literature or data available that quantifies any increase
22	A. I do remember I have been mispronouncing his	22	in tax revenue or revenue in general from restructuring
23	last name. I don't recall.	23	or reinvestment proposals by the City?
24	Q. Do you know what the role of the mayor or the	24	A. I am not familiar with any analysis related to
25	city council is with respect to taxes?	25	Detroit's current situation that directly links spending
	Page 142		Page 144
	2		rage III
1	R. CLINE	1	R. CLINE
1 2		1 2	-
	R. CLINE		R. CLINE
2	R. CLINE A. I do not know the details in Detroit.	2	R. CLINE initiatives to specific revenue changes tax changes,
2	R. CLINE A. I do not know the details in Detroit. Q. And the emergency manager or his assistants	2	R. CLINE initiatives to specific revenue changes tax changes, which is what we looked at, just the tax changes.
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Page 147 Page 145 R. CLINE R. CLINE 2 2 forecasting approach, which I believe they borrowed from consensus forecasts do not try to forecast revenues or 3 3 the State or adapted after the State model. I think expenditures beyond two or three years, correct? 4 4 A. What is correct is that they are geared to the there may be three separate groups of people that do the 5 forecast, they reach a consensus, and it's published in 5 budgetary cycle. If the city council considers four-year 6 6 budget horizons, that's what the tax forecast will be. the spring each year. 7 Q. Before this consensus group was put together, 7 If it's a two-year horizon, it will be a two-year 8 do you know whether the City -- I mean, as far as you 9 know, did the City ever do any kind of forecasting for 9 Q. You're not aware of anybody at the City ever 10 10 taxes or other purposes? suggesting that there should be a forecast for as long as 11 A. I don't know what the mechanism was in the 11 10 years, correct? 12 City for preparing the budget. 12 A. I'm not aware of any of the procedures the 13 Q. The only forecasting you're aware that the 13 City has used in the past. 14 14 Q. You didn't do any sensitivity analyses to City has ever conducted is this consensus forecast that's 15 15 figure out which are the most important drivers of your done: is that correct? 16 A. No. What is correct is that since I have been 16 numbers, or did you? 17 involved in this project, my understanding of the 17 A. We selected the drivers based upon what we 18 forecasting process is based on my understanding there is 18 believed were important determinants of the tax base and 19 19 a consensus forecasting process. its growth over time. We did not perform specific 20 20 And your forecast does not agree with the exercises where we increased a parameter by 10 percent or 21 21 lowered it by 10 percent. consensus forecast, correct? 22 22 Okay. So, you don't know which parameters I'm not sure how it differs. 23 23 have the most impact on your forecasts? Okay 24 24 Based upon my professional experience, I have I do know that we did not adopt the consensus 25 forecast back in 2013. 25 a -- an idea of what matters. Page 146 Page 148 1 R. CLINE 1 R. CLINE 2 Okay. I mean, but you know that there are But you haven't done any testing or analysis 3 3 differences between your forecast and the consensus to figure out which parameters have the most impact on 4 4 your analysis and what effect changing them would be -forecast: is that fair? 5 MR. STEWART: Objection. 5 would have on your outcomes, correct? 6 6 THE WITNESS: If there are differences, I A. We have a wide range of assumptions from 7 7 don't know what the magnitudes are. statutory tax rates to changes in employment. They have 8 BY MR. SMITH: 8 different effects on the dollar amounts of the revenue 9 9 Have you done any investigation to look at the estimates for specific taxes. All of that was considered 10 10 in preparing our revenue estimate. consensus forecast to see whether you're consistent or 11 inconsistent with the consensus forecast? 11 Q. Yeah. But you didn't do any analysis where 12 I've read the latest consensus forecast and we 12 you changed parameters to figure out what the impact 13 13 did not make any changes in our forecast based upon what would be on your outcomes, correct? 14 I read. 14 A. As I say, we did not do specific simulations 15 Okay. Having read it, though, you know that 15 where we increased one of 50 parameters by 10 percent, 16 there are differences between your forecast and the 16 holding others constant, or reduced it by 10 percent 17 consensus forecast, correct? 17 holding others constant, or changing all 50 by 10 18 I'm not aware of what the magnitude of those 18 percent. We did not do that. 19 19 differences are. Q. Is that something that you've done in prior 20 Q. But you know there are differences between 2.0 forecasts? 21 your --21 In deriving point estimates for revenues 22 2.2 A. I would assume -related to budget preparation, that tends not to be done. 23 -- forecast and the consensus forecast? 23 Ο. You do your best point forecast of your revenue figure 24 24 I would assume there are differences. based upon your knowledge of what is most significant, 25 And I think we already mentioned it, but the what is less significant, and your best estimate of what

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Page 149 Page 151 R. CLINE 1 R. CLINE 2 the values of those parameters should be. 2 Okay. And then this article goes on to say in 3 3 It's not an exercise of creating a band of the fifth paragraph, "A study released by consultants 4 possible outcomes around the point estimate. That's not 4 MacKenzie & Company, estimated that uncollected income 5 how it operates. 5 taxes from Detroit residents working outside the city, or 6 6 Have you ever forecast tax revenues where you reverse commuters, totaled more than 140 million in 2009. 7 have created a band of possible outcomes? 7 That means the City took in slightly less than half of 8 A. Not that I remember. what it should." 9 MR. SMITH: You want to take a quick break, 9 Do you see that? 10 10 if you don't mind? A. I do. 11 MR. STEWART: Sure. For how long? 11 Were you aware of the MacKenzie study that 12 MR. SMITH: I don't know, five minutes? 12 showed that the City was failing to collect as much as 13 MR. STEWART: Yeah. Five minutes is fine. 13 \$140 million? 14 THE VIDEOGRAPHER: We're off the record at 14 A. No, I was not. I'm sorry. 15 15 12:14 Q. Okay. Nobody shared that with you from the 16 (RECESS, 12:14 p.m. - 12:22 p.m.) 16 City? 17 THE VIDEOGRAPHER: On the record at 12:22. 17 I was not aware of that study. A. 18 (Cline Exhibit 2 was marked for identification.) 18 Okay. Would it be fair to say that there's a 19 BY MR. SMITH: 19 significant amount of income tax that's not being 20 20 I've handed you Exhibit 2, which is an article collected from reverse commuters? 21 from the Detroit News, entitled "Reverse Commute May Hike 21 MR. STEWART: Objection. 22 Tax Bill." 22 THE WITNESS: I can't comment. I'm not 23 Do you see that? Have you got that? 23 familiar with the estimates. 24 24 I have the document. BY MR. SMITH: A. 25 Okay. And you see that this article discusses 25 Before you did your forecasting in this case, Page 150 Page 152 R. CLINE 1 R. CLINE would you have liked to know about this MacKenzie study 2 how the emergency manager's restructuring plan includes a 3 3 proposal to try to collect income taxes from Detroit that showed that there were potentially \$140 million in 4 4 residents who work outside the city limits? Do you see income tax not being collected? 5 5 that? A. In answering your question, I think it's 6 important to note that in the plan -- I believe the 6 A. Just glancing at it, I'm not sure what correct phrase is "Plan of Adjustment," there is a number 7 7 mechanism they're discussing for increasing tax 8 collections. for increased compliance collections. It is independent 9 9 It's withholding. It talks about withholding. and separate from our revenue estimate based upon curren 10 10 law and what we think the underlying economics is. I If you look at the third paragraph, it says, "The City is 11 considering the enactment of a local ordinance that would 11 believe you see both of those numbers in the Plan of 12 12 require employers to withhold City income taxes of Adjustment. 13 13 reverse commuters. The disclosure statement reads, 'It's If you had that document, I could point that 14 14 not a new strategy, but one likely to draw opposition in out to you, but it's important in answering your question 15 some circles." 15 to note that we were responsible for the economics, 16 16 tax -- economics related under current law tax Do you see that? 17 17 collections, I believe there's a separate line item which A. I do see that, yes. 18 Okay. Nobody ever disclosed to you that there 18 identifies the potential increase from collection 19 19 were proposals to increase tax collections by withholding activities. I believe we've avoided double counting 20 20 those numbers, but I do believe they're separate taxes from reverse commuters, correct? 21 I was aware that that was an issue that had 21 22 22 been raised. Q. Okay. So your forecast doesn't attempt to 23 23 Ο. Okay. How were you aware of that? quantify the total amount of money that's potentially 24 24 available from tax revenue to the City of Detroit, A. I think it was reading descriptions of 25 25 considerations. correct?

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Page 155 Page 153 R. CLINE R. CLINE 2 Our revenue forecast of the major taxes we 2 get up to the total tax number? 3 were asked to look at under the baseline scenario 3 MR. STEWART: Objection. 4 includes current law tax parameters, recent history, 4 THE WITNESS: I'm not familiar with revenue 5 including collection experience under current law that we sources outside of the major taxes that we were 6 6 have included in our revenue estimates. asked to estimate. But to get to the total amount of revenue that 7 BY MR. SMITH: 8 the City could collect from taxes, you would need to add 8 Q. Okay. So, you just haven't done any 9 on to your revenue estimates amounts from measures such 9 investigation to figure out what would be needed to be 10 as this proposed withholding measure that would be in 10 added to your forecast in order to get to the total 11 addition to what you've calculated, correct? 11 revenue from taxes, correct? 12 We were only responsible for a portion of the 12 MR. STEWART: Objection. 13 total revenue available to the cities -- to the City, and 13 THE WITNESS: We were not asked to do that 14 that was the taxes that you mentioned earlier in when you 14 analysis. 15 listed which taxes were involved; not all City taxes and 15 BY MR. SMITH: 16 not all sources of City revenue. 16 Q. Okay. I mean, do you know if anybody has been 17 Okay. So, to get to the total tax revenue, 17 asked to do that analysis? 18 you would have to add sums from measures such as this 18 A. I don't know the specifics. 19 withholding measure. 19 Does this sound like a good proposal for 20 A. Correct. 20 increasing revenue to the City, doing withholding? 21 Ω Correct? 21 A. I have no comment on policy options at the 22 22 A. Excuse me. City of Detroit. 23 23 And then you would also, in order to get to You're not criticizing the policy of 24 24 the total tax revenue available, add sums attributable to withholding the reverse commuter taxes, correct? 25 other taxes and things that you didn't consider, correct? 25 I'm not commenting on the policy proposal. Page 154 Page 156 1 R. CLINE 1 R. CLINE 2 2 Okay. Have you heard of policies to piggyback A. Correct. tax collection for the City of New York -- I mean, the 3 But sitting here today, you don't have any 3 4 City of Detroit, on the State income tax? 4 basis to dispute MacKenzie's conclusion that there could 5 5 A. Not specifically for the City of Detroit. It be \$140 million in additional revenue from withholding 6 taxes from reverse commuters, correct? 6 has been discussed in other states. 7 7 A. I have no opinion. I'm not familiar with the I mean, other -- other cities do that in other 8 analysis. states, they piggyback tax collection with the State. 9 9 So, you have no basis to dispute it or Are you aware of that? 10 10 A. I believe in Ohio that may be the case. criticize it, correct? 11 A. I'm not aware of the information that it's 11 Ω And is that a successful method for tax 12 12 collection? based on. 13 13 So, that would be correct, you're not -- you A. I do not know. Q. 14 don't -- you're not disputing or criticizing it or 14 You're not offering an opinion on that one --15 offering any opinion about it, correct? It's just not 15 I'm not commenting on policy options for the 16 16 something you looked at, correct? City of Detroit. 17 A. It is correct that I have no opinion on that 17 Q. Would it be fair to say that you're offering 18 18 no opinions outside the narrow four corners of your 19 19 Ο. Okay. What other additions to your tax expert report? 20 20 revenue estimates are you aware of or have you heard A. As you saw in the expert report, using the 21 about other than, you know, the taxes you didn't 21 legal term, "expert," I've tried to answer in great 22 2.2 consider, and you know, potential increases in detail about the methodology and the results of what we 23 23 collections through withholding and things like that? were asked to do, and I'd be glad to discuss that in 24 24 What other additions are you aware of to your whatever detail is necessary. 25 25 revenue-from-taxes number that would have to be done to We'll probably do that after lunch, but would

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Page 157 Page 159 R. CLINE 1 R. CLINE 2 2 it be fair to say you're not offering any expert opinions collecting all of the tax that's due if you don't audit 3 that aren't contained in your expert report? 3 people, right? 4 A. I'm not offering any comments about what 4 MR. STEWART: Objection. 5 Detroit should do in changing their tax policy. 5 THE WITNESS: I have no comment on the 6 6 Are you qualified to offer opinions about what collection activities in Detroit. I simply am not 7 Detroit should do in changing its tax policy? 7 familiar with what Detroit does in auditing the 8 8 Not being a lawyer, I have to be very careful. separate taxes. A. 9 I don't know what "qualified" means in this context. 9 BY MR. SMITH: 10 10 Well, I mean, you have some experience, right, But you would expect a competent City that's 11 in your job, and in your positions in state government, 11 doing its job to audit all of the tax returns, correct? 12 12 No. Not audit all of the -- not -- no. No 13 A. I have a number of years in, in working at the 13 government entity audits all of the tax returns. 14 14 Well, I mean, audit -- you would expect a State level in terms of taxation. 15 15 Do you feel like you're qualified in the sense competent government entity to audit all of the 16 of, you have the requisite expertise or experience to 16 categories of tax returns and not exclude certain 17 17 offer opinions about what Detroit should or shouldn't do categories, correct? 18 18 in terms of tax policies it might adopt to increase I expect in terms of modern administration of 19 19 the income taxes, governmental entities use statistical 20 A. I have no recommendations for Detroit in terms 20 procedures to determine who will be audited, and it 21 of policy options they should consider or adopt. 21 certainly is not every tax return. 22 Yeah. But if you -- if Detroit came to you 22 Do you have any idea of what auditing 23 and wanted to hire you for -- to provide some policy 23 procedures Detroit uses? 24 24 options, would you accept that or do you feel that you Not at all. A. 25 25 don't have the background to be able to provide that Do you agree that there's a number of factors Page 158 Page 160 1 R. CLINE 1 R. CLINE 2 advice to the City? that determine whether people pay their taxes? 3 Our approach to the business that I'm in at 3 A. Could you rephrase that? I'm not sure what 4 Ernst & Young is to be very clear with any client that 4 you're asking. 5 approaches us, we will not make recommendations for 5 Q. Well, how about in context of the property 6 policy changes for any entity -- governmental entity. 6 tax, people may fail to pay their property tax because 7 7 That is a rule we follow very stringently. they believe their assessment is wrong or because they 8 And that's because at the end of the day, the 8 don't believe they're getting good services or for a 9 9 amount of revenue or -- revenue available to a City or variety of factors; is that fair? 10 cost that it incurs is a political decision for the 10 MR. STEWART: Objection. 11 political actors, correct? 11 THE WITNESS: I think -- I believe what you 12 It has that dimension, correct. 12 are describing is a question of voluntary 13 The -- do you know if the City audits the 13 Q. compliance, and I'm just not familiar with any 14 business tax returns? 14 studies in Detroit of the factors that are 15 I assume they do. I do not know. I'm not 15 currently affecting voluntary compliance. 16 16 familiar with the collection practices for the City of BY MR. SMITH: 17 Detroit. 17 Q. Okay. So, you have no opinion on factors that 18 You agree it's important to audit tax returns 18 might affect voluntary compliance with any of the Detroit 19 in order to make sure that you're collecting the tax 19 taxes, correct? 20 that's owed, right? 2.0 I haven't looked at those issues in Detroit. 21 I believe every unit of government that 21 so I can't comment on them. 22 22 collects an income tax has an auditing function attached You know in your expert report there's a list 23 23 to it. of documents that you considered. Do you recall that? 24 24 Ο. And failing to audit tax returns could be A. 25 25 basically a significant problem because you may not be Are those all the documents that you've

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	Page 161		Page 163
1	R. CLINE	1	R. CLINE
2	considered in formulating your opinions?	2	economy in Detroit is improving?
3	A. I assume so.	3	A. I don't know the answer to that. I don't know
4	Q. Can you explain to me what this situation is	4	what metric you might be thinking about as a measure.
5	with the Public Lighting Authority and how you account	5	What was most important for our forecast was changes in
6	for that in your forecast?	6	employment in Detroit.
7	A. No, I can't, because that was a number that	7	Q. Okay. And do you agree that the employment in
8	was given to us by the E&Y team in Detroit. We plugged	8	Detroit has been improving?
9	it into our spreadsheet. Our responsibility was to do	9	A. I'll have to go back and look at the recent
10	the gross tax collection forecast. They provided the	10	time span to see exactly what's happening. What does the
11	subtraction for the PLA, Public Lighting Authority	11	consensus forecast say?
12	transfer, and we accepted the numbers that they gave us	12	Q. Well, I'm looking at this for another purpose?
13	for that.	13	A. Okay.
14	Q. Okay. So, you don't know how the numbers that	14	Q. I don't mean to confuse you.
15	, ,	15	- · · · · · · · · · · · · · · · · · · ·
	you were provided for the subtraction to the public	16	ı ı
16 17	utility revenues were calculated?	17	Q. Okay. That's a fair that's a fair point.
17	A. I do not know how they were calculated, but we	18	I might as well mark the consensus forecast
	did ask questions, detailed questions, about the timing,		while you see that I've got it in my hand. I've got a
19	and received explanations about the timing from year to	19	question about it.
20	year, of the fluctuation in the transfer.	20	A. Okay.
21	Q. Do you know what those what the	21	Q. It wasn't about the employment, but you can
22	subtractions to the utility user tax were for?	22	feel free to take a look at it if you want; on the issue
23	A. I do not.	23	of employment, unless it's going to be hard for you to
24	Q. And you don't know how the subtractions you	24	find. It's attached to this Exhibit 3, which is some
25	plugged in for the utility user tax were calculated,	25	emails and attaching documents from the consensus
	Page 162		Page 164
1	Page 162 R. CLINE	1	Page 164 R. CLINE
1 2		1 2	
	R. CLINE		R. CLINE
2	R. CLINE correct?	2	R. CLINE conference.
2	R. CLINE correct? A. We used the numbers that were provided to us	2	R. CLINE conference. (Cline Exhibit 3 was marked for identification.)
2 3 4	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team.	2 3 4	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't.
2 3 4 5	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically,	2 3 4 5	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to
2 3 4 5	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the	2 3 4 5	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question.
2 3 4 5 6 7	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the subtractions to utility user tax were calculated, whether	2 3 4 5 6 7	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question. THE WITNESS: Oh.
2 3 4 5 6 7 8	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the subtractions to utility user tax were calculated, whether you can tell me that information or I have to ask	2 3 4 5 6 7 8	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question. THE WITNESS: Oh. BY MR. SMITH:
2 3 4 5 6 7 8	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the subtractions to utility user tax were calculated, whether you can tell me that information or I have to ask somebody else at Ernst & Young.	2 3 4 5 6 7 8	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question. THE WITNESS: Oh. BY MR. SMITH: Q. If it doesn't have the employment information
2 3 4 5 6 7 8 9	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the subtractions to utility user tax were calculated, whether you can tell me that information or I have to ask somebody else at Ernst & Young. A. I would say, you would have to ask someone	2 3 4 5 6 7 8 9	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question. THE WITNESS: Oh. BY MR. SMITH: Q. If it doesn't have the employment information in it, that's okay. I just handed it to you in case you
2 3 4 5 6 7 8 9 10	R. CLINE COTRECT? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the subtractions to utility user tax were calculated, whether you can tell me that information or I have to ask somebody else at Ernst & Young. A. I would say, you would have to ask someone else.	2 3 4 5 6 7 8 9 10	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question. THE WITNESS: Oh. BY MR. SMITH: Q. If it doesn't have the employment information in it, that's okay. I just handed it to you in case you wanted to look at it. A. All right. I'm sorry. I thought you were
2 3 4 5 6 7 8 9 10 11	R. CLINE correct? A. We used the numbers that were provided to us by the rest of the EY team. Q. And I'm just trying to figure out basically, if I want to know how the numbers that were the subtractions to utility user tax were calculated, whether you can tell me that information or I have to ask somebody else at Ernst & Young. A. I would say, you would have to ask someone else. Q. Okay. Would that be Mr. Malhotra?	2 3 4 5 6 7 8 9 10 11	R. CLINE conference. (Cline Exhibit 3 was marked for identification.) THE WITNESS: At first glance, I don't. MR. STEWART: You have to wait for him to ask you a question. THE WITNESS: Oh. BY MR. SMITH: Q. If it doesn't have the employment information in it, that's okay. I just handed it to you in case you wanted to look at it. A. All right. I'm sorry. I thought you were
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	Page 165		Page 167
1	R. CLINE	1	R. CLINE
2	the consensus estimates for the growth in wagering tax	2	A. I read that, yes.
3	revenue. Do you see that?	3	Q. And did you in your forecast, you don't
4	A. Yes.	4	model a turnaround in wagering tax revenue in fiscal year
5	Q. And the consensus statement says, "Fiscal year	5	2016, do you?
6	2014, consensus estimate remains flat with an additional	6	A. Specifically what we've done in our forecast
7	decline of 1.2 percent projected by fiscal year 2015."	7	is we had, back in 2013, correctly picked up the fall in
8	Do you see that?	8	wagering collections in Detroit. We got that pretty
9	A. Yes.	9	close back in 2013. And we had it pretty close for 2014.
10	Q. And then it says "A turnaround is expected in	10	We knew they were falling because of the opening of the
11	fiscal year 2016 with a consensus projecting 1.5 percent	11	new casinos in Ohio.
12	growth."	12	We are not bringing it back as quickly in our
13	Do you see that?	13	forecast as the Detroit consensus forecast.
14	A. Yes.	14	Q. Okay. So, the Detroit consensus forecast has
15	Q. So, the consensus estimate is for 1.5 percent	15	a higher wagering tax revenue growth figure than you use,
16	growth in wagering tax going forward from the fiscal year	16	correct?
17	2016, correct?	17	A. Certainly in FY 2016, that's the case.
18	A. Yes.	18	Q. Okay. And you don't use any mathematical
19	Q. And that's not that's inconsistent with the	19	formula to generate your wagering tax rate growth figure,
20	rate of growth that you used, correct?	20	do you?
21	A. If I could correct my prior answer.	21	A. I wouldn't say that we had a mathematical
22	Q. Okay.	22	formula. We have mathematical calculations within the
23	A. It doesn't talk about going forward. The last	23	Excel spreadsheet.
24	year that's mentioned is FY 2016.	24	Q. What is the mathematical calculations that
25	Q. Okay. So then	25	generate the wagering tax growth rate?
	Page 166		
1		1	Page 168
1	R. CLINE	1	R. CLINE
2	R. CLINE A. I don't know if they've projected it into the	2	R. CLINE A. We specify the expected rates of growth,
2	R. CLINE A. I don't know if they've projected it into the future.	2	R. CLINE A. We specify the expected rates of growth, updated we updated the beginning point for actual tax
2 3 4	R. CLINE A. I don't know if they've projected it into the future. Q. Okay. The wage the revenue the wagering	2 3 4	R. CLINE A. We specify the expected rates of growth, updated we updated the beginning point for actual tax collections, and extrapolated those numbers into the
2 3 4 5	R. CLINE A. I don't know if they've projected it into the future. Q. Okay. The wage the revenue the wagering tax revenue growth figures that you used are not	2 3 4 5	R. CLINE A. We specify the expected rates of growth, updated we updated the beginning point for actual tax collections, and extrapolated those numbers into the future.
2 3 4 5	R. CLINE A. I don't know if they've projected it into the future. Q. Okay. The wage the revenue the wagering tax revenue growth figures that you used are not consistent with the consensus estimate; yours are	2 3 4 5 6	R. CLINE A. We specify the expected rates of growth, updated we updated the beginning point for actual tax collections, and extrapolated those numbers into the future. Q. But is the the actual rate of growth that
2 3 4 5 6 7	R. CLINE A. I don't know if they've projected it into the future. Q. Okay. The wage the revenue the wagering tax revenue growth figures that you used are not consistent with the consensus estimate; yours are different, correct?	2 3 4 5 6 7	R. CLINE A. We specify the expected rates of growth, updated we updated the beginning point for actual tax collections, and extrapolated those numbers into the future. Q. But is the the actual rate of growth that you used, though, is that a number you calculated, or is
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Page 169 Page 171 R. CLINE R. CLINE 2 2 Ο. And do you know how that assumption was economics in Detroit, which would, as separate factors, 3 3 generated? contribute to positive growth in the wagering gross 4 receipts. We felt that the balance of those two forces A. I do. Okay. How was it generated? 5 would lead to a slight increase in revenue. 6 It was looking at what is going on around the 6 Q. But there's no scientific study or formula states in the collection of wagering income -- taxes from 7 that tells you whether you should pick 1.2 percent or 1.3 8 8 gross receipts based upon wagering. A number of states percent for the wagering tax growth rate, correct? 9 are quite disappointed in the revenue they're now 9 A. In all of the revenue estimating that I have 10 10 receiving because of the rapid expansion of gambling in done, there is no precise formula that gives you the 11 competitive, close-by states. 11 resulting revenue estimate. There are equations that are 12 We felt that based upon that experience that a 12 based upon history that you use to get an initial 13 relatively low positive rate of growth, somewhere 13 starting point, and then economists do what we call add 14 between .5 and 1 percent, was a reasonable assumption for 14 factors, dummy variables and adjustments. No economic -15 Detroit, given the increasing competition in a relatively 15 no revenue forecaster at the state level accepts the 16 close geographic area. 16 numbers coming out of an equation. They start there, and 17 Q. You didn't use any body of data to generate 17 then they modify it. 18 18 the wagering tax growth rate, correct? We used what we thought was relevant, 19 19 A. As I mentioned, we did look at the actual additional information to determine these growth rates. 20 collection figures --20 There was not a single mechanical formula that generated 21 Okay. 21 the .5 or the 1.0 number. 22 -- reported by the states. We had some idea 22 Q. I mean, at the end of the day, the wagering 23 of what was going on nationwide. 23 tax growth rate that you used is a number that you just 24 But you didn't calculate the wagering tax 24 picked, right? 25 growth rate, correct? You picked that number? 25 A. As the City did also. Page 170 Page 172 1 R. CLINE 1 R. CLINE 2 It's an assumption that we plugged into the Okay. And there are a number of inputs to 3 model. 3 your model that are basically numbers that you picked, 4 Ο. Okay. And that's an assumption that you made, 4 correct? 5 5 correct? A. They're assumptions that I was responsible 6 A. I was responsible for that assumption. 6 for. 7 7 Ω And the assumption that you use for the And you could use different assumptions in 8 wagering tax rate growth is different from the number your modeling, and they would be reasonable assumptions, 9 that the consensus report uses, correct? 9 correct, because they're just numbers that you picked? 10 It looks like certainly for FY 2016 they're at 10 MR. STEWART: Objection. A. 11 a higher rate of growth. 11 THE WITNESS: Not all assumptions would be 12 Q. Okay. And do you recall what number you were 12 reasonable. 13 using? 13 BY MR. SMITH: At that point, it was either 0.5 or a plus 1 14 A. 14 Q. Well, I mean, for any of the numbers that you 15 percent -- plus 0.5 or plus 1 percent. 15 picked to use in your model, you could have different 16 Okay. Can you tell me why you used 1 percent 16 numbers that would be reasonable, correct? Like, for 17 example, with the wagering tax rate growth, it would be rather than 1.2 percent or 1.3 percent? 17 18 Because we thought at the time that that was a 18 reasonable to use the City's number, right? 19 19 reasonable estimate given the arrival of the new MR. STEWART: Objection. THE WITNESS: I don't agree. We did not 20 competition, which should have had an even more negative 20 21 effect on the revenue numbers and could in fact, by 21 use the City numbers in 2013. 22 22 itself, have driven this into a negative .5 percent. BY MR. SMITH: 23 Okay. But there is --23 Q. Do you think it would be unreasonable to use 24 But there is an economic recovery occurring 24 the numbers that the consensus forecast used for the 25 throughout Michigan, some signs of slightly more positive

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1	R. CLINE	1	R. CLINE
2	A. I believe it depends upon which tax type	2	this is disk number two.
3	you're looking at and how long out they're going.	3	(RECESS, 12:55 1:50 p.m.)
4	Q. So, some of the numbers used in the consensus	4	THE VIDEOGRAPHER: On the record at 1:50.
5	forecast in your view are unreasonable?	5	This is the beginning of disk number three in the
6	A. Some of the numbers used in the consensus	6	deposition of Robert Cline.
7	forecast are not the same as the assumptions that we	7	BY MR. SMITH:
8	made.	8	Q. Good afternoon, Mr. Cline. How did you become
9	Q. Yeah. And my question is whether some of the	9	involved in this case?
10	numbers in the consensus forecast are unreasonable to	10	A. I became involved in the case when the EY team
11	use.	11	approached my practice, the QUEST practice in Washington
12	A. I don't have a definition for "unreasonable."	12	D.C., to ask for assistance in estimating tax revenues
13	I can simply tell you how we derived the number that we	13	for the City.
14	plugged in as our assumption. We did not plug in the	14	Q. And the EY team in Detroit lacked the
15	consensus forecast number.	15	expertise to estimate taxes themselves; is that correct?
16	Q. Okay. But you agree that your the numbers	16	A. I don't know if that was the case. I think we
17	that you picked to plug into your model that are just	17	were recognized as having more extensive experience in
18	based on your picking the numbers are numbers that you	18	doing that.
19	could substitute with other numbers that would also be	19	Q. Is it fair to say that in performing your
20	reasonable, correct?	20	forecasting, you take data that's existing and then at
21	MR. STEWART: Objection.	21	the current point in time, and then you project that data
22	BY MR. SMITH:	22	into the future, essentially assuming that the status quo
23	Q. Or are your numbers the only ones that could	23	doesn't change?
24	be used?	24	A. The forecast itself is a forecast of the key
25	MR. STEWART: Objection.	25	drivers in the future, all of which are changing. So,
	Page 174		Page 176
1	R. CLINE	1	R. CLINE
1 2	R. CLINE THE WITNESS: I was responsible for	1 2	R. CLINE the forecast exercise itself is what stays the same is
2	THE WITNESS: I was responsible for	2	the forecast exercise itself is what stays the same is
2	THE WITNESS: I was responsible for determining what assumptions we put in our revenue	2	the forecast exercise itself is what stays the same is the legal parameters of the tax system. What changes
2 3 4	THE WITNESS: I was responsible for determining what assumptions we put in our revenue forecasting model, and I did that.	2 3 4	the forecast exercise itself is what stays the same is the legal parameters of the tax system. What changes over time is the economics. What is fixed is the
2 3 4 5	THE WITNESS: I was responsible for determining what assumptions we put in our revenue forecasting model, and I did that. BY MR. SMITH:	2 3 4 5	the forecast exercise itself is what stays the same is the legal parameters of the tax system. What changes over time is the economics. What is fixed is the starting point of actual tax collections. Q. So, in order to conduct an appropriate forecast, the policies and economics should change over
2 3 4 5 6	THE WITNESS: I was responsible for determining what assumptions we put in our revenue forecasting model, and I did that. BY MR. SMITH: Q. Yeah. And my question is there could be	2 3 4 5 6	the forecast exercise itself is what stays the same is the legal parameters of the tax system. What changes over time is the economics. What is fixed is the starting point of actual tax collections. Q. So, in order to conduct an appropriate
2 3 4 5 6 7	THE WITNESS: I was responsible for determining what assumptions we put in our revenue forecasting model, and I did that. BY MR. SMITH: Q. Yeah. And my question is there could be another independent expert who picked different numbers	2 3 4 5 6 7	the forecast exercise itself is what stays the same is the legal parameters of the tax system. What changes over time is the economics. What is fixed is the starting point of actual tax collections. Q. So, in order to conduct an appropriate forecast, the policies and economics should change over
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Page 179 Page 177 1 R. CLINE R. CLINE 2 2 to give you an example so you get an idea of what I'm Detroit can't pay its creditors more, correct? 3 3 talking about. Why don't we take it one at a time, okay? A. I have no comment on that issue. 4 4 I'm going to hand you a copy of your report 5 Q. Collection activities certainly can impact tax 5 that I'll mark as Exhibit 4, just so you have it in front 6 6 revenues over time, correct? of you, okay? 7 7 A. Okay. A. Correct. 8 Q. There are other activities that the City can (Cline Exhibit 4 was marked for identification.) 9 engage in that may impact tax revenues, correct? 9 BY MR. SMITH: 10 You will have to be more specific. What type 10 You've got a copy of your report in front of Q. 11 of activities are you describing? 11 you? 12 Well, if the City, for example, banned 12 A. Thank you. I do. 13 businesses from the City, that would certainly impact tax 13 Okay. And I just wanted to get that to you so 14 14 you would have it in case you need to refer to it, okay? revenues, correct? 15 15 A. The local economy will be affected by the Thank you. 16 provision of City services, by the overall economic 16 Can you tell me what the assumptions of your 17 17 outlook for the city, all of those are factors that forecasts are? 18 affect -- will affect our economic forecast, if they 18 For all tax types? A. 19 affect the private sector economy. 19 Why don't we go tax by tax. For the income 20 20 tax, what are the assumptions that you make? Okay. So, there are many activities, 21 21 including the activities by the City that can impact the A. It may be helpful just to reiterate what is in 22 22 economics that you use in forecasting into the future, the report in terms of our approach. Total individual 23 23 correct? income tax revenues mathematically equal number of 24 24 taxpayers times average taxable income times the tax A. I think that's correct. 25 25 And what are some of those things that can rate. Page 178 Page 180 1 1 R. CLINE R. CLINE 2 impact the economics? 2 And our estimating methodology was to look at 3 3 I believe I may have just mentioned a few of each three of those components separately. Because 4 those examples. Anything that affects land use, that 4 Detroit has differential tax rates depending upon whether 5 affects general perception of the viability of the 5 you are a resident or a non-resident, we actually 6 6 private sector in Detroit. Anything that affects the estimate individual income tax bases and taxpayers for 7 7 private sector economy would in theory have an influence those who are residents of Detroit and work in Detroit, 8 on our tax forecast for the City. 8 residents of Detroit who work outside of the city, and 9 9 Okay. Did you look at historical data non-residents who work in the city. 10 10 regarding utility users' tax collections? Then we made assumptions about total 11 A. We were aware of the most recent data on 11 employment in Detroit, the growth rate of employment in 12 actual collections in the City of Detroit. 12 the suburbs, population growth in the city, general 13 13 Q. Has the City successfully increased utility increases in the average taxable base. Those were, on 14 user tax collections in recent years? 14 the individual income tax side, some of our key 15 I believe in the last few years, just prior to 15 assumptions. 16 16 our forecast period, we were seeing decreases in utility Q. Okay. And then for the corporate tax, what 17 tax collections. 17 are the key assumptions? 18 You're not offering an opinion on the causes 18 A. I believe our corporate income tax forecast is 19 19 of Detroit's fiscal problems, correct? more -- was -- began with the State forecast for the 20 20 years that were available. The State information is more A. I'm not. 21 You're not offering an opinion that Detroit 21 limited because the State of Michigan did not have a 2.2 corporate income tax prior to two or three years ago. 22 can increase taxes, correct? 23 23 A. I am not offering an opinion about tax policy They returned to that tax, so there's too short a time 24 24 series to use the State experience as a foundation for changes in the City of Detroit.

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the Detroit forecast

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And you're not offering an opinion that

Page 183 Page 181 R. CLINE R. CLINE 2 2 So, we used recent experience in Detroit and corporate income tax; is that correct? 3 3 we used for the longer run forecast information about the A. It's based upon information on actual tax 4 4 collections as the starting point, and assumed rate of expected overall growth of the U.S. economy, because of 5 the limitation on data from the State of Michigan, not 5 increases in the tax base in the City of Detroit. 6 6 Q. How about the wagering tax; what are the key having a time series for the corporate income tax. 7 Q. Okay. So, what are the assumptions for the 7 assumptions there? 8 8 corporate income tax? A. As I believe I did discuss earlier, the 9 A. All right. 9 wagering tax recently had very negative percentage 10 10 changes from year to year. That was a result of All right. As we outlined in the report, I'm looking for the specific percentage changes. Let's see 11 11 increased competition from Ohio, and a result of the deep 12 where that -- where they are. What we did on the 12 recession in Detroit as well as the rest of Michigan. 13 corporate income tax is that we began with the State 13 In our forecast, we had to decide when that 14 14 negative impact would start to reverse and perhaps lead forecast three-year, I believe, period, and we took the 15 15 to a small, positive growth in wagering taxes. Based percentage growth for the corporate income tax forecast 16 from the State. If I recall, that may have been running 16 upon what we were seeing around the U.S., we returned the 17 at 3 or 3.5 percent. 17 rate of growth to the positive area, .5 percent, and then 18 18 Then we recognized that the corporate income in a few years, we moved it back up -- we pushed it up to 19 19 taxes in Detroit were growing at a lower, slower rate of a 1 percent annual rate of growth, which I think is a 20 20 growth than for the State, and that had been going on for reasonable expectation for what will happen, because the 21 some time. We called that our structural adjustment, and 21 competition hasn't gone away. In fact, it probably will 22 we subtracted that from the State forecast to get our 22 increase. Although the economy is recovering, we think 23 23 the net effect is about a 0.5 to 1 percent increase in forecast for the City of Detroit. 24 24 And that adjustment was about a negative 3 the wagering tax. 25 percent, tapering down to a negative 2 percent. And that 25 And all of those were assumptions of your Page 182 Page 184 1 R. CLINE R. CLINE 2 gave us our growth rates for the corporate income tax, 2 wagering tax forecast, correct? 3 3 and then we extrapolated that into the future, over the A. Again, they're all inputs in the wagering tax 4 10-year period of time. 4 forecast. 5 Q. Okay. So, can you list for me the key 5 Q. I know. My question is, I just want a list of 6 6 assumptions for your corporate tax forecast? the assumptions for the wagering tax forecast.

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- A. Our corporate tax forecast was based upon recent experience in the rate of growth of the State corporate income tax collections, adjusted downward from recent history of the slower rate of growth in Detroit than in the State. We applied that going forward outside of the Michigan forecast at a rate that may have been roughly -- I don't see it in front of me here, but it may
- And all of those are assumptions of your

have been close to a 2 percent rate of growth.

16 corporate income tax calculation?

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- 17 A. In a sense, the entire model is an assumption. 18 All of these are inputs like the rate of growth of the 19 State corporate income tax, the relationship between the 20 Detroit tax and the State base; all of those were based 21 upon information in the recent past or a snapshot at a 22 point in time, and we did use those parameters and ratios
- 23 in forming our future forecast for the City of Detroit. 24
- But all the -- the future forecast is based on 25 a series of assumptions that you made regarding the

A. Yes. Those -- that -- I've explained where the rate of growth assumptions came from.

9 Okay. So that you're assuming the rate of 10 growth for purposes of your wagering tax calculation, 11

A. We're forecasting the rate of growth in 13 wagering tax collections based upon the numbers that we 14 put into the model.

Okay. And are those assumptions?

A. I'm not sure how you distinguish between assumptions --

18 Okay. Well, in your report, don't you list Q. 19 assumptions?

> We do have a section that says assumptions. A.

Okay. And can you give me a straightforward

22 answer about what the assumptions are? 23 MR. STEWART: Hold on. Objection.

> THE WITNESS: What page would that be on? MR. STEWART: He will tell you what page

> > Pages 181 to 184

Page 187 Page 185 R. CLINE 1 R. CLINE 2 he'd like you to look at. 2 Okay. So, are you relying on the projections 3 3 THE WITNESS: What page do you see the that have been put together that are referenced there? 4 assumption discussion? If you would --4 A. I believe the numbers that are in the report 5 BY MR. SMITH: 5 are consistent with the projections dated July the 2nd, 6 6 2014. Q. Okay. Without referring to your report, you 7 can't give me the assumptions for any of your analysis, 7 Q. Okay. And I'm just asking you, are you 8 correct? Is that correct? relying on those projections, or -- here you say that --9 That is not correct. 9 you say, "The information in this report is presented as 10 Okay. Well, can you give the assumptions for 10 of the date of this report, and is based upon projections 11 the wagering tax analysis? I just want a list of the 11 contained within those documents." What does that mean? Can you explain to me? 12 12 assumptions. 13 A. Our starting point is that we knew over the 13 A. Are you asking if these assumptions are from 14 14 past five years, revenues grew an average of 0.6 percent our report -- our forecast? 15 That's solid history that we knew as the starting point. 15 No. I'm asking you -- you said in your report 16 MR. STEWART: Objection. 16 on pages one to two that the information in this report 17 THE WITNESS: Then the question was, what 17 is presented as of the date of this report, and is based 18 percentage increase do we expect in the foreseeable 18 upon projections contained within certain documents. 19 19 future over the 10-year forecasting period. Can you explain to me what that means? 20 20 The additional information we had is that A. I believe that means that we updated the 21 those collections dropped 4.3 percent in FY 2014. 21 forecast for the major Detroit revenues on July the 2nd, 22 22 2014, and the discussion in the report is drawing upon Our history told us that there was about one-half 23 23 the results of that exercise. of one percent increase followed by a 4.3% decrease 24 in FY 2014, and the question was do we turn the 24 Q. Okay. Are you relying on other aspects of the 25 25 corner in the forecast, or do we extrapolate a forecast dated July 2, 2014, or just your own work there Page 186 Page 188 1 R. CLINE R. CLINE 2 2 that you're pointing to? continued significant negative growth rate. 3 3 Our decision was that the industry was A. The forecast of tax revenues that we were 4 4 responsible for completed on July 2nd, 2014, are our stabilizing and that we'd have another year of a 5 5 negative 1.0 percent change in FY 2015. We'd pick revenue estimates. 6 6 up the growth then slightly into the positive area, Q. Okay. And so that's what you are relying on 7 7 0.5 percent for two years, followed by a transition or you're pointing to? 8 A. We are reporting the results of our estimates to a slightly higher growth rate of 1 percent. I 9 9 at that point in time. don't believe we have an annual growth rate above 1 10 10 Q. Okay. Then on page two, you have a series of percent in the 10-year forecast period. 11 BY MR. SMITH: 11 paragraphs where you go through and say how all of your projections are reasonable projections; do you see that? 12 Okay. Why don't we go to page one of your 12 13 13 A. I do. report. 14 A. Page one? 14 Okay. Do you agree that they're reasonable 15 One, yeah. 15 projections of the various taxes that you look at, that 16 could differ from yours? 16 A. All right. 17 17 A. I would describe what we did based upon our Okay. Do you see at the last sentence? You 18 18 starting point, our understanding of the underlying say, "The information in this report is presented as of 19 19 the date of this report and is based upon projections economics, to be reasonable projections of what we expec-20 20 the revenue streams will look like over the next ten within the fourth amended disclosure statement with 21 respect to the fourth amended plan for the restructuring 21 years in Detroit. 22 22 Q. Okay. But that wasn't my question. of debts for the City of Detroit, and such projections 23 23 were updated as of July 2, 2014." Could you repeat your question? 24 My question is are there other projections 24 Do you see that? 25 that could be made regarding the revenue streams you I do.

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Page 191 Page 189 R. CLINE R. CLINE 2 2 addressed that would also be reasonable projections? You don't have any experience doing revenue 3 3 forecasting for a City, correct? A. There are other projections that you could make if you changed the assumptions. I would have to see 4 A. I do not. 5 the rationale for the assumptions to kind of judge 5 And you don't have any experience doing 6 reasonableness in that sense. 6 economic forecasting for Detroit, correct? Okay. But there's some that could be Not prior to this study. 8 reasonable? Are there any economic forecasts for Detroit? 9 A. It would depend upon what those assumptions 9 In the past, I have used forecasts for the 10 10 are. City of Detroit. When we started looking at this in 11 Q. Okay. So, basically, the reasonableness --11 2013, we could not find updated forecasts for the City of 12 basically, your determination about the reasonableness of 12 Detroit. 13 a projection is based upon the reasonableness of the 13 Q. Okay. So, there are no updated forecasts for 14 assumptions? 14 the City of Detroit that would -- that could be used in 15 I believe that is fundamentally the foundation 15 doing a forecast such as you're doing here, correct? 16 for doing tax forecasting. 16 A. There may be, but we did not find them or use 17 Okay. And so, in doing your work in tax 17 them in our analysis. 18 18 forecasting, you tried to use your discretion to pick Okay. So, because you didn't have Detroit 19 19 reasonable assumptions so that you could come up with data, you had to use Michigan data; is that correct? 20 20 reasonable projections; is that correct? A. I think the correct answer is we had a lot of 21 The way I would describe it is that we had to 21 Detroit data. We have all there is to know about tax 22 make those assumptions. There was no choice. It wasn't 22 collections in the City of Detroit we had very detailed 23 discretionary. We wouldn't have been able to do the 23 information on the flow of commuters across the border in 24 24 Detroit. We had detailed information on the labor market forecast without making those key assumptions. We made 25 25 those key assumptions based upon the best available conditions in the City of Detroit. Page 190 Page 192 1 R. CLINE 1 R. CLINE 2 information we had and our perspective on future economic What we did not have was an economic forecast 3 developments in Detroit. 3 of the future in Detroit. 4 4 We think they are reasonable given what I just Okay. So, because you didn't have an economic 5 forecast for the future for Detroit, you had to look at described as inputs. Other people may have different 6 assumptions and come up with different forecasts. 6 information for the State of Michigan; is that correct? 7 Yeah. There was no requirement that you use 7 We did use as a starting point, in addition to 8 the precise numbers that you picked for your assumptions, the data that we had for the City of Detroit, we used the 9 9 correct? most recent consensus forecasts for the state economy 10 10 We controlled the assumptions that we used in and then related that to the City of Detroit. A. 11 the forecasting model. 11 So, is part of what you are doing in your 12 12 Q. Okay. And in picking the precise numbers for forecast extrapolating statewide data for Michigan and 13 your assumptions, you used your discretion as a tax 13 trying to use it to do some forecasting for Detroit? 14 14 forecaster to pick assumptions you believe were That was one of the steps in the process. 15 reasonable, correct? 15 Okay. And who are the people that had done 16 A. I wouldn't use the word "discretion," no. 16 the prior Detroit forecasts that were not updated, if you 17 Q. Okay. What would you -- you used your -- what 17 can recall, or what were they? 18 did you do to pick the assumptions; how would you 18 I believe in the past, I had used economic 19 19 characterize your exercise of your function? forecasts for the City of Detroit from one of the banks 20 A. I would characterize it as developing a set of 20 in the City of Detroit. I believe they stopped doing 21 assumptions based upon our experience in revenue 21 that revenue forecast -- systematic revenue forecast. 22 forecasting, and based upon our understanding of the 22 Do you recall which bank it was? 23 current status of the City of Detroit from an economic 23 Α. I don't recall which bank it was. 24 perspective. We use that information to guide the 24 When you say in the past you had used a 25 25 selection of the forecasting assumptions. revenue forecast for Detroit by one of these banks, what

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Page 193 Page 195 R. CLINE R CLINE 2 2 do you mean "in the past"? A. There may be people doing economic forecasting 3 3 A. I don't believe I said that. I said we used a for Detroit. We did not use or could not find those forecast of the economy of Detroit from a bank. 4 specific forecasts that we incorporated into our revenue 5 Yeah. When? I'm just trying to figure out in 5 estimating. 6 6 what context. Q. Okay. You searched for, but couldn't identify 7 any economic forecasting for Detroit outside of what's A. It may have been ten years ago. 8 8 Q. Was that when you were at the State of being done in this litigation; is that correct? 9 9 Michigan? A. I think the correct answer to the question is 10 10 A. Began when I was at the State of Michigan. that you have to distinguish between the revenue forecast 11 Okay. So, when you did economic forecasting 11 and the economic forecast. We did not find a separate 12 at the State of Michigan, you used economic forecasts for 12 economic forecast of the City that we used in our revenue 13 Detroit that were available at the time, but they're no 13 forecast for the City. 14 14 longer available today, so you can't use them, correct? Q. Okay. But you didn't find any economic 15 15 forecast for Detroit, you couldn't identify one; is that Part of your statement is not correct. 16 Okay. Why don't you explain what is correct. 16 17 When we were doing the State revenue forecast, 17 Α. We did not find one that we used in the 18 18 the State economic forecast that then was led into the report, and I'm not sure if I saw one from any source, 19 19 State revenue forecast, we did not use a forecast of the but I wouldn't say I did a thorough search of every 20 20 possible source of modeling in Detroit. City of Detroit economy. 21 It is what you would call block recursive. We 21 Q. Okay. That's fair. 22 start at the top with Michigan, and then we would have 22 Sitting here today, though, you can't identify 23 23 any economic forecast for Detroit outside of what's being gone down to Detroit, but we did not do separate 24 24 done in this litigation; is that fair? forecasts for the Detroit economy when I was tax research 25 25 director in Michigan. A. No, that's not correct. Page 194 Page 196 1 R. CLINE 1 R. CLINE 2 Okay. Okay. So, you didn't personally do 3 forecasting for the Detroit economy, but you had -- but 3 The City of Detroit had its ongoing annual 4 4 consensus forecast. We were aware of that forecast. other people in the past have done --5 But you didn't use that forecast? A. Correct. 6 -- Detroit economic forecasts, correct? 6 We looked at that, but it was not the basis 7 7 Δ Correct. And I was aware of at least one of for our revenue forecast. 8 those forecasts. 8 But in terms of economic forecast, though, 9 9 And you had hoped to use the forecasting -there's no economic forecast that you can identify other 10 10 than what's being attempted in this litigation; is that the economic forecasting for Detroit when you started out 11 your -- this project here of doing forecasting; is that 11 12 12 correct? A. We were very familiar with the RSQE modeling 13 13 at the University of Michigan of the state economy. We A. No, that's not correct. 14 14 Well, maybe explain what -- you just knew spent some time trying to discover if they had a separate 15 about it, but you were going to ignore it or why even 15 Detroit forecast. They did not. That would probably be 16 16 mention it? What were you planning to do with it? recognized as the single most respectable source of 17 17 economic forecast in the state, and we did not find an A. I was fairly confident it didn't exist. 18 18 Oh, okay. I see what you are saying. RSQE economic forecast. 19 19 So nobody currently, outside of this And so, we were, in a sense, on our own in 20 20 terms of having to do not only the revenue forecast, but litigation, tries to do economic forecasting for Detroit; 21 is that fair? 21 to build it up from a separate economic forecast. 22 22 I don't know the answer to that question. Q. Okay. And whether it's Michigan State or any A. 23 23 As far as you know, though, there's nobody other source, you can't identify even today any -- any 24 24 outside of this litigation that tries to do economic economic forecasting that's been done for Detroit outside

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of what's being done in the litigation; is that correct?

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25

forecasting for Detroit, correct?

Page 197 Page 199 R. CLINE R. CLINE 2 Do you have a time period attached to that? 2 And if you had looked at the period from 1999 3 3 Well, I thought you had said that there is no to 2012, the number that you came up with would be much 4 Detroit economic forecast that's current, is that true, 4 different for Detroit employment as a share of Michigan 5 that you can identify? 5 employment, correct? 6 6 We could not find a current forecast, a A. It would have been a different number, but it 7 current being in 2013, when we began the exercise. We 7 would have only been half of a trend that I believe we've 8 did not find a current forecast for the City of Detroit, identified in this diagram. 9 an economic forecast, that we could base -- use as the 9 Q. Okay. And so, the number that you obtained 10 starting point for our analysis. 10 for the ratio of Detroit employment to share of Michigan 11 Okay. Over on page six of your report, you 11 employment could change dependent on what decade you look 12 have a figure at the bottom of the page for the ratio of 12 at and the length of the particular time frame you look 13 Detroit employment as a share of Michigan employment, and 13 at. correct? 14 you say that it's declining at an average rate of 14 A. It would. 15 minus .85 percent; do you see that? 15 And it could be positive during some periods 16 A. I do. 16 of time, correct? 17 17 A. It is difficult looking at Figure 1 to Ω What mathematical formula was used to 18 calculate the negative .85 percent? 18 identify what period of time subset to this time span 19 A. You see that on page seven, the straight line 19 would give you a positive number. I don't see it. 20 regression equation is summarizing that relationship. 20 Well, if you looked at a period during the Okay. So, you just did a straight-line 21 21 2000s, you probably could get a positive number; is that 22 through data from 1990 through 2012? 22 fair? 23 A. I believe that time period is correct. As you 23 MR. STEWART: Objection. 24 24 THE WITNESS: I wouldn't read that into the note in the diagram, that's a fairly tight fit for a 25 25 straight-line relationship because that decline in the data Page 198 Page 200 1 R. CLINE 1 R. CLINE 2 ratio of Detroit employment to state employment had beer BY MR. SMITH: 3 3 going on for that entire length of time, and it was Q. At any rate, is there any particular basis for 4 fairly close to a straight-line relationship. 4 picking 1990 to 2012 as opposed to 1980 to 2012, or 1970 5 Q. And -- but the number for the ratio of 5 to 2012 or 2000 to 2012? 6 6 Michigan to -- or Detroit employment to Michigan A. In revenue forecasting, you want to pick the 7 7 employment would change depending on what time period you period of time that you think is most relevant to your 8 used, correct? 8 forecasting effort going forward. There's been a 9 9 That is correct. significant recession about every ten years in Michigan. 10 10 Using this period of time, we have picked up And in fact, during the period that you looked 11 at, there's some periods where that ratio would be 11 probably at least two, if not three recessions, and the 12 12 positive, if you looked at them, correct? positive economic growth that has occurred after the 13 13 A. That is correct, but the purpose of this recessions. We thought that all of those years and that 14 calculation was to derive what we describe as a long run 14 information was relevant for talking about the longer rur 15 structural relationship, a long run decline of the 15 structural decline of Detroit versus Michigan. 16 relative size of employment in Detroit versus the state. 16 Yeah, what years did the recessions occur? 17 We needed a long period of time to understand how that 17 A. Certainly, 2007 to 2009, 2000 to 2002, and I 18 was unfolding and what the relationship looked like. 18 believe in the early '90s, we may have had a slight 19 19 So, we couldn't fit it to isolated segments of recession in Michigan. 20 that total period of time. We would have had a different 2.0 O. And after each of the recessions. Detroit 21 concept if we did. We were after the long run structural 21 employment as a share of total state of Michigan 22 22 employment, did better than the historical trend; is that change. 23 Q. And do you agree that 20 years is a long 23 correct? 24 period of time? 24 Certainly appears to be the case from the 25 graph. I would add that 2010 -- 2011, 2012 were period A. I do.

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Page 201 Page 203 R. CLINE R. CLINE 2 before the full impact of the fiscal crisis in Detroit. 2 A. No. I believe our forecast implies a 3 3 continuous decrease in the ratio of employment in Detroit Q. And there -- I mean somebody could reasonably 4 pick a different time period when they're doing this 4 to employment in the state. 5 analysis of Detroit's share -- total state of Michigan 5 And historically there hasn't been a 6 6 continuous decrease in the ratio of Detroit's share of employment, correct? 7 A. Others could certainly choose different time 7 total state of Michigan employment, correct? 8 8 periods. We felt that this time span was most relevant A. I believe Figure 1 would refute that 9 for the forecast that we were doing. 9 statement. 10 10 Okay. But other people could make different The numbers for Detroit -- Detroit's share of 11 judgments about what time period was most relevant and 11 total state of Michigan employment, they vary by year, 12 get different numbers for this figure, correct? 12 correct, in Figure 1? 13 A. That is correct. 13 A. Figure 1 shows that in 1990, the ratio was 14 14 Ο. The -- did you consider any alternative 8.66 percent. 15 15 numbers or time periods when you were doing your Q. Yep. 16 forecasting for this number? 16 A. In 2012, it's 6.97 percent. 17 17 Q. And so it changes by year, correct? A. I believe the person who did the revenue --18 did the estimates, the regression analysis, may have 18 Correct. 19 looked at different time periods. I don't remember what 19 But in your forecast, the ratio declines at a 20 the results looked like under the alternatives. It was 20 constant rate; is that correct? 21 my decision that this was the range of years that was 21 I believe that's a more accurate statement. 22 most relevant for the analysis that we're doing. 22 Okay. And historically, the ratio has not 23 Do you know what the actual mathematical 23 declined at a constant rate, correct? 24 formula is for this linear regression relationship? 24 That's correct. A. 25 25 A. I do. It's varied by year, correct? Page 202 Page 204 1 R. CLINE R. CLINE 2 A. That is correct. 2 What is it? 3 3 A. I don't know it off the top of my head, but we In projecting the -- or in ascertaining the 4 4 could provide that. In fact, I believe it might be in various numbers that you used in your report, did you 5 5 the spreadsheets that we provided. look at different periods of time for historical data, or 6 6 Okay. If it's not, where would we -- I mean, was it a uniform period of time from 1990 to 2012? 7 7 do you have other documentation that lays out the A. In doing all of our revenue forecasts, we were 8 mathematical formulas you used to calculate some of 8 continuously searching over history as well as history of 9 9 economics, history of actual tax collections, to find 10 A. I believe it is in some of the documents that 10 what we thought was the best information that was most 11 are related to the trial. 11 relevant for our current revenue forecast. 12 12 Okay. So, you believe that there are physical So, we certainly have in our various Excel 13 13 documents that contain the mathematical formula? spreadsheets much longer time series of data, for 14 A. I do believe that. 14 example, the relationship between employment in Detroit 15 Okay. The -- over this time period, you 15 and employment in the state. 16 16 Q. Okay. Depending on the particular number in looked at the ratio of Detroit share of total state of 17 Michigan employment as not constant, correct? 17 your report, it would be based on different historical 18 18 time periods; is that fair? 19 19 Ω Your forecast assumes that that ratio will A. The background information we looked at to do 20 20 our revenue forecast may have used different time periods remain constant for the next 10 years, correct? 21 Would you repeat the question? Which ratio 21 for different taxes, different histories of actual 22 22 collections, for example. are you referring to? 23 Does your forecast assume that the City of 23 Q. And did you also use different time periods 24 24 for different numbers used to generate, for example, the Detroit's share of total state of Michigan employment 25 25 income tax? will remain constant throughout the forecast period?

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Page 205 Page 207 R. CLINE R. CLINE 2 2 MR. STEWART: Objection. Okay. And as an expert in this case, are you 3 3 THE WITNESS: As I mentioned, our tax able to explain why the share of Detroit -- Detroit's 4 share of total state of Michigan employment went up or revenue forecast for the individual income tax 5 begins with the actual tax collections. I think it 5 down in particular years? 6 6 was 2013 preliminary. We didn't have to use A. No. I did not do a detailed examination of history or pick a time period for the actual 7 the percentage change in each year. The exercise was to 8 starting point of our revenue estimate. What we determine the long run trend over, say, a 20-year period 9 had to choose was expected rates of growth in the 9 of time. Focus was not on individual year fluctuations; 10 10 it was attempting to measure a long run structural change future over the next 10 years. To provide us with 11 information to choose those growth rates going 11 that we believe still applies to the City of Detroit. 12 forward, we looked back in time at history to the 12 Okay. Why would Detroit's share of total 13 extent that it helped us. 13 state of Michigan employment increase during certain 14 BY MR. SMITH: 14 portions of time that you looked at? 15 Okay. But like, for example, look at Figure 1 15 A. They may have -- it may have happened because 16 compared to Figure 2. You look at different time periods 16 some of the economic activities in Detroit were growing 17 for the growth rates of the City of Detroit and Michigan 17 faster than they were -- than other activities were 18 18 employment compared to the Detroit share of total state throughout the state. 19 19 of Michigan employment, correct? Q. You haven't done any analysis to figure out 20 A. That's correct, because the time period was 20 what activities there were during those historical 21 determined by the question we were trying to answer. 21 periods when Detroit was successfully growing its share 22 Okay. So, for the various inputs in your 22 of employment compared to the state, correct? 23 model, you look at different time periods; is that fair? 23 A. No, we did not. 24 24 We chose time periods that we thought were On page seven, you say, "A comparison of more 25 25 recent changes in employment in Detroit and Michigan most relevant for the parameter or the question we were Page 206 Page 208 1 R. CLINE 1 R. CLINE 2 indicates that Detroit employment has not recovered at trying to answer. 3 3 Q. Okay. And so, there are a number of the same rate as Michigan employment coming out of the 4 4 parameters in your model that -- on which you base your last two recessions." 5 assumptions or calculations upon different time periods; 5 Do you see that? 6 6 is that fair? 7 7 A. I would say that is correct, and you see here Did you calculate any relationship regarding 8 two of the types of information that we use in the rate of recovery in Detroit versus Michigan. 9 9 determining our key assumptions. We did, and the results are in Figure 2. 10 10 Okay. On that chart at Figure 1, would it be I mean, did you calculate it or did you -- you 11 fair to say that at various points in time, the City of 11 didn't calculate some number, did you, or did you 12 12 Detroit's share of total state of Michigan employment is calculate a number? Or did you do an assumption? I'm 13 13 higher than you've assumed in your forecast? trying to figure out if it's a calculated value versus an 14 It is true in 1990, the share was 8.66 14 assumed value. 15 percent. In 2012, it's 6.97 percent. 15 A. All of the values in Figure 2 were calculated 16 Okay. And in between those two periods of 16 from actual data. 17 17 time, it went up and down, correct? Q. And you would agree with me that there's no 18 Trend is pretty clearly down. 18 data or study showing a reinvestment and restructuring 19 19 But there are periods of time that it was initiative like the City is proposing impacts the rate of 20 trending upward, correct? 20 recovery as you've be assumed in your model; correct? 21 Given what I see in the diagram, I'd have to 21 I don't know if there are or are not other 22 go to the underlying percentage changes. I see maybe one 22 studies. We did not use or look for those studies in our 23 or two years where they may have been positive, but I'd 23 analysis. 24 have to look at the specific numbers to determine what 24 Okay. And so, sitting here today, you can't 25 was positive and what was negative. 25 identify any studies showing a reinvestment and

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1	R. CLINE	1	R. CLINE
2	restructuring initiative like Detroit's proposing will	2	state of Michigan are?
3	impact the rate of recovery, correct?	3	A. I don't have a detailed explanation of this
4	A. I don't have a specific study.	4	break. It certainly has something to do with the overall
5	Q. Okay. Can you tell me what mathematical	5	structure of the Detroit economy as well as the effects
6	formula was used to calculate the values in Figure 2?	6	of the fiscal crisis in Detroit.
7	A. The formula was X divided by Y.	7	Q. There's no study or analysis that would
8	Q. What is X	8	explain or support your theory that there's a more
9	A. It's the percentage change from year to year.	9	delayed recovery in Detroit than in the state of Michigan
10	Q. How did you calculate the reduction in the	10	for structural reasons, correct?
11	rate of lag under the restructuring scenario? Was that a	11	A. I think Figure 2 provides a pretty solid
12	calculation, or was that an assumption?	12	foundation for reaching that conclusion.
13	A. I'm not sure what you mean by the lag.	13	Q. But there's no study that says there's any
14	Q. Okay. You say that there's a delay in	14	causal relationship between anything in Detroit and a
15	recovery in Detroit that you are depicting in Figure 2,	15	delay in recovery compared to the rest of the state?
16	correct?	16	A. I don't know of any specific studies.
17	A. I believe the accurate description in Figure 2	17	Q. And the only person that's claiming that
18	is that the recovery in Detroit coming out of the trough	18	there's anything any kind of structural difference
19	of the recession was slower than it was in the state.	19	that's leading to a delay in recovery in Detroit compared
20	Q. Okay. Did you you say that there were	20	to the state of Michigan is you, correct?
21	other prior recessions. Did you do any testing or	21	A. I don't know that's the case, no.
22	analysis to determine whether the rate of recovery in	22	Q. Can you identify anybody else other than
23	Detroit was slower in recessions before 2001?	23	yourself
24	A. It was my knowledge of Michigan and Detroit	24	A. I have not.
25	suggested that they tended to move fairly close together	25	Q that's saying that there's some kind of a
	Page 210		Page 212
	1430 210		Page 212
1	_	1	
1 2	R. CLINE	1 2	R. CLINE
	R. CLINE in prior recessions, both going down and coming out. I		
2	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years	2	R. CLINE structural reason for delay in recovery between Detroit
2	R. CLINE in prior recessions, both going down and coming out. I	2	R. CLINE structural reason for delay in recovery between Detroit and Michigan?
2 3 4	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was	2 3 4	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there.
2 3 4 5	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that	2 3 4 5	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't
2 3 4 5 6	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the	2 3 4 5 6	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that
2 3 4 5 6 7	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the	2 3 4 5 6 7	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct?
2 3 4 5 6 7 8	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the	2 3 4 5 6 7 8	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct?
2 3 4 5 6 7 8	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the State of Michigan. I believe Figure 2 is a pretty clear	2 3 4 5 6 7 8	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct? A. I do not have a specific study that you could
2 3 4 5 6 7 8 9	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the State of Michigan. I believe Figure 2 is a pretty clear indication of that.	2 3 4 5 6 7 8 9	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct? A. I do not have a specific study that you could refer to as a source that would go beyond the
2 3 4 5 6 7 8 9 10	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the State of Michigan. I believe Figure 2 is a pretty clear indication of that. Q. That's based on data from one recession,	2 3 4 5 6 7 8 9 10	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct? A. I do not have a specific study that you could refer to as a source that would go beyond the documentation of what has actually been happening. It's
2 3 4 5 6 7 8 9 10 11	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the State of Michigan. I believe Figure 2 is a pretty clear indication of that. Q. That's based on data from one recession, correct?	2 3 4 5 6 7 8 9 10 11	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct? A. I do not have a specific study that you could refer to as a source that would go beyond the documentation of what has actually been happening. It's not a theory. It's, I believe, reality, and I think
2 3 4 5 6 7 8 9 10 11 12	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the State of Michigan. I believe Figure 2 is a pretty clear indication of that. Q. That's based on data from one recession, correct? A. That's based upon data from two recessions.	2 3 4 5 6 7 8 9 10 11 12	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct? A. I do not have a specific study that you could refer to as a source that would go beyond the documentation of what has actually been happening. It's not a theory. It's, I believe, reality, and I think Figure 2 is pretty clear.
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	R. CLINE in prior recessions, both going down and coming out. I did not go back and look at the last 30 years or 40 years of recessions in Michigan. I didn't think it was relevant for this exercise. I do think this recent break is an important one because it does reflect the fact that there is now, I believe, a significant difference in the ability of the City of Detroit to recover versus the State of Michigan. I believe Figure 2 is a pretty clear indication of that. Q. That's based on data from one recession, correct? A. That's based upon data from two recessions. Q. Okay. There are other recessions where you would agree with me that Detroit has recovered at a comparable rate to Michigan; is that correct? A. It would be my impression that there was a closer correlation between changes in Detroit and changes in Michigan in earlier recessions. Q. You haven't calculated those numbers, though, correct? A. I have not. I didn't think they were relevant for this forecast exercise.	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	R. CLINE structural reason for delay in recovery between Detroit and Michigan? A. I have not, but I wouldn't conclude that means it's not out there. Q. Okay. But sitting here today, you can't identify anybody other than yourself that's voiced that opinion, correct? A. I do not have a specific study that you could refer to as a source that would go beyond the documentation of what has actually been happening. It's not a theory. It's, I believe, reality, and I think Figure 2 is pretty clear. Q. But you can't you can't identify the specific cause of this delay in recovery for that you outline in your report between Detroit and the rest of the state of Michigan, correct? A. What we are attempting to do was to identify the break, not to explain the break. The question for us was will it continue in the future, and we determine that, yes, for our economic forecast, we think that this is another break that needs to be considered when you are doing a 10-year revenue forecast for Detroit.

Pages 209 to 212

Page 215 Page 213 1 R. CLINE R. CLINE 2 A. We have not tried to analyze the Detroit 2 lines, you've got a rough estimate of what that 3 3 differential looks like. We used the relationship, economy in detail compared to the Michigan economy in 4 4 detail. actual relationships between these two lines to try to 5 So, you can't tell me whether this 5 come up with an estimate of what that gap looks like. 6 6 unidentified cause will continue into the future or not Q. What's the mathematical formula or technique 7 with respect to the break between Detroit and the state 7 to get that estimate? 8 A. It's Y minus X. You look at two percentage of Michigan, right? 9 A. I can tell you we have two very significant 9 changes, look at the difference in those two. 10 10 Q. But did you do that throughout the period or observations of the existence of the break. I believe 11 the 10-year horizon covered in this diagram is a fairly 11 at one point in time or what? 12 solid foundation to assume that something fundamentally 12 I believe at that -- for that calculation, we 13 has changed, and I believe that's a solid foundation for 13 were focusing on this time period covered between 2001 14 14 the revenue forecast for a 10-year period. and 2012. 15 15 So, you're assuming in your forecast that the Q. But I'm still trying to get what the 16 break between Detroit and Michigan with respect to the 16 mathematical calculation was. Obviously, throughout that 17 rate of recovery will continue, correct? 17 period there were differences in the degree to which 18 In our forecast, we have this structural break 18 there was a delay in recovery, right? 19 continuing, but I believe we taper it down near the end 19 A. Correct. 20 20 of the forecast period. Q. Okay. And so, I'm trying to figure out how 21 21 you calculated a single number based on data underlying Okay. And that's an assumption you're making 22 for your forecast, right? 22 Figure 2 for the delay in recovery. 23 23 A. I'll have to check the exact mathematics, but It is an assumption. And -- but you haven't identified the actual 24 24 I believe what you can see is that we looked at the two 25 cause to figure out whether the cause is going to periods of time from an expansion, from a recession. We 25 Page 214 Page 216 1 R. CLINE 1 R. CLINE continue during the 10-year period, correct? 2 may have averaged those gaps during the expansionary 2 3 3 We have not done a detailed study of the periods. 4 4 Q. Okay. But right now, you don't know the exact cause. 5 Q. And in fact, nobody has done any detailed mathematical --6 study of any cause of this alleged break between Detroit 6 I'll have to --7 7 and the state of Michigan in terms of rate of recovery, -- technique used to calculate the delay in 8 correct? recovery, correct? 9 9 MR. STEWART: Objection. A. I know the exact mathematics used to calculate 10 THE WITNESS: I don't know if that's 10 it. I don't remember precisely which years went into 11 correct. 11 that averaging. 12 12 BY MR. SMITH: Okay. Is it possible that not all the years 13 13 Q. You can't identify any study like that sitting depicted in Figure 2 went into that calculation? 14 14 here today, correct? A. As I mentioned, I believe we were focusing on 15 I haven't identified any study. 15 the recovery periods, not the recession. You notice that 16 16 in the recession, '8, '9, they moved closely together. Okay. When we look at page -- based on the 17 data that you're talking about in Figure 2, do you 17 The break is in the expansion, the recovery from 18 calculate a -- some kind of value that you use to project 18 recession, not in going down into the recession. 19 19 the delay in the rate of recovery? Q. Okay. So, you don't know which recovering 2.0 20 years you used in generating the value for the delay in A. Correct. 21 And how -- what's the mathematical formula you 21 rate of recovery, correct? 2.2 22 used to calculate that value? I'm pretty certain we used the recovery years. 23 23 A. It's partly based on the numbers you see lying But you don't know which years those are? 24 24 behind the graph in Figure 2. You can tell that the --I believe they were the years that you see 25 if you look at the vertical difference between those two here in the graph.

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	Page 217		Page 219
1	R. CLINE	1	R. CLINE
2 0	Ω. Which are what years?	2	formula for me that you used to calculate the recovery
3 A	•	3	rate?
4 201	•	4	A. In fact, I can tell you what the formula is.
5 C	2. Are there written documents that lay out the	5	X equals the percentage change in Detroit employment -
6 mat	thematical formula in the calculation of the recovery	6	Michigan employment minus the percentage change in
7 rate	??	7	Detroit employment. That is the formula.
8 A	A. I believe there are Excel spreadsheets that	8	Q. Okay. For which years?
9 hav	ve the data in them.	9	A. For the years of economic expansion coming up
10 C	But as far as the mathematical formula that	10	out of a recession.
11 was	s used to calculate the numbers, is that laid out	11	Q. Which are which specific years?
12 any	where in written documents?	12	MR. STEWART: Objection.
13 A	A. I don't know the answer to that. I'm not sure	13	THE WITNESS: As I indicated, I believe
14 if it	was identified separately or not.	14	they're the gaps that you see
15 C	2. Who did the actual calculation of the recovery	15	BY MR. SMITH:
16 rate	e; was that you or somebody else?	16	Q. Well
17 A	A. I supervised the calculation of that rate.	17	A in Figure 2.
18 C	Who calculated the recovery rate?	18	Q. Can you give me years? Is it 2000 to 2008 or
19 A	A. One of my staff members.	19	is it some other period of time? Can you tell me what
20 C	2. Do you know which one?	20	the period of time is?
21 A	A. I believe I do.	21	A. I can check for you to see the specific period
22 C	2. And who was that?	22	of time.
23 A	A. Katie Ballard.	23	Q. Okay. So, right now, sitting here today, you
24 C	Q. Okay. But certainly, you don't lay out the	24	don't know the period of time that was used in
25 mat	thematical formula in your report that was used to	25	calculating the recovery rate, correct?
	Page 218		Page 220
1	R. CLINE	1	R. CLINE
_	culate the recovery rate, correct?	2	MR. STEWART: Objection.
_	A. We calculated the gap	3	THE WITNESS: I do I do not know the
	Q. Well	4	exact years. I know the period of time that was
	A between those two lines.	5	covered in the comparison.
6	MR. STEWART: Don't interrupt his answer.	6	BY MR. SMITH:
7	THE WITNESS: I'm sorry.	7	Q. Okay. Sitting here today, you don't know the
8	MR. STEWART: No, no. Finish your answer.	8	exact years used to calculate the recovery rate, correct?
9	MR. SMITH: It's the mathematical	9	A. I can find those years for you.
10	formula	10	Q. But sitting here today, can you tell me what
11	MR. STEWART: No, no, no, no. He finishes	11	they are?
	his answer first.	12	A. I do not remember each of the years that were
13	MR. SMITH: I think he did finish.	13	included in that comparison. I do know the data and have
	MR. STEWART: No, you interrupted him.	14	looked at the detailed data that lies behind these two
14	- '	1.5	graphs.
	Please finish.	15	3 1
	Please finish. THE WITNESS: We looked at the difference	16	Q. Are there written
15 16			
15 16 17	THE WITNESS: We looked at the difference	16	Q. Are there written
15 16 17 18	THE WITNESS: We looked at the difference in the percentage changes between Michigan and	16 17	Q. Are there written A. Bars.
15 16 17 18 19	THE WITNESS: We looked at the difference in the percentage changes between Michigan and Detroit coming out of two recessions, two recent	16 17 18	Q. Are there writtenA. Bars.Q. Are there written documents that set forth the
15 16 17 18 19 20	THE WITNESS: We looked at the difference in the percentage changes between Michigan and Detroit coming out of two recessions, two recent recessions. We saw that going down into the trough	16 17 18 19	 Q. Are there written A. Bars. Q. Are there written documents that set forth the detailed data in the mathematical formula used to
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15 16 17 18 19 20 21	THE WITNESS: We looked at the difference in the percentage changes between Michigan and Detroit coming out of two recessions, two recent recessions. We saw that going down into the trough they tended to track closely. Coming out, in the recovery, there has been a definite lag with	16 17 18 19 20 21	 Q. Are there written A. Bars. Q. Are there written documents that set forth the detailed data in the mathematical formula used to generate the recovery rate? A. It may be in the native format Excel
15 16 17 18 19 20 21 22 23	THE WITNESS: We looked at the difference in the percentage changes between Michigan and Detroit coming out of two recessions, two recent recessions. We saw that going down into the trough they tended to track closely. Coming out, in the recovery, there has been a definite lag with Detroit not rebounding as quickly as the state, and	16 17 18 19 20 21 22	 Q. Are there written A. Bars. Q. Are there written documents that set forth the detailed data in the mathematical formula used to generate the recovery rate? A. It may be in the native format Excel spreadsheets that I believe you folks have access to.

Pages 217 to 220

Page 223 Page 221 R. CLINE R. CLINE 2 2 Okay. So, you don't know everything that's in effect of that cyclical adjustment, correct? 3 3 the spreadsheets that serves as the basis for your A. Our assumption is that that cyclical 4 adjustment reflected all of the conditions that led to projections, correct? 5 Not off the top of my head, I do not. 5 the fiscal crisis in Detroit, that the restructuring 6 Would it be fair to say that the years that 6 activities of the City of Detroit would reverse that 7 are used to calculate the recovery rate and the 7 negative additional factor, and the City would return to 8 mathematical formula aren't set forth in your expert the longer run relationship with state growth in 9 9 employment, but with a slightly negative and less report, correct? 10 10 negative structural -- long run structural adjustment. A. I believe that's accurate. 11 11 The -- now, for the restructuring scenario, But there's no study or data that supports or 12 you use a different value for the recovery rate, correct? 12 demonstrates that the cyclical adjustment should be 13 A. I believe that is correct. 13 eliminated and you should decrease the restructuring 14 And how was that -- was that an assumed value 14 value from .85 to .5, correct? Ο. 15 15 or was that a calculated value? A. I think it's correct to say that that cyclical 16 A. That was a calculated value that adjusted that 16 adjustment factor is one that we estimated on our own 17 long run historical ratio that we have been discussing, 17 based upon recent history in the relationship between 18 18 adjusted it to be less negative than we did under the Detroit and Michigan, and we removed the adjustment that 19 19 baseline, because our assumption is the economy in we created when we went to the restructuring scenario. 20 20 Detroit under the restructuring scenario will be stronger But there's no study or data showing that 21 than it is under the baseline. 21 restructuring will remove the cyclical adjustment, 22 22 correct? But can you give me -- was there a 23 23 A. We have no additional or independent study mathematical formula that was used to calculate the 24 24 that quantifies the overall impact on the city economy recovery rate in the restructuring scenario -- or was --25 25 from all of the activities that are under the umbrella of A. No. It was our assumption about how the Page 222 Page 224 1 R. CLINE R. CLINE 2 2 relationship changed. restructuring. 3 3 Okay. So, the recovery rate in the Q. Okay. So, the answer is yes, you have no 4 4 restructuring scenario is an assumed number, not based on study or data supporting removal of the cyclical 5 5 a mathematical calculation, correct? adjustment in the restructuring scenario, correct? 6 6 A. It is an important assumption in the estimate A. That's not quite correct. We have history 7 7 that we made. which we have relied upon, we have history of the break 8 Okay. And there's no scientific study that 8 between Michigan and the state -- state of Michigan and 9 9 you can point to to support the rate of recovery in the Detroit from 2001 to 2012. We have the history of the 10 10 restructuring scenario, correct? longer run structural decline of Detroit relative to the 11 A. Let me perhaps be clear about what I'm 11 city -- to the state, and we made the assumption that 12 describing. On page 12 in the report, I had switched to 12 that cyclical adjustment we made in the baseline forecast 13 13 the longer run forecast. Going back to -- all right. It was not going to continue under the restructuring 14 looks like it's listed under point C on page 12. You can 14 scenario. 15 see that we did bring down that longer run structural 15 It's not as though there was no basis for our assumption. It is based upon what we have seen in recent 16 decline in Detroit versus Michigan to a smaller negative 16 17 number. 17 history. It is our assumption that that negative --18 I believe in the restructuring forecast we 18 second negative impact would be reduced, if not 19 19 have eliminated this cyclical adjustment that you saw in eliminated, under the restructuring scenario. 20 Figure 2. We are assuming that the impact of 20 The City of Detroit has never undertaken a 21 restructuring would overcome what that negative 21 restructuring and reinvestment like it's proposing in the 22 22 adjustment was that we saw in Figure 2. So we have bankruptcy, correct? 23 23 removed it in the restructuring scenario. A. I don't know about prior discussions in 24 24 There's no study or data you can point to Detroit. I haven't been following those.

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So, you have no idea -- I mean, you can't

25

25

showing that restructuring would remove that -- the

Page 225 Page 227 R. CLINE 2 2 point to any previous instance where the State engaged in remember, in terms of our methodology, we had to look at 3 3 restructuring or reinvestment, correct? residents who work in the City of Detroit, residents who For the City of Detroit? 4 work outside of the City of Detroit, and people who live 5 5 in the suburbs and work in Detroit. Those are all 6 6 I am not aware of any, and that's why there's subsets or not, in one case, even in the population no study we can rely upon to determine the factors. 7 numbers for Detroit. Precisely. There's no study or data that 8 8 So that we had to do separate percentage 9 shows that the cyclical adjustment that you assume is 9 change estimates for those three components of the 10 10 going to go away in the restructuring scenario actually taxpayer groups in Detroit. 11 11 will go away, correct? Q. Can you tell me what the add factors were that 12 I believe it is a reasonable -- thinking about 12 you used? 13 what's unfolding in Detroit, I believe that that cyclical 13 A. Well, I believe you see on page nine we have 14 14 adjustment we saw in Figure 2 is related to the economic got forecast the number of residents employed in Detroit 15 weaknesses and the fiscal crisis in Detroit. I believe 15 will decline at 1 percent a year, less negative 20 to 21, 16 it is reasonable to assume that if those issues are 16 and then 0 percent in the last two years. 17 addressed, that the private sector could respond in a 17 Okay. And --18 strong -- with a stronger rates of growth. I think it is 18 So -- yes. 19 19 a reasonable scenario over the next 10 years with Go ahead. 20 20 No, I was just -- those are the numbers that restructuring. 21 21 would describe our growth in the number of the taxpayer Q. Okay. I'm asking about studies or data. 22 There's no studies or data showing that the cyclical 22 population for residents working in the city. 23 adjustments related to the fiscal crisis in Detroit, 23 Those growth rates referenced on page nine, 24 24 correct? are those assumed values or were they generated by 25 25 A. This is a unique situation that isn't in mathematical formula? Page 226 Page 228 1 R. CLINE R. CLINE 2 history, so there are no studies that would answer your They were our assumptions that went into the 3 3 auestion. model. 4 4 Ο. And so, there's no study or data showing that Ο. Okay. So, the negative 1 percent decline per 5 engaging in restructuring or reinvestment to alleviate year and then the growth rate increase of minus .5 6 6 the fiscal crisis will eliminate the fiscal adjustment, percent from 2020 to 2021 and 0 percent in the last two 7 correct? forecast years, those were all assumed and not calculated 8 You're correct that I do not know of any study values, correct? 9 9 that deals specifically with that issue. A. They are assumptions that we used in the 10 10 Okay. Page eight, population growth rate. estimates. 11 You've got -- can you tell me what 11 Q. Did you look at different assumptions for 12 mathematical formula was used to calculate the population 12 those numbers? 13 growth rate referenced on page eight? 13 A. I believe we may have iterated to the final 14 A. I cannot tell you what methodology SEMCOG used 14 numbers, but I don't have specific runs of all the 15 for its population projections. 15 variations that we might have used along the way. 16 Q. Okay. Did you do any alteration of SEMCOG's 16 Would it be fair to say for all of the assumed 17 population projections? 17 values you used, you tested out different assumed values? 18 A. We did in forecasting the individual income 18 A. I don't think it's accurate to say we tested 19 19 tax collections. out. I think it's accurate to say that we -- based upon 20 Q. Okay. Can you tell me the mathematical 20 additional information we received, we made adjustments 21 21 formula you used to adjust or change SEMCOG's population in these assumptions that we thought align more closely 22 22 projections? with the most recent information available. Q. Okay. So, for all of the assumed values that 23 23 A. We used add factors, which could be plus or 24 minus percentage changes, for different components of the 24 form the basis for your forecast, you had used other 25 population, which were not forecasted by SEMCOG. As you assumed values at different points in time; is that fair?

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Page 231 Page 229 R. CLINE 2 I don't think that's accurate for all of the 2 scenario without that, and we -- it is described and 3 3 included in the restructuring scenario. key assumptions, but there may have been some --4 Did you ever run the restructuring scenario 5 -- key assumptions that changed over time. 5 without removing the cyclical adjustment? 6 6 I don't -- let me see if I can -- I believe I Okay. For some of the key assumptions that underlie your forecast, you did use different numbers at 7 have to correct your -- to answer your question, I 8 different points in time when you were generating your believe you -- would you repeat your question, please. 9 forecast, correct? 9 Did you ever run the restructuring scenario 10 A. I would say that is correct, and as I had 10 without removing the cyclical adjustment? 11 mentioned before, we certainly changed the starting point 11 I believe the right answer is, we did remove 12 for each of our revenue forecasts as we updated the 12 the cyclical adjustment. 13 13 actuals to reflect the most recent information. That Q. And I'm asking in the various iterations of 14 14 your model, did you ever run the restructuring scenario changed continuously throughout this entire period. 15 15 In terms of the recovery rate, did you -without removing the cyclical adjustment? 16 either under the baseline or restructuring scenario, did 16 A. I don't recall doing that exercise. 17 you use other recovery rates other than the minus .85 and 17 Okay. Back to the figures on page nine. I 18 18 minus .5 percent? mean, there's -- is there any rhyme or reason about why 19 A. I don't remember specifically. I do remember, 19 you use minus -- minus .5 as opposed to minus .4 or some 20 20 though, that at one point, we may have talked about other value there? 21 whether to round the number off to one decimal place 21 A. I believe there is a structure here that 22 instead of using two, but I don't remember specific runs 22 provided us guidance on the likely magnitude of these 23 23 numbers. That information included the forecast with different values. 24 24 percentage change in population. The number of people Were there other methodologies you considered 25 25 for trying to generate the restructuring scenario other living and working in Detroit is a function of the numbe Page 230 Page 232 1 R. CLINE 1 R. CLINE 2 than using this recovery rate methodology? 2 of people who live in Detroit, and it's also a function 3 3 A. Well, I wouldn't say that what we did was only of the overall rate of growth of employment. 4 using that recovery rate methodology. That only came 4 Our forecast of those values determine, in a 5 into play in getting the total -- the total job number 5 sense, what I would call a reasonable range of values 6 6 for the City of Detroit, and that was just the beginning that we plugged in as our key forecasting assumptions. 7 7 point. And then we had to divide the total jobs into So, these numbers are, in a sense, bound by other 8 those held by residents, those held by non-residents, and parameters that are in our forecast. 9 9 then we had to determine the number of jobs residents Q. So, for each of the assumptions that you plug 10 10 held in the suburbs. All of those involved key in your model, there's actually a range of values that 11 assumptions about the rates of growth of those 11 you could have plugged into your model; is that fair? 12 12 components. A. It's not an accurate description of the 13 13 Were there any analyses, though, where you process we used. We were going for the most accurate 14 didn't use the cyclical adjustment in your calculations? 14 point estimate of our revenue. We did not try to 15 I believe it was used in the calculation of 15 construct a band confidence interval or otherwise around 16 16 our point estimate, so we did not go through a simulation the total employment rate -- the total job number for the 17 City of Detroit I can certainly check to see if it was 17 changing every parameter up by 10 percent or down by 10 18 18 used somewhere else. 19 19 Well, no, I'm wondering if there was a point Q. For the numbers, though, on page nine, can you 20 in time where you didn't try to do this calculation with 20 tell me why the growth rate increases to minus .5 percent 21 21 the cyclical adjustment rate. in the specific years, fiscal year 2020 and 2021? 2.2 22 A. That was our assumption about, in a sense, the A. I believe I did mention that, as you see in 23 the report, that we went -- when we went to the 23 time it would take before the private sector started to 24 24 restructuring scenario, we removed the cyclical -respond.

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Okay. So, that's an assumption and not a

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additional cyclical adjustment. So, yes, we did run a

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	Page 233		Page 235
1	R. CLINE	1	R. CLINE
2	calculation, correct?	2	MR. STEWART: Don't interrupt the witness.
3	That is correct, but I would just add that the	3	MR. SMITH: Yeah, but it's blatant
4	entire forecast is a forecast based upon assumptions.	4	MR. STEWART: Don't interrupt the witness.
5	Q. Yeah.	5	He has to finish his answer.
6	A. If we	6	MR. SMITH: Well, this is really delaying
7	Q. All of your forecasts in your report are	7	and non-responsiveness.
8	forecasts based on assumptions, correct?	8	MR. STEWART: It's because you're asking
9	A. All economic forecasts are forecasts based	9	very poor questions. Let him finish his answer.
10	upon assumptions.	10	MR. SMITH: What's so poor about asking him
11	Q. Yeah. And essentially what you are doing is	11	whether the three numbers
12	you're trying to base all of your assumptions on your	12	MR. STEWART: Answer the guestion.
13	experience, correct?	13	MR. SMITH: on the page are calculated,
14	A. I don't believe that is correct.	14	can you tell me that?
15	Q. Okay. So there's no mathematical formula for	15	MR. STEWART: Finish finish your answer.
16	population growth rate that's generating the numbers on	16	MR. SMITH: Geoff, Geoff, tell me you
17	page nine, correct?	17	just said that my question was objectionable and I
18	A. It is my assumption that the total population	18	want you to tell me why it's objectionable to ask
19	numbers from SEMCOG have a pretty elaborate underlying	19	him if he calculated three numbers in his report.
20	structure that provided that population forecast.	20	MR. STEWART: Because he told you your
21	Q. But the growth rates that are the minus 1	21	question was ambiguous in the use of mathematical
22	percent per year and then minus .5 in fiscal year 2020	22	formulas. He explained to you why. He explained
23	and 2021 and 0 percent in the last two forecast years,	23	where they came from. He explained how he was
24	those aren't numbers generated by a mathematical formula,	24	going about it.
25	correct? They're assumptions.	25	MR. SMITH: Okay. Where did they come
	Page 234		Page 236
1	R. CLINE	1	R. CLINE
2	Could you explain what you mean by a	2	from, Geoff?
3	mathematical formula?	3	MR. STEWART: You are not allowed
4	Q. Okay. So, as an expert in this case, can you	4	MR. SMITH: Where did they come from?
5	tell me what a mathematical formula is?	5	MR. STEWART: to interrupt his answer.
6	A. What I'm having trouble with is understanding	6	MR. SMITH: Geoff, you are sitting here.
7	your juxtaposition of the word "assumptions" with the	7	Where did those three numbers come from?
8	phrase "mathematical equations." I would describe our	8	MR. STEWART: Finish your answer.
9	entire Excel model as a model that involves mathematical	9	MR. SMITH: Can you tell me
10	equations.	10	MR. STEWART: Finish your answer.
11	We have plugged key assumptions into those	11	MR. SMITH: on the record from what he
12	mathematical equations, and the forecast is a result of	12	said today? Can you tell me where those numbers
13	the combination of all of those factors and all of those	13	came from?
14	equations, and all of those assumptions.	14	MR. STEWART: Are you trying to pick a
15	Q. My only question is those figures on page	15	fight with me?
16 17	nine, for the growth rate, are not calculated values,	16	MR. SMITH: I'm just asking you
18	correct? A. Those values began with history in Detroit,	17 18	MR. STEWART: Are you trying to pick a
19	A. Those values began with history in Detroit, recent history. Actual numbers. We used those actual	18 19	fight with me?
20	numbers to calculate ratios that then provided a guide to	20	MR. SMITH: There's no fight, but you your witness has obstructed the deposition, and
21	us on possible, probable numbers that would provide us	21	it's wasting time for everybody here unnecessarily.
22	with a forecast of the rate of growth of the number of	22	MR. STEWART: The witness is doing an
23	residents employed in Detroit. We then determined what	23	excellent job. The problem is the way you've gone
24	those values would be	24	about examining him.
25	Q. This is really	25	Now, you can finish your answer.

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Page 237 Page 239 1 R. CLINE R. CLINE 2 2 MR. SMITH: Okay. What's wrong with asking relationship between the economy, in particular labor 3 3 if a witness has calculated three numbers? markets in Detroit, versus the state of Michigan. We 4 MR. STEWART: Finish your answer. Finish 4 believe that the excess -- that there is excess capacity 5 your answer. 5 in Detroit holding down wage growth compared to the rest 6 6 of the state of Michigan. We built that differential THE WITNESS: Based upon ratios that we had 7 7 into our -- the assumptions about our revenue forecast. calculated mathematically from the recent history, we had to choose the values, specific values that 8 Q. Okay. But the 1 percent wage growth rate is 9 are reported in nine. We made assumptions about 9 not a calculated number, correct? 10 1.0 MR. STEWART: Objection. what those values are based upon all of this 11 11 THE WITNESS: It may have been based upon groundwork that we did, that it did involve 12 mathematical equations, and the entire Excel 12 history, recent history in Detroit that involved 13 spreadsheet is in fact a set of mathematical 13 some calculations. We do not have a regression 14 equation that would predict the value of that 14 equations. 15 15 But this was a -- these were key percentage. 16 assumptions based upon our best professional 16 BY MR. SMITH: 17 17 Q. Okay. So, the wage growth rate is not the judgment of what was likely to happen. 18 BY MR. SMITH: 18 result of a mathematical computation, correct? 19 19 Q. Okay. The minus 1 percent, the minus .5 A. I wouldn't describe it that way. We started 20 20 with the Michigan state forecast for wage and salary percent, and the 0 percent for the employment growth are 21 21 growth, which in a sense, bounded on the upper end what all key assumptions, correct? 22 22 our assumption could be. A. Correct. 23 O Mm-hmm 23 And those specific numbers were not calculated 24 24 And back in 2013, that state rate may have by a mathematical formula, correct? 25 been between 2 percent and 3 percent. Upper limit, we 25 There is no separate regression equation that Page 238 Page 240 1 R. CLINE 1 R. CLINE knew Detroit couldn't go higher than that. So, we then 2 you could use to generate those numbers. 3 3 reduced it to reflect that relative slack in labor Q. Okay. Did you ever -- are any of the numbers 4 that you generate based -- generated by time series 4 markets, which brought it down below the state rate. 5 5 Q. But there's no mathematical formula you used analysis or not? 6 6 to reduce the wage growth rate so that it was 1 percent, A. I have given you several illustrations of 7 7 numbers that were generated by the use of historical correct? 8 data. I'm not sure what you mean by time series It's our assumption of what that rate is going 9 9 analysis. to be. 10 10 Q. Okay. You know that there's a specific Q. Okay. And so, there's no mathematical formula 11 statistical technique called time series analysis, don't 11 12 12 you? A. There's no regression equation that would have 13 13 generated that number independently of what we did in the A. I do. 14 14 Do you know whether any of the numbers in your forecast. 15 report were generated using time series analysis? 15 Or any other mathematical formula? 16 16 A. Time series analysis is basically regressing a There is math in the background, and the 17 variable on itself. We did not use that simplistic 17 entire Excel spreadsheet is a mathematical set. 18 approach to doing the revenue estimates 18 Where is the mathematical formula, or why 19 19 Okay. On page ten, you've got a number for don't you write down the mathematical formula that you 20 20 used to get 1 percent? Can you do that for me? the average wage growth of 1 percent --21 21 A. Yes. All of the calculations, I believe, are in the 22 2.2 Excel spreadsheets that you folks have had access to. -- for Detroit? 23 23 That is an assumed number, correct? But sitting here today, you can't write down 24 24 the mathematical formula you can't claim was used to It's a number. It's an assumption that we 25 developed based upon our understanding of the generate the 1 percent wage growth rate?

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Page 243 Page 241 R. CLINE R. CLINE 2 A. I think I've explained the process we went 2 below the rate of inflation, but we don't have a separate 3 3 through in choosing that assumption. inflation forecast. 4 That's not my question. Here's a pen. Can 4 Q. Okay. So, it's likely that you're projecting 5 you write it down on the page? What's the mathematical 5 a real wage rate that is either zero or negative growth? 6 6 A. I believe that's the implication of the formula you used to generate the 1 percent wage growth 7 numbers. 8 8 A. I believe all of those formulas are sitting in Okay. Page 12 of your report, you mention 9 the Excel spreadsheet. I would have to go back and look 9 under the heading, C, the first paragraph there, you say 10 at each of those cells to determine what was math in the 10 that "The 40-year tax forecast should be considered a 11 model and what was the key assumption. I believe the 1 11 simulation of what would happen under the assumed growth 12 percent was a key assumption that we're responsible for 12 rates, not a forecast of what is expected to happen." 13 and we had to choose the profile for tapering it down. 13 Do you see that? 14 14 Or in this case, I guess, to be tapered up or A. I do. 15 down, but we had -- we controlled the timing of when we 15 And would you agree with me that the 10-year 16 altered that rate. It is a key assumption that we used 16 forecast also should be considered a simulation of what 17 in the model. 17 would happen under the same growth rates and not a 18 18 When you say something is a key assumption, forecast of what is expected to happen? 19 that means that it's not being generated by a 19 A. No, I would not agree with that statement. 20 mathematical formula, correct? 20 Why is there a difference between the 10-year 21 No. It doesn't follow that that's the case. 21 and the 40-year forecast? Is it just the length of time Α. 22 All right. But the wage growth rate, that was 22 of the forecast? 23 23 not generated by a mathematical model, is it? A. No, it's not. A. That is correct. 24 24 What's the difference? 25 MR. BARNOWSKI: Is it possible to take a 25 The difference has to do, I believe, with the Page 242 Page 244 1 R. CLINE 1 R. CLINE 2 starting point. As I've emphasized, our entire forecast five-minute break? 2 3 3 MR. STEWART: Sure. for the 10-year period of time is solidly grounded in MR. SMITH: Sure. 4 actual tax collections probably through FY '13 for most 4 5 5 THE VIDEOGRAPHER: Going off the record at of the taxes. We got -- we have the right starting 6 point, and we know what it is. We then forecasted the 6 3:27. This is the end of disk number three. 7 7 (RECESS, 3:27 p.m. - 3:39 p.m.) expected changes over the next 10-year time period. It's 8 THE VIDEOGRAPHER: On the record at 3:39, not really a 40-year additional forecast, it's 30 more 9 9 this is the beginning of disk number four in the years beyond the first 10, is I believe the accurate way 10 10 to describe it. deposition of Robert Cline. 11 BY MR. SMITH: 11 Going out beyond the first 10, we don't have 12 12 Okay. Mr. Cline, the 1 percent wage growth the actuals as our foundation, and we have moved into a 13 13 period of time which is outside of anyone's economic rate that you used, you believe is a reasonable rate for 14 City of Detroit, correct? 14 forecasting model that I'm familiar with. Therefore, I 15 It is the one that we thought was reasonable 15 think it is accurate to characterize that more as a 16 16 given the recent economic challenges in Detroit. simulation based upon those assumptions. 17 And it's the best estimate in your view? 17 Q. And so, would it be fair to say the 18 It's the estimate that we think is most 18 methodology you used for the 40-year forecast is 19 19 different from the 10-year forecast? accurate over the 10-year time period, but as I 20 mentioned, it -- I believe it -- it is, and that's the 2.0 A. I would interpret the methodology we use for 21 baseline forecast, 1 percent. 21 the next 30 years to be different from the first 10-year 22 22 The 1 percent value for wage growth that you forecast. 23 used is less than the inflation rate, correct? 23 Ω Did you have actual data regarding the wage 24 24 We don't have a separate inflation rate rates in the City of Detroit? 25 25 Did -- we had some information, I believe, on forecast, so it very is likely to be about or a little

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Page 245 Page 247 R. CLINE R. CLINE 2 wages and salaries in the Detroit metropolitan area. I 2 assumed rates of growth. 3 3 believe it may have included Detroit. I don't know if Q. Okay. So, the rates of growth that you used 4 for the income tax bases in your model were assumed Detroit was stated separately. But remember, what we 5 were trying to get at is the growth in taxable income, 5 rates: correct? 6 not the growth in wages. We're using it as a proxy or as 6 A. They are our assumptions about what we believe 7 a number to suggest what is happening to the tax base. 7 is a reasonable forecast over this period of time. 8 It's the tax base, not the wages, that are key here. And the -- at the bottom, you mention that 9 But you needed to get an accurate measure of 9 you've assumed the tax rates remain constant, correct? 10 10 wages in order to even be able to use it as a proxy for A. Yes. And we didn't assume that. That is in 11 taxes, correct? 11 fact current law. It's not an assumption. 12 Well, I wouldn't overemphasize that length. 12 Well, you assume that current law will remain 13 The tax base itself is a complex combination of earnings 13 unchanged throughout the forecast period, correct? 14 14 which are wages and salaries of employees, earnings of A. It's not an assumption we made. It's standard 15 the self-employed, interest dividends and other sources 15 revenue forecasting procedures. You do the forecast 16 of income. It's the combined influence of all of those 16 under current law. 17 factors, all of those components that make up the 17 Okay. You're aware, though, that in the past 18 forecast of the tax -- the tax base, and the change in 18 the income tax rate has been higher than it is under 19 that tax base over time. 19 current law, correct? 20 20 So that we were no -- we were not trying to A. I assume so. It probably was also lower --21 get -- we were not limited to trying to get a forecast of 21 Well --22 wages specifically; we were trying to forecast the 22 -- in the past. 23 expected growth rate in tax- -- taxable income under the 23 Do you know what it has been? 24 24 No. I do not. All I know is what current law individual income tax. 25 Page 14, you've got some numbers here for is, and that's what we used in our model. Page 246 Page 248 1 1 R. CLINE R. CLINE 2 Detroit employment growth at the bottom. 2 So, you didn't investigate what the income tax 3 3 Do you see those? The last paragraph? rate has been in the past? 4 4 A. It's not an issue that was relevant to our A. I do. Yes, I do. 5 Okay. And you say, "Over this period the 5 forecasting exercise. 6 6 assumed structural decline in Detroit employment also Okay. So you didn't investigate it, correct? 7 wanes, falling in magnitude from negative 1 percent from We didn't address the issue because it wasn't 8 fiscal year 2014 to fiscal year 2020 to minus .7 percent relevant for our revenue estimate. 9 9 Page 15, "Wage Growth." You have a 1 percent at fiscal year 2021, and minus .5 percent in the last 10 10 years." wage growth rate there again. And then page 16, you have 11 Are those all assumed values? 11 the -- you assume that, in Paragraph 2, that "The 12 They are assumptions that are some of the key 12 restructuring scenario assumes that the number of 13 13 inputs in the model. residents working in Detroit will grow at 50 percent of 14 Q. When we go over to page 15, "The share of 14 the rate of total job growth." 15 15 Detroit employment attributable to income tax base A." Do you see that? 16 16 Do you see that? A. I do see that. 17 I do. 17 Q. Your rate of the growth in Detroit residents A. 18 Those numbers are assumed numbers as well; is 18 under the restructuring scenario is an assumption; is Q. 19 19 that correct? that correct? 20 20 A. That is an assumption. The assumption is I believe it is accurate to say that when we 21 were doing these different components of the income tax 21 based on the reasoning that with a stabilized City of 2.2 22 Detroit, that you will see that all residents of Detroit base, we had actual data from the City on the amount of 23 23 will benefit from a stronger overall economy, but we have income for the different groups of taxpayers; residents 24 24 residents working in Detroit growing at a slower rate and non-residents. So, once again, we started with the 25 than the total job growth rate in the city. actual amount in that base, and then we grew it by these

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	Page 249		Page 251
1	R. CLINE	1	R. CLINE
2	Q. But there's no data supporting your assumed	2 r	ninus 2 percent in fiscal year 2020.
3	job growth rates, correct?	3	Do you see that?
4	A. It's a forecast of the future, and there is no	4	A. Yes, I do.
5	specific data that tells us what the future will look	5	Q. Were those also assumed numbers?
6	like.	6	A. Those were assumed numbers, but we have a very
7	Q. You also assume that wage growth will be	7 s	solid basis for understanding the dynamics of the net
8	constant in the future; is that correct?		operating losses. It's received extensive evaluation at
9	A. I believe we were holding the rate of growth		he national level. We know that the legacy of the deep
10	to a constant rate.		ecession is there may be a number of years going forward
11	Q. And you acknowledge, though, that it's likely		when firms will be making positive economic profits
12	that the rate of wage growth will not be constant over		positive profits, but not paying taxes because they're
13	the 10-year period you forecast; correct?	-	arrying forward unused operating losses from the
14	A. I would say that is correct.		ecession.
15	Q. The page 17 of your report, down at the	15	We had to take that into consideration in
16	bottom, you have got zero population growth from 2029 to		loing our revenue estimate.
17	2033, 22 percent from 2034 to 2043, and then .3 percent	17	Q. What but there's no study or anything like
18	annually thereafter. Are those all assumptions?		hat that gives you the structural adjustments of minus
19	A. I will have to check at what year I believe	•	3.2 in fiscal year 2015 to minus 2.0 by fiscal year 2020,
20	it was fiscal year 2029 when we had the we followed	_	orrect?
21	SEMCOG up through FY 2028, and then we overrode those	21	A. I don't have any studies that estimate those
22	growth rates and chose the rates that you see in this		particular numbers.
23	summary.	23	Q. Okay. The if we go back over to page 14, I
24	Q. Okay. So, are the rates that we see in the		ust want to I forgot to raise something. Detroit
25	summary of pages 17 to 18 assumed growth rates for those	,	employment growth, if we look at the last paragraph there
	summary or pages 17 to 10 assumed growth rates for those		miployment growth, if we look at the last paragraph there
	Page 250		Page 252
1	Page 250 R. CLINE	1	Page 252 R. CLINE
1 2			
	R. CLINE		R. CLINE
2	R. CLINE years?	2 a	R. CLINE Igain.
2	R. CLINE years? A. Yes, they are.	2 a 3 4	R. CLINE Igain. A. Right .
2 3 4	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you	2 a 3 4 5 r	R. CLINE Igain. A. Right. Q. You have some cyclical adjustments there of
2 3 4 5	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax	2 a 3 4 5 r	R. CLINE Igain. A. Right. Q. You have some cyclical adjustments there of ninus .7, and then you reduce it to minus .5, and then
2 3 4 5 6	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax collections data.	2 a 3 4 5 r 6 r	R. CLINE again. A. Right. Q. You have some cyclical adjustments there of minus .7, and then you reduce it to minus .5, and then minus .3, and then finally 0.
2 3 4 5 6 7	R. CLINE years? A. Yes, they are. O. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax collections data. Do you see that?	2 a a 3 4 5 r 6 r 7	R. CLINE again. A. Right. Q. You have some cyclical adjustments there of minus .7, and then you reduce it to minus .5, and then minus .3, and then finally 0. Do you see that?
2 3 4 5 6 7 8	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax collections data. Do you see that? A. I do.	2 a 3 4 5 r 6 r 7 8	R. CLINE Igain. A. Right. Q. You have some cyclical adjustments there of minus .7, and then you reduce it to minus .5, and then minus .3, and then finally 0. Do you see that? A. I do.
2 3 4 5 6 7 8	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax collections data. Do you see that? A. I do. Q. What was the period that you looked at there?	2 a 3 4 5 r 6 r 7 8	R. CLINE again. A. Right. Q. You have some cyclical adjustments there of minus .7, and then you reduce it to minus .5, and then minus .3, and then finally 0. Do you see that? A. I do. Q. Are those numbers assumed numbers, or are they
2 3 4 5 6 7 8 9	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax collections data. Do you see that? A. I do. Q. What was the period that you looked at there? A. I may have mentioned that Michigan has only	2 a 3 4 5 r 6 r 7 8 9 10 c	R. CLINE again. A. Right. Q. You have some cyclical adjustments there of minus .7, and then you reduce it to minus .5, and then minus .3, and then finally 0. Do you see that? A. I do. Q. Are those numbers assumed numbers, or are they calculated using the mathematical formula?
2 3 4 5 6 7 8 9 10	R. CLINE years? A. Yes, they are. Q. Page 18, Paragraph A1, you mentioned that you analyzed recent history of corporate income tax collections data. Do you see that? A. I do. Q. What was the period that you looked at there? A. I may have mentioned that Michigan has only recently returned to a corporate income tax, so we had a	2 a 3 4 5 r 6 r 7 8 9 10 c 11 12 t	R. CLINE again. A. Right. Q. You have some cyclical adjustments there of minus .7, and then you reduce it to minus .5, and then minus .3, and then finally 0. Do you see that? A. I do. Q. Are those numbers assumed numbers, or are they calculated using the mathematical formula? A. They were numbers based upon the analysis of
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Page 253 Page 255 R CLINE R. CLINE 2 from fiscal year 2016 to 2020, correct? 2 picked the numbers because you didn't have enough data to 3 3 A. We decided on what the time pattern would look do a time series analysis to do a mathematical like for that adjustment factor. It did not come from an 4 computation to calculate numbers that you could use, 5 econometric equation, which we did not have a time series 5 6 6 on which to base such an equation. So, many of our I would agree that we did not fit a regression 7 assumptions are due to the fact not from the absence of 7 equation to that relatively short period of time. If you 8 8 an economic model for Detroit; they're based on the lack had done that exercise, you still couldn't use the 9 9 of a time series long enough to fit the equations that I equation with confidence because you weren't sure -- you 10 10 believe you're referring to as mathematical equations. wouldn't be sure if you picked up the factors that are 11 Okay. So, you had to assume what the numbers 11 most relevant. You can always fit an equation to any 12 would be in terms of the cyclical adjustment over the 12 number of observations. It doesn't mean because you did 13 time period you examined; correct? 13 that, it is useful in a revenue forecasting exercise. 14 14 A. We had no choice because the time series was Q. Okay. And so, as a general principle, just 15 15 too short to do a mathematical equation or a regression because you can fit some sort of regression analysis on a 16 equation to estimate that relationship. 16 body of data doesn't mean that it's meaningful in terms 17 And is that also true of the initial cyclical 17 of conducting a forecast, correct? 18 18 adjustment of minus .7 percent that you had to assume A. That is correct, and in this particular 19 that? 19 situation, the lack of historic experience with what is 20 A. That is correct. 20 going on in Detroit, what data that is available has a 21 Q. Okay. What was the rationale for the tapering 21 relatively short time horizon number of observations, but 22 that you did, that you assumed in your model? 22 in addition to that, there is no regression equation that 23 23 I may have already referred to that, and that I could imagine fitting that would pick up the 24 24 institutional details that I think are most significant is that we saw the opening up of this gap between Detroit 25 25 and Michigan as the economic recoveries came, started in our revenue forecast. Page 254 Page 256 1 R. CLINE 1 R. CLINE 2 coming up out of the recessions. Over time, with 2 You see it in the property tax area. You see 3 continued economic expansion, the gap tended to close. 3 it in the wagering area. You see it in the utility area. 4 We used that insight from recent history to close the gap 4 There are too many institutional parameters changing, or 5 5 further out in the forecast period. conditions changing for a regression equation to 6 6 Okay. But the data you had available didn't incorporate all of that information. 7 7 tell you how to conduct the tapering or pick the precise So, you're left with a couple of options. 8 numbers that you assumed in your analysis for the 8 One, you do a regression analysis, and you add dummy 9 9 cyclical adjustment, correct? variables and add factors by the dozens, which are like 10 10 A. Again, the time series was too short to fit a our assumptions. Or you take the approach we did, and 11 regression equation that would have predicted 11 that is, we wanted to disaggregate all of these complex 12 automatically from running the regression what the gap 12 components into their individual pieces, and deal with 13 13 each piece separately so we had the ability to closing rate would be. 14 Q. Okay. 14 incorporate this very specific Detroit institutional 15 That was, by necessity, an assumption that we 15 information into the calculation. 16 16 So, it wasn't simply the lack of data or the used in the model. Okay. So you were forced to pick some numbers 17 17 lack of regressions; it was the inability of that Q. 18 to fill in here because you lacked enough data to 18 approach, we felt, to give you accurate forecasts. We 19 19 actually do a mathematical computation; is that fair? believe our disaggregated approach in the spreadsheet

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model gave us a better handle on what the near term looks

Q. Okay. And you said "disaggregated approach in

the spreadsheet model." Are there written documents that

The entire model has the structure of all of

reflect how you came about getting those numbers?

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like in Detroit.

No. I wouldn't agree with that statement.

Well, you did -- you personally picked these

Okay. And you picked -- you used -- you

numbers for the cyclical adjustment during various

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Α.

Α.

periods, correct?

That is correct.

Page 257 Page 259 R. CLINE R. CLINE 2 2 the steps we went through in our forecast. Every -- to aware of. They're constraints we would all deal with in 3 3 my knowledge, every line item is identified in those doing this type of tax forecast. 4 Q. So, one limitation of doing forecasting for spreadsheets. 5 Q. Okay. The -- would it be fair to say that one 5 Detroit is the fact that there's so many factors that can 6 6 limitation of your forecasting analysis is that you have influence the forecast over time? 7 limited data with respect to some of these numbers that A. I would just qualify that by saying there's so 8 8 you're assuming? many factors that are changing, that's what provides the 9 A. I agree with that. That's the basic challenge 9 challenges to forecasting. If all of the factors were 10 10 in this forecasting exercise. constant and unchanged, it's not a problem. It is the 11 11 Q. Okay. Is another limitation of your model changing nature of the structure, the institutions, the 12 that you have limited data regarding the economy 12 expectations, and the reality that current data perhaps 13 specifically in Detroit? 13 in Detroit is not as up-to-date and clean as we would 14 14 like it to be, but it is the best that's available. A. It is true that we did not have a specific --15 what I would describe as independent economic forecast 15 And another factor that's -- another 16 for the City of Detroit available to us back in 2013 when 16 limitation of forecasting in Detroit is the fact 17 we created the spreadsheet model. 17 there's -- the data is not as good as you might like it 18 18 And is that a limitation of your forecast? to be, or as complete? 19 19 A. It's a reality of the situation we found in A. I believe that our starting point for our 20 20 2013. forecast, which is actual revenue collections, I believe 21 21 the numbers that the City have are solid numbers. Ο. Now, I'm just wondering if it's a limitation 22 of your forecast that you don't have that Detroit 22 They're going to change between preliminary estimates and 23 23 book closing at the end of the fiscal year. But I economic data? 24 It might have been easier if we had a detailed 24 believe that we were given fairly good numbers for the 25 forecast, but it wasn't available, so it wasn't an 25 actual tax collections in Detroit. Page 258 Page 260 1 R. CLINE 1 R. CLINE 2 option. 2 Are there other numbers that you were given, 3 3 Okay. Well, I'm not -- my question isn't though, that you believe might be somewhat questionable 4 whether it made life easier or not. I'm asking whether 4 or there might be more of a question about? 5 you consider it a limitation of your forecast that you 5 A. Well, we have spent a little bit of time 6 6 talking about the SEMCOG population projections. Those don't have Detroit-specific economic data? 7 MR. STEWART: Objection. 7 are not on the same solid basis as the actual revenue, 8 THE WITNESS: I don't -- personally, I most recent revenue collection numbers from the City of 9 9 would not describe it as a limitation. Detroit. So, yes, the data varies in terms of 10 10 BY MR. SMITH: completeness. 11 Q. Okay. What are some of the limitations of 11 Q. And so, another limitation of your forecast is 12 12 your forecasting, other than the data limitations that that you had to rely on the SEMCOG population 13 13 we've discussed? projections, correct? 14 A. There's the normal set of limitations on any 14 A. I wouldn't describe it as a limitation. 15 forecasting exercise. For example, determining turning 15 How would -- what would you describe it as? 16 16 points, understanding these longer runs' structural I would describe it as the best available 17 shifts between a state and a local region; the 17 population forecast that we had access to. We could not 18 uncertainties about the long run structural change in the 18 have done a better job than they do. 19 19 composition of the Detroit economy. I don't believe Q. Have you ever -- in doing tax forecasting for 20 there's anyone that would have predicted 10 years ago 20 a city, have you ever relied on state data instead of 21 what Detroit looks like today. It would be very 21 city-level data? 22 22 difficult to predict 10 years from now what Detroit will A. Prior to the Detroit project, I haven't done 23 23 look like. forecasting for a city. 24 24 But those are limitations that I don't believe Going back to page 16, at the bottom, you say 25

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that -- in the last sentence of the page, you say your

25

can be overcome by any statistical analysis that I am

Page 263 Page 261 R. CLINE R. CLINE 2 forecast, "Assumes for the restructuring scenario a 2 That's an assumption, correct? 3 3 slower rate of decline in the population of this group That is an assumption. 4 than under the baseline scenario." And there's no body of data that tells you 5 Do you see that? 5 that the State corporate income tax revenue will return 6 6 A. Yes, I do. to a long run growth rate of 3.0 percent as opposed to What was the difference in the population rate 7 some other rate, correct? 8 8 of decline that you assumed? A. As I mentioned earlier, the corporate income 9 9 A. This is, I believe, the restructuring tax in Michigan is a new tax. We perhaps have three 10 10 scenario, and consistent with our overall perspective on years of observations at most on how it's performing over 11 the restructuring scenario, we feel that the economy will 11 the economic cycle. And so, no one could fit a 12 start to strengthen, there will be positive growth in 12 regression equation for the actual data, so I do not know 13 total employment, and we believe that those people who 13 of any analyses or study that could have helped us 14 14 are residents of Detroit but working outside of Detroit, determine what that specific rate is. 15 15 will still be declining, but at a slower rate as they Q. And do you know how that 3.0 percent -- it 16 perceive that the job opportunities in the suburbs are 16 seems pretty precise, 3.0 percent; do you know how that 17 there, and that the city, as a place to live, is more 17 number was selected? 18 18 attractive. I know we selected that number by looking at 19 So, the outward migration or flow of the 19 national corporate income tax growth, what limited 20 20 people who are most mobile would be reduced under this information we had about Michigan, and that's a number 21 alternative, which is residents of Detroit working 21 that's in the realm of our very limited but actual 22 22 outside of the city. experience in Michigan. But I will add that we happen 23 23 to -- the experience in Michigan happens to coincide with And the slower rate of population decline is 24 24 an assumption that you made, correct? the end of the deepest recession we've had in decades. 25 25 A. Yes, it is. And to use that information, we would have had Page 262 Page 264 1 R. CLINE R. CLINE 2 And do you know what the assumed difference is to determine more precisely how Michigan was coming out 3 3 in the rate of population decline for the restructuring of the recession, so that again, there wasn't information 4 4 available for us to pick a specific number. It wasn't scenario? 5 A. I don't recall what the specific differential 5 going to be 3.1756. It was going to be rounded off 6 6 is. I could check the Excel spreadsheet and let you because it is an assumption about the rate of growth. 7 know. Q. Yeah. I'm just wondering where that 3.0 8 There's no body of data, though, that tells number came from. 9 9 you what the assumed rate of population decline is in the A. It's our estimate of what we think is likely for State corporate income tax rate -- income tax revenue 10 10 restructuring scenario as compared to the baseline 11 scenario correct? 11 12 There's no body of literature that I know of 12 I will tell you that since the recovery from 13 13 the recession, across all the states, there's been no that deals with the forecast for the situation that 14 Detroit faces, so I'm not aware of any studies that would growth in the corporate income tax collections, 0.0 15 have given us insight into this issue. 15 across all the states since the end of the recession. I 16 16 don't think it would be reasonable to assume a very Okay. The page 19, you assume that -- if you 17 17 look at that paragraph, number three, the one that's -strong rate of growth in corporate profits going forward. 18 18 We chose 3 percent as a reasonable estimate, 19 19 Q. -- got a 3 in front of it on page 19 -despite the recent experience nationally that says there 20 20 will be no growth in this corporate income tax. We think A. All right. 21 21 -- it says that you "assume that the State Michigan, as it continues to recover, and Detroit, as it 22 22 corporate income tax revenues return to a long run growth continues to recover, will enjoy a slightly higher rate 23 23 rate of 3.0 percent". of growth. 24 24 But there's no body of data that tells you to Do you see that? 25

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pick 3.0 percent rather than 3.1 percent or 3.2 percent,

I do.

Page 265 Page 267 R. CLINE R. CLINE 2 correct? 2 collection data, these taxes are anticipated to drop 3 A. I believe I have stated that one body of 3 minus 4.3 percent in fiscal year 2014," correct? information we looked at was what is happening across the 4 A. Correct. 5 states in corporate income tax collections. It, in a 5 And then there would be another year decline 6 sense, said start with zero, and think about whether or 6 and minus 1.0 percent in the two years of growth at .5 7 not Detroit and Michigan would deviate from zero, and 7 percent, correct? 8 that's what we did. A. Correct. 9 Ο. What body of data is that called? 9 Ο. All of those numbers are assumed numbers, 10 That is U.S. Census of Government State Tax 10 correct? 11 Collections by state by fiscal year. 11 All of those numbers are the growth rates that A. 12 But that doesn't tell you what to pick for the 12 we have plugged into our forecasting model. 13 corporate income tax revenue rate in Detroit, correct? 13 That are assumed, correct? 14 That's not any kind of Detroit data? 14 A. All of the inputs that are parameters in the 15 15 Detroit is not operating in isolation from the model are a combination of current law parameters like 16 rest of the world. You need to use the best available 16 the tax rate and assumed rates of growth like this growth 17 information in order to do this forecasting. Michigan's 17 in wagering in Detroit. 18 experience as a state is too short. It is logical, then, 18 Okay. And those assumed numbers you use are 19 to turn to the experience of all of the states to help 19 different than the consensus revenue numbers, correct? 20 20 guide your choice of that growth assumption, and I think A. It appears that they are, but remember, that 21 we used the right database for that. 21 in deriving those numbers, we didn't look only at the 22 Okay. So, for the corporate growth rate of 22 City of Detroit. We recognized that gambling revenues in 23 3.0 percent, you weren't looking at Michigan or Detroit 23 any particular location or state are being influenced 24 24 data, you were looking at some other data regarding other heavily by what's going on in neighboring locations. 25 25 states; is that correct? We know that the new gambling is coming Page 266 Page 268 1 R. CLINE R. CLINE 2 A. We did look at Detroit data. We did look at 2 onboard in Ohio. That's a fact. We know there's perhaps 3 3 Michigan data. We then went to national data, and based an expansion in gambling across the river from Detroit. 4 upon all three of those data sets, we made our choice of 4 The real question is how negative is the temporary impact 5 5 the assumption. from those changes. There's no regression equation that 6 6 Q. Okay. It's an assumption but not a calculated I know of that could answer that question because there's 7 7 value of 3.0 corporate growth rate, correct? no experience in the City of Detroit in that situation. 8 For that statewide number, we calculated the 8 We think a reasonable way to look at it, and 9 9 total State corporate income tax collections by year. We we had actually identified the negative 4 to 4.5 percent formed an index number with the last year of the 10 10 decrease in 2014 back in 2013. We got that right. And 11 recession as the first year. We calculated that ratio 11 then we allow it to go down one more year, and then start 12 for every year hence for all of the states, and based 12 to turn back into the positive range. There's a real 13 13 upon that calculation, we know it is 0.0 percent. disagreement of analysts out there, whether it will 14 There's been no growth in the aggregate in the U.S., at 14 continue down as a significant negative or bounce back to 15 any -- of corporate income taxes since the recovery. 15 a slightly positive number. 16 It seemed like a pretty firm insight or number 16 Q. Okay. So, there's no study or analysis that 17 for us to have as a starting point, and then we based our 17 can tell you what the growth in the wagering tax 18 estimate on all of that information, but it is our 18 collection data will be given the potential for 19 assumption, we think a reasonable one, about the expected 19 competition from these other casinos, correct? 20 growth rate. 20 A. I don't know of any study specific to the City 21 21 So, you calculated a zero rate and then you of Detroit that has tried to estimate empirically or with 22 22 used 3 percent, correct? a regression equation what that differential impact looks 23 23 like. There are a number of articles that are talking We did. correct.

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about what they think might happen, but they're -- as I

mentioned, there's real disagreement about what the

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The wage rate tax, page 23, up at the top of

the page, you say "Based on the most recent wage rate tax

24

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Page 269 Page 271 R. CLINE R. CLINE 2 future, near term, looks like. 2 number. 3 3 Q. Can you tell me what period of time of recent A. Well, again, I know we're using different wagering tax collection data you looked at? terminology. It's our forecasted rate of growth that we 5 A. We went back in time to look at wagering tax 5 used to forecast the revenue collections. 6 collections. I think we looked at the numbers that are 6 But is it a calculated number based on a body 7 reported in the CAFR for the City of Detroit, looked at of data, or is it an assumed number? 8 8 that change. We saw some positives, rates of growth, A. It's a calculated number based upon recent 9 when Detroit was operating, in a sense, in isolation, 9 collection experience in Detroit modified by the fact 10 10 without direct competition, defined by geographical that recent experience in Detroit shows a continuing 11 limits. 11 decrease in these revenue collections, which suggests 12 More recently, we see the decline in Detroit 12 that there may be challenges to the number that we put in 13 wagering due to the economy and the deep recession, and 13 here, but it's the best available information we had at 14 we know we're looking at an impact from the competition. 14 the time we made the revenue estimate. 15 15 In our forecasts, we had to separate out the deep Okay. What was the -- what was the 16 recession that ended from the ongoing competitive impact, 16 mathematical formula you used to calculate the 1.5 17 and this is our best estimate of what that net effect is. 17 percent figure? 18 18 Okay. But why does it go to .5 percent at A. We don't have a mathematical formula that 19 19 some years and it's minus 1 percent in some years and calculated that figure. 20 20 Okay. So that 1.5 percent utility growth rate minus 4.3 percent at another year? 21 I believe the correct way to describe this is 21 figure was an assumed number; is that correct? 22 that we are moving in the same direction over the entire 22 A. Again, I believe I would use the word 23 10-year period of time. We're not bouncing up positive, 23 forecasted. You --24 down to negative, up to positive. We are bringing the 24 Q. I know what terminology I'd use --25 25 industry back to what we think is a more stable, long run Right. Page 270 Page 272 1 R. CLINE 1 R. CLINE 2 growth rate, appreciating the impact of increased 2 -- but I can't say it on the record. 3 competition, allowing it to grow somewhat, perhaps with 3 I mean, I'm just trying to get at if 4 the level of general spending on wagering. It's a 4 there's -- what I'm trying to get at is if there are 5 stabilized world where the competition is there but 5 mathematical formulas generating the number, I want to 6 know what they are. Isn't that fair? doesn't continuously eat into the Detroit share. 6 7 7 All of the mathematical formulas that we used Ω And you never have done any study of casino 8 competition yourself, correct? in the model are contained in the model and visible in 9 9 Not of competition. the model. 10 10 And there's no mathematical formula you're Okay. When you say visible in the model, 11 using that governs the change in the rate for the 11 you're saying the Excel spreadsheet that's been produced 12 12 wagering tax revenue over time, is there? to us? 13 13 A. I believe that's correct. No, there's not. 14 14 The -- page 25, you use utility users' tax Okay. So, your understanding is all of the 15 rate -- growth rate of 1.5 percent from 2019 through the 15 mathematical formulas that are used to generate numbers 16 16 rest of the period. in your forecast contained in the Excel spreadsheet 17 Do you see that? It's in the middle of the 17 that's been produced to us; is that your understanding? 18 18 That's my understanding. page. 19 19 A. I do. I'm trying to remember if we are into And where did you get that understanding from; 20 restructuring are or we baseline at this point? 20 did you personally inspect the Excel spreadsheet or is 21 I believe it's baseline. 21 somebody telling you that? 22 22 A. Baseline. I believe you're correct. A. I personally reviewed every element in the 23 23 Ω Okay. Is that an assumed number? Excel spreadsheet. I know when we last touched it that 24 24 A. That's our forecast of the rate of growth. information was embedded in the spreadsheet. 25 25 Okay. I'm just wondering if it's an assumed Okay. When you say "embedded in the

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Page 275 Page 273 R. CLINE R. CLINE 2 2 spreadsheet," how is it embedded in the spreadsheet? different City officials. I don't have a listing of the 3 A. When I saw "embedded," I mean, you can -- it's 3 names of those people. 4 4 there, and you can see it when you look for it. Q. And so, you can't identify the City officials 5 Okay. So, the exact mathematical formulas 5 or advisers that you relied on for your opinions, by 6 6 used to calculate all of the numbers that you use are in name, sitting here today? 7 7 A. I believe the accurate description is, the Excel spreadsheet that you produced; correct? 8 A. I would answer your question yes, but I would Caroline Sallee, for example, had a number of contacts 9 qualify it by saying I don't know. I hope so, but I 9 with different City officials dealing with the property 10 10 don't know if the analysis behind Figure 2 and the tax forecast. While I reviewed the Excel spreadsheets 11 analysis behind Figure 1 is located in those master 11 for that forecast, I was not involved in each of those 12 12 phone calls, so that I don't know who those specific spreadsheets. 13 Ω Okav. 13 individuals were at the City level that were providing 14 14 A. I'll have to check their location. her with assistance, for example. 15 15 Were there other spreadsheets or written Okay. So, you don't know the identity of the 16 documents that might contain the analysis underlying 16 City officials you relied on because you're relying on 17 Figure 1 and Figure 2? 17 Miss Sallee, who in turn relied on those City officials? 18 There may be other spreadsheets that I believe 18 Correct. 19 you have -- you had access to that contain some of the 19 The -- over on page 27, it mentions your 20 20 elements. compensation. You're being compensated at a rate of \$754 21 Q. 21 Well -for actual time you incurred as well as reasonable 22 I don't know the -- I haven't gone -- I 22 out-of-pocket expenses. 23 haven't gone through an inventory to link each of the 23 Do you see that? 24 24 spreadsheets to determine whether calculation X is only Α. I do. 25 25 in spreadsheet one or flows into spreadsheet one from And then it says "The fees are subject to a 10 Page 274 Page 276 1 R. CLINE 1 R. CLINE 2 spreadsheet two. I do believe we've turned over all of percent hold-back contingent upon plan confirmation by 3 3 those spreadsheets to you folks. the summer of 2014." 4 4 Q. Was there a separate spreadsheet, though, for Do you see that? 5 the analysis underlying Figure 1 in a separate 6 spreadsheet for analysis underlying Figure 2? 6 Q. And as far as you're aware, all of the fees 7 7 A. I'll have to check that. that you are charging are subject to the 10 percent 8 I mean, who did those analyses? 8 hold-back contingency? 9 9 My staff did those analyses. I don't know what the details of those 10 10 arrangements are. I submit my time sheets to Ernst & You mentioned one of them, but I just want to 11 get the names of the people that did those analyses. 11 Young. What happens after that, I don't know. 12 I don't know who was responsible for each of 12 Okay. That's fair enough. 13 13 those pieces. I could try to get the answer to that for The -- I think you made it clear several times 14 you. 14 today that you are not prepared to talk about tax policy 15 Page 26 of your report, you say at the bottom, 15 as it relates to the City of Detroit, correct? 16 16 under Materials Considered, "Mr. Cline also had available A. I believe the accurate statement is that I was 17 17 not asked to nor did I do analysis of alternative tax to him City officials, advisers and consultants, as well 18 as the expertise of Gaurav Malhotra, Caroline Sallee and 18 policies for the City of Detroit, and therefore, I don't 19 19 the materials they considered." have anything to comment on, because we didn't do that 20 20 Do you see that? work. 21 A. 21 Okay. So, you're not offering testimony about 22 Are there any City officials that you can 22 the City's tax policy, correct? 23 23 identify that you had available to you? Α. I think it's pretty clear that I am not doing 24 As I mentioned, I believe, earlier, there were 24 that. 25 several conference calls that I was on that involved 25 You're not offering testimony about the City's

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Page 277 Page 279 R. CLINE 1 R. CLINE 2 taxing capabilities? 2 Is there a question there? 3 What do you mean by "taxing capabilities"? 3 BY MR. SMITH: 4 I guess, what their ability to tax -- you're 4 Have you seen this document before? 5 not offering opinions about whether -- how able the City 5 I have seen this document before. 6 is to tax or raise taxes or do anything like that? 6 And so before your deposition, you were aware 7 What we did was estimate the amount of revenue 7 that you had been designated for Deposition Topic No. 2, 8 we expect the City to collect from the current tax which is the City's tax policy, taxing capabilities, tax 9 system. If that's capacity, we did that. What we did 9 revenue assumptions, projections and any studies 10 not do was estimate how much higher or lower the taxes 10 regarding the foregoing? 11 would be if the City or the State changed current tax 11 MR. STEWART: You're aware -- I don't mean 12 12 to interrupt your question. You're aware of the 13 Okay. So, in order to figure out what the 13 email we sent to Steve Hackney saying that we 14 total tax revenue available to the City would be 14 designated another witness for that? 15 15 potentially over a 10-year period, somebody would have to MR. SMITH: Who have you designated for 16 do an additional analysis to determine whether there's 16 that? 17 additional sums that could be raised through taxation by 17 MR. DiPOMPEO: John Hill. 18 changing the assumptions in your model and then add it on 18 MR. SMITH: John Hill? 19 to your forecast; is that fair? 19 MR. STEWART: John Hill. 20 2.0 MR. STEWART: Objection. MR. SMITH: When was that? 21 THE WITNESS: No, I don't think it's an 21 MR. DiPOMPEO: Two weeks ago. 22 accurate description. 22 MR. SMITH: Okay. 23 23 BY MR. SMITH: BY MR. SMITH: 24 Why is that? How would you describe... 24 Q. So, you didn't do any investigation. Do you 25 I believe you talked about changing 2.5 know why you were de-designated from that topic? Page 278 Page 280 1 R. CLINE 1 R. CLINE 2 parameters. We have to use the language carefully. Our 2 I do not. 3 assumption that our entire revenue forecasting exercise 3 Let me hand you what I'm going to mark as 4 was based on current law means we held current law tax 4 Exhibit No. 6 5 parameters constant. They're specified in law, and we (Cline Exhibit 6 was marked for identification.) 6 held them constant. 6 BY MR. SMITH: 7 7 We did not analyze changes in the constants Q. Let me know if you have seen this document 8 that are under current tax law. It's not an exercise we before. 9 9 did. It's not an exercise we were asked to do. MR. STEWART: I'm sorry. Is this being 10 Q. No. It's an exercise that somebody could do 10 marked? 11 if they want to get an idea of the total tax revenue that 11 BY MR SMITH: 12 12 might be available to the City in the future, correct? Q. Have you seen that document? 13 13 A. I don't remember seeing this document. A. It sounds to me like it would be an entirely 14 14 different exercise from what we were asked to do. Okay. Did anybody ever inform you that the 15 And you're not prepared to testify about what 15 City had approximately 42 million in outstanding income 16 16 studies might have been done about the City's tax policy tax receivables? 17 17 or taxing capabilities; is that fair to say? A. As I mentioned earlier, we did not address nor 18 A. I wouldn't use the word "prepare." We simply 18 try to evaluate current collection activities for the 19 didn't look at the issue, so I can't answer questions 19 individual income tax. I'm assuming -- well, yes. These 20 20 are individual assessments. We did not examine issues applicable to that issue. 21 Okay. Well, let me -- here, I'm going to mark 21 surrounding current assessment practices, if this is the 22 2.2 individual income tax. We did not deal with this a document as Exhibit 5, and you can tell me if you have 23 23 information. We did not use this information in our ever seen this before 24 24 (Cline Exhibit 5 was marked for identification.) revenue forecasts. 25 THE WITNESS: I am familiar. Excuse me. 25 Okay.

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Page 281 Page 283 R. CLINE R CLINE 2 2 (Cline Exhibit 7 was marked for identification.) A. I would agree if all other things were 3 3 constant, you would see that direct relationship. The BY MR. SMITH: 4 presence of the new competition for gambling in Detroit Q. I'm going to hand you what's been marked as 5 Exhibit 7, which is another memorandum. I just wanted to 5 is not holding all other factors constant. In fact, it 6 6 find out if you've seen this before. might be the biggest factor determining the future growth 7 A. I don't know if I've seen this memo. It looks 7 8 8 like it was dated October 2013 which would have been So, if that -- that bullet would have to be 9 about the time or later than that when we did a revision 9 expanded to say they had also considered wagering tax 10 10 in our forecast, but I don't remember seeing this growth as it would be affected by the increased 11 particular memo when we did that reestimation of our 11 competition coming from across the border. 12 12 And do you agree that as a general matter, as forecast. 13 You see that there's some data for income 13 the economy improves, tax revenues should improve in the 14 14 tax -- some forecast for income tax, wagering tax, state City of Detroit? 15 shared revenue and utility users' tax? 15 A. Depends upon what the improvement is and where 16 A. I do see those. 16 it occurs. 17 17 Ω Okay. I mean, in your model, don't you assume And are the forecasts from Michigan State that 18 18 are reflected in this memorandum different than your that if the economy improves, that there's going to be an 19 19 forecasts that you've done? increase in tax revenue? 20 A. Just glancing at the income tax numbers, 20 A. We don't have a simplistic relationship that 21 the -- before I comment, can you tell me if the income 21 you're describing, for example, in the individual income 22 tax figure includes both individual and corporate or only 22 tax forecast. We have three buckets: Residents who live 23 23 individual? in the city and work in the city; residents who live in 24 24 the city and work in Detroit; people who live in the Ο. Well, my assumption is it's only individual, 25 25 suburbs and work in Detroit. They pay taxes at different but I didn't write the document, so I don't want to tell Page 282 Page 284 1 R. CLINE 1 R. CLINE tax rates, and they're influenced by different economic you -- put words in the author's mouth here. 3 3 A. I would guess it must be the sum of the two -rates of growth depending upon the geographic location. 4 4 It's too simplistic a statement to say that 5 5 -- given those rates of increase. things are improving, and therefore, those revenues will A. 6 6 Okay. Do you have any idea whether your increase. It depends upon where they're improving and 7 7 forecasts are different? The wagering forecast we know the relative change, for example, between the suburbs and 8 is different, correct? the city. Until I know those relatives, I can't answer 9 9 The income tax forecast I would have to know that type of simple question. 10 10 Q. Do you agree that a significant portion of the the disaggregation between the individual income tax 11 piece and the corporate income tax piece to understand 11 revenue from the wagering taxes is derived from people 12 how it compares to our two components. 12 who don't live in the City of Detroit? 13 13 A. I haven't looked into the composition of who And how about the utility users' tax? 14 Those negatives, I have seen in recent tax 14 is wagering in the Detroit casinos. 15 collection figures. I believe that's more negative than 15 Q. Okay. But you would expect that there would 16 16 be people who live outside the City of Detroit who wager our numbers. 17 Q. Okay. The -- if you look at the notes on the 17 in the Detroit casinos, correct? 18 18 A. I expect so. last page 19 19 A. Yes. So, a portion of the wagering tax revenue 2.0 20 would be from non-residents of Detroit, correct? It says that "Wagering tax growth is based on 21 continued improvement in local and national economy." 21 That may be the case. I'm not familiar with 2.2 22 Do you see that? any data. I have not had access to data that would break 23 23 Α. it down that way. 24 24 You have had access that shows that a Q. And do you agree that there's a relationship 25 significant portion of the income tax revenue is derived between the economy and wagering tax growth?

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Page 287 Page 285 R. CLINE 1 R. CLINE 2 2 from people who aren't residents of Detroit, correct? Well, for example, in 1990 to 2000, Detroit --3 3 A. And there's a reason for that. That is Philadelphia's population growth went down by .4 percent, 4 correct. The reason is that I believe the City has to Scranton went down by .3 percent, Syracuse down by .2 5 report to the State that composition of resident and 5 percent, but Detroit increased population growth. 6 6 non-resident individual income tax collections. Because Do you see that? of that, we have a time series that identifies those two 7 Yeah. I see the 4.8 percent for Detroit, is 8 components. that the number, from 1990 to 2000? 9 Q. Yeah 9 Well, there's a 10-year growth of .5 percent. 10 10 (Cline Exhibit 8 was marked for identification.) A. Oh, I see. The -- what are -- excuse me. 11 BY MR. SMITH: 11 What numbers, then, are listed in the table in the first 12 Let me hand you what I have marked as Exhibit 12 line for Detroit? 13 8, which is a document that I believe you have listed in 13 Okay. Well, you gave us this document, right? 14 your report. Have you seen this document before? 14 Can you tell me what this document shows? 15 A. I believe -- you stated that this was in my 15 A. I am not familiar with the details of what the 16 report? 16 numbers are. 17 Q. I think it's one of the -- you know, you list 17 Ο. Okay. 18 documents that you considered. I believe this is one of 18 Personally, I'm not. A. 19 the documents you list, but I'm just asking you if you 19 Okay. Looking at the document, can you tell 20 have seen it before. 20 that Detroit's population growth is -- is exceeding that 21 21 A. I certainly was aware of the fact that there of comparable cities during certain points in time, 22 was a Brookings report that included Detroit in a broader 22 whatever numbers you look at in the table? 23 study. I think there were multiple cities involved. Oh, 23 A. Looks to me like it's a fairly mixed story. 24 yeah, it says, Chicago, Philadelphia. I was aware of the 24 I'd have to look at it in more detail. Some cities, some 25 fact that Detroit was included. 25 years, higher or lower. It varies significantly by Page 286 Page 288 1 R. CLINE 1 R. CLINE 2 period of time. 2 Okay. And I believe in your report, you cite 3 3 this 10-year population growth figure of .5 percent from Q. Okay. And so, there's some periods during 4 4 1990 to 2000; do you recall that? which Detroit's population growth exceeds that of 5 5 A. I would -comparable cities, correct? 6 6 MR. STEWART: Do you want it? A. In the past, going back to 1980, it looks like 7 7 THE WITNESS: I'll have to look it up. the numbers are indicating that. 8 MR. SMITH: You can look in your report or 8 Q. And Detroit actually grew its population 9 9 just say you don't remember. Either way is fine. during periods of time where other cities lost 10 10 THE WITNESS: No, I don't -- I don't keep population, correct? 11 all of those numbers in my head. Was there a page 11 A. I would say it's a mixed picture. It's true 12 number where you --12 for some cities relative to Detroit, not true for other 13 13 MR. SMITH: I don't know what the page cities. I'm not sure you can generalize with the 14 number was. 14 statement that -- to document the statement you just 15 THE WITNESS: -- were referring to? 15 made. 16 16 Q. Well, I mean, if we look at 1990 to 2000, MR. SMITH: If you don't remember, that's 17 17 okay, too. Detroit had positive population growth, correct? 18 THE WITNESS: I wouldn't want to agree if I 18 Yes, as did a number of other cities. 19 didn't see the specific number in there. 19 And during that same period of time, there 20 20 BY MR. SMITH: were cities that had negative population growth that are 21 Okay. Is it fair to say that there are 21 comparable, correct? 22 22 periods of time where Detroit's population growth A. It looks like that is correct, but it's not 23 23 actually exceeded that of comparable cities? relevant for our forecast that we did. 24 24 I see quite a mixed picture on this table, if Okay. Well, my question is there were periods 25 25 of time, decades in which Detroit had positive population that's what we're referring to.

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Page 289 Page 291 R. CLINE 2 growth where other cities had negative population growth, 2 MR. STEWART: Objection. 3 3 correct? THE WITNESS: I don't know if that's 4 4 A. I think it's correct to say that our economic correct. 5 forecast is not based on a 30-year comparison of multiple 5 BY MR. SMITH: 6 6 cities from a different world of economics. Our forecast Q. Okay. You got no idea what it is you're 7 is based upon the most recent information about the City 7 relying on in your expert report, correct? 8 8 of Detroit, independent of any of these other cities, but A. Our ex- -- my expert report provides a summary 9 related directly to the forecast for the state of 9 of the assumptions and the results from our tax forecast 10 Michigan. I don't see the relevance for these numbers in 10 exercise. 11 our revenue forecast over the next 10 years, in the City 11 I, at this moment, cannot explain how we used 12 of Detroit. 12 each piece of this background information in deriving 13 Q. Okay. I'm -- that has nothing to do with my 13 these assumptions and the final results. I believe we've 14 14 identified information that we considered. It is not -question. My question is, during a decade of 1990 to 15 2000, Detroit grew population whereas other comparable 15 does not follow that it influenced our choice of 16 cities lost population, correct? That's all I'm asking. 16 assumptions in our model. 17 A. As I mentioned earlier, I don't fully 17 Okay. So, you don't -- you can't explain to 18 understand these numbers, so I can't comment on what 18 me sitting here today how all of the materials that you 19 19 story they tell. I did not use these numbers in the cite and quote from in your report were used in your 20 20 forecast for the City of Detroit. I did not study the analysis; is that fair? 21 Brookings report. I know they were not used in the 21 A. I would say it's fair to say that this 22 forecast that we did. They may have been used in the 22 afternoon I could not step through with you a discussion 23 extra 30-year forecast to try to understand how a city 23 how each of these tables or documents that you see were 24 can recover from a period of time when there were 24 used in each step of our estimating process. I believe 25 negative growth rates in population. 25 it is accurate to say that we have shared with you Page 290 Page 292 1 R. CLINE 1 R. CLINE 2 I believe that may have been the context for information that we considered in doing our revenue 3 gathering this information, but I'm not familiar with 3 forecast. 4 that comparison going forward over the next 30 years 4 MR. SMITH: Okay. Why don't we take a 5 5 using this particular table. quick break. 6 6 Okay. So, even though this table is in your THE VIDEOGRAPHER: Off the record at 4:53. 7 7 list of materials considered, you can't tell me anything (RECESS, 4:53 p.m. -5:08 p.m.) 8 about it or explain it at all? 8 THE VIDEOGRAPHER: On the record at 5:08. 9 9 MR. STEWART: Objection. (Cline Exhibit 9 was marked for identification.) 10 10 THE WITNESS: I believe we listed there the BY MR. SMITH: 11 information that was considered. It's not true 11 Q. Mr. Cline, I'm handing you what's been marked 12 that all of this information had the same weight 12 as Exhibit 9. Could you let me know whether you've seen 13 13 and was used in all dimensions of our estimates. I this document? 14 believe we were trying to identify sources that we 14 A. I believe I have seen this document. I'm not 15 gathered as part of our exercise. 15 sure what the source is. 16 16 BY MR. SMITH: Q. Okay. Is it your understanding that there are 17 17 Q. If you look at page 13 of your report, your differences between the assumptions and numbers in the 18 report says, "The Detroit metropolitan area grew an 18 Consensus Revenue Forecast by the City and numbers in the 19 average of 0.5 percent annually between 1990 and 2000 19 Plan of Adjustment? 20 after experiencing decline in population in the previous 20 A. Was this a table that was included in the 21 decade." 21 consensus revenue forecasting materials. 22 22 Do you see that? Well, I can tell you where I got it, not that 23 23 A. I do see that. that will help, but it's listed on Mr. Hill's list of 24 24 Okay. So, you're specifically relying on this documents considered. 25 data in this table in your expert report, correct? 25 I believe -- yeah, I believe it says at the

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Page 293 Page 295 R. CLINE R. CLINE 2 top, "Revenue Consensus and Plan of Adjustment." I did 2 Do you know whether people from Ernst & Young 3 notice when I was looking at the new consensus forecast 3 were attempting to influence the consensus forecast and 4 that they had a discussion of a comparison of E&Y's 4 its conclusions while Ernst & Young was doing litigation 5 numbers to their numbers. I believe that's what this is. 5 work for the City? 6 Well, I'm -- this is -- to me, it's the 6 A. No. document that Mr. Hill cites. Ω Do you think it would be appropriate for Ernst 8 A. I didn't prepare it and I must admit, I & Young to influence the consensus forecast while it's 9 haven't read it, but I think I did see that they had put 9 doing litigation work for the City? 10 10 together a table in their materials talking about the I have no comment. 11 11 forecast. You're certainly not willing to say it would 12 Have you done any investigation to determine 12 be appropriate for Ernst & Young to influence the 13 whether the assumptions and numbers that the Plan of 13 consensus forecast while it's doing litigation work for 14 Adjustment uses are different from the Consensus Revenue 14 the City, correct? 15 Forecast the City put together? 15 I'm not aware of the hypothetical that you're 16 A. No, I have not. 16 positing. I'm not sure what you're describing. I am not 17 Have you done any analysis to determine 17 familiar with anything relative to that. 18 18 whether the numbers and assumptions in the Plan of And that's not my question. My question is, 19 Adjustment are different than the analysis that you put 19 would it be appropriate for Ernst & Young to influence 20 20 the consensus forecast while it's doing litigation work together? 21 21 for the City? A. I have carefully reviewed the various tables 22 in the Plan of Adjustment to make sure I could form a 22 MR. STEWART: Objection. 23 crosswalk back to our underlying Excel models. There are THE WITNESS: I'm not a lawyer. I'm not --23 some differences from aggregation. I think some of the 24 24 I'm talking about the revenue forecasting 25 lines on the Plan of Adjustment have aggregated several 25 information that we provided and the analysis Page 294 Page 296 1 R. CLINE 1 R. CLINE 2 different revenue sources, so they might differ from the that's covered by my expert report. I don't want 3 3 underlying numbers in our Excel spreadsheets. to speculate on other developments and other 4 But I believe the Plan of Adjustment has 4 interactions among any other folks involved in this 5 5 picked up the underlying numbers that are in our latest exercise. 6 6 BY MR. SMITH: revenue forecast. 7 7 Ο. Okay. Do you -- but sitting here today, you Q. Okay. Have you had any involvement with the 8 haven't done any analysis to figure out what all of the exit financing that the city is trying to get from the 9 9 differences are between the Consensus Revenue Forecast Chapter 11 -- I mean, Chapter 9? 10 10 and your analysis: correct? A. I don't know what that concept is. I believe 11 A. I have not looked at the consensus, the new 11 it's fair to say I'm not familiar with it. 12 12 consensus forecast, in detail. Okay. Would it be fair to say that there's a 13 13 Ο. Okav lot of aspects of the bankruptcy and the Plan of 14 A. I know it exists. I haven't read it nor 14 Adjustment that you're just not -- don't have a 15 studied it. 15 familiarity with and can't comment on? 16 Ω And is there any reason for that? 16 A. I believe I've answered the specific questions 17 No, other than at the time we were doing our 17 that you have posed on the work that we were asked and 18 revenue revisions, we were looking at any changes we knew 18 did for the City of Detroit. I can't comment or 19 19 about from our forecasts and the underlying assumptions speculate on things I am not familiar with. 20 that we thought should be updated. 2.0 Okay. I understand that, but I'm asking you, 21 Other folks on my team were interacting with 21 it would be fair to say there's a lot of the aspects of 22 22 the City of Detroit, like Caroline Sallee. She may have the plan that you're just not familiar with, correct? 23 picked up some of the new information from this analysis 23 A. Our responsibility in the QUEST practice of 24 relative to the property tax, but I did not personally 24 Ernst & Young was to deal with a specific portion of the 25 make that comparison. 25 larger picture, and that's all I'm familiar with.

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Page 297 Page 299 R. CLINE R. CLINE 2 Would it be fair to say that your analysis 2 Q. Okay. So, if somebody wanted to get an idea 3 3 here and role in the case is a narrow one? of the magnitude of the additional revenue from 4 significant increases in collection rates on the various A. I'm not sure I understand the term "narrow" in 5 this context. I believe this is an important part of the 5 taxes you look at, they would have to do a separate 6 6 discussion. analysis and then add that number on to your forecast? 7 Ο. Okay. Do you have any publications on tax A. Or they would have to go to someone else who 8 forecasting? has done that analysis. We did not do that analysis. 9 A. Not recently, that I remember. There may have 9 Okay. But it's an analysis that could be done 10 been papers that I did back as tax research director in 10 and then you would just -- that would be additional 11 either Michigan or Minnesota where I talked about 11 revenue to the City, correct? 12 different aspects of the forecasting process. I used to 12 I would imagine it would depend upon what 13 attend annually the revenue forecasting section -- the 13 specific changes were made in the collection procedures 14 14 revenue section of the Federation of Tax Administrators, 15 15 FTA. I made a number of presentations to those meetings Q. Okay. But that would be an additional 16 which were meetings of my counterparts in other states 16 analysis that would have to be done to see what impact an 17 responsible for revenue estimation. I'm sure there are 17 increase in collections would have on the tax revenue 18 18 PowerPoint presentations that I made in those settings. available to the City, correct? 19 Q. Okay. But you haven't published any 19 A. I believe as I've answered, we have estimated 20 20 peer-reviewed studies or other literature on tax the effect under current law of a forecast of the taxes 21 21 expected under current law given our assumptions abou forecasting, correct? 22 A. I don't remember any publications I have in 22 the economics. Other than the property tax revenue 23 peer-reviewed journals dealing specifically with a 23 estimate, we have not built in any separate adjustments 24 forecast issue. I could go back in the records, but I'm 24 for collection procedures and processes in our numbers. 25 25 Okay. So, somebody wanting to get a number not sure I have any of those. Page 298 Page 300 1 R. CLINE 1 R. CLINE 2 Okay. The -- we talked about how you don't for additional revenue from changes in collection 3 3 have any idea of what percent of the corporate income tax processes or procedures would have to perform a separate 4 is collected by the City, correct? 4 analysis that you haven't performed, correct? 5 A. 100 percent of the corporate income tax, money 5 A. Or they would have to go to someone who has 6 6 in the city, is collected by the City. done that analysis. 7 7 You're saying the collection rate for the Okay. And then they would take those sums and 8 corporate income tax is 100 percent? they would add them to your forecast to get a total 9 9 No. I'm saying the City collects the forecast of additional revenue including collections plus 10 10 corporate income tax for the City. the numbers you forecast for taxes? 11 Okay. Well, my -- the question is, you have 11 A. That could be, but as I've indicated, there 12 12 no idea what the collection rate is for the corporate are a number of revenue sources we were not asked to 13 13 income tax, correct? forecast. So, all -- I believe your statement would 14 A. Consistent with my answers earlier, we did not 14 apply to any tax forecast that we did not do and were no 15 analyze separately the collection rates of any of the 15 asked to do in this -- this analysis; so there would be a 16 16 taxes we looked at in our forecast, other than an average number of dollars falling into that bucket that you would collection rate for the property tax forecast. 17 17 have to go elsewhere to get revenue estimates for. 18 18 Okay. So, somebody would have to do a number Okay. And so, an increase in -- a significant 19 19 increase in the -- an additional revenue from a of different analyses that included analyses for 20 significant increase in the collection of the corporate 2.0 increased collection rates and analysis for other taxes 21 tax rate, the income tax rate, the wagering tax rate, and 21 you didn't consider, and other factors in order to get at 2.2 2.2 utilities users' tax rate, that's an analysis that you the total potential revenue available from taxes for the 23 23 haven't been asked to perform? City_correct? 24 24 Nor did we do an analysis of changes in the A. I believe that analysis has already been done. 25

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I'm not -- we were not responsible for it.

collection rates for any tax other than the property tax.

Page 303 Page 301 1 R. CLINE R CLINE 2 Q. Who did that analysis? 2 MR. SMITH: And the other item is we have 3 3 A. I believe the Plan of Adjustment has the received some additional documents. We haven't had 4 a chance to upload that deal with Mr. Cline and numbers that you're describing in it. 5 Okay. So, do you think the Plan of Adjustment 5 Mr. Malhotra, I believe on Friday. 6 6 MR. STEWART: All right. has numbers for an increase in collection rate? 7 I believe there's a specific line in one of 7 MR. SMITH: So, I just wanted to put that 8 the tables that identifies that. 8 on the record. 9 And are there numbers in the Plan of 9 BY MR. SMITH: 10 Adjustment for taxes that you didn't consider? 10 Q. Mr. Cline, are there any areas that you plan I believe there are summary categories that do 11 11 to testify about that we haven't discussed? 12 12 I believe we have been discussing the area include other sources of tax revenue. 13 Q. And all of that would be additive to your 13 that I was responsible for, and that's the preparation of 14 14 the tax forecast for the tax -- major tax components that analysis, correct? 15 15 you identified earlier in your questioning. A. We did not do those numbers. 16 Q. Okay. Can you give me an explanation for why 16 Q. Okay. And I just want to find out if there's 17 17 any other area we haven't talked about that you might be the -- no one asked you to look at increases in 18 18 collection rates or other taxes other than the ones you planning to testify about at trial? Or have we covered 19 19 all of the bases? That's basically what I want to find 20 20 I believe it might have been a logical out. 21 21 division of labor that we were asked to do what we do A. I don't know the answer to that question. 22 22 Okay. Why don't -- why don't you know the best and have experience in doing. 23 23 answer to that question? Do you have any idea of who did the analysis 24 24 A. Because I'm not clear what other areas that of collection rates? 25 you might question me about. No, I don't. Page 302 Page 304 1 R. CLINE 1 R. CLINE 2 Okay. But you do know what you're planning to 2 Do you have any idea of who did any analysis 3 of taxes other than the ones you looked at? 3 testify about, correct? 4 4 A. No, I do not. A. It's summarized and presented in the report MR. SMITH: Why don't we take a quick 5 5 that we have been discussing. 6 6 All right. And that's it, right, what's in break. 7 7 MR. STEWART: Here's the document, and you the report? 8 were right, we did not change it to correct the A. I believe that's correct. 9 9 fact that it's going to be Mr. Hill instead of Okay. The -- are you preparing to do any 10 10 Mr. Cline. But Mr. Hill is later in the week, and other work to revise your analysis or anything like that 11 vou --11 before trial? 12 12 MR. SMITH: So, Mr. Cline is not prepared A. We are not looking at any revisions at this 13 13 point that I am -- that I am aware of, and I assume we to testify on topic 2? 14 MR. STEWART: Not on 2, no. We thought we 14 will not be making changes. 15 corrected it, but we did not. Anyway, it will be 15 Okay. There was, I think, a plan to have 16 16 the -- the next CAFR, I think, is about to come out. Mr. Hill. 17 17 Does that figure in your analysis at all or not? MR. SMITH: Okay. So, you want to change 18 18 A. Well, we would certainly look at it if we were it to Mr. Hill now, is that what you are saying? 19 19 MR. STEWART: Well, we'll file things asked to do another round of revisions. At this point, I 20 20 am not considering doing that. formally, but we will just want to make sure you 21 know that's an oversight. We thought we had fixed 21 I mean, does the -- do you rely on the CAFR 22 22 it, but it will be Mr. Hill. We'll put it in an for part of your analysis? 23 23 amended document so it's clear in terms of filings A. I think I mentioned in answering earlier 24 24 what we're doing, but it will be Mr. Hill. We questions that the CAFRs have been one source of 25 thought we had disclosed that sometime earlier. information, after the fact, as the best estimates of

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	1
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1	R. CLINE
2	actual tax collections.
3	Q. Okay. So, you would kind of test the tax
4	collections against the CAFR and update the your
5	analysis with actual values if you were going to update
6	it, which it sounds like you're not going to update it?
7	A. We have not been asked at this point in time
8	•
	to do new estimates. If we were, that would be one
9	source of information that we would consider.
10	Q. Okay. Okay. Thank you.
11	MR. STEWART: Thanks. Does anyone else
12	have questions? Anyone on the phone?
13	MR. DiPOMPEO: Does anyone on the phone
14	have questions? Is there anyone on the phone?
15	(No response.)
16	MR. STEWART: We're off.
17	THE VIDEOGRAPHER: Okay. Off the record at
18	5:26. This is the end of disk four, and the end of
19	today's testimony.
20	(CONCLUDED, 5:26 p.m.)
21	
22	
23	
24	
25	
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1	
2	CERTIFICATE OF COURT REPORTER
3	
4	
5	I, Marjorie Peters, Registered Merit
6	Reporter and Certified Realtime Reporter do certify
7	that the foregoing is a true and accurate transcript of
8	the foregoing deposition, that the witness was first
9	sworn by me at the time, place and on the date herein
10	before set forth.
11	I further certify that I am neither
12	attorney nor counsel for, not related to nor employed
13	by any of the parties to the action in which this
14	deposition was taken; further, that I am not a relative
15	or employee of any attorney or counsel employed in this
16	
	case, nor am I financially interested in this action.
17	
18	
19	
20	Marjorie Peters
21	Registered Merit Reporter
22	Certified Realtime Reporter
23	
24	
25	

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EXHIBIT 6

Sallee Deposition Transcript

1	UNITED STATES BANKRUPTCY COURT
2	EASTERN DISTRICT OF MICHIGAN
3	In re)
4) Chapter 9
5	CITY OF DETROIT, MICHIGAN,) Case No. 13-53846
6	Debtor.) Hon. Steven W. Rhodes
7	
8	The videotaped deposition of CAROLINE
9	SALLEE, called for examination pursuant to the
10	Rules of Civil Procedure for the United States
11	District Courts pertaining to the taking of
12	depositions, taken before GINA M. LUORDO, a notary
13	public within and for the County of Cook and State
14	of Illinois, at 77 West Wacker Drive, Suite 3500,
15	Chicago, Illinois, on the 24th day of July, 2014,
16	at the hour of 9:04 a.m.
17	
18	
19	
20	
21	
22	
23	
24	Reported by: Gina M. Luordo, CSR, RPR, CRR
25	License No.: 084-004143

APPEARANCES: APPEARANCES (continued): WILLIAMS, WILLIAMS, RATTNER & PLUNKETT, JONES DAY, P.C., BY: GEOFFREY S. STEWART, ESQ., BY: WILLIAM E. HOSLER, ESQ. (via telephone) CHRISTOPHER DiPOMPEO, ESQ., 280 North Old Woodward Avenue, Suite 300 SARAH A. HUNGER, ESQ. Birmingham, Michigan 48009 51 Louisiana Avenue, N.W. Washington, D.D. 20001-2113 Representing Financial Guaranty Insurance Company. Representing the Debtor; KIRKLAND & ELLIS LLP BY: DOUGLAS G. SMITH, ESQ. 300 North LaSalle Street Chicago, Illinois 60654 Representing Syncora Guarantee Inc. Also Present: Ms. Marguerette Hosbach and Syncora Capital Assurance Inc.; General Counsel - Ernst & Young (via telephone) Mr. Thomas Scheckel - Videographer APPEARANCES (continued): INDEX DENTONS US LLP WITNESS **EXAMINATION** BY: SAM J. ALBERTS, ESQ. CAROLINE SALLEE 1301 K Street, NW By Mr. Smith By Mr. Stewart Suite 600, East Tower Washington, D.C. 20005-3364 EXHIBITS NUMBER DESCRIPTION **PAGE** Representing Official Committee of No. 1 City of Detroit Assessing Division - Observations and Retirees; Opportunities No. 2 The Detroit News Article CHADBOURNE & PARKE LLP BY: F. NICHOLAS CHANDLER, ESQ. No. 3 Property Tax Process Review October 19, 2012 Draft (via telephone) 30 Rockefeller Plaza No. 4 The Detroit News Article New York, New York 10112 No. 5 Excerpts of Gary Evanko Deposition No. 6 Citizens Research Council of Michigan Report 382 Representing Assured Guaranty Municipal Corp.; No. 7 News Article No. 8 Detroit Regional Chamber Facts On Bankruptcy and Transformation No. 9 Crain's Detroit Business Article 123 No. 10 BLS Data Viewer

1	NUMBER DESCRIPTION PAGE	1	THE VIDEOGRAPHER: My name is Thomas Scheckel,
2	No. 11 Case-Shiller Detroit Home 134	2	certified legal video specialist in association
3	Price Index	3	with Elisa Dreier Reporting Corp. located at
4	No. 12 Case-Shiller Detroit Home 138	4	950 Third Avenue, New York, New York. I'm the
5	Price Index	5	videographer on July 24, 2014 for the recording of
6	No. 13 City of Detroit Assessing 144	6	the deposition of Caroline Sallee being taken at
7	Division Operational	7	77 West Wacker, Chicago, Illinois at the time of
8	Recommendations	8	9:04 a.m. In re City of Detroit, debtor, filed in
9	No. 14 Report of Caroline Sallee 145	9	the U.S. Bankruptcy Court, Eastern District of
10	No. 15 Data from Brookings Report 229	10	Michigan, Case No. 13-53846
11	No. 16 City of Detroit Ten-Year 246	11	Will counsel please identify themselves
12	Financial Projections	12	for the record beginning with plaintiff's counsel.
13	No. 17 Fourth Amended Disclosure 249	13	MR. SMITH: Doug Smith for Syncora.
14	Statement	14	MR. STEWART: Jeffrey Stewart, Chris DiPompeo
15	No. 18 Spreadsheet 253	15	and Sarah Hunger of Jones Day for the City of
16	No. 19 Spreadsheet 265	16	Detroit and for the witness.
17	No. 20 Spreadsheet 271	17	MR. ALBERTS: Sam J. Alberts from Dentons on
18	No. 21 Spreadsheet 278	18	behalf of the Official Committee of Retirees.
19	No. 22 Spreadsheet 280	19	THE VIDEOGRAPHER: Will counsel on the phone
20	No. 23 Spreadsheet 282	20	please identify themselves.
21	No. 24 Changes to Detroit Property 283	21	MR. HOSLER: William E. Hosler from Williams,
22	Tax Forecasts	22	Williams, Rattner & Plunkett on behalf of FGIC.
23	No. 25 Residential Sales Statistics 288	23	THE VIDEOGRAPHER: Will the reporter please
24	May 2014	24	identify herself and swear in the witness.
25		25	THE COURT REPORTER: Gina Luordo.
	7		9
1	7 NUMBER DESCRIPTION PAGE	1	9 (Whereupon, the witness was
1 2	NUMBER DESCRIPTION PAGE No. 26 2014 Building Permits 291	2	(Whereupon, the witness was sworn.)
	NUMBER DESCRIPTION PAGE No. 26 2014 Building Permits 291 No. 27 Expert Report of Martha E.M. 291		(Whereupon, the witness was sworn.) MR. SMITH: Good morning, Ms. Sallee. Have you
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25

Q. And has Ernst & Young retained Mr. Stewart

- 1 on your behalf to represent you today, if you know?
- 2 A. I don't know.
- Q. You're functioning, I guess -- there are
- 4 multiple Ernst & Young witnesses who have filed
- 5 expert reports in the case. You're aware of that,
- 6 correct?
- 7 A. Yes.
- 8 Q. And I want to try to figure out kind of
- 9 your role with respect to these other witnesses,
- 10 okay?
- 11 A. Okay.
- 12 Q. You're holding yourself out as an expert,
- 13 I guess, in tax policy; is that correct?
- 14 A. So I'm an expert in the real and personal
- 15 property taxes for the General Fund for the City of
- 16 Detroit.
- 17 Q. You're not holding yourself out as an
- 18 expert in urban policy, correct?
- 19 A. Correct.
- Q. You're not an expert in health benefits?
- 21 A. Correct.
- Q. You're not an expert on government?
- 23 A. Correct.
- Q. You're not an expert on blight reduction?
- 25 A. Correct.

1 A. Correct.

10

- Q. You're not an expert on the state
 - government or the Michigan government, correct?
- 4 A. Correct.
- 5 Q. Not an expert on casinos or wagering
- 6 revenue?

3

7

14

- A. Correct.
- 8 Q. Not an expert on wagering tax revenue?
- 9 A. Correct.
- 10 Q. Not an expert on art valuation?
- 11 A. Correct.
- 12 Q. Not an expert on pensions?
- 13 A. Correct.
 - Q. Not an expert on government grants?
- 15 A. Correct.
- 16 Q. You're not an expert on information
- 17 technology?
- 18 A. No.
- 19 Q. You're not an expert on transportation
- 20 systems?
- 21 A. Correct.
- Q. And you wouldn't hold yourself out as an
- 23 expert in accounting?
- 24 A. Correct.
- Q. You're not an expert in financial

..

11

- Q. You're not an expert on property
- 2 assessment?
- 3 A. I'm not an expert on property assessment.
- 4 Q. And you've never assessed property before,
- 5 correct?
- 6 A. That's correct.
- 7 Q. You're not an expert in property tax
- 8 collection?
- 9 A. That's correct.
- 10 Q. Not an expert on real estate valuation?
- 11 A. Correct.
- Q. Never done a real estate valuation before?
- 13 A. That's correct.
- 14 Q. Never been involved in property tax
- 15 collection before, correct?
- 16 A. By understanding the mechanisms of
- 17 property tax collections, I understand those, but
- 18 in terms of an expert in how it's being collected?
- 19 Logistics?
- Q. Well, I'm asking more of a factual
- 21 question. Have you ever personally been involved
- 22 in collecting property taxes before?
- A. No, I have not.
- Q. You're not holding yourself out as an
- 25 expert in real estate in general, correct?

- 1 analysis?
- 2 A. Correct.
- 3 Q. You are not an expert on Chapter 9
- 4 bankruptcy?
- 5 A. Correct.
- 6 Q. You're not holding yourself out as an
- 7 expert on state revenue sharing?
- 8 A. So I am holding myself out as an expert on

- 9 state revenue sharing for the City of Detroit.
- 10 Q. Have you ever been involved in state
- 11 revenue sharing before?
- 12 A. What do you mean by involved?
- Q. I mean, has there ever been any work that
- 14 you've done in the area of state revenue sharing
- 15 before?
- 16 A. Any work? So I've analyzed how the State
- 17 of Michigan does their revenue sharing, and I've
- 18 looked at distribution to certain counties, cities,
- 19 townships. So in that capacity, I understood how
- 20 it's done and in this case, how the revenue was
- 21 going to the City of Detroit.
- Q. Is the only work you've done on state
- 23 revenue sharing for purposes of this case?
- 24 A. No
- Q. What was the other work you've done?

- 1 A. So I've done some work for the City of
- 2 Flint, Michigan and then looking at how revenue
 - sharing worked for past clients at my old job.
- 4 Q. What was that job?
- 5 A. I worked for Anderson Economic Group.
- 6 Q. And did you do work on Michigan revenue
- 7 sharing or other states' revenue sharing?
 - A. Just Michigan.

- 9 Q. Okay. And you understand that the state
- 10 has significantly cut its revenue sharing to all
- 11 the cities in Michigan in recent years, correct?
- 12 A. I understand that Michigan revenue sharing 13 has gone down.
- 14 Q. And it's gone down by hundreds of millions 15 of dollars to Detroit, correct?
- A. I wouldn't say hundreds of millions of
- 17 dollars. So overall Michigan's revenue sharing has
- gone down, and Detroit has had fluctuations. So in
- 19 any given year, it's gone up and down.
- Q. Well, there have been analyses, though,
- 21 that have showed that the cuts in recent years have
- 22 cost Michigan -- I mean cost the City of Detroit
- 23 more than \$700 million. You're aware of that,
- 24 correct?
- A. I can't speak to that because I don't have

- 1 sharing is a problem for them, yes.
- Q. And the City of Flint, when it was in
- 3 fiscal distress, what activities did it try to
- 4 engage in to improve its fiscal condition?
 - A. I can't speak to that.
- Q. What specifically were you doing for theCity of Flint?
- 8 A. So this is a public case, so I feel I can
- 9 talk about it. So we were retained by the City of
- 10 Flint to look at their revenue forecasting for the 11 next five years.
- 12 Q. And so the City of Flint did revenue
- 13 forecasting over a period of five years?
 - A. That's right.
- 15 Q. And why were you doing that? Why were you
- 16 looking at the revenue forecasting?
 - A. Because we were asked to.
- 18 Q. I mean, why did they want you to, though?
- 19 What was --
- 20 A. My understanding is that EY had -- was
- 21 hired, and I was brought in from the restructuring
- 22 team to look at the revenue forecasting, and they
- 23 were asked by the State of Michigan to look at
- 24 their -- both their expenses and their --
- 25 forecasted expenses and revenues, and the State

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- an analysis in front of me.
- Q. I mean, do you know how much cumulatively
- 3 the cuts in the last decade to revenue sharing have
- 4 cost the City of Detroit?
- 5 A. I do not know that.
- 6 Q. You know that many cities, though, are
- 7 under financial distress in Michigan because of the
- 8 cuts to revenue sharing, correct?
- 9 A. I can't speak about other cities and
- 10 townships.
- 11 Q. Well, the City of Flint, was that city
- 12 under financial distress?
- 13 A. The City of Flint has been under financial
- 14 distress, yes.
- 15 Q. And is one of the causes of financial
- 16 distress of the City of Flint the cut in state
- 17 revenue sharing?
- 18 A. I would say it's been one of the factors.
- 19 Q. And one of the factors causing Detroit's
- 20 fiscal distress is the cut to state revenue
- 21 sharing, correct?
- A. One of the causes --
- 23 Q. Yes.
- A. -- you're asking? I would say for the
- 25 City of Detroit, reductions to state revenue

- 1 wanted them just to do one more check.
- Q. And was the City of Flint put under an
- 3 emergency manager as a result of fiscal distress?
- 4 A. They have been under emergency financial 5 management, yes.
- 6 Q. And do you know what actions the emergency

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- 7 manager has taken to alleviate financial distress?
 - A. I do not.
- 9 Q. Do you know if Flint has improved its
- 10 fiscal situation at all?
- 11 A. I do not.
- 12 Q. Do you know -- as far as you know, did the
- 13 City of Flint ever consider going into Chapter 9 as
- 14 a result of fiscal distress?
 - A. I don't know.
- 16 Q. You're not aware of that ever coming up?
- 17 A. I don't know if they've ever talked about
- 18 it.

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- 19 Q. During your interactions with the City of
- 20 Flint, though, they never suggested to you that
- 21 they would go into Chapter 9 to alleviate fiscal
- 22 distress, correct?
- A. So during my conversations with the City,
- 24 we never talked about whether or not they would go
- 25 into bankruptcy.

- 1 Q. And why was the State of Michigan having
- 2 the City look at its revenues again?
- 3 MR. STEWART: Objection.
- 4 THE WITNESS: I don't know.
- 5 BY MR. SMITH:
- 6 Q. Do you know if the city of -- City of
- 7 Flint cut costs and services in order to address
- 8 fiscal distress?
- 9 A. I don't know.
- 10 Q. Do you know if -- I mean, you were doing
- 11 the revenue forecasting, I guess. Do you know if
- 12 the City of Flint raised taxes in order to address
- 13 its fiscal distress?
- 14 A. So I was doing forecasting, so in terms
- 15 of -- I don't know what they had done in the past.
- 16 Going forward, we looked at the various taxes and
- 17 whether or not things were going to expire at
- 18 certain times, so it was all under current law,
- 19 things that had been planned so...
- Q. What kind of things did the City of Flint
- 21 plan in terms of taxes for raising revenue?
- A. They -- so I looked at their property and
- 23 income taxes and state revenue sharing. They had
- 24 certain millages that were going to expire at
- 25 certain times, and so we just took that into

- 1 Detroit bankruptcy?
- 2 A. No.

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- Q. The -- did the City of Flint receive,
- 4 other than the revenue sharing, any special
- 5 assistance from the State in terms of monetary
- 6 payments? 7 A. I do
 - A. I don't know.
 - Q. Before the City of Detroit matter, though,
- 9 had you ever forecast state revenue sharing
- 10 payments?
- 11 A. Before the Detroit matter, no.
 - Q. In Flint, are there -- other than -- one
- 13 difference between your projections in the City of
- 14 Flint and the City of Detroit matter is the length
- 15 of time over which the projection occurs, correct?
- 16 A. There were different time periods that I
- was asked to look at, yes.
- 18 Q. And you were asked to look at a shorter
- 19 period for Flint, Michigan, correct?
- A. I was asked to look at five years.
- Q. Which is shorter than --
- A. Which is shorter than 10, yes.
- Q. Are there other differences in your
 - methodology for the Flint projections compared to
- 25 Detroit?

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- 1 account in our forecast, made sure we were
- 2 following what was the current law.
- 3 Q. Were there increases in taxes that were
- 4 planned or increases in tax revenues that you
- 5 incorporated into your Flint revenue --
- A. So anything that was in current law we incorporated.
- 8 Q. And what would that include?
- 9 A. Off the top of my head, I can't remember.
- 10 Q. When did you do the analysis for Flint?
- 11 A. I did it in February of 2014.
- 12 Q. You mentioned that you can talk about this
- 13 because it's public, correct?
- 14 A. Correct.
- 15 Q. Are there nonpublic engagements that
- 16 Ernst & Young has been engaged for for cities in
- 17 Michigan?
- 18 A. Not that I'm aware of.
- 19 Q. Are there other nonpublic engagements that
- 20 you've been engaged in by any cities?
- A. Nonpublic engagements, yes.
- Q. How many of those are there?
- A. I can't recall at the moment off the top
- 24 of my head.
- Q. Do those have anything to do with the

A. No.

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- Q. Were you asked to look at anything other
- 3 than property tax and state revenue sharing, or did
- 4 you do other sources of revenue?
- 5 A. We looked at other sources of revenue.
- 6 Q. Okay. What other sources?
- 7 A. So income taxes.
- 8 Q. Anything else?
 - A. So what I was responsible for was property
- 10 and revenue sharing, so those are the ones that I'm
- 11 comfortable talking about.
- 12 Q. I mean, do you know if there were other
- 13 revenue sources?
- 14 A. There are other revenue sources, yes.
- 15 Q. What were the other revenue sources for
- 16 Flint?
- 17 A. So those were the ones that I was not
- 18 personally involved in forecasting.
- 19 Q. Well, I'm just wondering what they were,
- 20 not the details necessarily.
- A. Just like any city, they would have
- 22 certain grants or other things, but that was not
- 23 what I looked at.
- Q. So one significant source of revenue for a
- 25 city is grants from either the federal government

- or the state government, correct?
- 2 MR. STEWART: Just a second. Objection.
- 3 BY MR. SMITH:
- 4 Q. Now you can answer.
- 5 MR. STEWART: You can answer the question.
- 6 THE WITNESS: I guess I don't know what the
- question is.
- BY MR. SMITH: 8
- Q. One significant source of revenue for a
- city is grants from the federal government or state 10 11 government, correct?
- 12 A. I guess it depends on the city and what you mean by significant. 13
- Q. For the City of Detroit, grant money from 14
- the state and federal governments is a significant 15
- source of funds, correct? 16
- 17 A. I don't know.
- 18 Q. You would agree that property tax revenue
- is a significant sort of revenue for Detroit, 19
- 20 correct?
- 21 A. What do you mean by significant?
- 22 Q. Well, you've used the word significant
- 23 before, right?
- 24 A. I don't know. I don't think I have.
- 25 Q. You're saying in your life, you've never

- A. Expenditures for a city? No, I haven't.
- 2 Q. Before -- before the Detroit matter, did 3
 - vou ever forecast property tax revenues?
- 4 A. Yes.

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- Q. What context did you do that?
- 6 A. I would do it for clients related to
- 7 certain projects, so for example, I would be
- 8 retained in my old job to look at a new facility
- 9 and then to forecast the property tax revenue from 10 that.
- 11 Q. Okay. But before the Detroit matter, you
- 12 never forecasted the total property tax revenues a
- 13 city received, did you?
 - A. For -- what do you mean the total forecast
- 15 for a city?
- 16 Q. I mean you never forecasted the amount of
- 17 property tax revenue a city would receive in total
- 18 before your retention on the Detroit matter,
- 19 correct?
- 20 A. That's correct.
- 21 Q. You've never been qualified as an expert
- 22 by any court; is that correct?
- 23 A. That's correct.
 - Q. Have you ever been retained to do any

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25 expert work before in a litigation context?

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used the word significant before?

- A. Well, I use it, but I don't know if I
- would use it in this context, so what do you mean
- 4 by significant?
- Q. Okay. The property tax revenue would be
- one of the top revenue sources for the City of 6
- 7 Detroit?
- 8 A. So for the City of Detroit, when I look at
- the various tax components, property tax revenue
- 10 makes up a good portion of the tax revenue that the
- 11 City receives.
- 12 Q. Do you know what the proportion is?
- 13 A. So it's around 17 percent.
- 14 Q. And what's the proportion of revenue for
- 15 the city that the state revenue sharing makes up?
- A. Off the top of my head, I don't know. 16
- Q. Would it be fair that to say that state 17
- 18 revenue sharing is one of the top revenue sources
- 19 for the City of Detroit?
- 20 A. State revenue sharing, when I look at the
- tax revenue plus the state revenue sharing, state
- revenue sharing is a good portion of that revenue,
- 23 yes.
- Q. Have you ever forecasted expenditures for 24
- 25 a city?

- 1 A. Yes.
- 2 Q. And what context was that?
- 3 A. Sorry. Let me clarify. Do you mean -- so
- 4 in my old job, my boss had been an expert on a
- 5 number of cases, so I would work on his cases. I
- was not the expert, though. 6
- 7 Q. Okay. So you've done litigation
- 8 consulting work before, but you weren't personally
- 9 the expert, correct?
- 10 A. That's correct.
- 11 Q. When did you begin your work on the City
- 12 of Detroit matter?
 - A. I started work in May of 2013.
- 14 Q. Have you ever forecasted municipal
- 15 population levels before?
- A. For specific projects in my old job, yes. 16
- Q. Have you ever forecasted -- have you ever 17
- 18 done a forecast for municipal revenue sharing for
- 19 the Detroit matter?
 - A. No, I don't think so.
- 21 Q. And have you ever forecasted what future
- 22 property assessments would be in a city before the
- 23 Detroit matter?
- 24 A. So in this case, I forecasted taxable
- value, which obviously, has some relationship with

- 1 assessments, and this is the first time that I did
- 2 that for a municipality, yes.
- 3 Q. You're not a lawyer, correct?
- 4 A. I am not.
- 5 Q. And you're not holding yourself out as a
- 6 legal expert?
- A. What do you mean by legal expert? I'm an
- 8 expert in this case.
- 9 Q. Okay. Are you offering any opinions on 10 the law like as it relates to this case?
- 11 MR. STEWART: Objection.
- 12 THE WITNESS: I don't think I'm offering
- 13 opinions on the law. I'm offering opinions on the
- 14 two things that are in my report.
- 15 BY MR. SMITH:
- 16 Q. Okay. So other than what's in your
- 17 report, you're not offering any expert opinions
- 18 other than that, correct?
- 19 A. That's correct.
- Q. Okay. And is it fair to say that in your
- 21 report, you're not -- or anywhere else, you're not
- 22 trying to offer an opinion about interpreting the
- 23 law, correct?
- A. I'm not offering an interpretation of the
- 25 law.

- 1 Q. You didn't read Charles Moore's expert
- 2 report, correct?

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- 3 A. I have not.
- 4 Q. And do you know who he is?
 - A. I do not.
- 6 Q. Do you know --
 - A. And I read Martha -- what's her last name?
- 8 Q. Ms. Kopacz?
- 9 A. Yes. Thank you.
- 10 Q. You read her report?
- 11 A. I did read her report.
 - Q. And you know that Ms. Kopacz opines that
- 13 the forecasts Ernst & Young had presented were
- 14 subjective, correct?
- 15 MR. STEWART: Objection.
- 16 THE WITNESS: I do not recall reading that, no.
- 17 BY MR. SMITH:
- Q. Do you recall her doing an analysis where
- 19 she calculated the effect of a 1 percent increase
- 20 in property tax collections?
 - A. I did read her report where she did do the
- 22 sensitivity analysis, yes.
- 23 Q. She found that increasing property tax
- 24 collections by 1 percent could lead to more than a

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25 \$20 million increase in revenue, correct?

- 1 Q. Okay. Have you reviewed any depositions
- 2 in this case?
- 3 A. Yes. No, I haven't. Sorry. I've
- 4 reviewed expert reports. Sorry.
- 5 Q. But no depositions?
- 6 A. I have not reviewed depositions.
- 7 Q. So you didn't review Mr. Evanko's
- 8 deposition?
- 9 A. I have not reviewed Mr. Evanko's
- 10 deposition.
- 11 Q. You know who Mr. Evanko is, though,
- 12 correct?
- 13 A. I do.
- 14 Q. Who is Mr. Evanko?
- 15 A. Gary Evanko --
- 16 Q. Yes.
- 17 A. -- is the city assessor for the City of
- 18 Detroit.
- 19 Q. Have you -- you mentioned you had reviewed
- 20 expert reports. What expert reports have you
- 21 reviewed?
- 22 A. I have read Robert Cline's expert report
- 23 and Gaurav Malhotra's.
- Q. Any other expert reports?
- 25 A. Not that I'm aware of, no.

- A. My recollection from her report is that if
- 2 you assumed that -- if you were able to change the
- 3 parameter by 1 percent, what would that mean over
- 4 the long haul, and my recollection is over
- 5 20 million in property tax revenue.
 - Q. Has Ernst & Young done any sensitivity
- 7 analysis on its forecast to understand what
- 8 changing the inputs would mean in terms of revenues
- 9 available to the city?
- 10 A. Throughout the process, we would vary our
- 11 assumptions, change our assumptions and see what
- 12 the revenue impacts are.
- 13 Q. And what assumptions did you change during 14 the process?
- 15 A. So for property taxes, we would change the
- 16 important drivers, so whether it be taxable value
- 17 or collection rates. Those are the key assumptions
- 18 that we would change.
- 19 Q. And did you increase or decrease taxable
- 20 value over time, I mean, in changing the
- 21 assumptions?
- 22 A. Well, so do you have a -- I mean, both. I
- 23 mean, there are times when we would say we would
- 24 get a new piece of information, and we might adjust
- 5 our growth rates, and sometimes they would raise

1 taxable value. Sometimes they would lower it. So

2 it really depended on the particular situation we 3

were modeling.

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Q. So you used multiple values in your various work as for taxable value, correct?

A. Multiple values in our taxable value for forecast? So our taxable value throughout our

forecasts would change as we incorporated more

information, more data, so we've done several

iterations. And so when we got -- received new 10 information, we would incorporate it.

12 Q. And what other important drivers did you 13 change multiple times?

A. Change multiple times? So we've done -- I

think we're about -- I think there are five 15

forecasts, five disclosure statements, so we've

done the analysis, and we've updated it five times.

18 And so like I said, given new information, we would

look at the different components of taxable value, 19

20 make some adjustments to taxable value, to the

collection rate based on the -- whatever 21

22 information was at hand.

23 Q. So one important driver of property tax

24 revenue is taxable value, correct?

25 A. That's right. businesses started, is there new construction

2 activity. These are all drivers of taxable value

which ultimately then affects your tax levy, your

4 collection and then ultimately your tax revenue.

5 Q. And the tax rate is an important driver of 6 property tax revenue, correct?

A. What do you mean by important?

8 Q. It's a key -- tax rate is a key driver of

property tax revenue, correct?

10 A. It is one of the -- it's one of the key 11 drivers.

12 Q. And in your formula, increasing the tax

13 rate increases property tax revenue, correct?

A. It depends, I guess. So if you were to

15 hold --

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16 MR. STEWART: You answered his question.

17 MR. SMITH: Are you telling her not to finish

18 her answer?

19 MR. STEWART: No. I'm just telling her to let

20 you ask your next question.

MR. SMITH: I think you're telling her not to 21

22 finish her answer, Geoff.

23 MR. STEWART: Finish your answer if you want to

24 finish your answer.

25 THE WITNESS: Okay. I was going to say it

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O. Another important driver of property tax revenue is the collection rate, correct?

3 A. Uh-huh.

4 Q. Are there any other important drivers of taxable value?

A. Well, so within taxable value --

Q. I mean -- let me re-ask the question.

Are there any other important drivers of property tax revenue?

10 A. Property tax revenue? So within property 11 taxes, we forecasted, and by we, I mean I did

12 analysis. I also talked with Bob Cline about it.

So within the analysis, I would look at different 14 components of taxable value and forecast that.

What was your question, though? 15

Q. What are the other important drivers of 16 property tax revenue? 17

18 A. So within property -- so tax revenue is

19 dependent upon the tax levy. The tax levy is your equitable value times your tax rate and then how

much are you going to collect. So those are the

key components. Within taxable value, you have various drivers, so that would include population

24 to the city is important. You would need to know

sort of new economic activity, is there any

depends.

2 BY MR. SMITH:

3 Q. Okay. You agree with me that if you hold everything else constant in your forecast,

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5 increasing tax rates increases property tax

6 revenue, correct?

7 A. If you hold everything else constant and 8 you increase the tax rate, you would get more tax

9 revenue.

10 Q. And if you hold everything else constant, increasing the percent of state revenue sharing 11

12 increases state revenue sharing revenue, correct? 13 A. If you hold everything constant and the

14 state decided to give Detroit more money, they 15 would have more money.

Q. It's basically -- the state has the 16

discretion to improve Detroit's fiscal condition by 17

18 just giving more revenue sharing, correct?

19 MR. ALBERTS: Objection.

THE WITNESS: Theoretically, the state could

21 decide that they want to give more money to

22 Detroit, and Detroit would have more money.

23 BY MR. SMITH:

24 Q. Do you know what the important -- the key

drivers are of the income tax revenues for the City

- 1 of Detroit?
- 2 A. Do I know what they are? I did not do
- 3 that analysis.
- 4 Q. But did -- I take it you're not offering
- any opinions on the income tax or the corporate tax 5
- 6 or the wagering tax or the utility users tax,
- correct?
- A. That's correct. I'm not offering an 8
- 9 opinion.
- 10 Q. You -- one of documents you rely on is the
- 11 Citizens Research Council report on Detroit. Do
- 12 you recall that?
- A. Which report? 13
- 14 Q. The one on revenues.
- 15 A. Do you know the title?
- Q. It's called something like revenues 16
- 17 available to the City of Detroit or something like
- 18
- 19 A. So I have looked at a Citizens Research
- Council report. It sort of fits that definition. 20
- Q. Well, I'm just wondering is the Citizens 21
- Research Council a reliable source of information,
- in your view, on revenues available to the City of
- Detroit? 24
- 25 A. I think the Citizens Research Council does

creating the citizens guide?

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- 2 A. So the governor -- I worked with his
 - office on creating the guide that was released by him.
- 5 Q. Were your forecasts based on assumptions
- 6 or other information provided by officials from the 7 City of Detroit?
- 8 A. Can you say the question one more time?
- 9 Q. Were your forecasts based on assumptions
- or other information provided by the City of 10 Detroit?
- 12 A. I had conversations with the City of
- 13 Detroit about what they're planning to do on
- property taxes, and so I used that information to 14
- form my own assumptions for the analysis. 15
- 16 Q. Okay. Who did you have discussions with?
- 17 A. So I had discussions with Gary Evanko and
- 18 Alvin Horhn and Michael Jameson and Linda Beatty
- and Nancy Caper, I think, is her last name. She's 19 no longer there. Those are the people I can recall 20
- that I had conversations with. 21
- 22 Q. How many times did you have conversations
- 23 with Gary Evanko?
- 24 A. I cannot recall the exact number. I will
- say that I have been on the phone with him at least

excellent work.

- 2 Q. In general, you know that the Citizens
- Research Council has issued multiple reports on
- Detroit and its fiscal condition, correct?
- A. I am not aware of how many reports they've 5 issued. 6
- 7 O. You know the Citizens Research Council has
- done significant work researching Detroit's fiscal 8
- condition, though, correct?
- 10 A. I don't know about significant. I know
- 11 they've done that one report.
- Q. You mentioned -- have you done previous 12
- work for the State of Michigan?
- 14 A. Specifically for the state?
- 15 Q. Yeah.
- A. So I was hired by a group and worked with 16
- the governor on a state citizens guide to their --17
- it was a citizens financial guide to the state's
- 19 finances.
- 20 Q. Was that when you were at Ernst & Young or
- 21 your prior job?
- 22 A. That was my prior job.
- Q. And so have you met the governor? 23
- 24 A. I have, yeah.
- 25 Q. And did you work with the governor in

twice, and I've had e-mail exchanges with Gary.

- 2 Q. How long ago were you on the phone with 3 Gary Evanko?
 - A. The last time I talked to him, it was on
- 5 my sister's birthday. It was April 7th.
- 6 Q. And before that, do you recall when you 7 spoke with him?
 - A. I think it was January 22nd.
- 9 Q. Have there been times when the City failed
- 10 to respond to Ernst & Young's request for
- 11 information for your analyses?
- 12 A. There are times the City did not respond
- 13 to a specific request.
- 14 Q. What specific request did the City fail to
- 15 respond to that you had made?
- A. So I had asked Gary Evanko for detailed 16
- Renaissance Zones by property type. I wanted 17
- several years. He provided one year. 18
- 19 Q. Why did you want several years of
- information about Renaissance Zones by property 20 21 type?
- 22 A. I wanted to see how the taxable value had
- 23 changed from year to year.
- 24 Q. And why did you want to do that?
- A. Just to see if there were fluctuations, 25

- 1 things that I would need to take into account for
- 2 my forecasting model.
- 3 Q. And you wanted to have multiple years'
- 4 data on Renaissance Zones because that would make
- your analysis more reliable and accurate?
- 6 MR. STEWART: Objection.
- BY MR. SMITH:

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- Q. Is that fair?
- 9 A. I would not say it would make it more
- reliable. I had good information from the City for 10
- 11 fiscal year 2014. I actually got it then later for
- 12 fiscal year 2015. I always knew what the total
- Renaissance Zone amount was, which was important
- because I was forecasting general operating taxes.
- So in a sense, I didn't need to know that detail, 15
- but I wanted to make sure I understood what was
- 17 happening just as a matter of course.
- 18 Q. I mean, without multiple years' data, you
- 19 weren't able to look at fluctuations in the
- 20 Renaissance Zones, correct?
- A. I did end up with two years, so I could 21
- 22 see some fluctuations.

Q. Okay. There's no way to do a historical

- trend based on two years' data regarding the
- Renaissance Zones, correct?

- didn't get that information?
 - A. I did not.

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- 3 Q. Why did you want the information on small 4 business exemptions?
 - A. So part of the analysis is looking at
- personal property, and the -- certain personal
- 7 property is going to be exempt if the referendum
- 8 passes, and so I wanted to have a sense of what
- property would be exempt. I had had conversations
- with the City about the size of that, and I wanted
- 11 to see an actual report.
- 12 Q. Okay. But you were never sent the report
- 13 on small business exemptions for the personal
- property tax, and you have never gotten any 14
- 15 explanation about that?
 - A. That's correct.
- 17 Q. Were there other pieces of information you
- 18 requested the City did not provide?
- 19 A. Not that I recall.
- 20 Q. Do you know if there are other people on
- the EY team that have made requests to the City 21
- 22 that they did not fulfill in terms of information?
 - A. I don't know.
- 24 Q. Did you work with Katie Ballard at all on
- 25 your analysis?

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- 1 A. I was not able to do a historical trend
- more than two years for Renaissance Zones by
- property type.
- 4 Q. Did Mr. Evanko ever explain to you why he
- didn't give you information that you requested on
- Renaissance Zones? 6
 - A. He did.
- 8 Q. Why was that?
- 9 A. He was working at that point to prepare
- 10 the taxable values for the current tax year, and so
- he was very busy and said he --11
- 12 Q. Were there any other pieces of information
- you had requested that you didn't receive from the 13
- 14 City?

7

- 15 A. Yes.
- Q. What were those? 16
- A. I requested what the taxable value of 17
- 18 property that would be subject to the small
- 19 business exemption starting in 2014. I asked what
- 20 the taxable value of those properties were in a
- 21 report.
- 22 Q. And who did you ask that?
- A. I sent the request to our EY team who 23
- 24 forwarded it on.
- 25 Q. Did you get an explanation about why you

- 1 A. I did.
 - 2 Q. What was her role in your analysis?
 - 3 A. So Katie and my analysis, we mostly talked
 - 4 about population forecasts.
 - 5 Q. And did Katie Ballard do some of the
 - 6 population forecasting that's in your analysis?
 - A. She did not.
 - 8 Q. What did she do?
 - 9 A. So we talked about how we thought we
 - 10 should do the analysis. We talked about places to
 - go for certain data, so she was more somebody just
 - 12 to talk through what we were doing, and we -- me,
 - her and Bob talked about our assumptions going 13
 - 15 Q. And so Katie Ballard, what's her
 - educational background? 16
 - A. She has a master's degree in public 17
 - policy. 18

forward.

- 19 Q. And when did she get that?
- 20 I'm not sure.
- Q. How long has she been out of school? 21
- 22 A. I'm not certain. I think she's been out
- 23 for four years.
- 24 Q. But you wouldn't view Katie Ballard as
- somebody qualified to do the -- any of the

- 1 forecasting for the City, correct?
- 2 A. I wouldn't say that, no.
- Q. Okay. Did Katie Ballard do any of the forecasting for the City?
 - A. She did not.
- 6 Q. Has Katie Ballard ever done forecasting 7 for the City before?
- A. I don't know, so maybe I should say she did assist me on the Flint matter.
- 10 Q. Would it be fair to say that you were 11 relying on the expertise of the City of Detroit
- people that you talked to in formulating theassumptions for your forecast?
- 14 A. I had conversations with the City, and I 15 used the information that they gave me in forming 16 my opinion.
- Q. Did you do any independent testing or
 analysis of the information that was provided to
 you by the City for your forecast?
- A. So what do you mean by independent testing?
- Q. Did you go back and test any of the data that the city provided you for your forecast to
- 24 ensure it was accurate?
- A. I checked to make sure that the ad valorem

- financial statements. They had been audited, so I
- 2 didn't go back and check. They ran certain reports
- 3 from their system. I didn't have access to those
- 4 systems, so I took that information.
- 5 Q. And other information you received from 6 the City you didn't verify its accuracy?
 - A. I don't think so.
- 8 Q. I mean, basically on the conversations
- 9 with the City officials that were used to formulate
- 10 your assumptions, you didn't do anything to verify
- the accuracy of what the people at the City were
- 12 telling you; is that fair?
- 13 MR. STEWART: Objection.
- 14 THE WITNESS: I don't think that's fair.
- 15 BY MR. SMITH:

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- 16 Q. Were there instances, though, where people
- 17 from the City gave you information verbally that
- 18 you used in formulating your assumptions where you
- 9 didn't go and try to verify the accuracy of the
- 20 information?

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- A. There were times when the City would give
- 22 me -- would tell me something over the phone or
- 23 what they planned to do, and there are times that I
- 24 would have conversations with our ground -- our
- 25 team on the ground in Detroit. I would talk to

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taxable value information they gave me matched what

- was in the State Tax Commission reports, and that
- 3 was the only check to make sure that those numbers
- 4 matched.
- 5 Q. Was there information that the city
- 6 provided you that you didn't do independent testing
- 7 for to ensure its accuracy?
- 8 A. I did not verify every piece of
- 9 information, go back and see if I thought it was
- 10 accurate. I did not do that.
- 11 Q. What were some of the pieces of
- 12 information you didn't do any testing to verify its
- 13 accuracy?
- 14 A. So for the most recent tax bills, the ad
- 15 valorem data. I took that information they gave me
- 16 since it was certified and used it.
- 17 O. Anything else?
- 18 A. I had conversations with the City about
- 19 when they were planning to hire consultants to do
- 20 the reappraisal study. I did not go back and check
- 21 to see when a contract was filed or things like
- 22 that
- Q. Other information that you relied on from
- 24 the City you didn't verify its accuracy?
- 25 A. I took information from their audited

multiple people about what was going on, talk to

- 2 the mayor. So there were times where I was able to
- 3 make sure the information was consistent, and there
- were other times where they would run a report, andthey'd give it to me, and I accepted it.
- 6 Q. So generally when the City would run a
- 7 report from their system to which you didn't have
- 8 access, you wouldn't do anything to verify the
- 9 accuracy of that report, correct?
- 10 A. Sometimes I was able to go back and look
- 1 to see if, like I said, the taxable value matched
- 12 what was being reported to the state or available
- in other systems or would show up in a budget book
- 14 or an audited financial statement. So there are
- 15 times I was able to check to make sure the numbers
- 16 were consistent, and then there were times where I
- 17 had requested collection rate information by
- 18 property type that they had to run a report for me.
- 19 I talked to the person, made sure I understood it,
- 20 made sure numbers added up, and then I would accept 21 it.
- Q. You didn't verify the accuracy of the
- 23 collection rate information, though, that you have
- 24 you were given by the City, correct?
- A. If you mean by -- what do you mean by

- 1 verify?
- Q. You didn't go back to actually test and verify the accuracy of the collection rate
- 4 information that was given to you by the City,
- 5 correct?
- A. I was not able to go and, say, run the report myself or look at their base data.
- 8 Q. When you began work on this case, was
- there already some sort of model in place for
 forecasting property tax or state revenue sharing
- 11 revenue?12 A. There was a model in place for property
- 13 taxes.14 O. Do you know who created that model?
- 15 A. I do not know.
- 16 Q. Did you look at the experience of any
- 17 other cities in developing your forecast?
- 18 A. No.
- 19 Q. Do you know what cities would be
- 20 comparable to Detroit in terms of their financial
- 21 situation?
- 22 A. No.
- Q. Did you rely on data provided by the
- 24 assessor's office in formulating your opinions?
- A. I did receive data from the assessor's

- the mechanism or methodology used in assessingproperty taxes?
- 3 A. I don't know what the city assessor's
- 4 office was doing to assess property. I don't know.
- 5 Q. Can you explain the methodology used by 6 the City in collecting property taxes?
 - A. No.

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- 8 Q. Can you explain to me the methodology the
- 9 city used in setting property tax rates?
 - A. No.
- 11 Q. Can you explain the methodology the State
- 12 used in setting the revenue sharing levels?
- 13 A. So there are two parts of revenue sharing.
- 14 So there's the constitutional portion, which has a
- 15 formula, and then there's the EVIP portion, the
- 16 Economic Vitality Incentive Program. And in terms
- 17 of how exactly they decide what they're going to
- 18 allocate cities, villages or townships, I don't
- 19 know the formula for that.
- Q. Okay. So it would be fair to say that you
- 21 don't know the formula or methodology used in
- 22 setting the statutory portion of the revenue
- 23 sharing; is that correct?
- A. I wouldn't say that. The EVIP portion
- doesn't have a formula, and so it would be

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- office.
- Q. And you relied on that in formulating your opinions?
- 4 A. I did rely on some of that data.
- 5 Q. Did you work with Shavi Sarna at all?
- 6 A. I did.
- 7 Q. What was your interaction with that
- 8 individual?
- 9 A. Shavi and I would have conversations. We
- 10 would exchange e-mails. He would ask questions.
- 11 Q. Do you know what fees the City collects?
- 12 A. What do you mean by fees?
- Q. Well, you know the City of Detroit charges
- 14 fees for various services, correct?
- 15 A. Correct.
- 16 Q. Do you have any idea what fees the City of
- 17 Detroit collects?
- 18 A. I don't.
- 19 Q. Do you have any idea what licensing
- 20 revenues the City gets?
- 21 A. I don't.
- Q. Do you have any idea what the mechanisms
- 23 for property tax assessment are in the City?
- A. What do you mean by mechanisms?
- Q. I mean, can you -- are you able to explain

1 inaccurate to say I don't know the formula because2 there isn't a formula.

- Q. Let me re-ask my question then.
- Would it be fair to say you don't know the methodology used in setting the EVIP portion of the state revenue sharing?
- 7 A. I personally don't know why legislators
- 8 decide to allocate a certain amount of money to
- 9 Detroit. There is a -- there are three components
- 10 to EVIP. There's supposed to be -- they're
- 1 supposed to meet certain things in order to get the
- 12 revenue, but what the legislature decides year to
- 13 year to allocate is their discretion, so...
- Q. Basically the amount of revenue sharing,
- 15 would you agree, is a discretionary political
- 16 decision by the legislature?
- 17 A. For EVIP, it is the discretion of the
- 18 legislature.
- 19 Q. And it's a political decision. The amount
 - 0 of money that the legislature decides to give to
- 21 cities is decided by people who are elected and
- make a political decision about how much money to give, correct?
- A. People who are elected make that decision.
- Q. And the decision about how much money the

City gets in state revenue sharing is a decision

- 2 that's made in the political process, correct?
- 3 A. I wouldn't say that because there are two 4 components.
- 5 Q. The EVIP portion of the state revenue
- 6 sharing is generated by political process, correct?
 - A. In that the legislature and the
- legislature is part of the political process, yes. 8
- Q. And the EVIP portion is the largest
- portion of the state revenue sharing, correct? 10
- 11 A. For the City of Detroit?
- 12 Q. Yes, for the City of Detroit.
- 13 A. That's correct.
- 14 Q. In your view, what are the biggest sources
- 15 of untapped revenue for the City of Detroit?
- A. I don't have an opinion on that. 16
- 17 Q. Do you have an opinion about how the City
- 18 of Detroit could increase property tax revenues?
- 19 A. I do not.
- 20 Q. The City of Detroit has never asked you or
- anyone else at Ernst & Young to use your expertise 21
- 22 to increase property tax revenues for them,
- 23 correct?
- A. Correct. We don't do specific tax policy 24
- recommendations. 25

- auditing services, accounting services. We do,
- 2 obviously, tax advisory. We prepare tax
- 3 statements. Our business is not to consult in the
- 4 policy realm in this way. And so I didn't make
- 5 those decisions, but that's what I follow.
- 6 Q. Okay. So Ernst & Young is not in the
- 7 business of offering tax policy advice to 8 municipalities, correct?
- 9 A. So the work that I do, I do not provide
- 10 specific policy recommendations. I don't know if
- 11 other parts of EY offer, but I know as a whole, we
- 12 don't make, say, specific tax policy
- 13 recommendations.

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- 14 Q. In the past, have you made tax policy
- 15 recommendations to government in your other jobs?
- A. In my other job, I would do the analysis 16
- 17 around a policy change, and so I would provide my
- 18 opinion sometimes about the change.
- 19 Q. I mean, you know that other cities have 20
- increased taxes to address fiscal distress to raise
- 21 revenue, correct?
- 22 A. Some cities have done that, yes.
- 23 Q. And you're aware that cities have cut
- 24 services in order to address fiscal distress and
- improve their fiscal situation?

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- 1 Q. Okay. So you're offering no opinion about
- whether the City can increase tax revenues,
- 3 correct?
- 4 A. I'm not offering an opinion about whether
- they can increase tax revenues.
- Q. And you're not offering an opinion about 6
- whether the City can pay the creditors more money 7
- in the bankruptcy, correct? 8
- 9 A. I'm not offering an opinion on that.
- 10 Q. And you're not offering an opinion about
- how much revenue the City would have if the
- 12 bankruptcy case is dismissed, correct?
- 13 A. That's correct.
- Q. I mean -- and in fact, Ernst & Young's 14
- 15 policy would prohibit you from offering opinions
- about how much -- whether the City can generate
- more tax revenue or increase tax rates or do other 17
- 18 things like that, correct?

24

- 19 A. So Ernst & Young would not want us to make
- 20 specific recommendations on tax policy the City of
- 21 Detroit should pursue. We just do the analysis.
- 22 Q. And why doesn't Ernst & Young allow its 23 staff to make recommendations about tax policy like
- 25 A. So the bulk of our business is providing

- A. Some cities have done that, yes.
- 2 Q. And you know that cities have added new
- 3 fees for services in order to raise revenue to
- 4 address fiscal distress, correct?
- 5 A. I don't know anything specifically.
 - Q. Do you know that other cities have imposed
- 7 new taxes to raise revenue for -- to address fiscal
- 8 distress?

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- 9 A. That could be possible. I don't know of
- 10 any specific instance.
- 11 Q. Do you know generally that there are a
- number of cities in the country now because of the 12
- recession we've had that are experiencing fiscal
- 14 distress?
- 15 A. Yes, I'm aware of cities experiencing
- 16 fiscal distress.
- Q. In fact, you've worked for at least one 17
- other city that's experiencing fiscal distress in 18
- 19 the state of Michigan, right?
 - A. That's right.
- 21 Q. And you know in the state of Michigan,
- 22 there are multiple cities that are under the
- 23 supervision of emergency managers because of fiscal
- 24 distress, correct?
- 25 A. Correct.

- 1 Q. And what are the causes of these cities in
- 2 Michigan having to be under the supervision of
- emergency managers and being in physical distress?
- MR. STEWART: Objection. 4
- 5 THE WITNESS: I don't know the specifics for
- 6 other cities.
- 7 MR. ALBERTS: Objection. I think you mean
- 8 fiscal.
- 9 MR. SMITH: Yes, fiscal.
- 10 BY MR. SMITH:
- 11 Q. You know that declines in state revenue
- 12 sharing have -- in Michigan have adversely impacted
- the fiscal situation of multiple cities, correct? 13
- 14 A. I can't talk about other cities.
- 15 Q. Do you know whether the City of Flint
- 16 undertook efforts to try to get the state
- legislature to increase state revenue sharing?
- 18 A. I don't know.
- 19 Q. Do you have any opinion about the sources
- 20 of untapped cost savings for the City?
- 21 A. I don't.
- 22 Q. Does Ernst & Young ever do any kind of
- evaluation of cities to determine how they can
- increase revenues?
- 25 A. I don't know.

- 1 Q. What percent of your time is spent on the
- 2 Detroit matter?
- 3 A. What percent of my daily just sort of work
- 4 time?

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- 5 Q. Your billable time.
- 6 A. My billable time? So I've been working on
- 7 this for a year or a little over a year. My
- 8 billable time might be around 50 percent.
- 9 Q. Do you know what proportion of your --
- 10 what proportion of Katie Ballard's billable time is
- 11 spent on the City of Detroit?
 - A. I have no idea.
- 13 Q. Can you identify any other matters other
- 14 than the City of Detroit that Katie Ballard works
- 15 on?

12

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- 16 A. What do you mean matter? Do you just mean
- 17 projects or --
- 18 Q. Yeah.
- 19 A. Sure. She works on our economic impact
- 20 studies for private clients, basically, you know,
- just some of our thought leadership pieces. And 21
- 22 she also worked on our council on state taxation
- 23 business tax burden study.
- 24 Q. Have you had any interaction with anyone
- 25 from Conway MacKenzie?

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- 1 Q. Is the only work that you've done for the
- City of Detroit the work leading to your expert
- opinions in this case?
- A. Yes. Q. Do you know whether there are any formal
- studies that have been conducted to ascertain 6
- whether Detroit can raise taxes or increase
- 8 revenue?

- 9 A. I don't know.
- 10 Q. Do you know whether there are any formal
- studies that have been conducted to determine
- 12 whether Detroit can cut costs more than half?
- 13 A. I don't know.
- 14 Q. Do you know of any formal studies -- can
- 15 you identify any studies on Detroit property taxes
- or revenue sharing? 16
- A. Do I know of any formal studies on Detroit 17
- property taxes or revenue sharing? Other than what 18
- 19 the CRC report you mentioned earlier?
- Q. Yes. 20
- 21 A. No.
- 22 Q. How many people assisted you in preparing
- 23 your forecast?
- 24 A. So I did the work and the analysis. I had
- discussions with Bob Cline, Katie Ballard.

- A. I've been on phone calls where Conway &
- 2 MacKenzie have been on the line.
- 3 Q. Do you have an understanding of Conway &
- 4 MacKenzie's role in this matter?
- 5 A. I understand a little bit, and I've
- 6 occasionally received things they prepared.
 - Q. Like what kind of things?
- 8 A. So when they put together some of the
- 9 reinvestment initiatives, I would see a copy of it.
- 10 Q. And do you have any understanding of
- 11 Miller Buckfire's role in this case?
- 12 A. I've interacted with lawyers from Miller
 - Buckfire. I seen them as a coordinating role. I
- 14 don't know any more what they're doing.
- 15 Q. I mean, when you say coordinating role,
- 16 what exactly have you done with them?
- 17 A. So Kyle Herman, who works for Miller
- Buckfire, he would coordinate collection of 18
- 19 materials. He would organize calls with the
- 20 creditors, things like that.
- 21 Q. Would it be fair to say that there are
- 22 people who have contributed information to your
- 23 forecasts that you don't know who they are and
- 24 you've never met?
- 25 A. No.

- Q. Like people from the City?
- A. So there are -- everyone at the City who
- provided information, I have had phone calls with 3 4
- 5 Q. Do you agree that the forecast that
- 6 Ernst & Young has put together includes hundreds of
- different inputs?

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- A. Would I agree? I don't know how many 8
- inputs there are. I can only talk about mine.
- 10 Q. How many -- I mean, your piece of the
- forecast, would it be fair to say that your piece 12 of the forecast includes numerous different inputs?
- A. I guess what do you mean by numerous? 13
- Q. Well, how many? Do you know how many 14 15 inputs?
- A. I don't, no. I mean, there are inputs. I 16
- 17 wouldn't say -- yeah, there are inputs. I don't
- 18 know how many.
- Q. Do you know whether there's more than 19
- 20 100 inputs in your analysis?
- A. There's not more than 100. 21
- 22 Q. Okay. I mean, would it -- do you have any
- understanding of how your piece of the forecast is
- put into the overall Ernst & Young forecast?
- 25 A. I have been able to see where it goes into

- your forecast is based on, correct?
- 2 A. There are multiple assumptions, yes.
 - Q. And your assumptions are based on your
- 4 experience, correct?

3

- 5 A. My assumptions are based on my analysis of
- the information at hand, my conversations with the
- City, those things.
- 8 Q. Would it be fair to say your assumptions
- are based on information you got from the City and
- your own experience?
- A. If you mean -- when you say experience, I 11
- 12 would substitute that with my own data collection
- review analysis.
- Q. Are your assumptions based on your 14
- 15 judgment?
- 16 A. So I use my judgment in selecting what I
- thought were good parameters for final of certain 17
- 18 assumptions.
- 19 THE VIDEOGRAPHER: Off the record. The time is
- 20 10:01 a.m.
 - (Whereupon, a short break was
- 22 taken.)
- 23 THE VIDEOGRAPHER: We are back on record. The
- 24 time is 10:09 a.m.

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- the disclosure statements.
- Q. Okay. But do you have an understanding of
- how it's actually incorporated into the overall
- 4 forecast?
- A. I can see that they've taken my analysis 5
- and my forecast, and they've put that into their 6
- 7
- Q. Are there hundreds of different 8
- spreadsheets that make up the Ernst & Young
- 10 forecast?
- 11 A. I don't know how many spreadsheets.
- 12 Q. Do you know how many assumptions went into
- the Ernst & Young forecast?
- 14 A. I don't.
- 15 Q. Do you know how many assumptions went into
- your forecast?
- 17 MR. STEWART: Objection.
- 18 THE WITNESS: I don't.
- 19 BY MR. SMITH:
- 20 Q. Would it be fair to say that there's a
- series of assumptions that your forecast is based 21
- 22
- 23 A. There are some assumptions that my
- 24 forecast is based on.
- 25 Q. And there are multiple assumptions that

- BY MR. SMITH:
 - 2 Q. Ms. Sallee, you mentioned that your
 - 3 forecasts have been updated several times; is that
 - 4 correct?
 - 5 A. They have been updated several times.
 - 6 Q. And you've -- when you've received new
 - 7 information, you felt it was necessary to update
 - your forecasts so they would be accurate and
 - 9 reliable, correct?
 - 10 A. So when new information became available
 - 11 and when the EY restructuring team requested it, we
 - 12 updated our forecast.
 - 13 Q. And is there any rule of thumb for how
 - 14 frequently a forecast should be updated?
 - A. Not that I'm aware of.
 - Q. You agree that as new information comes 16
 - 17 in, though, you should update the forecast to
 - 18 incorporate the new information?
 - 19 A. As new information was presented, we did
 - 20 our best to try to incorporate.
 - 21 Q. And if you don't incorporate new
 - 22 information, your forecasts can be less accurate
 - 23 and reliable than it otherwise would be, correct?
 - 24 A. I would not say that.
 - 25 Q. Okay. So we don't have to consider new

- information at all? We can just let the forecasts
- 2 sit there, and no matter what changes, it's okay,
- 3 right?
- 4 MR. STEWART: Objection.
- 5 THE WITNESS: I don't -- what's the question?
- 6 BY MR. SMITH:
- Q. If you don't incorporate new information
- as it becomes available, a forecast can become 8
- inaccurate or unreliable, correct?
- 10 A. No, I wouldn't say that.
- 11 Q. Okay. So if the property tax were
- 12 increased by 100 percent, your opinion is you
- wouldn't have to update your forecast? 13
- A. So new information can sometimes confirm 14
- what you've already put down, so that's why. 15
- Q. And new information can also change your 16
- 17 forecast, right?
- 18 A. Yes.
- 19 Q. And so it's possible that new information,
- 20 if you don't incorporate it, your forecasts will be
- inaccurate or reliable. That's possible, correct? 21
- 22 A. So it depends on the situation. New
- information can improve the accuracy of the
- forecast. New information can confirm it.
- 25 Q. And in the hall, Mr. Stewart had his

- of the assessor's office conducted by Plante Moran?
- 2
- 3 Q. Were you aware that the assessor's
- 4 office -- there have been a number of problems
- identified in the assessor's office?
- 6 A. I have a general sense that people have 7 said there are problems.
- 8 Q. What problems are you aware of in the City 9 of Detroit Assessor Office?
- 10 A. The only problem that people have talked 11 about has been overassessments.
- 12 Q. That's the only problem that you're aware 13 of in the assessor's office is overassessments?
 - A. That's the only problem that people have talked to me about.
- 15 Q. Would it be fair to say that you haven't 16 17 cited any scientific literature or anything like
- 18 that in performing your forecasting?
- 19 A. What do you mean by scientific? 20 Q. Well, there's no literature of any kind
- that you've cited as the basis for your forecast, 21
- 22 correct?

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- 23 A. So as I noted in my report, I followed the
- 24 procedures laid out by the revenue -- the State of
- Michigan's Consensus Revenue forecasting, and

- finger in your face, didn't he, during the break?
- MR. STEWART: Objection. 2
- 3 THE WITNESS: No.
- 4 BY MR. SMITH:
- 5 Q. Did you have a conversation with
- Mr. Stewart during the break? 6
- A. I did.
- 8 Q. What was he telling you?
- 9 MR. STEWART: Objection. It's privileged. You
- 10 know that.
- 11 MR. SMITH: You're directing her not to answer
- 12 that?
- 13 MR. STEWART: Yes, that's right. Do you want
- me to start asking what you talk to your clients
- about? Do you want to waive it? Would you like
- to? We can have a mutual waiver across the board.
- I'd like to learn what you're telling Syncora. 17
- 18 BY MR. SMITH:
- 19 Q. How long did you talk to Mr. Stewart for?
- 20 A. Maybe 30 seconds.
- Q. The -- do you know whether the assessor's
- 22 office has been subject to any reviews by outside
- 23 consultants?
- 24 A. I don't know.
- 25 Q. So you haven't been provided with reviews

- that's in report that I think was produced.
- 2 Q. Have you run any runs of your forecasts 3 that had higher revenues available to the City?
 - A. I guess I don't understand your question.
- 5 Q. Have you done any runs of your forecast
- where you generated revenues that are higher than 6
- 7 what you're forecasting currently for the City?
 - A. Yes.
- 9 Q. And what kind of runs?
- 10 A. So as you've noted, we've updated our
- analysis, our forecasts several times, and so
- 12 previous earlier iterations had slightly higher
- 13 property taxes.
- 14 Q. And are there runs that you haven't
- 15 submitted to the creditors or others that have
- included higher revenues than you're forecasting? 16
- A. Everything we've done has been turned 18 over, so the creditors would have access.
- 19 Q. Do you agree that you've used your
- 20 discretion in selecting the specific values for the assumptions in your model? 21
- 22 A. I've used my judgment in selecting the
- 23 assumptions. 24 Q. Do you agree that in conducting a tax
- forecast, you should seek to gather all evidence

- 1 reasonably related to the forecast?
- 2 A. What's the question?
 - Q. Do you agree in conducting a tax forecast,
- 4 you should collect all information reasonably
- 5 related to the forecast?

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- A. So I think you need to make sure you take rin relevant information in doing the forecast.
- 8 Q. And you should endeavor to collect all
- 9 relevant information in doing a forecast, correct?
- 10 A. So it depends on what you mean by 11 relevant.
- 12 Q. Have you ever used the word relevant 13 before?
- 14 A. I have.
- 15 Q. Okay. Using your definition of relevant,
- 16 do you agree that you should endeavor to collect
- 17 all relevant information in doing a forecast?
- 18 A. I did endeavor to collect relevant
- 19 information for the forecast.
- Q. That's not my question. My question is do
- 21 you agree that in conducting a forecast, you should
- 22 endeavor to collect all relevant information?
- A. I would say in conducting a forecast, you
- 24 should collect information that's pertinent and
- 25 related.

1 the context of forecasting?

- A. I guess I don't know what you mean by stress test.
- Q. Do you know what length of time is the standard length the City uses for its forecasts?
- 6 A. I don't know anything about the City's 7 forecasting.
- 8 Q. Have you ever looked at the consensus
- 9 forecast for the City?
- 10 A. I did receive one piece of information
- 11 that had their consensus revenue estimates for the
- 12 next fiscal year.
- 13 Q. And do you know how many years they looked 14 at?
- 15 A. I can't remember off the top of my head.
- 16 Q. Have you ever done a tax forecast for as
- 17 long as 10 years?
- 18 A. I'm not sure.
 - Q. Have you ever -- you haven't done a
- 20 revenue sharing forecast for as long as 10 years,
- 21 correct?

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- A. I do not think I have.
- Q. What are some of the factors that can
 - occur over the next 10 years that could affect the
- 25 actual values for property taxes or revenue

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- 1 Q. And if you have incomplete information,
- 2 your forecast can be inaccurate, correct?
- 3 A. Not necessarily, no.
- 4 Q. But it can be inaccurate if you have
- 5 incomplete information, correct?
- 6 A. Incomplete information can make it -- it
- 7 can go either way. It depends on the situation. I
- 8 mean, the nature of forecasting, you're selecting
- 9 data and assumptions. It's not complete, so
- 10 there -- so yeah, I mean, there are situations and
- 11 incomplete information could make it inaccurate, or
- 12 it could not. It depends.
- 13 Q. Have you done any stress testing on your
- 14 forecast?
- 15 MR. STEWART: Objection.
- 16 THE WITNESS: What do you mean by stress tests?
- 17 BY MR. SMITH:
- 18 Q. Well, I've seen reference to stress tests
- 19 that have been conducted on forecasts before. Do
- 20 you know what that is?
- A. I have not done a stress test.
- Q. Have you ever done any kind of stress
- 23 testing on forecasts before?
- A. What is stress test in this context?
- Q. So you don't know what a stress test is in

1 sharing?

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- 2 A. What do you mean by actual values?
- 3 Q. The actual collections of property tax
- 4 revenue and the actual amount of money that's
- 5 received from revenue sharing.
 - A. Sure. So population rate is important,
- 7 employment, new economic activity. These are all
- 8 things that are driving both the portion of state
- 9 revenue sharing and property taxes.
- 10 Q. If population increases, the revenue from
- 11 property taxes and revenue sharing could increase,
- 12 correct?
- 13 A. It's possible.
- 14 Q. And if employment increases, the revenue
- 15 from property taxes and revenue sharing would
- 16 increase?

- 17 A. It's possible.
 - Q. And if economic activity increases,
- 19 revenue from revenue sharing and the property taxes
- 20 would increase?
- 21 A. It's possible.
- Q. And is that -- are those -- your model,
- 23 though, do revenues increase if employment,
- 24 population or economic activity increase?
- A. So in our model, if there is greater

1 economic activity, we have better property tax 2 revenues.

- 3 O. If there's increased economic activity, do 4 you -- does your model generate increased revenue sharing, or does it not take into account economic 6 activity for revenue sharing?
- A. So revenue sharing, because it is based on per-capita distribution on the constitutional side 8 and for EVIP, there's no formula. Economic 10 activity, it doesn't really affect it directly.
- Q. There was no formula you used for 12 calculating the revenue sharing that you projected, 13 correct?
- 14 A. That's not true.
- 15 Q. Well, I mean, you were just saying no formula. What did you mean? 16
- 17 A. There's no formula in how the legislature 18 allocates the EVIP portion.
- 19 Q. Does increasing population in your model 20 increase property tax revenues or revenue sharing?
- A. So there's no direct link between a 21
- one-for-one population increase causes property tax
- 23 increase. So there's no one-to-one relationship in
- 24 the model.
- 25 Q. Does your model take into account the

property or not.

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- Q. In your model, does increased employment in the city among residents lead to an increase in property tax revenue?
- 5 A. There's no direct relationship in the 6 model between employment and the tax bases.
- 7 Q. Okay. What is the relationship then in 8 the model?
- 9 A. Sure. So in the model, there are four
- 10 different tax bases, and so employment is something
- that's important for -- I guess for all three, for
- 12 residential, commercial, industrial. So if you
- have improved economic activity, improved 13
- employment, we could see those tax bases grow, and 14
- 15 that could translate into more tax revenue, but if
- everything else is equal. So there's other factors 16
- 17 that drive the model.
- 18 Q. Do you agree that increased employment
- 19 will lead to people purchasing more goods and
- 20 services in the city and an increase in sales tax
- 21 revenue?
- 22 MR. STEWART: Objection.
- 23 THE WITNESS: Can you say that one more time,
- 24 your question?

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effect of population on property tax increase at

2 all?

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A. So population forecasts were used to inform certain growth rates in the model.

- Q. Okay. So an increasing population could increase growth rates which would increase property 6
- tax revenues in your model; is that correct?
 - A. That is fair.
- 9 Q. In your model, does an increase in 10 employment lead to an increase in property tax revenue or to revenue sharing?
- 12 A. So an increase in employment doesn't affect the revenue sharing in our forecast. And
- employment, there's no sort of direct input for
- employment on the property tax side. It would be
- something that would help to inform a growth rate 16
- 17 of a tax base.
- 18 Q. Okay. So increased employment could
- increase growth rates, which would increase 19
- property tax revenues in your model, correct?
- 21 A. So it depends. Employment in Detroit
- 22 doesn't mean that someone is a property owner, and
- so in that sense, we're concerned doing the
- forecasting about the different tax bases. So
- employment can mean that there is additional

BY MR. SMITH:

- 2 Q. Increased employment will lead to an
- 3 increase in people purchasing goods and services in
- 4 the city and an increase in sales tax revenue? 5
 - A. It's possible.
 - Q. Your model does not take into account
- 7 increased employment having any effect on revenue
- 8 sharing, correct?
 - A. That is correct.
- 10 Q. Can you identify any forecast comparable
- to the Ernst & Young forecast that's been done for
- 12 Detroit over a 10-year period?
 - A. I have not seen any other forecast.
- Q. Can you identify -- so you've never seen 14
- 15 any forecasts like that Ernst & Young has done for
- Detroit in any Chapter 9 bankruptcy, correct? 16
- 17
- A. I have not looked at any other Chapter 9 18 bankruptcies.
- 19 Q. Have you done any investigation to find
- 20 out what other forecasts have been done to model
- 21 property tax or state revenue sharing for a
- 22 municipality?
- 23 A. Have I -- what's your question?
- 24 Q. Have you done any investigation to look at
- other forecasts for property tax revenue or revenue

- 1 sharing in a municipality?
- 2 A. I have not looked at other forecasts.
- 3 Q. Do you agree that the longer period of 4 time a forecast covers, the less reliable it
- 5 becomes?
- 6 A. No.
- Q. So your point of view is that your 40-year
- forecast is as reliable and likely to be accurate
- as your 10-year forecast, correct?
- 10 A. My opinion is the -- we did a 10-year
- forecast, and we did an extrapolation for 30 years,
- 12 and it could go either way. That's the nature. It
- could be as accurate as the 10-year. I don't know 13 14
- 15 Q. There's no way to note -- no way to assess 16 the level of accuracy of your forecast, correct?
- 17 A. The way that you could assess the accuracy
- 18 is to compare the forecast with actual, and the
- 19 actual hasn't happened yet.
- 20 Q. So there's, in fact, no way to assess the
- 21 accuracy of your forecast, correct?
- 22 A. Right, except for comparing to actual, and
- our actuals so far have come in pretty well
- compared to the forecast.
- 25 Q. And how long has your forecast been in

- 1 A. So in Michigan, unpaid taxes at the
- 2 municipal level are turned to the county for
- 3 collection, and so the county will try to collect
- 4 on them, and then it will foreclose and has been
- 5 doing public auctions to sell the property. So the
- 6 model takes into account net payments from the
- 7 county, which would be then the county paying for
- 8 the taxes that these properties owe. And so that's
- 9 factored into the property tax collections in the 10 model.
- 11 O. Do you know what percent of the owed taxes 12 your model predicts will be actually paid from
- 13 prior years?

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- A. Not in that way, no.
- 15 O. Do you know what -- is there a collection
- or a payment rate or anything like that that is 16
- 17 incorporated into your model for the past year's 18 owed taxes?
- 19 A. So the model includes a percent of the tax
- 20 levy that is assumed the City will receive from
- 21 Wayne County.
- 22 Q. Okay. And what number is that?
- 23 A. It depends on the year.
 - Q. How did you select that number?
- 25 A. So Wayne County provided their prior

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- existence?
- 2 A. We did the first iteration in June of
- 3
- 4 Q. You're aware that the City is failing to
- collect approximately half of the property taxes
- owed, correct? 6
- A. I am aware, sorry, half of property taxes
- 8 on the residential.
- 9 Q. Okay. And are you aware that the City has
- 10 identified more than 100,000 properties where taxes
- have not been paid in addition to the foreclosed 12
- properties?
- 13 A. I don't know the number.
- 14 Q. Do you know that the City has identified
- over \$504 million in unpaid property taxes that are 15
- owed to it? 16
- 17 A. I don't know the amount.
- 18 Q. Your forecast doesn't take into account or
- 19 doesn't include any amounts for payment of property
- taxes that are owed, but haven't gone collected
- 21 thus far, correct?
- 22 A. That's not correct.
- Q. Okay. How does your forecast take into 23
- account the property taxes that are owed to the
- City from prior years, but haven't been collected?

- year's net revolving fund payments, and so it
- analyzed the trends and what had been happening and

- 3 had some conversations about what was happening
- 4 with the foreclosure process and then used judgment
- to select what was going to happen in future years.
 - Q. Okay. So in terms of the amount of
- 7 collection that will occur with respect to amounts
- already owed from prior years, you implemented
- different assumptions for different years based on
- 10 your judgment; is that fair?
 - A. What's the question?
- 12 Q. For the amount of property tax that would
- 13 be collected from prior years that's still owed,
- you implemented different assumptions for different 14
- 15 years based on your judgment?
- 16 A. So using my judgment, I selected payment
- 17 amount from Wayne County that was likely, and that
- 18 varied by year.
- 19 Q. Okay. And how did you go about using your
- 20 judgment to figure out how to vary the payment
- 21 amount by year?
- 22 A. So using data from the past, we're able to
- 23 see what was happening over the last -- I guess I
- 24 got data for eight or nine years is my
- recollection, and I was able to see what had

- 1 happened after the recession. And so we were able
- 2 to see the trends where there were -- what the
- 3 payments were doing and then getting to kind of a
- 4 more stable steady state going forward and was able
- 5 to see what was happening trend-wise and then see
- 6 what was reasonable, use our judgment to select
- 7 what's reasonable.
- 8 Q. I mean, you don't know what will happen in
- 9 future years in terms of property tax collections?
- 10 A. It's a forecast, yes. I don't know.
- 11 Q. I mean, you just don't know. You have to
- 12 kind of engage in a certain amount of guesswork or
- 13 speculation in order to choose the assumptions for
- 14 the model, correct?
- 15 MR. STEWART: Objection.
- 16 THE WITNESS: I wouldn't say guesswork. I think
- 17 performed an analysis, used the analysis to form my opinion.
- 18 (Document marked No. 1)
- 19 BY MR. SMITH:
- 20 Q. Why don't I hand you what's been marked as
- 21 Exhibit 1, and you can let me know if you've seen
- 22 this document before. Ever seen that document?
- A. No. I haven't.
- Q. Okay. I'd like to ask you about Page 5 at
- 25 the bottom, the last bullet point.

- 1 estate, it's important to base valuations on arm's
- 2 length transactions?

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- A. I don't know.
- 4 Q. You just -- would it be fair to say you're
- 5 not aware of the standards for reliably valuing6 real estate?
- 7 A. I was not asked in this case to evaluate
- 8 real estate for the City of Detroit. I took the
- 9 information that was given to me.
- 10 Q. Do you know -- and that information, was 11 that from the assessor's office?
 - A. Some of it.
 - Q. And you know that there have been many
- 14 foreclosures in the city of Detroit, correct?
 - A. Correct.
- 16 Q. Do you know whether a foreclosure is an
- 17 arm's length transaction?
- 18 A. I wouldn't think it would be.
- 19 Q. I mean, so a lot of the sales in Detroit
- 20 -- a lot of the sales or exchanges of properties in
- 21 Detroit have been non-arm's length transactions.
- 22 Are you aware of that?
- A. I don't know.
 - Q. Page 21, you see at the bottom in

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25 observations, the first bullet says valuation is

- 1 MR. ALBERTS: Could you just say what the
- 2 document is, please?
- 3 MR. SMITH: It's City of Detroit Assessing
- 4 Division Observation and Opportunities by Plante
- 5 Moran.
- 6 MR. STEWART: Just for the record, the control
- 7 numbers probably, too, for those who don't have it
- 8 in front of them.
- 9 MR. ALBERTS: Thank you.
- 10 BY MR. SMITH:
- 11 Q. At the bottom of Page 5, there's some
- 12 observations in the document. The last bullet says
- 13 a review of Tribunal opinions and judgments reveals
- 14 that there have been instances in which appraisers
- 15 were not present for hearings thereby leaving the
- 16 City unrepresented. Do you see that?
- 17 A. Uh-huh.
- Q. Were you aware that people from the
- 19 appraiser's office weren't showing up for hearings
- 20 on property taxes that were owed?
- 21 A. No.
- Q. Then if you turn over to Page 21 -- well,
- 23 let me ask you this first before we get to the
- 24 document.
- 25 Do you agree with me that in valuing real

- supposed to be determined by arm's length
- 2 transactions.
- 3 Sitting here today, you don't dispute
 - that, correct?
- 5 A. Correct.
- 6 Q. And it says one assessor estimates that of
- 7 the 12,000 sales included in last year's sales
- 8 study, only 550 were arm's length transactions. Do
- 9 you see that?
- 10 A. I do.
 - Q. Were you aware of that information before
- 12 you formulated your opinions?
 - A. I have not read this document, no.
- 14 Q. Were you aware of that information from
- 15 any source, though, before you formulated your
- 16 opinions?
- 17 A. The specific information, no.
 - Q. Were you aware that the vast majority of
- 19 transactions that form the basis for the valuations
- 20 you've been given for real estate are not arm's
- 21 length transactions before you formulated your
- 22 opinions?
- A. So I knew, obviously, they were not arm's
- 24 length transactions, so I was aware of some of it.
- This particular number I didn't know.

- Q. Were you aware that the majority of transactions that form the basis for valuations you've been provided were not arm's length
- 4 transactions before you formulated your opinions?
 - A. I didn't know if it was the majority.
 - Q. Did you know the percentage at all of the transactions that were not arm's length that form the basis for the valuation you were provided?
- 9 A. I did not know what percentage were not 10 arm's length transactions.
- Q. Would it be fair to say you're not qualified to assess the reliability of the real estate valuations for property in Detroit that you've been provided?
- 15 A. I was not asked to assess the reliability 16 of the assessments.
- Q. Would you be qualified to assess the
 reliability of the assessments you've used in your
 forecast?
- A. What do you mean qualified?
- 21 Q. I mean are you somebody who is qualified
- 22 enough to be able to tell how reliable the
- assessment valuations that you've been given are,
- 24 or does that require somebody with a different
- 25 skill set?

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- 1 Mistakes, Waste. Have you ever seen this article?
- 2 A. I don't think so.
- Q. Have you seen any of the news articles that have been issued on the problems with Detroit property collections?
 - A. I have seen news articles on this issue.
 - Q. Okay. And the first sentence says the
- 8 city's property tax system is riddled with errors
- 9 and waste and is overseen by a pair of
- 10 double-dipping officials who work just two days a
- 11 week the Detroit news investigation has found. Do
- 12 you see that?

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- A. Uh-huh.
- 14 Q. Were you aware of that information before 15 you formulated your opinions?
- A. Was I aware of this reporter's opinion that the City's tax system is riddled with errors and waste? What's the date on this? No.
- 19 Q. Were you aware of people who had come to 20 the conclusion, though, that the Detroit property
- 21 tax system is riddled with errors and waste before
- 22 you formulated your opinions?
- A. I don't know about waste or what the
- 24 definition -- I, obviously, had conversations where
- 25 people talked about the property being overassessed

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- 1 A. So in the work that I did, I did some
- analysis of the assessments and came to my
- 3 conclusion that they were overassessed. I did not
- 4 systematically look at their transactions and their
- 5 process of assessing.
- 6 Q. Okay. So one of the bases for your
- 7 forecast is your determination that property is
- 8 overassessed in the city, correct?
- 9 A. I do think property was overassessed, yes.
- 10 Q. You've never been trained in property
- 11 assessment, correct?
- 12 A. I have not been trained to assess
- 13 property.
- 14 Q. Do you know whether there's standards
- 15 governing property assessment?
- 16 A. There are methods for assessing property,
- 17 yes.
- Q. And have you been trained in those methods?
- 19 A. Formally trained on those methods?
- 20 Q. Yes.
- A. I have not.
- 22 (Document marked No. 2)
- Q. Were you aware -- let me hand you what's
- 24 been marked as Exhibit 2. It's a news article
- 25 entitled Detroit's Property System Plagued By

- 1 or problems with the system, but no specifics were 2 told to me.
- Q. What problems with the Detroit property tax system were you told of?
- 5 A. These are just general recollections, but
- 6 problems with how property was assessed leading to
- 7 overassessments and property collection issues, but
- 8 these type of issues relating to the logistical9 collection are not things that we dealt with in our
- 10 forecast.
- 11 Q. Were you aware that Ernst & Young had done
- 12 its own review of the property tax system in
- 13 Detroit?

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- 14 A. What do you mean by review?
 - Q. Well, you see there's a section in that
- 16 article entitled hardest job in the state?
- 17 A. Okav
 - Q. And you see in the first paragraph it
- 19 talks about a Plante Moran review, correct?
 - A. Yeah.
- Q. And the second paragraph, it says one
- 22 review by Ernst & Young concluded the two
- 23 departments have a prevailing culture which is
- 24 riddled with bureaucracy and a lack of
- 25 accountability. Do you see that?

- 1 A. Okay.
- Q. Were you aware that Ernst & Young had
- 3 conducted a review of the property collection
- 4 processes in Detroit before you worked on your
- 5 opinions?
- 6 A. No.
- 7 Q. And nobody has provided you with a copy of
- 3 the report in which Ernst & Young concluded that
- 9 departments in the city relating to property taxes
- 10 have a prevailing culture which is riddled with
- bureaucracy and a lack of accountability? Do you
- 12 see that?
- 13 A. Uh-huh. I did not receive a report that
- 14 Ernst & Young had done.
- Q. And you're not in a position to dispute
- 16 Ernst & Young's conclusions that the City's
- 17 departments charged with property tax collection
- 18 have a prevailing culture which is riddled with
- 19 bureaucracy and a lack of accountability, correct?
- 20 MR. STEWART: Objection.
- 21 THE WITNESS: I didn't work on this report, and
- 22 I've not seen it, so I can't comment on it.
- 23 BY MR. SMITH:
- Q. Were you even told who at Ernst & Young
- 25 might have done reviews of the City's property tax

- 1 something that you've seen?
- 2 A. I may have seen it. I'm not recalling
- 3 whether I read this or not.
- 4 Q. Going back to the -- were you aware that
- 5 property tax bills were frequently sent to the
- 6 wrong address in Detroit?
 - A. No, I wasn't aware.
 - Q. Were you aware that homeowners exemptions
- 9 have been granted to people without proof of
- 10 eligibility in Detroit?
- 11 A. No, I wasn't aware.
- 12 Q. Were you aware that the City is going to
- 13 undertake a review because it believes that there
- 14 may be people that are improperly taking homeowners
- 15 exemptions?

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- A. I was not aware of that.
- Q. Are you aware that the City has begun
- 18 implementing reforms of its property tax collection
- 19 system to improve revenues?
- A. I've had some conversations that note that
- 21 they've done some -- they're working on that. I
- 22 don't know any specifics.
- Q. Who have you had those conversations with?
 - A. Just conversations with the Detroit team,
- 25 the EY Detroit team, so I don't remember who

- l collection processes?
- 2 A. I know the team in Detroit, but I don't
- 3 know who did this study.
- 4 Q. Okay. So the team in Detroit you've been
- 5 working with daily never informed you that they had
- 6 done a review of the City's property tax
- 7 collections and found that it was riddled with
- 8 bureaucracy and had a lack of accountability, correct?
- 9 (Document marked No. 3 and No. 4)
- 10 A. We never had a specific conversation about
 - a report that reached those findings, no.
- 12 Q. Let me hand you what's been marked as
- 13 Exhibit 3. I'm just wondering if you've ever seen
- 14 this document before?
- 15 A. No.
- 16 MR. STEWART: Before you testify about it --
- MR. SMITH: I don't have any questions about it
- 18 other than whether she's seen it.
- 19 THE WITNESS: No, I haven't seen it.
- 20 BY MR. SMITH:
- Q. Okay. I'm going to hand you what's been
- 22 marked as Exhibit 4, which is a Detroit news
- 23 article entitled Half of Detroit Property Owners
- 24 Don't Pay Taxes, and you can let me know if you've
- 25 ever seen this news article before. Is that

- 1 specifically, though.
- Q. Do you know what an equalization factor is?
- 4 A. I do.
- 5 Q. And you know that an equalization factor
- 6 of 1 means that property is properly assessed in
- 7 the view of the county, correct?
- 8 A. It means that the county believes property
- 9 has not systematically been over or underassessed.
- Q. And in fact, Detroit has always received a value of 1 meaning that property is not over or
- 12 underassessed, correct?
- 13 A. I wouldn't reach that conclusion. The
- 14 county has given them an equalization factor of 1,
- and so the processes that they're following have
- 16 given them an equalization factor of 1. That
- 17 doesn't mean that in reality or by other measures,
- 18 the property is not over or underassessed.
- 19 Q. You're aware that the county has always
- 20 given Detroit an equalization factor of 1, correct?
 21 A. I don't know always. I know when I looked
- 22 at the last 10 years, they've received an
- 23 equalization factor of 1.
- Q. You're not aware of any instance where the
- 25 City of Detroit didn't receive an equalization

- 1 factor of 1, correct?
- 2 A. When I looked narrowly at the last
- 3 10 years, they received a factor of 1.
- 4 MR. SMITH: Can we take a break real quick.
- THE VIDEOGRAPHER: Off the record. The time is 5
- 6 10:47 a.m. 7
 - (Whereupon, a short break was taken.)
- 8 THE VIDEOGRAPHER: We are back on the record.
- The time is 10:56 a.m.
- 10 (Document marked No. 5)
- 11 BY MR. SMITH:
- 12 Q. Okay. Ms. Sallee, I'm going to hand you
- what's been marked as Exhibit 5. It's some
- excerpts from Mr. Evanko's deposition. On Page 36,
- if you open it up, 36 is the first page in here.
- At the top, he's talking about the equalization
- factor. Do you see that?
- 18 A. Uh-huh.
- 19 MR. STEWART: Before any questions are asked or
- answered, I'm going to interpose an objection. The
- judge has made it very clear, Mr. Smith, that
- asking one witness about another witness's
- testimony is improper. He has barred it. And as
- you're aware, under Rule 30, the Federal Rules of
- Evidence apply to depositions. You're not allowed

- govern depositions, and it's an improper use of a
- 2 witness's testimony to show it to another witness.
- 3 I'm not going to instruct her not to answer it, but
- 4 I'm going to put in a categorical objection to
- every single question you ask of this because it's
- improper, and the judge has already told
- 7 Mr. Hackney in court not to do this.
- 8 MR. SMITH: Okay. Why don't we put aside the
- deposition for a second. Is there any bar, in your
- 10 opinion, to showing the witness testimony of
- 11 Mr. Evanko before --
 - MR. STEWART: Yes. It's improper. It's
- 13 inherently asking her to speculate about somebody
- 14 else's testimony.

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- 15 MR. SMITH: Okay. But outside of the
- deposition, your opinion is nobody can see the 16
- 17 depositions outside?
- 18 MR. STEWART: No. You're not allowed to
- 19 examine a witness about the testimony of another
- witness. That's what the evidentiary rule is, and 20
- 21 you know that very well.
- 22 MR. SMITH: No, I don't know that that's the
- 23 rule actually. I've never heard of that rule in my
- life, but --24
- 25 MR. STEWART: Well, maybe you should share it

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- to ask any of these questions. It's an improper
- line of questioning.
- 3 MR. SMITH: Okay. So your position is she's
- 4 not allowed to look at the Evanko deposition?
- MR. STEWART: No. My position, I'd like you to
- not interrupt me. That's my position. 6
- MR. SMITH: You're wasting time.
- 8 MR. STEWART: Wait. You just took a
- nine-minute bathroom break, and you're telling me
- 10 I'm wasting time?
- 11 MR. SMITH: The witness went to the bathroom,
- too, right? The witness went to the bathroom at 12
- the last break.
- 14 MR. STEWART: Because you were sitting going
- 15 through your papers because were not prepared.
- MR. SMITH: No. I went to the bathroom. The 16
- witness went to the bathroom, right? 17
- 18 MR. STEWART: No.
- 19 MR. SMITH: Did the witness go to the bathroom?
- 20 MR. STEWART: We were both sitting here five
- minutes while you were shuffling your papers. Then
- 22 people decided to go because we weren't sure what
- 23 you were up to.
- 24 Now, let me finish my objection. As you
- know, under Rule 30, the Federal Rules of Evidence

- with Judge Rhodes.
- 2 BY MR. SMITH:
- 3 Q. Has anybody communicated to you that
- 4 Mr. Evanko has called your forecast ridiculous?
- 5 MR. STEWART: What part of this are we looking 6 at?
- 7 MR. SMITH: We're not looking at the testimony.
- 8 I put it aside.
- 9 MR. STEWART: Okay.
- 10 THE WITNESS: I don't remember anyone telling
 - me that he said my -- our forecast was ridiculous.
- 12 BY MR. SMITH:
- 13 Q. Has anybody shared with you Mr. Evanko's criticisms of your forecast? 14
- 15 A. Mr. Evanko's criticism of our forecast,
- no. I haven't received specific -- I haven't -- I
- 17 haven't been told of his criticisms of the
- 18 forecast.
- 19 O. If Mr. Evanko made criticisms of your
- forecast, would you want to know that?
- 21 A. Would I want to know that? At this point,
- 22 they've been completed, but -- so would I want to
- 23 know that? As a matter of just knowledge, sure. 24 Q. Well, you understand you're going to
- 25 testify at the confirmation hearing, right?

- A. I'm going to testify at the confirmation
- 2 hearing for this matter, yes.

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- 3 Q. And before the confirmation hearing,
- wouldn't you want to know if Mr. Evanko hadcharacterized -- had criticisms of your forecast?
- 6 A. I would like to know.
 - Q. And why would you like to know that?
- 8 A. I would find it surprising.
- 9 Q. You agree that equalization factor of 1
- 10 means the county has determined that property is
- being properly assessed and not overassessed or
- 12 underassessed, correct?
- 13 A. Equalization factor means that the county
- 14 believes the process has not systematically over or
- 15 underassessed property.
- Q. And currently you understand that the
- 17 county is giving Detroit an equalization factor of
- 18 1, correct?
- 19 A. The county is giving Detroit an
- 20 equalization factor of 1.
- Q. And it would be unlawful for the City to
- 22 assess property in any way that was inconsistent
- 23 with what the county was saying, correct?
- 24 MR. STEWART: Objection.
- 25 THE WITNESS: I don't understand that question.

BY MR. SMITH:

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- Q. So property taxes would be changed on the
 properties if the equalization factor were
- 4 different than 1, correct?
 - A. Property taxes are based on taxable value,
- 6 and state -- you're talking about the state
- 7 equalized value, which is a different concept.
- 8 Q. Do you -- would it be fair to say that
- 9 your opinion that Detroit property is overassessed
- 10 is inconsistent with the determination of the 11 county?
- 12 A. I don't know inconsistent. The county has
- 13 their process by which they review and they assign
- 14 an equalization factor. And using their rules,
- 15 they've come up with their opinions. And I've
- 16 looked at it differently, and I come up with my own17 opinion that it's overassessed.
- 18 Q. Okay. So the methodology you used for
- 19 determining assessments whether properties are
- 20 properly assessed in the city is different than the
- 21 county's methodology, correct?
- A. It could be. I don't know.
- 23 Q. You don't know what methodology the county

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- 24 uses, correct?
- 25 A. I don't know specifically what they looked

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BY MR. SMITH:

- Q. It would be unlawful for the City of
- 3 Detroit to assess property in any way that was
- 4 inconsistent with the way the county assessed
- 5 property, correct?
- 6 MR. STEWART: Objection.
- 7 THE WITNESS: I don't know. There are rules
- 8 governing how property must be assessed, and so
- 9 municipalities have to follow those, and the county
- 10 has to follow their procedures as well.
- 11 BY MR. SMITH:
- 12 Q. And if the county assessed an equalization
- 13 factor different than 1, Detroit would have to
- 14 change its assessments, correct?
- 15 A. The equalization factor would be applied
- 16 to what the City had assessed, and it would be
- 17 modified in those ways. In that way.
- Q. Okay. So it would -- if the countyimplemented a different equalization factor other
- 20 than 1, then as a matter of law, the assessments
- 21 would be changed, correct?
- 22 MR. STEWART: Objection.
- 23 THE WITNESS: I don't know if the assessments
- 24 would be changed. The assessment factor is
- 25 multiplied by what the City produces.

- 1 at in determining the equalization factor.
 - 2 Q. The county's conclusion that property is
 - 3 properly assessed, though, is inconsistent with
 - 4 your conclusion that it's overassessed, correct?
 - 5 A. The county in using the equalization
 - 6 factor has said that it's not under or
 - 7 overassessed, and my conclusion is that it's
 - 8 overassessed.
 - 9 Q. So you've come to inconsistent conclusions
 - 10 with the county, correct?
 - A. My opinion is different than the county's.
 - 12 Q. The planned reassessment, do you know who
 - 13 is going to be conducting that?
 - 14 A. No.

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- 15 Q. Do you know what method will be used for
- 16 the planned reassessment?
- 17 A. I understand generally how they go about
- 18 reassessing.
- 19 Q. But do you know -- I mean, do you know
 - what reassessment methodology the unidentified
- 21 contractor who is doing the reassessment is going
- 22 to employ?
- A. I do not know specifically what they're
- 24 going to do.
 - Q. Do you know how long the planned

- 1 reassessment is going to take?
- 2 A. I was told it would take three to five
- 3 years.
- 4 Q. Who told you that?
- 5 A. Alvin Horhn.
- 6 Q. Is that somebody at the City?
- 7 A. It is.
- 8 Q. And do you know when the planned
- 9 reassessment will begin?
- 10 A. Initially I was told they wanted to have a
- 11 contract in place by March 2014. The last time I
- 12 checked to see if a contract was in place I was
- 13 told they were working on that, or they thought
- 14 they were going to have it done this month.
- 15 Q. Okay. So so far there's no contract, as
- 16 far as you're aware, that has been written for the
- 17 reassessment?
- 18 A. I don't know if a contract is in place.
- 19 Q. And have you also been told that the
- 20 reassessment could take longer than five years?
- A. I have not been told that.
- 22 Q. Do you know when -- do you know whether
- 23 it's possible that the reassessment may not occur?
- A. I don't know anything about the contract.
- Q. Would it be fair to say that you just

- let me ask you this. Would you want to know if
- 2 Mr. Evanko determined that your forecast of the
- 3 personal property tax was ridiculous?
- 4 A. Would I want to know that? That, again,
- 5 would be surprising.
 - Q. Is that something you would want to know?
- 7 A. It would be something I would be
- 8 interested in, sure.
- 9 Q. Did you ever submit your forecast to
- 10 anyone at the City to solicit their opinion after
- 11 you were done about whether your forecast was
- 12 reasonable?

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- 13 A. We discussed sending the forecast to the
 - City back when we started a year ago, and I don't
- 15 believe we ever did that. They did review our
- 16 forecast. I had a conversation in January with
- 17 Gary Evanko, and he had seen what we put together
- 18 is my recollection, so we had conversations about
- 19 the forecast for sure.
- Q. So Mr. Evanko's familiar with details of
- 21 your forecast, correct?
- 22 MR. STEWART: Objection.
- 23 THE WITNESS: I don't know if he's familiar

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24 with the details. I couldn't say for him.

- can't provide us with any specifics about what the
- 2 planned reassessment is going to entail one way or
- 3 the other?
- 4 A. I don't know the specifics about the
- 5 reassessment. I know generally what they're going
- 6 to do.
- 7 Q. Has anybody informed you regarding
- 8 Mr. Evanko's opinion that the reassessment -- he
- 9 doesn't know whether it's going to increase or
- 10 decrease property values?
- 11 MR. STEWART: Objection.
- 12 THE WITNESS: I have not been told what
- 13 Mr. Evanko said during his deposition about that
- 14 matter.
- 15 BY MR. SMITH:
- Q. Wouldn't you want to know if Mr. Evankosaid that he couldn't say that the property
- 18 reassessment would result in lower property values?
- 19 A. What's the question?
- Q. Wouldn't you want to know if Mr. Evanko's
- 21 opinion was that the property values would not
- 22 necessarily change under the planned reassessment?
- A. I guess I would want to know that. That
- 24 would be surprising.
- Q. Would it be surprising to you if -- well,

- BY MR. SMITH:
- 2 Q. You didn't -- the current forecast,
- 3 though, the one that's been completed in July, you
- 4 never resubmitted that to the assessor's office to
- 5 determine if they thought that it was reliable and
- 6 accurate, correct?
- 7 A. I did not turn over the July forecast to
- 8 the City. I did not provide it to them.
- 9 Q. Do you agree there are -- well, we've
- 10 talked about how there are a lot of people that are
- 11 in Detroit that are delinquent on their property
- 12 taxes. Do you recall that?
- 13 MR. STEWART: Objection.
- 14 THE WITNESS: We talked about -- you showed me
- 15 some articles about that.
- 16 BY MR. SMITH:
- 17 Q. And you agree there are many reasons that
- 18 people don't pay their property taxes, right?
- 19 A. Yeah, there are many reasons.
 - Q. One reason people may not pay their
- 21 property taxes is if they believe that enforcement
- 22 efforts are lax, correct?
- 23 MR. STEWART: Objection.
- 24 THE WITNESS: I don't know specifically why
- 25 people are not paying their taxes.

- 1 BY MR. SMITH:
- 2 Q. So you --

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- A. It would be speculation. I don't know.
- Q. You haven't undertaken any analysis todetermine why people in Detroit aren't paying theirtaxes?
- A. I have not undertaken an analysis other than reading articles about what people say.
- 9 Q. Okay. And you've seen then statements
- 10 that people say they're not paying property taxes
- 11 because city services are poor, correct?
- 12 A. I could have read something about that.
- Q. And have you also seen statements that
- 14 people aren't paying taxes on their property
- 15 because they believe assessments may be inaccurate?
- 16 A. I have read that.
- 17 Q. Have you seen statements that people may
- 18 not be paying taxes on their property because they
- 19 believe the City doesn't enforce the property tax?
- A. I don't recall any article about that.
- 21 Maybe it's in one of them that you just showed me.
- Q. Have you undertaken any investigation into
- 23 what enforcement efforts the City makes on property
- 24 taxes?
- A. No. That was assigned to a different

- 1 or 80 percent?
- A. I'm going off memory, and so I believe it was -- it was over 70 percent.
- Q. Can you identify any city in the country that has a lower property tax collection rate than Detroit?
- A. I haven't studied other municipalities' 8 collection rates, so I don't know.
- 9 Q. And so you can't identify any?
- 10 A. I can't speak to that question. I don't
- 12 Q. Well, you've worked with some other 13 cities, right?
 - A. I have worked on projects that involved other cities, yes.
- Q. Okay. So based on your experience withother cities, you can't identify any city that has
- 18 a lower property tax collection rate than Detroit,
- 19 correct?

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- A. I haven't looked at collection rates for other cities, so I wouldn't know.
- Q. Well, Flint you know?
- A. Flint I know.
 - Q. Do you agree that there are a number of
- 25 factors other than taxes that impact a person's

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- 1 group.
- Q. When you say assigned to a different group, who was that assigned to?
- 4 A. My understanding is that Conway &
- 5 MacKenzie and others were looking at those issues.
- 6 Q. Given the collection rates in the city,
- 7 though, it's obvious that the City is not doing a
- 8 good job of collecting property taxes, correct?
- 9 MR. STEWART: Objection.
- THE WITNESS: I don't know what you mean by
- 11 good job.
- 12 BY MR. SMITH:
- 13 Q. Okay. Well, in your view, how would you
- 14 characterize the City's job in collecting the
- 15 taxes?
- 16 A. I can't speak to the City's job. I know
- 17 their collection rates are -- for residential
- 18 property in particular, you know, is at 50 percent,
- 19 so it's lower compared to, say, Flint for example.
- 20 Q. Do you know what Flint's collection rate
- 21 was on property taxes?
- A. Off the top of my head, I can't give you
- year by year. They've had lower collection rates
- recently with their fiscal problems, but Q. Is the collection rate in Flint above 70

- l decision whether to live in a city?
- A. I would agree with that.
- 3 Q. Do you know whether there are corporations
- 4 that are exempt from the property tax in the city?
- 5 A. Do I know if there are corporations that
- 6 are exempt from property tax?
- 7 Q. Yeah.
- 8 A. There are property that is exempt. I
- 9 don't know the specific names of any of the
- 10 companies that have exemptions.
- 11 Q. Do you have any idea of the proportion of
- 12 property that is exempt from the property tax?
 - A. I do.
- Q. Can you give me the numbers in the
- 15 ballpark?

- 16 A. Yes. So in fiscal year 2015, about
- 17 11 percent of taxable value is in a Renaissance
- 18 Zone and is exempt from general operating taxes.
- 19 Q. Are there other property tax exemptions
- 20 that apply in Detroit?
- 21 A. There are.
- Q. And how much property is exempt under
- 23 other exemptions?
- A. When I looked at this, a very small
- 25 amount, so less than -- I would say approximately,

- I'm going off memory, about 1 percent or so of
- taxable value when I looked at, say, the industrial 2
- facilities tax, and then there are others that I
- was not given data, so I don't know.
- 5 Q. And you know that property tax collections
- 6 historically have been higher in the city of 7 Detroit, correct?
 - A. Historically meaning just what?
- 9 Q. In the last few years since 2005, there
- have been higher collection rates in the city of 10 Detroit, correct?
- 11

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- 12 A. There are have been higher collection 13 rates, yes.
- 14 Q. And how high have the collection rates
- have gone in prior years? 15
- A. So I can tell you from memory that in 16
- 17 2007, I know residential collection rates -- I'm
- 18 sorry. Collection rates on residential property
- was around 70 percent. I can't recall specifically 19
- industrial/commercial off the top of my head, but 20
- 21 they're already around in the 80s.
- 22 Q. Do you recall that residential collection
- rates were as high as -- they were over 76 percent
- 24 in 2008?

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25 A. That sounds right. 1 about.

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- 2 Q. And you anticipate the blight reduction 3
 - effort should increase collection rates?
- 4 A. So blight reduction will remove -- well,
- 5 so removal of blight properties off the tax roll
- 6 would mean that the tax base becomes smaller, and
- 7 you should see the collection rates go up.
- 8 Q. Do you agree the blight reduction should
- 9 increase property values?
 - A. It could.
- 11 Q. And that's the City's goal, in part, in
- 12 blight reduction to increase the value of property
- 13 in the city, correct? 14
 - A. I don't know the City's goal.
- 15 Q. Have you done any investigation at all
- 16 into the City's blight reduction plans?
 - A. The only information on blight reduction
- 18 I've received is what was put together in the
- restructuring and reinvestment initiatives. 19
- 20 Q. Have you done anything to look at other
- cities and how they've improved property tax 21
- 22 collections?
- 23 A. I have not.
 - Q. You are aware, though, that there are
- other cities that have improved their property tax

- Q. And do you have any explanation for why
- collection rates have decreased in the city of
- 3 Detroit in the last few years?
- 4 A. There are a couple of factors, I think, so
- one is that the City was not removing blighted
- property or abandoned property from its roll when
- it was sending tax bills. So if you look at the 7
- tax levy and then what's collected on it, the
- collection rate was falling for that reason. So 10 once you start removing blighted properties and
- 11 others, you would see the collection rate go up,
- 12 but I think it contributed to its decline.
 - O. Anything else that contributed to the decline in collection rate?
- A. The other issues would just be ones that I 15
- read or people saying they didn't -- they thought 16
- their taxes were too high and overassessed, and 17
- 18 they weren't going to pay.
- 19 Q. Anything else that contributed to a 20 decline in collection rates in Detroit?
- 21 A. I mean, there are sort of economic
- 22 factors, and people found they couldn't pay.
- 23 Q. Anything else that contributed to a
- decline in collection rates in Detroit? 24
- 25 A. Nothing that I have specific information

- collections through a variety of mechanisms,
- 2 correct?
 - A. I haven't looked at any other cities.
 - Q. Did Flint, Michigan improve its property

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- 5 tax collections?
 - A. During what time frame or --
- 7 Q. Well, recently have they undertaken
 - efforts to improve property tax collections?
 - A. I don't know.
- 10 Q. Are you aware of the fact that there are
 - individuals in the city of Detroit, speculators and
- 12 investors, who are purchasing properties, not
- 13 paying the taxes and then allowing them to be
- 14 foreclosed and repurchasing them?
- 15 A. I don't have any specific information
- related to that. I had a conversation with an EY 16
- person who -- his impression was that's -- that 17
- 18 some of that was going on.
- 19 Q. And so there are people who are avoiding
- 20 paying property taxes by simply allowing property
- going into foreclosure and then they repurchase the 21
- 22 property, correct?
- 23 A. My conversation with this one person said
- 24 that he thought some of that was going on.
 - Q. And that person was from Ernst & Young?

- 1 A. Uh-huh.
- 2 Q. And who was that person?
- 3 A. Dan Jerneycic.
- 4 Q. Do you agree that Detroit property tax
- 5 revenue per capita is modest compared to other
- 6 cities in Detroit?
- 7 MR. STEWART: Objection.
- 8 THE WITNESS: Do I agree that Detroit -- say
- 9 the question again.
- 10 BY MR. SMITH:
- 11 Q. Detroit property tax revenue per capita is
- 12 low compared to other cities in Detroit?
- 13 A. I don't have that analysis in front of me,
- 14 so I don't know.
- 15 (Document marked No. 6)
- 16 Q. Okay. Why don't I hand you what's been
- 17 marked as Exhibit 6, and you can let me know if
- 18 this is the CRC report that you've seen before.
- 19 A. Yes.
- Q. And if you turn over to Page -- it's on
- 21 Page vi, Page 6 of the executive summary. There's
- 22 a section on property taxes there. Do you see that there?
- 23 A. Uh-huh.
- Q. And you see that it has a chart listing
- 25 different cities with property tax per capita. Do

- 1 are -- I mean, Detroit, because its collection
- 2 rates are low, actually has low per-capita property
- 3 tax collections compared to other cities in
- 4 Michigan, correct?
 - A. There are a number of factors that lead to
- 6 tax collections, so I don't know what the
- 7 collection rates are in these other cities.
- 8 Q. Okay. Do you agree that Detroit has low
- 9 per-capita tax revenues from property taxes
- 10 compared to other cities in Michigan?
 11 A. In this chart, Detroit is towards the
- 12 bottom in terms of city property tax revenue per
- 12 bottom in terms of city property tax revenue per
- 13 capita. These aren't all the cities in Michigan,
- 14 though.

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- 15 Q. But the main cities in Michigan are listed
- 16 in that chart, correct?
 - A. The main cities meaning --
- 18 Q. Highest population cities.
- 19 A. Highest population cities? My scanning of 20 it is yes.
 - Q. Do you know whether the appraisal staff in
- 22 Detroit is unionized?
- A. I don't know.
 - Q. Do you know whether it's uncommon for
- 25 appraiser staff to be unionized?

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- l you see that?
- 2 A. Yeah.
- Q. And there are a number of cities that have
- 4 higher property tax per capita than Detroit does,
- 5 correct?
- 6 A. In this chart, yes.
- Q. And if you look at the paragraph just
- 8 before the heading income taxes, do you see that?
- 9 A. Okav.
- 10 Q. First in the second sentence, it says
- 11 although the 15.8 percent decline in Detroit's
- 12 taxable value between 2008 and 2012 was a smaller
- 13 percentage than the reduction in taxable value in
- 14 18 of the 24 largest cities in Michigan, collection
- 15 rates declined from 92.64 percent in 2008 to
- 16 83.68 percent in 2012. Do you see that?
- 17 A. I do.
- 18 Q. So first Detroit historically has suffered
- 19 smaller reductions in taxable value than other
- 20 cities in Michigan, correct?
- A. That's what this says.
- Q. And when you say this, that's the CRC
- 23 report that you've reviewed, correct?
- 24 A. Yes.
- Q. And Michigan, because its collection rates

- A. I don't know.
- 2 Q. Are you aware that there have been
- 3 proposals for improvement in property tax
- 4 collections by various consultants in the past in
- 5 Detroit?
 - A. I don't know about any specific proposal.
- 7 Q. Have you been provided with any of the
- 8 reviews by consultants who have proposed
- 9 improvements to property tax collections in
- 10 Detroit?
- 11 A. I don't know who has proposed certain --
- 12 who has put together proposals, so I don't know.
- Q. And so you haven't been provided those proposals?
- proposals?A. I have not been provided those proposals
- 16 other than I received a memorandum from Plante
- 17 Moran. No. I'm just -- I have not received any
- 18 proposals. I have read memos about property taxes.
- 19 Q. Everybody recognizes that property tax
- 20 collections need to be improved by improving the
- 21 assessor's office in Detroit, correct?
- 22 MR. STEWART: Objection.
- 23 THE WITNESS: I don't know if everybody thinks
- 24 that. I don't know.

- 1 BY MR. SMITH:
- 2 Q. The City of Detroit certainly thinks that
- 3 it needs to improve property tax collections,
- 4 correct?
- 5 A. My conversations with the people at the
- 6 City in the assessor's office has been that they
- would like to see collections improved.
- Q. And they're taking active efforts to try 8 9 to do that, correct?
- 10 A. I don't know what efforts they're doing.
- 11 Q. In your report, you relied on the
- 12 Case-Shiller Home Price Index for Detroit. Do you 13 recall that?
- 14 A. It is one of the things that I looked at.
- 15 O. And you agree the Case-Shiller Index is a
- 16 standard measure of housing prices, correct?
- 17 A. It is a measure of housing prices, yes.
- 18 It's widely used.
- 19 Q. And it's a reliable -- Case-Shiller is a
- reliable measure of housing prices, correct? 20
- A. What do you mean by reliable? 21
- 22 Q. I mean, people -- a lot of people in
- government, business, academia rely on the
- Case-Shiller Index for housing prices, correct?
- 25 A. Many people rely and look at it, yes.

- from the Case-Shiller Property Index?
- 2 A. So the Case-Shiller Index was one source 3
 - that I consulted in selecting my inputs.
- 4 Q. But didn't you use some different numbers
- 5 for average housing selling prices in generating
- 6 your forecast other than Case-Shiller?
 - A. I did.
 - O. And what were those?
- 9 A. I used the Detroit Association of Realtors
- 10 data.

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- 11 Q. And did you use that updated to the
- 12 present time or not?
- 13 A. I took the information through December
 - 2013, which was the last full year, and I pulled --
- I think I had through March, March or May. And so 15
- I looked at it, but in order to use it in
- 17 comparison of other data, my analysis went through
- 18 December 2013.
- 19 Q. Okay. And you know that the Detroit
- 20 realtor information shows that housing prices
- continue to increase from the point you used, 21
- 22 December 2013, to the most recent data in 2014?
- 23 A. Housing prices did go up, yes.
 - Q. In fact, housing prices have gone up
- fairly significantly in 2014 under the Detroit

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- 1 O. And you've done analyses where you've utilized the Case-Shiller Housing Price Index in
- the past for property valuations, haven't you? 4 A. I have looked at the Case-Shiller Index
- for projects in the past.
- Q. And did you use the Case-Shiller Index in 6
- your work in Flint, Michigan? 7
- A. I don't recall. I don't think so. I 8 don't know if Flint is one of the -- I don't think
- 10 it's one of the areas that the Case-Shiller Index
- would cover. 11
- 12 Q. I mean, why do people look at the
- Case-Shiller Housing Price Index? 13
- A. It's viewed as a reputable source of 14
- 15 trends in house prices.
- Q. And did the creators of the Case-Shiller 16
- Housing Price Index, have they received the Nobel 17
- Prize? 18
- 19 A. Yes.
- 20 Q. They're widely respected economists,
- 21 right?
- 22 A. They are widely respected economists, yes,
- 23 I would agree.
- Q. The -- in generating your forecasted 24
- 25 values for revenues, did you actually use numbers

- realtor data you used?
- 2 A. What is significant in your opinion?
- 3 Q. Well, do you know how much they've gone
- 4 up?

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- 5 A. I can't remember off the top of my head.
- 6 Q. It would be more than 10 percent, wouldn't it?
- 7 A. I don't recall.
- 8 Q. In the -- do you agree that based on all
- 9 the data you've seen, real estate values in the
- 10 city are increased in 2014?
- 11 A. The data I've looked at have shown real
- 12 estate values increasing in residential.
 - (Document marked No. 7)
- 14 Q. And you're aware that there are -- let me
- 15 just hand you a copy of what I'm going to mark as
- Exhibit 7. It's an article entitled Detroit Named 16
- 17 a Top Turnaround Town For Residential Real Estate.
 - Do you have that in front of you?
- 19 A. Okav.
- 20 Q. And you've seen news stories and
- 21 assessments that have indicated that Detroit is one
- 22 of the markets in the country that's experienced
- 23 the largest increases in home prices during 2014,
- 24 correct?
- 25 A. I haven't compared Detroit to other

1 cities.

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- Q. Well, this assessment reports that, in the
 - first sentence, Detroit's housing market ranks
- 4 seventh overall in a realtor.com turnaround town
- 5 study of the national housing market in the second
- 6 quarter the real estate tracking firm said in a
- 7 report Wednesday. Do you see that?
 - I do see that.
- 9 Q. And you don't dispute that, correct?
- 10 A. I have no idea how realtor.com did their 11 analysis.
- 12 Q. Okay. Well, that's not my question. I
- 13 mean, you don't dispute -- you haven't done the
- 14 work necessary to dispute the fact that Detroit is
- 15 one of the fastest growing markets in terms of
- 16 housing prices in the country, correct?
- 17 MR. STEWART: Objection.
- 18 THE WITNESS: So I've looked at the most recent
- 19 data for Detroit. I've not compared it to other
- 20 cities.
- 21 BY MR. SMITH:
- Q. So you can't identify any city with more
- 23 rapidly growing housing prices in 2014 than Detroit
- 24 sitting here today, correct?
- A. Well, this says it's the seventh.

- Q. You haven't done any analysis to determine
- 2 the effect of the Detroit Land Bank on housing
- 3 prices in Detroit, correct?
- 4 A. No.

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- Q. And you haven't done any analysis to
- 6 determine the effect of the City's blight reduction
- 7 efforts on housing prices, correct?
- 8 A. We -- in our forecast in a reinvestment
- 9 scenario, we take into account removal of blight
- 10 property as part of general economic improvement to
- 11 the city, and so we've -- in that scenario, we've
- 12 factored in removal of blight as a positive for our13 forecast.
- 14 Q. Do you actually know whether the forecasts
- 15 that have been done for the City attach a dollar
- 16 value to blight removal in terms of improved
- 17 revenue for the City?
- 18 A. What's the question?
 - Q. Do you actually know whether the forecasts
- 20 that have been done attach a dollar amount for
- 21 blight removal?
- A. There has been money put in for each year
- 23 for blight removal in what I've seen.
- Q. But do you know in terms of increased
- 25 revenue?

- 1 Q. Okay.
- A. I haven't looked at it, though.
- Q. I mean, you wouldn't find that surprising
- 4 that it's the seventh most highest in terms of
- 5 housing price growth, Detroit is?
- 6 A. From a very low base, it's had growth, so
- 7 that seems plausible, sure.
- 8 Q. And in fact, you mentioned the Detroit
- 9 Land Bank. Have you done any investigation into
- 10 its operations?
- 11 A. I don't know its operations.
- 12 Q. Were you aware that the City had
- 13 transferred 16,000 properties to the Detroit Land
- 14 Bank recently?
- 15 A. No.
- 16 Q. Do you know that the Detroit Land Bank has
- 17 recently had an auction of blighted properties?
- 18 A. Recently when?
- 19 Q. During the last year. I mean in this
- 20 year.
- A. They have had auctions, yes.
- Q. And in fact, there's been high demand in
- 23 the Detroit Land Bank auctions for blighted
- 24 properties, correct?
- 25 A. I don't know.

- 1 A. There has not been a sort of one
- 2 relationship done to say this much spending on
- 3 blight translates into X dollars of revenue.
- 4 Q. And you've done no analysis that's tried
- 5 to determine how much the blight removal will
- 6 increase revenues to the City in your analysis, correct?
- 7 A. I have not. Right. So in my analysis, I
- 8 did not look at the direct relationship between
- 9 blight removal and property tax revenue.
 - (Document marked No. 8)
 - Q. Let me hand you what's been marked as
- 12 Exhibit 8. It's a regional commerce paper from
- 13 Detroit Regional Commerce. If you go to the first
- 14 page entitled Detroit Facts, this document says
- 15 that approximately 12 billion in private
- 16 investments have been made in Detroit since 2006.
- Do you have any basis to dispute that?
- 18 A. I have no idea where that number is coming
- 19 from.
- Q. Have you done any investigation into how
 much private investment has been made in Detroit in
- 22 the past few years?
- A. I've only read some articles on it.
- Q. Okay. You know there's been significant
 - 5 private investment in Detroit in the last few

1 years, correct?

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- 2 A. I don't know if it's significant.
- Q. Can you tell me how much in dollar terms
- 4 investment has been made by private companies in
- 5 Detroit in the last few years?
 - A. I don't know.
- Q. Can you tell me how many jobs Detroit has
- 8 added in the last few years?
- 9 A. Well, when we've looked at government 10 data, Detroit's employment has fallen.
- Q. Okay. What government data have you
- looked at during what period?A. So when we -- so for example, we pulled
- 14 BLS data and used that information in doing -- I
- 15 would say this is something that Bob and Katie
- 16 looked at, and I know -- and just having
- 17 conversations and reviewing that employment has
- 18 fallen since they've looked at it, which has been
- 19 in the last what? I'm going off memory. I know
- 20 they pulled data going back to 2006, maybe even
- 21 before then.
- Q. In the last year, do you know if
- 23 employment has increased or decreased in the city?
- A. In the last year, I don't think that data
- 25 is out, so I don't know.

- 1 Q. With an average price of \$22,000 per
- 2 property. Do you see that?
 - A. I do.

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- 4 Q. Before you did your analysis, were you
- 5 aware that the Detroit Land Bank had been able to
- 6 auction off 33 properties for a million dollars?
 - A. I was not aware of this information, no.
- 8 Q. Okay.
- 9 A. It's from what? June?
- 10 Q. Okay. So you haven't done any
- 11 investigation into the prices that the Detroit Land
- 2 Bank has been able to obtain for houses that it
- sold through its auction process, correct?
 - A. I have not been told the prices they've
- 15 attained.
- 16 Q. And you've not also been told the amount
 - 7 of revenue that Detroit Land Bank has generated by
- 18 selling blighted properties through auction,
- 19 correct?
- A. The only information I was given on that
- 21 was a conversation with Dan Jerneycic where he
- 22 mentioned that properties had been sold, and there
- 23 would be some money coming back to Detroit because
- 24 they had paid a charge-back on the property taxes,
- 25 and that's all I was told.

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- 1 Q. In the last period -- in the last year for
- which there's data, do you know whether city
- 3 employment has increased or decreased?
- 4 A. I don't have it in front of me, so I don't
- 5 want to say. I can't remember.
- 6 Q. Are you aware or have you been provided
- 7 any of the reviews that have been done or audits on
- 8 the City's financial data?
- 9 A. I have not been provided those studies.
- 10 Q. Are you aware that auditors have made
- 11 findings saying that the financial data in the City
- 12 of Detroit is not reliable?
- 13 A. I have not been told any of that.
- Q. Do you know who the City's auditors are?
- 15 A. No.
- 16 (Document marked No. 9)
- 17 Q. I'm going to hand you what's been marked
- 18 as Exhibit 9. It's an article entitled Will
- 19 Detroit Land Bank Auction Build Value For Housing
- 20 in Crain's Detroit. If you look at this article,
- 21 it talks about an auction of 33 homes. Do you see that?
- A. Uh-huh. Yeah.
- O. And the bids that have been drawn in are
- 24 nearly \$1 million. Do you see that?
- 25 A. I do.

- Q. Okay. I mean, did you do any calculation to forecast the amount of money that Detroit would receive from sale of properties through the Land
- 5 A. No. So with the information he gave me, 6 it was very minimal.
- 6 it was very minimal.
 7 Q. Okay. So that's -- your forecast does not
- 8 attempt to forecast revenue that the City may9 obtain from selling properties through the Detroit
- 10 Land Bank, including property tax revenues,
- 11 correct?

Bank?

- 12 MR. STEWART: Objection.
- 13 THE WITNESS: So the forecast does not
- 14 specifically look at the activities of the Land
- 15 Bank.

- 16 BY MR. SMITH:
- 17 Q. Okay. So it doesn't include amounts that
- 18 the City will receive from back property taxes
- 19 through sales through the Land Bank, correct?
- A. The only thing is the relationship between
- 21 the net revolving fund in Detroit. And so if the
- 22 properties are auctioned off as they're supposed to
- be, then the City would receive that information in a timely manner as part of their net revolving fund
- 25 payment, so they wouldn't pay the additional

1 chargeback. And so that would be taken into 2 account in our forecast.

- 3 Q. Okay. You haven't -- do you know whether 4 the City of Detroit actually receives any funds from the sale of properties through the Land Bank? 5
 - A. So my understanding is that if the process
- 6 is followed and the county does sell the property,
- the taxes are paid. The City of Detroit then is
- not charged back, and so it would be included as part of that net revolving fund payment. 10
- 11 Q. But the sale -- the sale price for the 12 properties, do you know whether Detroit actually gets any of the sales price for the properties sold through the Land Bank? 14
- 15 A. I don't know. I don't know what they 16 receive.
- 17 Q. Okay. So certainly you haven't forecasted 18 any sums the City might receive from sales through
- the Land Bank for -- in terms of the sales price, 20 correct?
- 21 A. I don't know what -- after all the taxes are paid, etcetera, I don't know what money is left
- 23 over and how that's allocated. I don't know that.
- 24 Q. Would it be fair to say you're offering -you haven't been asked to offer any opinion about

- 1 Q. And have you relied on that as a source of 2
 - information about employment data in your analysis? A. It's one of the things that I looked at,
- 3 4 yes.
- 5 Q. Do you know what source of information you
- 6 looked at for information on population levels? 7
 - A. Yes.
- 8 O. What source of information?
- 9 A. So the 10-year forecast uses the SEMCOG,
- Southeast Michigan Council of Government, forecast. 10
- O. And is that a Detroit-specific forecast or
- 12 is that statewide information?
- 13 A. So SEMCOG did a regional, I believe,
- seven-county forecast, and then within the 14
- counties, they did specific municipalities, and 15
- Detroit was one of them. 16
 - (Document marked No. 10)
- 18 Q. I'm going to hand you what's been marked
- as Exhibit 10. Let me know is this the type of 19
- 20 Bureau of Labor Statistics data on employment levels
- that you have looked at in formulating your opinions? 21
- 22 A. This looks right.
- 23 Q. And the Bureau of Labor Statistics is a
 - reliable source of information on employment data,
- correct?

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the Detroit Land Bank?

- A. I have not been asked about the Land Bank.
- Q. You can't testify about the Land Bank's 4 operations?
- A. I cannot testify about the operations at the Land Bank. 6
- Q. You can't testify about the Land Bank's 8 effect on the economy in Detroit?
- 9 A. I don't know how the Land Bank is 10 affecting the economy in Detroit.
- Q. You can't testify about the Land Bank's 11
- 12 effect on property tax revenues, correct?
- A. Outside of the normal working process with 13
- the revolving fund, I don't know anything besides how the process is supposed to work. 15
- Q. But you can't testify about the Detroit 16
- Land Bank's effect on property taxes through 17
- improved real estate values or other mechanisms, 18
- 19 correct?
- 20 A. I don't see how it would affect it, but
- you're right. I wouldn't testify about that. 21
- 22 Q. The Bureau of Labor Statistics is a
- 23 reliable source of information on employment data.
- You would agree with that, correct? 24
- 25 A. I would agree with that.

- I do think it's reliable, ves.
- Q. And the employment levels in the city of 2
- Detroit currently are higher than they were in 3
- 4 2010, correct?
- 5 A. So you're looking at which numbers?
 - Q. The current level -- employment levels
- 7 compared to 2010 in the graph.
 - A. They are higher.
- 9 Q. And the employment levels in the city
- 10 currently are higher than in -- during many periods during 2011, correct? 11
- 12 A. I'm sorry. You said during 2011 --
 - Q. The employment levels in the city
- 14 currently are higher than during most periods in
- 15 2011, correct?
- 16 A. So current employment is higher than in
- most periods in 2011 is your question? 17
 - Q. Yeah.
- 19 A. I guess it depends on the period.
- 20 Q. Okay. During most of the months in 2011,
- employment was lower than it is currently in 21
- 22 Detroit, correct?
- 23 A. It looks that way, yes.
- 24 Q. And the same is true for 2012, correct?
- 25 A. It looks like yeah.

- Q. And there's been a recent uptick in 2014 in employment, correct?
- A. The seasonally unadjusted data is higher than some of the 2010, 2011 periods.
- Q. And in fact, there's an inflexion point in the data now that the employment is going up, correct?
 - A. Where is the inflexion point?
- 9 Q. Around April of 2014, April and March.
- 10 A. There was a downward trend between, it 11 looks like, December 2013 down to April 2014, and 12 then May 2014 it's slightly higher.
- Q. Do you know what period of time theemployment data that you looked at for youranalysis?
- A. So we -- so primarily Bob Cline with the
 assistance of Katie Ballard used the employment
 information in their forecast, and so they did --
- they pulled the historical data, did the trendanalysis, so they would be the ones to better speak
- 21 to it.

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- 22 Q. I mean, did you use the trend analysis by
- 23 Mr. Cline and Ms. Ballard in your forecast?
- A. So they did the trend analysis, and then I
- 25 looked to see what their employment forecasts were

- Q. You know there are private entities that have pledged money to assist the City and improve its economy and reduce blight, correct?
 - A. I know that private entity have pledged money. I don't know off the top of my head for what purposes.
- Q. You've done no analysis of the impact of private donations on property tax revenues in the city, correct?
- 10 A. The only way it would factor into the
 11 analysis is private donation improving the economy
 12 and stabilizing some of the negative aspects of
 13 Detroit, and then that shows up in our reinvestment
 14 scenario.
- 15 Q. So private donation improving the economy 16 can improve property tax revenues, correct?
 - A. It's possible.
- 18 Q. And -- but as far as you're aware, nobody
- 19 has tried to forecast the amount of private
- 20 donations over the next 10 years for the City,
- 21 correct?

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- A. I don't know if that's been done.
- Q. Okay. As far as you're aware, there's no
- 24 analysis that's been done to try to show the impact
- of private donations on City revenues, correct?

- based on that analysis so that my analysis was consistent with theirs.
- 3 Q. And did they forecast decrease in 4 employment?
- 5 A. They did.
- 6 Q. Do you have any idea how they arrived at
- 7 their forecast of decreasing employment after
- 8 looking at the Bureau of Labor Statistics data?
- 9 MR. STEWART: Objection.
- 10 THE WITNESS: So generally I know what they
- 11 did. They performed an analysis looking at the
- 12 historical trend and the relationship between
- 13 Detroit and the rest of the state, and so they used
- 14 that information to forecast employment trends with
- 15 relationship to the state forecast.
- 16 BY MR. SMITH:
- 17 Q. Okay. Can you explain to me how the
- 18 employment forecast was actually calculated that
- 19 you relied on?
- A. Other than generally saying, I was not the
- 21 one that did it, so no.
- 22 Q. And who was the person who you understood
- 23 did that forecast?
- A. Bob Cline with the assistance of Katie
- 25 Ballard.

- A. I don't know if it's been done.
- Q. You certainly didn't do any analysis to assess the impact of private donations on the
- 4 housing market or private tax revenues, correct?
- 5 A. As I said before, only in that if as part
- of reinvestment in the city, private donations
 occur and it helps to improve the economic
- 8 environment, then that's been factored into the
- 9 reinvestment scenario.
- Q. But you don't know if the reinvestment
 scenarios tried to forecast the amount of private
- 12 donations that will come into the city, correct?
- 13 A. I don't know how private donations are14 included in that.
- 15 Q. And you don't know how the reinvestment 16 forecast was put together, correct?
- 17 A. I was shown the reinvestment forecast. I don't know how it was put together.
- 19 Q. And you didn't do anything to test the 20 reliability of the reinvestment forecast, correct?
- 21 A. So as before, you can only test, I think,
- 22 reliability with actuals, and it hasn't occurred,
- 23 so I don't know.
- Q. Do you know who actually put together the reinvestment forecast?

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- A. I don't know specifically who did.
- Q. You used the reinvestment forecast to generate some of your forecast; is that fair?
- 4 A. I would not say generate. I would say 5 that I looked to see what was put together for 6 reinvestment for further reinvestment initiatives, and that helped think about how we selected our growth rates in that reinvestment scenario. 8
- 9 Q. Were numbers from the reinvestment forecast plugged into your forecast? 10
- 11 A. Were numbers for the reinvestment forecast 12 plugged into our forecast? No.
- 13 Q. Did you use the reinvestment forecast to 14 generate some of the assumptions for your forecast? 15
- A. It was something that was looked at along with other things in terms -- in how we put 16 17 together the reinvestment scenario.

18 (Document marked No. 11)

- 19 Q. I'm going to hand you a copy of what's
- been marked as Exhibit 11, which is from the 20
- Case-Shiller Detroit Home Price Index, and let me 21
- know if this is the type of data that you have
- 23 reviewed regarding housing prices.
- 24 A. Yeah.

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25 Q. And the Case-Shiller Index shows the

- Q. But overall, your model, the way it's constructed, could show a decrease in property tax revenue even if the Case-Shiller Home Price Index shows housing prices are going up, correct?
- 5 A. So the Case-Shiller Detroit Home Price Index is for the Detroit metro region, and so the 7 metro region could see home price indexes go up. 8 And we show that other factors mean that taxable 9 value declines, and so tax revenues go down.
 - Q. And there's not -- in your model, you're assuming there's not necessarily a link between actual home values or prices as measured in the Case-Shiller Index and taxable value, correct?
 - A. So the relationship is whether the selling of the home price when it's reset -- when the taxable value is reset after the sale, whether it was higher or lower than what the taxable value had been the year before. That's what matters.
 - Q. In your forecast, you're predicting a large decrease in property tax revenue and assessed values even though the Case-Shiller Index shows that property -- home prices have been increasing
- 22 23 for the last two years, correct?
- 24 A. So in our model, we have taxable value 25 continuing to decline even with some improvements

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housing prices have been increasing in Detroit over the last two years, correct?

- A. The Michigan Detroit Home Price Index is 4 going up, yes.
- Q. And there was an inflexion point around 2010; is that correct? It's a little bit light on there. 6
 - A. Yeah, midway through 2010, 2011. Yeah.
 - Q. And increasing housing prices in your
- 9 model lead to increased property tax revenues, 10 correct?
- 11 A. So increasing home prices is one factor in 12 our model, and it could lead to our overall
- increase in tax revenue. It really depends on what 14 happens to taxable value.
- 15 Q. Holding all other factors constant, do increased home prices have an effect in increasing
- 16 property tax revenues in your model? 17 18 A. Holding everything constant, an increase
- in a home price would -- well, it depends on the 19
- taxable value, I guess. It depends on what the taxable value is when the property sells and it's 21
- 22 reset. And so if the home price is higher than --
- 23 and the reset of the taxable value is higher than
- what it had been, it would increase tax revenues. 24
- 25 If sort of varies house to house.

in home prices.

2 Q. And in fact, you're predicting the tax 3 revenues are going to be cut in half, aren't you, 4 over the course of the 10-year period?

5 A. Tax revenue --

> Q. Or taxable values are going to be cut in half in the city of Detroit over the 10-year period?

- 9 A. So residential property is going to be cut 10 in half over the 10-year period.
- 11 Q. So you're predicting that property values 12 are going to be cut in half even though the 13 Case-Shiller Home Price Index is showing an 14 increase in property home prices for the last two 15 years in Detroit, correct?
 - A. Right. So you can have an increase in home prices, but your taxable value could still be higher than what it is when the home sells. So you could see even with an increase with home prices, you could see your taxable value fall.
- Q. And the taxable value is something -- is 21 22 that set by the City?
- 23 A. So taxable value is put together by the 24 City, and then it goes to -- there are several
- review processes before it's finalized.

- 1 (Document marked No. 12)
- 2 Q. I'm going to hand you what's been marked
 - as Exhibit 12. It's another printout from
- 4 Case-Shiller. At first at the top, it describes
- 5 what the Home Price Index, the Case-Shiller Index
- 6 tries to do, which it seeks to measure changes in
- 7 the total value of all existing single-family
- 8 housing stock.

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- 9 Is that your understanding of what it does?
- 10 A. Uh-huh.
- 11 Q. And if you look at the index levels below,
- 12 it indicates the one-year change in the index is an
- 13 increase of 15.37 percent for Detroit, correct?
- 14 A. Yes.
- 15 Q. And the three-year change for Detroit is a
- 16 12.86 percent increase, correct?
- 17 A. Uh-huh.
- 18 Q. And they also provide figures for a
- 19 20-year -- a 20-city composite home index as a
- 20 benchmark. Do you see that?
- A. Yes, I do.
- Q. And you're familiar with that benchmark?
- 23 A. I am.
- Q. And the benchmark of 20 cities shows
- 25 growth in home prices that is lower than Detroit's

- 1 Detroit metro area. I don't know.
 - Q. You haven't looked at that?
 - A. So we were charged with looking
- 4 specifically at the city of Detroit, not the entire
- 5 Detroit metro region.

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- 6 Q. Is it possible to forecast what the
 - Case-Shiller Home Price Index would look like for
- 8 Detroit over the next 10 years?
 - A. I don't understand the question.
 - Q. Is it possible to forecast what the
- 11 Case-Shiller Home Price Index will be for Detroit
- 12 over the next 10 years?
- 13 A. So Case-Shiller is using actual data. I
- 14 don't know if they do forecasts.
- 15 Q. I'm asking could you forecast the
- 16 Case-Shiller Home Price Index over the next
- 17 10 years?
- 18 A. I have not done that, no.
 - Q. I know, but is it possible for you to do
- 20 that? Is that something that's technically
- 21 possible for you to do?
- A. So you can forecast what is going to
- 23 happen to average home prices. That's an exercise
- 24 that I've done, that I've engaged with.
- Q. Okay. And if we were to forecast home

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- for the one and three-year periods, correct?
- 2 A. Uh-huh. Yeah.
- 3 Q. Detroit's home prices using the
- 4 Case-Shiller Index have increased more than other
- 5 cities in the benchmark index over the one and
- 6 three-year and five-year periods, correct?
- 7 A. Correct.
- 8 Q. And what are some of the reasons that
- 9 Detroit's home prices would have been increasing at
- 10 greater rates than other cities over the last one,
- 11 three or five years?
- 12 A. I haven't looked at the other cities, but
- when I looked at Detroit specifically, the
- 14 percentage increases have been so large, in part,
- 15 because the base is so low.
- 16 Q. Right. I mean, Detroit is starting out
- 17 from a low period, so it's not surprising that you
- 18 would see a large increase in home prices, correct?
- 19 A. That is correct. A \$5,000 increase is
- 20 large in Detroit.
- Q. And you would anticipate that the
- 22 Case-Shiller Index would continue to increase for
- 23 the Detroit market over the 10-year period that you
- 24 forecast
- A. I don't know what it's going to do for the

- 1 prices over the next 10 years in Detroit, those
- 2 home prices would increase under a reasonable
- 3 forecast, correct?
- 4 MR. STEWART: Objection.
- 5 THE WITNESS: I don't know what reasonable is.
- 6 When I've done this, I've had -- I've looked at
- 7 what would likely happen to average home prices,
- 8 and they have been going up in my forecast.
- 9 BY MR. SMITH:
- 10 Q. Okay. And those are forecasts over the
- 11 next how many years?
- 12 A. So looking out 10 years.
 - Q. Okay. So you're forecasting home prices
- 14 to increase over the next 10 years, correct?
 - A Lam

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- 16 Q. And that would include in Detroit?
- 17 A. That's just for Detroit. I didn't look at
- 18 the entire area.
- 19 Q. Okay. And why were you doing that
- 20 forecast? Is that part of your expert analysis?
- A. So as I mentioned in my report, one of the
- 22 things that I looked at is the uncapping of taxable
- 23 value when homes prices sell, and so part of the
- 24 exercise was thinking about what happens to home
- 25 prices.

- 1 MR. SMITH: Okay. Why don't we take a break
- 2 now. I know there's been a request from the
- 3 retiree's counsel who had to leave. He's got
- 4 another call, so we'll take a break for lunch.
- 5 MR. STEWART: 30 minutes?
- 6 MR. SMITH: Why don't we take a little bit
- 7 longer for lunch.
- 8 MR. STEWART: 32 minutes?
- 9 MR. SMITH: No, 45 minutes.
- 10 MR. STEWART: 35, 40. That's fine.
- 11 THE VIDEOGRAPHER: Off the record. The time is
- 12 12:02 p.m.
- 13 (Whereupon, a lunch break was
- 14 taken.)
- 15 THE VIDEOGRAPHER: We are back on the record.
- 16 The time is 12:44 p.m.
- 17 BY MR. SMITH:
- 18 Q. Ms. Sallee, you're aware the City is
- 19 planning to spend hundreds of millions of dollars
- 20 in blight reduction?
- A. I'm aware the City is going to spend money
- 22 on blight reduction.
- Q. I mean, do you know it's in the amount of
- 24 hundreds of millions or not?
- A. I don't know the exact amount.

- 1 A. They were targeting certain neighborhoods
- 2 with blight removal. My recollection is that it
- 3 was around schools or commerce areas, and they
- 4 thought that it would sort of improve safety and
- 5 existing property values is my recollection of
- 6 conversations about it.

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- (Document marked No. 13)
- Q. I'm going to hand you a copy of what's
- 9 been marked as Exhibit 13, which is some City of
- 10 Detroit Assessing Division Operational Recommendations
- 11 by Plante Moran. Have you seen that document before?
 - A. I have not.
- 13 Q. If you turn over to Page 6, there's a
- 14 chart that has a history of the Detroit assessment
- 15 roll. Do you see that?
- 16 A. Okay.
 - Q. It indicates that the assessed value of
- 18 property in Detroit went from 14 billion in 2008 to
- 19 9 billion in 2013, correct?
- A. That's what is says here.
- Q. So there was a \$5 billion reduction in the
- 22 last five years in assessed value, correct?
- A. That's what it says here.
- Q. It's about a third of property values gone
- 25 away, correct?

- 1 Q. You don't know any of the details of how
- 2 the City is going to spend the blight reduction
- 3 money?
- 4 A. I don't know any of the details.
- 5 Q. Do you agree that many large cities suffer
- 6 from blight?
- A. I haven't looked at any other cities on
- 8 blight.
- 9 Q. What about Flint, Michigan, is there
- 10 blight in Flint, Michigan?
- 11 A. Yes, there is.
- 12 Q. And is Flint, Michigan planning any blight
- 13 reduction efforts?
- 14 A. Yes.
- 15 Q. And do you know how much they're planning
- to spend on blight reduction?
- 17 A. I don't know off the top of my head.
- 18 Q. Do you know why Flint, Michigan's planning
- 19 to spend money on blight reduction?
- A. I had some conversations with city
- 21 officials, and they wanted to remove properties,
- 22 and they basically said they thought it would help
- 23 the city.
- Q. How did Flint, Michigan officials think
- 25 that blight reduction would help the city?

- A. It looks like a reduction of 5 billion in
- 2 the assessed value, which is about a third.
- 3 Q. And you're forecasting additional
- 4 reductions in the assessed value, correct?
- 5 A. So I am forecasting additional reductions
- 6 in taxable value.
- 7 Q. Okay. And what will be the total taxable
- 8 value at the end of 10 years under your forecast?
- 9 A. I would have to look at my report for the 10 exact number.
- 11 (Document marked No. 14)
- 12 Q. I'll mark your report as Exhibit 14 so you
- 13 have it in front of you.
- Do you know now looking at your report what
- 15 taxable value you're forecasting in the next 10 years?
- 16 A. I was realizing that the actual forecasts
- 17 aren't in here, so I would need to see the
- 18 disclosure statement.
- 19 Q. Okay. The -- did you do anything to look
- 20 at historical taxable values in doing your
- 21 forecast?
- A. I did look at historical values.
- Q. And you know there's been a significant
- 24 decrease in historical assessed value already in
- 25 the city of Detroit, correct?

- A. How would you define significant?
- 2 Q. Well, along the lines of that \$5 billion 3
 - that we just looked at, correct?
- 4 A. There has been a reduction in assessed and 5 taxable value in Detroit.
- 6 Q. Okay. And is that \$5 billion figure from
- 2008 to 2013 reduction in assessed value roughly
- consistent with your understanding of the reduction
- in assessed value?
- A. Yes. 10

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- 11 Q. The -- and your forecasting reduction
- 12 assessed value, that goes beyond what's occurred in
- the last five years, correct? 13
- 14 A. So I'm not forecasting assessed values.
- 15 I'm forecasting taxable value.
- 16 Q. What's the difference in your view?
- 17 A. So taxable value is the lower of capped
- 18 value or state equalized value. And given that the
- county's equalization factor is 1, assessed value
- 20 and state equalized value are the same thing.
- Q. Okay. So the taxable value is the same as 21 the assessed value in Detroit?
- 22
- 23 A. No.
- 24 Q. No? Okay. Can you explain why that is?
- 25 A. I'm saying assessed value and state

- potentially higher or lower than capped value. And
- 2 if assessments are lowered, what would then happen
- 3 to state equalized value in relation to capped
- 4 value and what impact would that have on taxable
- value. And so ultimately what I was concerned with
- 6 was taxable value.

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- Q. And do you -- can you identify any city
- 8 that's engaged in a greater blight reduction effort
- 9 than is planned for the city of Detroit?
- 10 A. I have not looked at any other cities' 11 plans.
 - Q. So you can't identify such a city?
- 13 A. I haven't looked into the issue.
- 14 Q. So you haven't examined the effects of
- 15 blight reduction in other cities at all?
- 16 A. I have not looked at blight reduction in 17 other cities.
- 18 Q. Do you agree that property taxes revenue
- 19 is one of the largest sources of revenue for the
- City of Detroit? 20
 - A. So property tax revenue makes up about
- 22 17 percent of the tax and state revenue sharing.
- 23 Q. The -- you mentioned that you had read
- Ms. Kopacz's report, correct? 24
- 25 A. That's correct. I read maybe half of it.

equalized value are the same thing. Taxable value

- 2 is the lower of capped value or state equalized
- 3 value.
- 4 Q. Okay. And what is the capped value?
- A. So capped value is that in the first year,
- let's say, you purchase a house, and in the first 6
- year, your state equalized value is roughly
- 50 percent of your market value and your taxable
- value equals your state equalized value in that
- 10 first year. And then going forward, your capped
- 11 value is the rate of inflation or 5 percent,
- 12 whichever is less.
- Q. And how do you figure out which to use in 13
- 14 your forecast, capped value or state equalized
- 15 value?
- A. So I don't use either of those. I use 16
- 17 taxable value.
- 18 Q. Which is what?
- 19 A. The lower of the two.
- 20 Q. Okay. So how do you figure out what that
- 21 is in your forecast?
- 22 A. Sure. So in this case, I looked at capped
- 23 value and state equalized value and its
- relationship to taxable value, and I did some 24
- analysis to see if state equalized value was

Q. Do you have any understanding as to what 2 qualifications or background Ms. Kopacz has in 3 forecasting?

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- 4 A. I don't know particularly her expertise in forecasting.
- 6 Q. We discussed that she did a sensitivity 7 analysis for property tax revenues. Do you recall 8 that?
- 9 A. Yes.
- 10 Q. You don't have any criticism of
 - Ms. Kopacz's sensitivity analysis for property tax
- 12 revenues, correct?
- 13 A. I didn't try to mimic what she did. When
- 14 I looked at it, her analysis seemed in line with
- what I would expect, so it seemed okay. 15
- Q. She also does a sensitivity analysis for 16 17 state revenue sharing. Do you recall that?
 - A. Yes.
- 19 Q. Do you have any criticism of Ms. Kopacz's
- sensitivity analysis for state revenue sharing? 20
- 21 A. I can't remember exactly what she varied
- 22 there, so I can't remember the specifics of her
- 23 report.

- 24 Q. Okay. Do you have any opinions about
- Ms. Kopacz's report?

- 1 A. Yes.
- 2 Q. What are they?
- 3 A. My opinion was that the first half of it I
- 4 read, I agreed with her conclusions.
- 5 Q. Okay. What page do you think you're about 6 up to there?
- A. Well, I got through my sections, so maybe
- I read -- actually, I maybe read only 75 pages of
- it. It's a 200-page document.
- 10 Q. And do you agree that Ms. Kopacz's
- 11 analyses showed that by varying certain of the
- 12 inputs by a small amount, you can change the
- outcome in terms of revenue in your analysis by
- 14 tens of millions of dollars, correct?
- 15 A. I don't know how detailed she looked at
- changing inputs. She was showing sort of 1 percent
- changes and how much revenue that produces. That
- 18 seemed to be the extent of the sensitivity
- 19 analysis.
- 20 Q. There are other inputs you could change to
- produce other additions to revenue in your model 21
- 22 that Ms. Kopacz did not look at, correct?
- 23 A. So I don't know exactly what she did, but
- 24 you can change assumptions, and it would change the
- 25 results.

- REMI to model economic impacts of capital
- 2 expenditures and operations. Do you recall that?
 - A. I have done that, yes.
- 4 Q. And is IMPLAN a generally accepted measure
- 5 for measuring economic impacts?
- 6 A. Yes.

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- Q. And you could use IMPLAN to measure the
- economic impacts in terms of increased economic
- activity and revenue from the reinvestments that
- 10 the City is planning, correct?
- 11 A. Can you restate your question?
 - Q. You could use an IMPLAN analysis to
- determine the economic impact and increased revenue
- from the reinvestments that the City is planning in 14
- 15 the plan, correct?
 - A. I wouldn't use IMPLAN for that.
- 17 O. Is that something that IMPLAN can be used
- 18 for, though? 19
 - A. So in this case, you could -- you could
- 20 look at an investment, and you could say what is
- 21 the result of that investment and then model the
- 22 economic impact of that with IMPLAN, but you would
- 23 have to take into account, you know, substitution.
- There would be a lot of factors that would go into
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- 1 Q. And there are assumptions that Ms. Kopacz
- did not report on in her report that you could
- 3 change to increase the revenues in your model,
- 4 correct?
- 5 A. There are assumptions that could be
- changed that could increase -- that could increase 6 7 revenues.
- 8 Q. And you didn't do any sensitivity analyses
- for any of your forecasting, correct?
- 10
- A. What do you mean by sensitivity analyses?
- 11 Q. The type of analysis Ms. Kopacz does in
- 12 her report which she calls an sensitivity analysis.
- 13 A. So when I look at it, it looks like she
- asked the question what happens if you increase
- revenues by 1 percent, and what does that mean over 15
- a 10-year period. I did analysis along with Bob
- Cline, other members of our team to say what 17
- 18 happens if we change inputs, they increase or lower
- 19 revenues in a given year and what's the impact of
- 20 that in a 10-year period. As I've mentioned, we've
- done, you know, different iterations, and so I feel
- like we have done that sensitivity analysis in the
- sense that we've changed inputs, saw what happened 24 to the revenue.
- 25 Q. And your CV says you've used IMPLAN and

- 1 Q. Okay. So the reinvestment expenditures
- could be analyzed using IMPLAN to determine their
- 3 economic impact, but you would have to take into
- 4 account a number of factors; is that correct?
- 5 A. So IMPLAN would be sort of an awkward way
- 6 to evaluate it. You can do economic modeling where
- 7 you would look at a detailed, say, investment and
- 8 then think through the impact on the economy.
- 9 That's standard economic analysis.
- 10 Q. Okay. And as far as you're aware, has
 - anybody done any standard economic analysis to
- measure the positive economic impact of the 12
- 13 reinvestment proposals?
- 14 A. I'm not aware of any.
 - O. Do you know why that hasn't been done?
- A. Well, I don't know if it has been done. 16
- 17 It could have been done by someone else. We
- 18 weren't charged with looking at the reinvestment
- 19

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- 20 Q. Okay. But you would agree there's a
- variety of standard methodologies that could be
- 22 used to measure the economic impact of the
- 23 reinvestment activities, and IMPLAN would just be
- 24 one of them; is that correct?
 - A. So there's -- there's a methodology, a way

- 1 that you would go about looking at this, and there
- 2 are different software tools that can aid you, and
- there are generally only a few accepted ways to do 3
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- Q. And what are those few accepted ones?
- A. So when you're doing economic impact
- analysis, typically you're going to use one of
- three things. You're going to use an IMPLAN model.
- You're going to use a government model, RIMS II, or
- 10 you're going to use REMI.
- 11 Q. And have you used such standard economic
- 12 models in assessing the economic impact of
- 13 government projects before?
- 14 A. Yes.
- 15 Q. What kinds of government projects have you
- 16 done that for?
- 17 A. So prior to joining EY, I looked at the
- 18 economic impact of building a new research facility
- or sort of a specific government planned -- it 19
- would be a collaboration, I guess, between 20
- entities, so looking at project base, say, a new
- facility or something and using one of those to 22
- 23 evaluate the economic impacts.
- 24 Q. And is that -- do governments often try to
- model the economic impact or see how much economic

- there are no other expenditures and thought about
- 2 how it would improve the economy and then factored
 - that into our reinvestment scenario.
- 4 It wouldn't necessarily make sense to use
- 5 IMPLAN in that sense. I should clarify we use
- IMPLAN for economic analysis. The tax analysis
- 7 we're usually doing we're usually not using IMPLAN 8 for.
- 9 Q. Okay. But there are other methodologies
- that you've used that you didn't use in this case 10
- 11 to model tax revenues?

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- 12 A. So in the past, if you're looking at a
- 13 project and you forecast the labor income that's
- 14 associated with the project, we often use a ratio
- of taxes to personal income because we have measure 15
- now of personal income or labor income. And so we
- 17 can apply that ratio to our estimated labor income,
- 18 and that doesn't apply here to this situation.
- 19 Q. Okay. But measuring -- somebody could
- 20 have used one of the standard economic modeling 21
- methodologies to determine the economic impact of
- 22 the reinvestment scenarios or the tax revenues from
- 23 the reinvestment scenarios, correct?
- 24 A. Yes, you could do something.
- 25 Q. Okay. I'm going to turn to your expert

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improvement there will be from government projects?

- 2 A. I've done these projects for governments
- 3 or for groups going before government, so there
- seems to be interest in it. 4
- Q. And is modeling the economic improvement 5
- of a government expenditure something that you 6
- believe is like a useful project for planning
- 8 purposes for governments?
- 9 A. In certain situations, yeah, I do think
- 10 it's useful.
- 11 Q. And do these economic modeling that you've
- 12 done, does that include looking at increases in tax
- revenues, or is it just increases in economic
- activity that would be caused by a project?
- 15 A. So typically I would look at the measures
- 16 of economic impact and then tax revenue.
- 17 Q. And is the reason that you didn't use
- IMPLAN or some other accepted economic modeling in 18
- this case to look at the effect on tax revenues 19
- just because you weren't asked to do that?
- A. So in this case, we were asked to forecast
- 22 tax revenue, which is a little different exercise
- 23 than for some of these projects where you're doing,
- say, the economic and tax contribution of specific facilities. So we looked at blight and thought

- report now. Do you have that in front of you? 2 A. I do.
- 3 Q. On Page 6 of your report, you relied on
- 4 some data from the Detroit Board of Realtors
- residential sales statistics for 1995, at the top
- of the page, 1998, 2001 to 2013. Do you see that? 6

- 7 A. I do.
- 8 Q. Why is it that you only used certain
- 9 vears?
- 10 A. So there's a gap in between '95 and '98
- and '98 and 2001, so that data was not publicly
- 12 available on the website, and then -- so I took as
- 13 much information as was available, and then I did
- 14 it through 2013. I looked beyond that, but the
- 15 analysis goes to 2013, so I could compare it to
- 16 other sources of data.
- 17 Q. Okay. So your analysis, you used data
- stopping at the end of 2013 from the Detroit Board 18
- 19 of Realtors, correct?
- 20 A. Correct.
- 21 Q. But you know -- you've seen what the data
- 22 is for subsequent periods in 2014, correct?
- 23 A. Right.
- 24 Q. And that data from the Detroit Board of
 - Realtors is the data showing that housing prices

- 1 continued to increase in the city of Detroit; is
- 2 that correct?

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- 3 A. There were increases, yes.
 - Q. The information you talk about about
- 5 Renaissance Zones, it's kind of down toward the
- 6 bottom of the page, and you mention you had the one
- year's data from 2013. Do you see that?
- 8 A. Yes.
- 9 Q. And we already talked about how that was
- 10 provided to you by the assessor's office, right?
- 11 A. It was.
- 12 Q. And the reason you need the Renaissance
- Zone data is because there's different tax --13
- 14 different taxes apply to Renaissance Zone than
- 15 elsewhere in the city; is that correct?
- A. So Renaissance Zones are exempt from 16 17 certain taxes.
- 18 Q. And that includes the property tax?
- 19 A. Portions of the property tax. So if
- you're in a Renaissance Zone, you're still paying
- the debt millages, but you're not paying general
- 22 operating. You're not paying library.
- 23 Q. Page 7 of your report, it says in
- 24 Paragraph C use separate growth rates for real and
- personal property by property class. Do you see

- following standard forecasting procedures. So as I
- 2 outlined earlier, I followed the Michigan State
- 3 Revenue Conference forecasting procedures, which is
- 4 also what U.S. federal agencies use. So you follow
- 5 current law, and you don't assume a tax rate has
- 6 changed. 7 Q. Current law does not exempt personal
- 8 property in the manner that the proposed
- 9 legislation does, correct?
- 10 A. So right now in current law, it is
- planning for -- the bills have been passed that
- 12 would repeal personal property. It has to be
- confirmed by voters. And so in that case, the 13
- 14 third part of forecasting is to think about what
- known changes there are, and in this case, we 15
- accounted for a known change. 16
- 17 Q. Okay. Well, you don't know what the
- 18 outcome of the vote will be, correct?
- 19 A. I do not know.
- 20 Q. And so under current law, personal
- 21 property is not exempted, correct? That's not the
- 22 law in the state of Michigan right now, correct?
- 23 MR. ALBERTS: Objection.
- 24 THE WITNESS: So currently personal property is
- slated to be repealed assuming voters approve it in

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that? 1

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- 2 A. Uh-huh.
- 3 Q. Do you know what growth rates you used?
 - A. So it varied by type of property within
- 5 real and personal.
- Q. Did you pick the growth rates for real and 6
- personal property based on your judgment? 8 A. So ultimately I selected those growth
- 9 rates based on my judgment.
- 10 Q. And do those growth rates also vary over
- year for each class of property?
- 12 A. They change year to year, yes.
- 13 Q. And you used your judgment to decide how
- the growth rates for each class of property should
- change year to year; is that correct? 15
- A. I used my judgment to see how they would 16 17 change year to year, yes.
- 18 Q. Page 8, subsection ii(b), you say that --
- 19 one of your assumptions was the tax law will remain
- unchanged during the forecast time periods. Do you
- see that? 21
- 22 A. Yes.
- 23 Q. And who gave you that assumption?
- 24 A. So in this case, it's referring to the
- selected tax rate, and we kept it constant

August.

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- 2 BY MR. SMITH:
- 3 Q. Does current law as it exists at the date
 - of this deposition exempt personal property?
- 5 A. So the laws have been passed that exempt
 - it. It just hasn't been -- it's subject to
- 7 approval by voters, so I kind of feel like this is
- 8 gray, and I don't quite know how to answer that
- 9 question.
- 10 Q. Okay. Right now personal property is not exempted. You can't say oh, I'm not going to pay
- 12 my personal property tax, right?
- 13 A. So personal property right now is -- has 14
- 15 Q. Okay. And that's the current law right 16 now?
- 17 A. Current law, the vote has not happened.

been taxed in Michigan.

- 18 It's still taxed. Okay. I will say that.
- 19 Q. But in your forecast, you've modeled the
- 20 possibility that that current law treatment of 21 personal property tax may change over time,
- 22 correct? You've used a 50 percent factor to model
- 23 that possibility, correct?
- 24 A. Right. So we -- so I've included a
- 25 50 percent chance that the vote passes in my

- 1 analysis.
- Q. And so you've included in your analysis a
- 50 percent chance that personal property exemptions
 may pass in which case personal property taxes
- 5 would be decreased, correct?
- 6 A. So what I specifically modeled is a
- 7 50 percent chance that personal property taxes will
- 8 be reduced for commercial industrial taxpayers, and
- 9 so I factored in a 20 percent -- what -- we're
- 10 forecasting a 20 percent reduction in personal
- 11 property and a 50 percent chance of that happening,
- 12 so we've modeled a 10 percent reduction.
- 13 Q. So you factored in a chance that there
- 14 will be a change in current law leading to a
- 15 reduction in personal property taxes, correct?
- 16 A. Yes.
- 17 Q. And the -- have you done any investigation
- 18 into whether there's any debate about changing tax
- 19 rates in the state of Michigan?
- A. For what?
- 21 Q. Have you done any investigation into
- 22 whether there are any proposals to change tax rates
- 23 in the state of Michigan?
- A. In the state overall or --
- 25 Q. That would impact City of Detroit.

- A. So I have done forecasting when a specific policy change has been given and we've asked to say -- to look at the revenue impacts.
 - Q. What kind of policy change have you forecasted to determine the potential impacts on taxes?
- A. So in my old job, I participated in a
- 8 two-year project looking at tax policy changes at
- 9 the State of Michigan level. Some of the tax
- 10 changes would have reduced revenues for certain
- 11 taxes, and some would have increased tax revenue
- 12 for certain taxes.

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- Q. So when you were working with the State of
- Michigan, you forecasted the effects of potential changes in tax policy on tax revenues?
- 16 A. So I wasn't working for the State of
- 17 Michigan. Maybe you said with, but I was working
- 18 for another organization doing State of Michigan
- 19 taxes, and -- I've forgotten your question.
- Q. What was the other organization that you
- 21 worked on Michigan taxes with?
- A. I worked for a group called Business
- 23 Leaders for Michigan.
 - Q. Okay. When you were doing forecasting to
- 25 look at changes various policies that could be

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- A. I have not looked into any tax rate
- 2 changes in the city.

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- 3 Q. Have you looked into any tax changes other
- 4 than the personal property tax change that could
- 5 impact Detroit's revenues and whether there are
- 6 proposals for those?
 - A. I don't think I understand the question.
- 8 Q. Have you looked into any -- into whether
- 9 there are any proposals for tax rate changes that
- 10 might impact Detroit's tax revenues?
- 11 A. I am not aware of any proposals that would 12 change tax rates in Detroit.
- Q. Have you investigated the matter, though?
- 14 A. No. I have not looked into it.
- Q. So you're saying that the assumption thatyou used for keeping tax rates constant came from
- 17 the Michigan Manual; is that correct?
- A. So they've published a paper about their
- 19 procedures for doing their consensus revenue
- 20 forecasting, and so that was consulted as well as
- 21 what do other agencies do, and those procedures
- 22 were followed.
- Q. Have you done forecasting for taxes before
- 24 where you did not assume current tax law applied,
- 25 that there might be changes?

adopted would have on Michigan tax revenues, you did an analysis on that, correct?

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- 3 A. So I did an analysis of specific tax
 - changes for the state that would affect the state.
- 5 Q. Okay. And did you calculate -- forecast
- 6 what the changes in revenues would be if tax policy 7 changed in the state of Michigan when you did this
- 7 changed in the state of Michigan when you did this 8 other project?
 - A. When I did this other project, yes.
- 10 Q. And were you coordinating with the state,
 - or how would you describe your relationship with
- 12 the state in conjunction with that project?
- 13 A. So I would have -- I would go to meetings
- 14 with state representatives to talk about the tax
- 15 change and to collect data.
- Q. And what kind of tax changes were youdiscussing with Michigan officials?
- A. Generally looking at changes to the
- 19 business tax and changes to the sales tax.
- Q. Okay. Were they looking at increasing or
- 21 decreasing the business tax and the sales tax?
 - A. They were looking at decreasing the
- business taxes and potentially raising the salestax.
- Q. And raising the sales tax would increase

the amount of money that the state collected that

2 could be used for revenue sharing, correct?

A. The specifics of the different policies and models, I can't remember how revenue sharing was treated in that.

6 Q. Do you know where the city -- where the 7 state gets the money that it uses for revenue sharing? 8

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Q. Okay. Where do they get that money?

A. So -- so the constitutional piece is

12 funded through sales and use tax revenue, a part of 13

14 Q. So increasing the sales tax would increase revenue sharing under the constitution of Michigan 15 to the cities, correct? 16

17 A. All things equal, if you -- so -- so right 18 now how the constitutional piece is structured, you

have the first 4 percent, and then you have an

add-on 2 percent. So the revenue sharing is -- the 20

constitutional piece is 15 percent of that 21

22 4 percent, and those things are written that keep

that 4 percent constant, and you play with that

24 additional 2 percent.

25 So proposals that I often look at was sort

able to increase that revenue, if you expand the sales tax base or you have more transactions or

things, then you can see that sales tax revenue

could go up, but you could play with the rate, and

and use tax go into the General Fund.

2 Q. Okay. So the more money that the state 3 collects in sales tax, the more money that is 4 available to fund revenue sharing payments, 5

A. So the more sales tax revenue the state collects, the more money it would have available in its General Fund, and it could choose to increase payments to municipalities, or it could not.

Q. And so increasing the sales tax rate could have the effect of -- it would have the effect of making more money available for revenue sharing payments. It's just whether the legislature decides to use it or not, correct?

15 A. More money would be available.

16 Legislature could or could not decide to use it.

17 Q. When were you doing that analysis about 18 potentially raising the sales tax rate?

19 A. So that analysis I did back seven, eight 20 years ago. What year is it? 2014. So I did that 21 work, I'm remembering, but probably around 2007.

22 Q. Okay. And did the state raise the sales

23 tax?

24 A. They didn't.

25 Q. Do you know why they didn't?

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of keeping the revenue sharing intact. If you're

1 A. So Michigan ended up making some changes.

They eliminated the SBT. They put in a new

3 business tax and decided not to make any changes to

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4 the sales tax.

5 Q. And is the state of Michigan, compared to 6 other states, a relatively low-tax state?

7 A. It depends on what time frame you look at.

8 Q. Currently.

9 A. Currently Michigan's in the middle in

10 terms of tax burden.

11 Q. Do you know if there's any other planning

regarding sales taxes, sales tax changes? 12

13 A. I'm not aware of any planned sales tax 14 changes.

15 Q. Have you investigated whether there are any planned sales tax changes? 16

A. Nothing has come up in my conversations 17

18 with anyone, so I'm not aware.

19 O. Have you ever heard of the Revised

20 Judicature Act of 1961?

21 A. I don't think so.

22 Q. Are you aware that under current law, if

23 the City has a judgment against it, that it can

24 charge -- it can raise property tax rates above

statutory rates to collect money to satisfy the

Q. Is it possible that increasing the rate of 8 the sales tax will increase state revenue sharing 9 payments to the cities?

it may not actually affect sales tax revenue.

10 A. Typically if you were to change the rate, you wouldn't be affecting, per se, the revenue

sharing if you're not changing that 4 percent. 12

13 Q. What about the percent above 4 percent? A. Well, that part of it isn't part of the 14

15 sales tax formula.

16 Q. But generally you know that the state uses the sales tax as a source for its revenue sharing 17 18 payments to the cities, correct?

19 A. The constitutional piece comes from the 20 sales tax.

21 Q. Do you know if any of the statutory piece 22 comes from the sales tax?

A. So right now the Economic Vitality 23

Incentive Program is being -- the funds for it are

coming from the General Fund, and part of the sales

- 1 judgment?
- A. I'm not aware of that law.
- Q. Did anybody ever tell you or inform you that the City has in the past raised property tax rates above statutory maximums to pay judgments against it?
- 7 A. No one told me that. When I looked at a 8 history of property tax millages for general 9 operating, I noticed that the rates in the past 10 were above 20 mills.
- Q. Okay. And so you noticed that the rates were above statutory maximums in the past. Then did you make any inquiry about why that was?
- 14 A. No, because going forward, what was 15 relevant was the current tax rate.
- Q. Okay. But the City -- Syncora could get a judgment against the City, and the property tax rate could be raised above statutory maximums, correct?
- 20 MR. STEWART: Objection.
- 21 THE WITNESS: I don't know the likelihood of
- 22 that.
- 23 BY MR. SMITH:
- 24 Q. Well, other -- you know other creditors of
- 25 the City in the past have been successful in

- 1 Q. Okay. You did do an adjustment for
- 2 changes in collection rates over time, correct?
 - A. Correct.

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- Q. Do you know if there's an adjustment forchanges in collection rates for the income taxunder Mr. Cline's analysis?
 - A. I don't know.
 - Q. You haven't done anything to ensure that your methodology in terms of the treatment of collection rates is consistent with Mr. Cline's methodology, correct?
 - A. Can you say that again?
- Q. You haven't done anything to investigate
 or ensure that the methodology you used with
- 15 respect to collection rate on the property tax is
- 16 consistent with Mr. Cline's approach on the income 17 or other taxes, correct?
- 18 A. We took pains to make sure that the inputs
- 19 we were using were consistent, and the way we were
- 20 going about -- he had a different methodology
- 21 because it's a different type of tax with a
- 22 different tax base. He had a different methodology
- 23 than I did, and I don't -- given how -- I don't
- 24 know -- you know, there's a different collection
- 25 process. I don't know how he factored in

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- getting judgments and having the tax rate raised above statutory maximums to pay it, correct?
- 3 A. I don't know any details.
- 4 Q. Well, you know that the tax rates have
- 5 been assessed above statutory maximums in the past,
- 6 correct?
- A. The only thing that I noticed was in the past, the general operating mill was above 20, and
- 9 I was not sure when the 20-mills limit became
- 10 relevant for Detroit.
- 11 Q. Nobody -- I guess since nobody has told 12 you about this possibility of property tax rates
- being above statutory maximums, so that's correct,right?
- 15 A. Nobody has told me about that.
- 16 Q. Okay. So nobody has asked you to consider
- 17 what taxes -- property taxes could be collected at
- 18 rates above statutory maximums under the Revised
- 19 Judicature Act, correct?
- A. Correct. Nobody asked me to look into
- 21 that.
- Q. And you don't have any idea why they
- 23 didn't ask you, correct?
- A. I have no idea why people did not ask me
- 25 to do something.

- collection exactly into his model.
- Q. You don't know whether Mr. Cline factored any changes in collection rate in his model one way or the other, correct?
- 5 A. I don't know how his model incorporates 6 collection. I would have to see it.
- Q. You agree that it's important to factor in the collection rate in forecasting income tax, correct?
- 10 A. So there are -- collections of income is 11 important, and he -- you know, collections for
- 12 income taxes are different than property taxes, so
- 3 it's not -- it's not unusual that he would deal
- 14 with it differently than I would. He's -- for
- 15 example, you have tax withheld from paychecks, so
- that's a very different model than someone payingtheir property taxes.
- Q. But you agree that it's important to
- 19 factor in in some way changes in collection rate
- 20 over time in forecasting the income, corporate,
- 21 wagering or utility user tax, correct?
 - A. I think you said, though, that it's
- 23 important to factor in changes. I think it's
- 24 important to think about the revenue that you're
- 25 going to be receiving, you're actually receiving,

and for each of the different taxes, we did that.

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2 In property, we thought about what's the 3 collection rate. In income taxes, we thought about 4 the tax base, different tax bases, taxes withheld 5 versus taxes paid, so collection would show up in 6 that analysis. For the other taxes, we thought 7 about well, what is being actually paid by, say, the casinos or utility users. So collections is 8 present, but I think they're different in each of 10 the tax bases.

- 11 Q. But in the income tax analysis, you know 12 there's no change or analysis of what the 13 collection rate might be over the next 10 years, 14 correct?
- 15 A. I don't know exactly what Mr. Cline did 16 there.
- Q. Okay. But you agree it's important to take into account the collection rate in any
- 19 forecast of taxes and tax revenue that you do, 20 correct?
- 21 A. I don't know if I would say it's important
- 22 to think about a collection rate. I think it's
- 23 important to think about what money the entity is
- going to receive, which is what we've tried to do
- in our forecast. We tried to think about actual

- Q. Because the higher your collection rate, the higher your tax revenue, and the lower your collection rate, the lower the revenue, correct?
- 3 collection rate, the lower the revenue, correct?
 4 A. In some cases, yes. In other cases, you
- 5 can have a higher collection rate and a lower tax
- levy, and you could have -- you would have a lowertax revenue.
- 8 Q. All other things being equal, the higher
- 9 the collection rate, the more tax revenue you take 10 in. correct?
- 11 A. Up to a certain point.

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- Q. And that's why it's important to consider
- 13 the collection rate in a tax forecast, right?
 - MR. STEWART: You've asked this question, I
- 15 think I've counted, 15 times now, so she's going to
- 16 answer. This is going to be the last time because
- 17 I am going to instruct her after this.
- MR. SMITH: You have a pattern of obstructing
- 19 every deposition you've been in. By the way, I'm
- 20 going to ask her about deposition transcripts
- 21 later, so I ask that you produce this order of the
- 22 court because I'm informed there is no such order.
- 23 MR. STEWART: No. Ask Mr. Hackney.
- MR. SMITH: No. I'm asking you. I'm going to
- 25 ask about it. Where's the order?

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money in the door in a given fiscal year.

- Q. And would you agree that collection rate is one of the key drivers of tax revenue?
- A. In the property taxes forecasts that I did, collection rate is an important driver.
- Q. Yeah. For any tax revenue analysis, collection rate is a key driver of tax revenue,
- 7 collection rate is a key driver of tax revenue,
 8 correct?
 9 A. Income taxes, like I said, I think each of
- them collections is different, and so the
 collection process is different, and so it's more
 important and less important in other areas.
- Q. Have you ever done a tax forecast where you failed to incorporate a collection rate?
- A. In the forecast that I prepared related to property taxes, I've included a collection rate.
- 17 Q. I'm asking about any tax forecast. Have 18 you ever done a tax forecast where you didn't take 19 into account potential changes in collection rates?
- 20 A. I mean, I think -- I've always
- 21 incorporated collections, and we all think -- you
- 22 know, both in this project and other work what do
- 23 we actually think money is going to be in the door,
- 24 so collections are always a process of what we're
- 25 thinking about.

- MR. STEWART: It was a ruling that he made.
- 2 Your partner, Mr. Hackney was there.
- 3 MR. SMITH: And there was no such ruling, so --
- 4 MR. STEWART: Yes, there was.
- 5 MR. SMITH: -- you're obstructing the
- 6 deposition.

- 7 MR. STEWART: I was in court when it happened.
- 8 MR. SMITH: Okay. Then I'm asking that you
- 9 produce it. Produce it before the deposition is
- 10 over. We've got like three or four hours left.
- 11 MR. STEWART: No.
- MR. SMITH: We're at your offices. I just want
- 13 the order.
- 14 MR. STEWART: I told you it's not an order.
- 15 It's a ruling that he made.
- MR. SMITH: Or the transcript, whatever it is.
- 17 I want you to show me where the court issued this
- 18 ruling.
- 19 MR. STEWART: Why don't you ask Mr. Hackney
- 20 because he was the one that got in the colloquy
- 21 with the judge, and he is the one where the judge
- 22 said it. I think it was during the swaps trial,
- 23 but we've had thousands and thousands of pages of
- 24 transcript. So I'm not going to interrupt the
- 25 deposition to go find it. I think, though --

- 1 MR. SMITH: You can do it at a break.
- 2 MR. STEWART: -- since your firm was the one
- 3 that got the adverse ruling, I would think they'd
- 4 have no trouble, and find Mr. Hackney. He
- 5 remembers it well because he professed to be
- 6 surprised by the judge's ruling, and the judge told
- him actually it's standard, and it is standard.
- 8 And that's just -- everybody knows it. Surprised
- 9 he didn't because he's an excellent lawyer, but

10 that was the ruling.

So now the question, though, is I think -- 12 I don't think I'm going unfair when I say that

12 I don't think I'm going unfair when I say that13 after you've asked this witness the same question

4 15 times and she's answered it 15 times, you have

15 to move on. You're just arguing with her. You're

wasting everybody's time, and it's an abuse of the

17 witness. So let's reread the question. Reread the

18 question. She's going to answer it, and then we're

19 going to move on.

20

21

(Whereupon, the record was read as requested.)

22 THE WITNESS: Collections are important to

23 consider in doing any tax forecast.

24 BY MR. SMITH:

Q. And Ms. Sallee, is it your understanding

- 1 What the ruling was is you cannot ask a witness to
- 2 comment on the testimony of another witness.
- 3 That's what the ruling was.
- 4 MR. SMITH: Okay. That's what you've been
- 5 telling everybody in this case, right?
- 6 MR. STEWART: Well, that's what the judge
- 7 ruled. I should add, by the way, I didn't instruct
- 8 her not to answer your questions. I just told you
- 9 I have a standing objection to them, and I cannot
- 10 stop you if you want to ask her what Mr. Evanko
- 11 said. I just told you it's improper, and the judge
- 12 has said not to do it.

13 MR. SMITH: You obstructed the deposition

14 already.

15 MR. STEWART: No. If you want to ask her, ask

16 all day about it.

17 MR. SMITH: I'm told the tape is running out.

18 Let's take a break.

19 THE VIDEOGRAPHER: Off the record. The time is

20 1:32 p.m.

(Whereupon, a short break was

taken.)

THE VIDEOGRAPHER: We're back on the record.

24 The time is 1:39 p.m.

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that you're not allowed to look at any of the 1 BY M

- 2 testimony given in deposition by other witnesses in
- 3 this case, including Mr. Evanko?
- 4 MR. STEWART: You just misstated it.
- 5 MR. SMITH: I'm asking the question.
- 6 MR. STEWART: Ask her. Then I'm going to
- 7 correct you because you just misstated what I told
- 8 you
- 9 MR. SMITH: You're coaching the witness.
- 10 MR. STEWART: Answer the question.
- 11 THE WITNESS: You said testimony. I'm trying
- 12 to -- I don't know -- I don't know legal things, so
- 13 I don't know.
- MR. STEWART: Just because I think you
- 15 misunderstood it, Mr. Smith, but the judge's ruling
- 16 was --
- 17 MR. SMITH: Listen, your speaking objections
- 18 are really obstructive.
- MR. STEWART: Well, there's no pending
- 20 question.
- MR. SMITH: Then don't give a speech on the
- 22 record
- 23 MR. STEWART: Because you just misstated
- 24 things, and we have to have the record corrected
- 25 because you can't go around misstating things.

- 1 BY MR. SMITH:
- Q. Hi, Ms. Sallee. Do you have Mr. Evanko's

- 3 testimony in front of you? Do you see the excerpts
- 4 there?
- 5 MR. STEWART: And you have my standing
- 6 objection, and I will not interrupt your
- 7 examination if it's clear my objection to this is
- 8 standing.
- 9 MR. SMITH: Okay.
- 10 BY MR. SMITH:
- 11 Q. You've got it in front of you?
- 12 A. Yes.
- 13 Q. Okay. I wanted to ask you about Page 152
- 14 in there if you would flip through. These are just
- 15 excerpts from his deposition, and let me know when
- 16 you get to Page 152.
- 17 A. Okay.
- 18 Q. Okay. And actually if you go down to
- 19 Line 13, you see Mr. Evanko's talking about the
- 20 transactions they have and whether they're arm's
- 21 length. Do you see that?
- 22 A. Yeah.
- Q. And you see that the data that he's
- 24 received was so scant of arm's length transactions.
 - There could not have been a study developed because

- 1 it was just absolutely insufficient data. Do you
- 2 see that?
- 3 A. Okay. I see that.
- 4 Q. And Mr. Evanko's testimony is generally
- 5 consistent with the other materials we've seen from
- 6 the assessor's office indicating that most of the
- 7 transactions are not arm's length, correct?
- 8 MR. STEWART: Objection.
- 9 THE WITNESS: Well, I haven't seen any of the
- 10 data, so I don't know.
- 11 BY MR. SMITH:
- 12 Q. Well, I mean, we saw some other documents
- 13 talking about how most of the transactions were not
- 14 arm's length. Do you recall that?
- 15 A. I don't know if most of the transactions
- were not arm's length.
- 17 Q. So you don't know what percent of the
- 18 transactions the City has that are arm's length
- 19 transactions, correct?
- A. I do not know a percent, no.
- 21 Q. If you go over to Page 223 of the
- 22 document, it's like the last two pages. Let me
- 23 know when you get to 223.
- 24 A. Okay.
- Q. If you'll look at Line 18, Mr. Evanko is

- 1 A. So I had to -- I had several conversations
- 2 with Mr. Evanko. I've talked with him in January
- 3 of 2014 and received some data from him. He
- 4 answered some questions. I also had conversations
- 5 with Alvin Horhn in his office. And I had a call
- 6 with Alvin in February of 2014, and I ran the
- 7 10 percent reduction by him, and he -- he said that
- 8 was reasonable.
- 9 Q. Did you ever run the 10 percent reduction 10 in personal property tax by Mr. Evanko before you 11 put that in your report?
- 12 A. I can't remember if it came up in the
- 13 conversations with him in January or not. I know I
- 14 did run it by, because of my notes, with Alvin
- 15 Horhn.
- Q. Do you have written notes of all of your conversations with people at the City?
- 18 A. No, I don't.
- 19 Q. Do you have written notes of any of your
- 20 conversations with people at the City or others you
- 21 rely on?
- A. I do have some written notes.
- Q. Do you know if those have been collected
- 24 for production?
- A. They have.

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- asked but when I said you don't remember discussing
- 2 this with Ernst & Young, I was correct, right?
- 3 Right. You don't recall discussing .5 reduction of
- 4 10 percent in collection in fiscal year 2015 due to
- 5 loss of revenue from the small business personal
- 6 property tax exemption? Not only do I not -- I do 7 not recall, but this is a ridiculous estimate. I
- 8 knew in December of 2013 that the small business
- 9 personal property tax exemption would affect the
- 10 City's tax base by approximately .7 of 1 percent,
- 11 not 10 percent.
- Do you see that?
- 13 A. Uh-huh.
- 14 Q. So Mr. Evanko is characterizing your
- 15 forecast of the reduction in personal property tax
- 16 as a ridiculous estimate, correct?
- 17 MR. STEWART: Objection.
- 18 THE WITNESS: Well, he says this is a
- 19 ridiculous estimate.
- 20 BY MR. SMITH:
- Q. And you didn't have any conversation with
- 22 Mr. Evanko to ask him about whether it was a
- 23 reasonable estimate the reduction in personal
- 24 property tax before you put it in your report,
- 25 correct?

- 1 Q. Do you understand that under the proposed
- 2 legislation that there's sums that will be
- 3 reimbursed to cities to help offset reductions in
- 4 personal property taxes?
- 5 A. Yes, there's a replacement mechanism.
- 6 Q. Do you have an understanding that under
- 7 the legislation, not all property is subject to the
- 8 reduction in personal property tax?
 - A. What's the question?
- 10 Q. Is there some property that would be
- 11 exempted from the reduction in personal property
- 12 tax under the legislation?
- 13 A. So in personal property, you have
- 14 commercial, industrial and utility. Utility
- 15 property is not exempt, would not be subject to the
- 16 reduction, and there's a -- and there's different
- 17 phase-outs of how commercial and industrial are
- 18 affected.

- 19 Q. Before today, you were never informed that
- 20 Mr. Evanko had characterized your forecast for the
- 21 reduction in personal property tax in the manner
- 22 that he did in his deposition, correct?
- A. So I have had some conversations with my
- 24 lawyers about --
- MR. STEWART: You can't talk about what you

- 1 talked to your lawyers about.
- 2 THE WITNESS: Okay.
- 3 MR. STEWART: He can ask -- he can tip-toe
- 4 around the subject, and he will do that, but
- 5 that's -- there's a little dance we usually do.
- 6 BY MR. SMITH:
- Q. Did you know before today that Mr. Evanko
- 8 characterized your personal property tax forecast
- 9 reduction as ridiculous?
- MR. STEWART: You can answer that.
- 11 THE WITNESS: I did not know he said it was
- 12 ridiculous.
- 13 BY MR. SMITH:
- 14 Q. Okay. Then Mr. Evanko is asked on
- 15 Page 224, he's asked about this -- the reassessment
- 16 that's going to be completed in 2020. Do you see
- 17 that?
- 18 A. Uh-huh.
- 19 Q. The planned reappraisal study?
- A. Yeah.
- Q. And he's asked and you could not have
- 22 given them an estimate of how much to reduce
- 23 taxable value based on this study because you,
- 24 yourself don't know which way it's going to come
- 25 out, correct? And he answers I don't know where --

- 1 in value as a result of the planned reappraisal
- 2 study, correct?
- 3 MR. STEWART: Are you asking her that's what
- 4 this says?

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- 5 BY MR. SMITH:
- 6 Q. That's what his testimony is, correct?
 - MR. STEWART: Objection.
- 8 THE WITNESS: Can you say that one more time?
- 9 BY MR. SMITH:
- 10 Q. Mr. Evanko's testimony is that he doesn't
- 11 know what the outcome of the reappraisal study will
- 2 be in terms of whether property values will
- 13 increase or decrease, correct?
 - A. It says here, yeah, he does not know how
- 15 the reappraisal study will come out, correct.
- 16 Q. And in fact, nobody knows how the
- 17 reappraisal study is going to come out in terms of
- 18 effect on property values and assessments in the
- 19 city, correct?
- 20 A. Nobody knows for certain.
 - Q. Would you agree that Mr. Evanko would
- 22 certainly be one of the most knowledgeable people
- 23 in terms of assessed values in the City of Detroit?
- 24 MR. STEWART: Objection.
- 25 THE WITNESS: Mr. Evanko is knowledgeable of

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- a 1 the assessed values in Detroit.
 - 2 BY MR. SMITH:
 - 3 Q. In fact, Mr. Evanko is responsible for the
 - 4 assessed values in Detroit as the assessor,
 - 5 correct?
 - 6 A. He is.
 - 7 O. And in fact, Mr. Evanko would be one of
 - 8 the most knowledgeable people about assessed values
 - 9 in Detroit, correct?
 - 10 MR. STEWART: Objection.
 - 11 THE WITNESS: He is a knowledgeable person.
 - 12 BY MR. SMITH:
 - 13 Q. Mr. Evanko has been dealing with assessed
 - 14 values in Detroit for much longer than you have,
 - 15 correct?
 - 16 A. My understanding is he joined the City in
 - 17 January.
 - 18 Q. Do you know where he joined from?
 - 19 A. I think I was told he was at Wayne County.
 - Q. And at Wayne County, he would be dealing
 - 21 with assessed values in the city of Detroit,
 - 22 correct?

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- A. I don't know what he did.
- Q. I'd like to go back to your report now.
- 25 A. Okay.

how it's going to come out next year. 2020 is a

2 lifetime.

And then he's asked okay, and he testifies you know, I'll be collecting Social Security living

- 5 in North Carolina. And then he's asked I know
- 6 you're thinking about two years. I know where your
- 7 head is at, but you agree with my statement. You
- 8 did not provide them with -- you didn't tell them 9 this is about what it's going to look like when the
- 10 reappraisal study is done, correct? Absolutely
- 11 correct.
- Do you see that testimony?
- 13 A. Uh-huh.
- 14 Q. Before today, were you aware of that
- 15 testimony by Mr. Evanko?
- 16 A. I was not aware of this testimony, no.
- 17 Q. Okay. It's true that Mr. Evanko did not
- 18 provide you with the assumption you use in your
- 19 forecast regarding a reduction in assessed value as
- 20 a result of the planned reappraisal, correct?
- A. Mr. Evanko did not provide the assumption
- 22 that was used in our forecast.
- Q. And in fact, Mr. Evanko's testimony is
- that he doesn't know what the outcome will be in
 terms of whether property will increase or decrease

- 1 Q. Page 9 you talk about how you had assumed
- 2 there would be a reduction -- well, you talk about
- the planned reassessment at the top of Page 9.
- 4 correct?
- 5 A. Yes.
- 6 Q. And you used your judgment in order to
- come up with the figure you used to reduce planned
- assessment as -- assessed values as a result of the
- planned assessment, correct?
- 10 A. No. I only looked at taxable value, so I
- 11 took into account the City's activities and its
- 12 impact on taxable value.
- Q. Okay. So you used your judgment in 13
- 14 developing the assumption about what taxable value
- would be under the reappraisal study that's 15
- 16 planned, correct?
- 17 A. So after the reappraisals and the
- 18 reassessments, I took those into account in
- 19 thinking about what happens to taxable value.
- Q. And did the value you used to reduce 20
- 21 taxable value as a result of the reappraisal study,
- was that based on your judgment?
- 23 A. The parameter I used was based on my
- 24 judgment after the reappraisal study.
- 25 Q. Okay. On Page 9 down under C, you say

- the effect on improved services on property tax 2 revenues, correct?
 - A. Did not look at the relationship between improved city services and property tax revenue.
- 5 Q. Do you agree it's at least theoretically possible that improving city services could 6 7 increase property tax revenues?
 - A. I agree it's theoretically possible.
- 9 Q. Page 9 to 10 you talk about the growth
- 10 rates after recessions. Do you see that? 11
 - A. Yes.

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- Q. And you mention historical data. What
- 13 historical data did you look at? 14
 - A. So I pulled historical taxable value
- information from the State Tax Commission for 15
- 16 Detroit
- 17 Q. And then did you use your judgment to set 18 the various growth rates that you assume in your
- 19 forecasting model?
- 20 A. Yeah. So I performed some analysis and
- 21 then used that analysis to select growth rates.
- 22 Q. When you say analysis, what calculation 23 did you perform?
- 24 A. So in this case, looking at historical
- taxable value and trends and seeing during

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- that the reinvestment scenario estimates
- improvements to the tax base on collections of the
- general operations and economic environment of the
- 4 city improved during the 10-year period. Do you
- see that? 5
- A. Uh-huh. 6
- Q. And the City anticipates that improved
- 8 economic conditions will increase property values,
- correct?
- 10 A. You said the City?
- 11 Q. Yeah, the City.
- 12 A. Okay.
- 13 Q. Well, do you anticipate that -- do you
- anticipate that improved economic conditions will
- increase property values? 15
- A. So this scenario does say that if the 16
- economy in Detroit improves, we would see 17
- improvement to taxable values in the city. We
- 19 would see improved property tax revenue.
- 20 Q. And under your model, improving services
- 21 in the city should improve property tax revenues,
- 22 correct?
- 23 A. We didn't look at services offered by the
- 24
- 25 Q. Okay. So you did no analysis to determine

- different periods on different tax bases what's
- 2 happened in the city.
- 3 Q. For any of the historical trends that you
- talk about in your report, did you actually come up

- 5 with a mathematical formula to specify the trend,
- 6 or did you eyeball it?
- 7 MR. STEWART: Objection.
- 8 THE WITNESS: So I mean, I would type in a
- compounded annual growth rate formula and calculate
- 10 the compound annual growth rate, things like that.
- 11 That's a formula, I guess.
- 12 BY MR. SMITH:
- 13 Q. But in order to do the trend, I mean, how
- did you figure out what the trend was? Did you do
- any mathematical analysis to determine the trend or 15
- not? 16
- 17 A. So I would calculate certain things using
- the data. 18
- 19 Q. What kind of things?
- 20 A. Like the compounded annual growth rate
- during certain periods. 21
- 22 Q. Did you just take an average of certain
- 23 number of years or --
- 24 A. So I would look at a time period, and then
- 25 I would calculate -- so compounded annual growth

1 rate is what is the average growth rate during that2 time period that gets you from Point A to Point B.

- Q. Okay. But then -- so you would just take a compounded annual growth rate over how many years?
- A. So I would look at a time period and then calculate the compounded annual growth rate.
- 8 Q. Do you know what the time period was that 9 you were using?
- A. So I used different periods and different times, and I tried to lay that out, but normally I went back as far as I could. So the State Tax
 Commission data goes back to 2001, I believe, and then the -- then the most recent data I had was through 2013. So I looked at that period to get a sense of what -- in terms of long-run trends what
- Q. Okay. Did you just do compounded annual growth rate for all those trends?

happened to taxable value.

growth rate for all those trends?

A. So I used the compounded annual growth rate for the long-run trend for certain things, and then if I wanted to see during, you know, periods after a recession or before a recession, so I used different time periods depending on what I was

- years 2023, to see what the long-run change is in taxable value for Detroit during the periods. So you use that, which during that period there were
- ups and downs and used that long-run growth ratefor the extrapolation of property taxes post 2027.
 - Q. But you reduced the growth rate under your analysis, correct?
 - A. So we have various growth rates during the extrapolation, so in the forecast at the end of the 10-year, we have -- across the board, we have sort of improvements in Detroit, and so we modeled growth in property taxes that looked more like the national. And then we have sort of that period phasing down until we get to the long-run equilibrium.
- Q. The reductions in the growth rate, though,that you put into your model, were those based onyour judgment?
- 19 A. And so after doing the analysis, I looked
 20 at the data, and then I made a judgment about what
 21 growth rates I should put in there.
- Q. And you reduced them, correct?
- A. And I reduced to reach the long-run equilibrium.
- Q. And then you used some building permit

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- 1 Q. So you used different time periods in
- 2 assessing historical trends -- the various
- 3 historical trends that you discuss in your report;
- 4 is that correct?

trying to do.

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- 5 A. There are different time periods in my 6 report for different things.
- Q. Okay. Why did you use different periods of time in looking at national trends for property tax collections in D? It's in Paragraph D(ii).
- 10 A. So part of the forecasting procedure is to 11 look at past data and to understand historical
- trends, and then throughout our forecast work, we
- 13 consulted forecasts when they were relevant. And
- 14 in this case, the Congressional Budget Office has
- 15 a -- they put together a 10-year forecast, and so I
- looked to see what the Congressional Budget Officehad forecast. So they have the Federal Housing
- 18 Finance Agency House Price Index, so I looked to
- 19 see what they had forecasted nationally, and their
- 20 forecast only goes to 2023.
- Q. For the growth rates after 2027, are those growth rates that you essentially picked using your
- 23 judgment?
- A. So growth rates after 2027 used the
- 25 historical data that I mentioned before, so tax

1 data for Wayne County, correct?

- 2 A. Correct.
- 3 Q. And have you updated that data to the
- 4 present time or not?
- 5 A. So I used through 2013, which would be the 6 most recent data available.

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- Q. Well, there is data available for 2014 now regarding building permits for Wayne County, correct?
- 10 A. So there would be a few months' worth of11 data. It wouldn't be for the entire year.
- 12 Q. Have you looked to see what that data 13 shows?
 - A. I did pull -- in the latest round, I pulled as much data as there were last month, so I would have pulled a few months more of data.
- Q. But did you use -- did you factor any of the data from 2014 for building permits and construction into your analysis?
- A. I did not use 2014 because I didn't have an entire year.
- 22 Q. Okay. Has there been an increase in
- 23 construction permitting activity in terms of the
- 24 dollar amount of construction in 2014 so far
- 25 compared to prior years?

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- 1 A. So all years are showing there was 2 construction in Wayne County.
- 3 O. And my question is is there an increase in 4 activity in 2014 in terms of construction activity?
- 5 A. My recollection going off memory was that 6 we're looking better in 2014.
- Q. And what purpose did you use the permitting and construction data for? 8
- A. So residential taxable value, one of the 10 components of that are additions to the tax base.
- 11 And to get a sense of what new activity there was,
- 12 I looked at the permit data for Wayne County, and
- then I apportioned that activity to Detroit based
- on Detroit's share of taxable value in the county. 14
- 15 Q. All other things being equal, the more permitting and construction activity there is, the
- 17 more property tax revenue will be forecasted, 18 correct?
- 19 A. It depends because you could have
- 20 construction activity and the City puts it in a
- 21 Renaissance Zone, and you don't pay taxes on it.
- 22 Q. Well, I mean, how did you use the data in
- 23 your -- in developing your assumptions?
- A. So I looked at it to see what sort of
- increases in taxable value were happening and used

- 1 A. It would be whatever the realtors in this 2 association are reporting.
- 3 Q. And they would only be reporting housing 4 sale prices, correct?
 - A. As opposed to what?
 - Q. Most of the housing stock is not being sold, correct? There's houses that aren't sold,
 - right?
- 9 A. That's right. Like Case-Shiller or other 10 things, it's measuring -- this data is measuring 11
- 12 Q. Okay. And so this data that you've used 13 in your analysis doesn't give us a value for houses that aren't being sold during the period you 14
- examined, correct? 15

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- A. This is just sales data.
- 17 Q. Okay. So it wouldn't give us a value for 18 the houses that aren't being sold during the period 19 you've looked at, correct?
- 20 A. It would not tell me the sales price of 21 housing that has not been sold, yes.
- 22 O. And it wouldn't tell you the value of
- 23 housing that hasn't been sold, correct?
- 24 A. It wouldn't tell me the market value of homes that have not been sold.

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- that to inform my growth rate selection.
- 2 Q. And did increasing building or
- construction activity in your model, would that
- lead to increase in property tax revenue? A. In my model, increases in permitting and
- new additions to the tax base, higher taxable 6
- 7 value, all things equal, leads to more property tax 8 review.
- 9 Q. Over on Page 13, you mentioned the Detroit 10 Association of Realtor data that we've discussed
- previously. Do you see that?
- 12 A. Uh-huh.
- 13 Q. And you say that according to Detroit
- Association of Realtors data, average existing home
- prices in Detroit fell 63 percent between 2006 and 15
- 2013. Do you see that? 16
- 17 A. Yes.
- 18 Q. In fact, the data that's being reported by
- 19 the Detroit realtors is data for home sales,
- 20 correct?
- 21 A. They're reporting average home sale
- 22 prices.
- 23 Q. Right. So it's only a subset of the
- housing stock that's being actually sold that the
- Detroit index is measuring, correct?

- 1 O. Okav.
- 2 A. True.
- 3 Q. Why did you only -- was data available
- 4 before 2006?
- 5 A. Yeah. As we pointed out earlier, I had
- 6 1995, '98, 2001 to 2006.
- 7 O. Okav.
- 8 A. I'm sorry. 2001 to 2013 and then some
- 9 months of 2014.
- 10 Q. Okay. Did you only use a subset of the
- data you had reviewed in using -- in terms of 11
- 12 calculating a housing price, or what did you use
- 13 this data for first?
- 14 A. So as part of looking at the residential
- 15 taxable value, an important component of that is,
- 16 you know, what's happening to sort of the market
- values, how does that -- how does that impact state 17
- 18 equalized value? What's the relationship there,
- 19 state equalized value, capped value? This is part
- 20 of helping us think -- helping me think through
- 21 what's going on with the residential taxable value.
 - So I looked at Detroit Association of
- 23 Realtor data because it's publicly available data
- 24 on the market value of residential homes in the
- city. And things like Case-Shiller only look at

the metro area, not Detroit specifically, so this was a chance to have some Detroit-specific data.

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- O. Okay. And why didn't you look -- I mean, did you use the data to -- as a number input in your model? How was it used?
- 6 A. How was it used? So again, we did the analysis to see sort of where home prices were in the city and compare it to the City of Detroit's published state equalized value and taxable values, 10 and then I was able to use that information in helping think through what was going to happen to 12 residential taxable value in the forecast, so it helped me select my growth rates. 13
- Q. Okay. And so the -- if you had looked at 14 15 a different period of time, your growth rate assumptions would be different, correct? 16
- 17 A. Well, I did look at different periods of 18 time. So I looked at longer periods and shorter 19 periods, and I -- ultimately this information was used to help think through, you know, what were 20 home prices -- average home prices five, 10, 15, 22 20 years ago, and what would their taxable value
- look like today versus where would it be reset if the home sold today. And so that helped me think
- about well, how much would taxable value have to

- Q. And did you use your judgment to pick whether the rate would change in a given year for all the years that are covered by your forecast?
- 4 A. Well, so the goal here in using -- so 5 using some data to think about what's likely to 6 happen to taxable value and then looking at sort of 7 overall how much -- looking at the data, how much 8 do I think taxable value on the residential side needs to drop and then spreading that out and 10 thinking through how many years is it going to 11 take, is this process going to take and then 12 applying a growth rate for -- to those years. 13
 - Q. When you say figuring out how much residential value needs to drop, what do you mean?
 - A. So doing an analysis looking at -- in this case -- so overassessments impact taxable value in the following way. If your house is overassessed, your state equalized value is going to be higher
- than your capped value, and you're going to be 20 paying taxable value equal to your capped value.
- If your assessment falls and your equalized value 21 22 goes below your capped value, then your taxable
- 23 value would fall, so it would be the lesser of the
- 24 two. 25

And so I've now forgotten what you've

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fall, how much is state equalized value likely to fall and go below -- need to go below the capped value and therefore, affect taxable value.

All of that is to say I looked at various time periods and used that to think through what needed to happen to taxable value in the forecast for residential property.

- 8 Q. Okay. If the property values don't fall 9 below capped value, I mean, what's the effect of 10 that?
- 11 A. I don't understand your question.
- 12 Q. Let me ask a better question. Down at the
- bottom of Page 13, you say that your forecast
- 14 assumes a reduction in residential taxable value of
- between negative 2 and 4 percent per year between 15
- fiscal year 2016 and fiscal year 2020? 16
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- 18 Q. Is that assumption based on your judgment?
- 19 A. I used my judgment to select those rates, 20 yes.
- 21 Q. And did those rates change over each year?
- 22 A. There are some years that I think have the
- 23 same rate, so it varied depending on -- some of
- them are the same. Some of them aren't. I can't 24
- 25 remember year to year what I picked.

asked me after having gone through that.

- 2 Q. Right now the county isn't -- right now
- 3 the county is saying that the properties are not
- 4 overassessed, correct?
- 5 MR. STEWART: Objection.
 - THE WITNESS: I don't know if the -- the county
- 7 has given it an equalization factor of 1.
- 8 BY MR. SMITH:
- 9 Q. Okay. And that means in the county's
- 10 view, the property is not overassessed, correct?
 - MR. STEWART: Objection.
- 12 THE WITNESS: Through their process, the county
- 13 has given them an equalization factor of 1.
- 14 BY MR. SMITH:
- 15 O. Okay. And that means the county
- determines that the property is not overassessed
- 17 because if it thought it was overassessed, it
- 18 wouldn't give them a value of 1, correct?
- 19 A. So the process is that if the county
- 20 thinks that the property is overassessed, it would 21 not give it a factor of 1.
- 22 Q. 15 percent value at the bottom of the
- 23 page, that's the value that you assumed for the
- effect on taxable value from the reappraisal study 24
- that's planned in three -- that's going to take

- 1 three to five years, correct?
- 2 MR. STEWART: Sorry. Where are we again?
 - THE WITNESS: Where are we?
- 4 BY MR. SMITH:

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- Q. Bottom of Page 14. The 15 percent drop in residential taxable value is the value you assumed based on that reappraisal study that's going to
- 8 take place in the future; is that correct?
- 9 A. Yes
- 10 Q. And then over on the top of Page 15, you
- 11 say that your assumption of the 15 percent decline
- 12 would bring residential taxable value to
- 13 approximately half of its fiscal 2013 level. Is
- 14 that accurate?
- 15 A. That's accurate.
- 16 Q. And so based on your assumption regarding
- 17 the effect of the reappraisal study, you're saying
- 18 that the taxable value of the property in the city
- 19 would be reduced in half, correct?
- 20 A. No. I said the residential value would be
- 21 half.
- Q. As a result of your assumption about the
- 23 reappraisal study, you're concluding that the
- residential taxable value will be reduced in half,
- 25 correct?

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- the City is going to do in the future in terms of
 evaluation of industrial or commercial property?
 Like have you investigated its plans or not?
- A. I have not talked to the City about their plans about how they're assessing commercial industrial property.
 - Q. And the reason you don't have the big drop in taxable value for a commercial and industrial property is because you're not using this assumption of a reappraisal for those categories of
- assumption of a reappraisal for those categories of
 property, correct?
 A. So in this case, I don't have the
 - A. So in this case, I don't have the reappraisal process resulting in a huge drop in commercial and industrial taxable value.
- Q. But you do have a huge drop in taxable value for the residential property based on the planned reappraisal study that's going to take place over the next several years, correct?
 - MR. STEWART: Objection.
- 20 THE WITNESS: Can you say that again?
- 21 BY MR. SMITH:

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- Q. You do have a huge drop in the taxable
- 23 value for residential property based on this
 - 4 reappraisal study that's planned to take place in
- 25 the future over the next several years, correct?

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- A. It will be half of its fiscal year 2013
- level, the residential taxable value.
- Q. For commercial or industrial property, how
- 4 did you go about figuring out taxable value for 5 those?
- 6 A. So taxable value, how did I go about
- 7 figuring out? So commercial and industrial taxable
- 8 value, I pulled historic information as the
- 9 starting point and then applied growth rates for
- 10 the forecast period.
- 11 Q. For commercial and industrial property,
- 12 you didn't factor in the potential of reappraisal
- 13 during the forecast period, correct?
- 14 A. So during the next few years, I have
- 15 commercial and industrial property taxable value
- 16 declining. How property is evaluated for
- 17 commercial industrial, I did not have a big factor
- 18 like I did with residential.
- 19 Q. Do you know how the value of commercial
- 20 industrial property is set by the City?
- A. For personal, I understand. For real property, I know the methods they can choose from.
- 23 I don't know exactly what the City has been
- 24 selecting
- Q. Do you know -- I mean, do you know what

- 1 A. So I have a 15 percent drop in -- well, I
 - 2 have a 15 percent drop between fiscal year 2019 and

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- 3 2020 on the residential side because of the
- 4 reappraisal.
- 5 Q. And that 15 percent drop results in wiping
- 6 out half of the taxable value of residential
- 7 property in the city, correct?
 - A. When you take into account what the
- 9 taxable value is by 2020 compared to 2013, it's
- 10 going to be half of the 2013 level.
- 11 Q. And that's in addition to drops in taxable
- value that have already occurred before 2013,
- 13 correct?

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- 14 A. The drops of taxable value before 2013?
- 15 Q. Yeah. Before 2013, taxable value already
- 16 decreased, correct?
- 17 A. Yes.
- 18 Q. And so your forecasted 50 percent
- 19 reduction is in addition to the reduction that has
 - 0 already occurred in taxable value in the city for
- 21 residential property, correct?
 - A. There have been reductions in taxable
- 23 value, and we have continued reductions occurring
- 24 because of reassessments and reappraisals, yes.
 - O. And the continued reduction in taxable

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value, that's because of actions the City is going

2 to take in the future, correct?

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A. So some of the reductions in the residential taxable value are based on planned actions of the City, and some of them are not.

Q. Which ones are not?

6 A. Well, so as detailed earlier, there are, you know, things that are at -- causing taxable value on the residential side to decline that aren't based on the study, so population declines, etcetera.

Q. The greatest factor in reducing taxable value in your analysis are actions the City is going to take in the future, correct?

A. Can you say that again?

Q. The greatest factor causing a reduction in taxable value in your forecast is actions that the City is going to take in the future, correct?

A. So the largest drop in taxable value in 19 20 the forecast have been -- so in fiscal year 2015, the City lowered assessments, and so that created a 21 22 large drop in taxable value for residential, and so

that's an action of the City. And then the planned reappraisal study is a second large -- results in a

second drop in taxable value, and it is also an

reassessments came out already, were you aware

2 there was a press conference where the politicians

3 all came out and said look, we're lowering your

4 property taxes? Were you aware of that? 5

A. I was aware there was a press conference.

6 Q. And you're aware the politicians in the 7 city of Detroit were saying that the reappraisal that they did which lowered property taxes was done

to benefit the residents of the city, correct?

10 A. I haven't read anything about what city 11 officials are saying about the reassessments.

12 Q. You agree that Detroit is planning to do a 13 reassessment even though Wayne County is saying the property is properly assessed, correct? 14

A. I don't know if Wayne County is saying the properties are properly assessed. They're giving 16 it a state equalization factor of 1.

18 Q. Okay. Even though -- even though Wayne 19 County is giving the property an equalization

factor of 1, which means it's not over or 20

underassessed, the City, nonetheless, is going to 21

22 go in and reappraise the property, correct?

23 MR. STEWART: Objection.

24 THE WITNESS: So my understanding is the City

is taking -- hiring a group to parcel by parcel

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action of the City, yes.

Q. And do you have any idea what factors were 3 taken into account in assessing property in the 4 city?

A. So I know theoretically what they could be using. I don't know what they are actually using. 6

Q. So you don't know what factors the City 8 used in factoring assessments in the reappraisal it has done so far, correct?

10 A. I do not know the specifics.

11 Q. And you do not know what factors the City

12 may use in its planned reappraisal study in the

13 future, correct?

14 A. So the reappraisal study, they're hiring 15 an outside firm to do the reappraisal, so the City

will take that information. I don't know exactly

how they're going to use it. 17

Q. I mean, part of the reason the City seems to be reducing assessments is basically for

political reasons to reduce people's property

21 taxes, correct?

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22 MR. STEWART: Objection.

THE WITNESS: I have no idea. 23

24 BY MR. SMITH:

25 Q. Well, do you know that -- when the reassess the property in the city.

2 BY MR. SMITH:

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3 Q. Page 17, you note that much of the

4 industrial personal property qualifies for a

5 Renaissance Zone exemption. Do you see that?

MR. STEWART: What paragraph?

7 MR. SMITH: Up at the top of Page 17.

8 THE WITNESS: Uh-huh.

9 BY MR. SMITH:

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10 Q. Do you know what percent of the industrial personal property is subject to a Renaissance Zone 12 exemption?

13 A. Off the top of my head, no. Let me see.

I think about two-thirds of it. This is just

15 without my spreadsheet in front of me.

Q. During the historical period that you've 16 17 looked at, did property tax rates change?

MR. STEWART: Could I have the question reread,

18 19 please. 20

(Whereupon, the record was

21 read as requested.)

22 THE WITNESS: Which specific property tax

23 rates?

24 BY MR. SMITH:

Q. Well, did any of them change? 25

- 1 A. I don't know.
- Q. Well, you mentioned that there were some
 - years where the rates were above 20, and I'm just
- 4 wondering whether there were other changes that you
- noticed in property tax rates in the historical
- 6 data that you examined?
- A. So I don't know for the years where I
- pulled taxable value what the property tax rates
- 9 were in those given years year by year. I don't
- 10 know.

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- 11 Q. You're assuming that no property rate
- 12 changes will change for the next 40 years, correct?
- 13 A. The analysis done as such keeps the tax 14 rate constant.
- 15 Q. And it does that for 40 years, correct?
- 16 A. Well, so we did a 10-year forecast where
- 17 we kept our tax rates at current level, current law
- 18 levels and then extrapolated for another 30 years,
- 19 and so that, in effect, we're sort of holding tax
- 20 rates constant.
- Q. And you're doing that, in effect, for
- 22 40 years, correct?
- A. For 40 years in total.
- Q. Have you ever done a forecast before when
- 25 you assumed the tax rates would remain constant for

- l revenues. You haven't done any forecasts of
- 2 overall tax revenues to a city or other government
- 3 entity for as long as 10 years, correct?
- 4 A. I can't remember if for the Business
- 5 Leaders for Michigan project, which was forecasting
- 6 State of Michigan tax revenue, how long our time
- 7 frame was. That was forecasted at least five
- 8 years. I don't know how much longer if I did -- if
- I did beyond that.
- 10 Q. Okay.
- 11 A. So I don't know.
 - Q. And that was just the sales -- was that
- 13 limited to certain taxes in Michigan, or was it all
- 14 taxes?

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- 15 A. In that case, it was limited to a few
- 16 taxes.
- 17 Q. When you did the Flint, Michigan forecast,
- 18 how many years was that?
- 19 A. Five years.
- Q. Did you assume that tax rates would all
- 21 stay constant for five years in Flint, Michigan?
- A. So I think as I said earlier, they do have
- 23 certain millages expiring, and so anything that was
- 24 in current law we took into account. So if a
- 25 millage was expiring, then we would add it back in

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as long as 40 years?

- A. I think this is the only time I've done a 40-year forecast.
- 4 Q. And is it the only time you've done a
- 5 10-year tax forecast?
- A. I have done 10-year forecasts of tax revenue for specific projects for individual clients.
- 9 Q. Okay. But you had never done a forecast 10 for as long as 10 years trying to forecast revenues
- for a city or other government entity, correct?
- 12 A. I don't think so. I think just Detroit.
- Q. And I mean, in the other -- what's the
- 14 longest tax forecast that you've done for a city or
- 15 any other governmental entity other than the
- 16 Detroit one?
- 17 A. Well, so most of my work that I've done
- 18 I've forecasted tax revenues to a municipality, but
- 19 I wasn't working for the municipality. So I've
- 20 done forecasts for -- I guess I've done forecasts
- 21 for projects involving taxes to the State of
- 22 Michigan. You know, those have been five to
- 23 10 years.
- Q. I mean, my question is not about
- 25 individual projects. I'm talking about overall tax

for parts of the analysis where it was relevant.

- 2 Q. And did you look at corporate tax at all
- 3 in your Flint, Michigan analysis?
 - A. So we looked at income taxes.
- 5 Q. And you know the corporate income tax
 - rates changed recently, correct?
 - A. Corporate tax rates have changed, yes.
- 8 Q. Did you factor that into your analysis, or
- 9 was that not during the period of your analysis?
- 10 A. So anytime there were changes that had
- 11 been enacted, they were taken into account. So if
- 12 there was something on any of the taxes, if they
- 13 were by law slated to expire, decrease, increase,
- 14 we would incorporate that.
- 15 Q. And do you advise about various tax rates
- 16 in different states in the course of your practice?
 - A. What do you mean by advise?
 - Q. I mean do you give advice or do analysis
- 19 of tax rates in different states or what they are?
 - MR. STEWART: Objection.
- 21 THE WITNESS: So part of our practice, we will
- 22 look at effective tax rates that various industries
- 23 are facing in certain states. We do a tax burden
- 24 study where we look at the tax environment for all
 - 25 50 states. So we don't offer specific advice about

- whether you should lower or increase your taxes.
- 2 We will do an analysis of what businesses are
- 3 paying.

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- 4 BY MR. SMITH:
- 5 Q. But based on the surveys Ernst & Young 6 does, you know that tax rates change in states on various taxes, correct?
 - A. Yes, tax rates change from time to time.
- 9 Q. And so -- well, do you update your survey
- every year, or how often do you update that? 10
- 11 A. We have sort of complex models, so we 12 every few years will go through, and we will update
- our models, our state-by-state models to take into
- account tax rate changes that have happened.
- 15 Q. Okay. And you know that tax rates
- frequently change on various taxes in the states, 16 17 correct?
- 18 A. I don't know about frequently, but when
- tax rates change and have been -- gone into effect, 19
- 20 we put them in our model.
- 21 Q. Okay. Have there ever been any states
- 22 where tax rates didn't change for 10 or 40 years in
- 23 your survey that you can identify?
- 24 A. I don't know off the top of my head if
- there are states that have had the same tax rate

- 1 A. The state level?
 - O. Yeah.

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- 3 A. Has the state? I can't remember if the
- 4 state personal income tax rate has -- I think it -
 - yes, it has changed. I mean, so yeah, there are
- tax rates that have changed. New taxes have been
- 7 passed and old taxes eliminated.
- 8 Q. What kind of taxes have been passed in
- 9 Michigan in the last 10 years?
- 10 A. So we're going back to what, 2004, so the
- single business tax was replaced with the Michigan
- 12 business tax, which then was replaced by the
- 13 corporate income tax.
 - Q. Has the sales tax changed in Michigan in
- 15 the last 10 years, if you know?
- 16 A. I don't think so.
 - Q. Page 18 at the bottom, you've got this
- 18 20 percent reduction or 20 percent of the property
- tax revenue from industrial and commercial property 19
- 20 will not be replaced by a new funding mechanism.
- Do you see that statement? 21
- 22 A. Yes.
- 23 Q. And that was an assumption you made based
- 24 on your judgment?
- 25 MR. STEWART: Objection.

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- for 10 or 40 years. I don't know.
- 2 Q. You can't identify anyone sitting here 3 today?
- 4 A. I don't know. I would have to look at the data and then come back and tell you.
- Q. You can't identify anyone sitting here,
- 7 any state where tax rates haven't changed for 10 or 40 years sitting here today, correct? 8
- 9 A. There could be. I just don't know off the 10 top of my head.
- 11 Q. And certainly you know that tax rates have
- changed in the last 10 years in Detroit? I mean in 12
- Michigan, correct?
- 14 A. Tax rates for various taxes have changed 15 in the last 10 years, yes.
- 16
- Q. What kind of tax rates have changed in the last 10 years in Michigan? 17
- 18 A. So Michigan's taxes on business have changed in the last 10 years. 19
- 20 Q. And have corporate tax rates changed in the last 10 years? 21
- 22 A. Well --
- 23 Q. I mean, have individual tax rates,
- 24 personal tax rates changed over the last 10 years
- in Michigan?

1 THE WITNESS: So we looked at the -- looked at

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- the set of laws that had been passed about the
- 3 personal property tax, and I looked at the Michigan
- Senate Fiscal Agency memo. And they put together
- an estimate of how much of the lost revenue would
- 6 be replaced by various funding mechanisms, so that
- was used to help me select how much revenue Detroit
- would lose with the repeal and then to factor in
- 9 the likelihood that voters approve the referendum
- 10 next month.

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- 11 BY MR. SMITH:
- 12 Q. And was that a statewide estimate, though,
 - of how much revenue would be replaced?
 - A. It was a statewide.
- 15 Q. So there wasn't any estimate of how much
- revenue Detroit might lose from personal property
- tax legislation that you've ever seen, correct?
 - A. I have not seen a Detroit-specific
- 19 estimate.
- 20 Q. Other than what Mr. Evanko provided in his
- 21 deposition, correct?
- 22 MR. STEWART: Objection.
- 23 THE WITNESS: Did he provide a specific number?
- 24 BY MR. SMITH:
- 25 Q. Yeah. He was talking about .7 percent.

- 1 MR. STEWART: No, he did not. He said that's
- 2 tax base. He used the word tax base. You just
- misquoted him. She's talking about the personal
- 4 property receipts reduction. He was talking about
- the overall tax base. 5
- 6 BY MR. SMITH:
- 7 Q. Okay. So you've never seen any estimate
- for personal property tax receipts reduction in 8
- 9 anything you've seen, correct?
- A. I have not seen anything that is 10
- 11 Detroit-specific.
- 12 Q. How did you pick -- I think you gave it a
- 50/50 chance of passing. How did you pick that 13
- 14 number?
- 15 A. So doing the analysis, we started doing
- the work, like I said, over a year ago, and the 16
- 17 referendum, the ballot was coming up a year later.
- 18 And you know, just like most things, there's a
- certain probability it will go through. At that 19
- 20 point, we had to select a probability that 50/50
- 21 was reasonable.

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- 22 Q. I mean, you didn't do any investigation
- into the likelihood of passage in the legislature
- of the personal property legislation?
- 25 MR. STEWART: Objection.

- that uncertainty is to assign a probability and
- 2 then to multiply that probability by sort of an
- 3 average reduction, what's a reasonable reduction in
- 4 property tax revenue, and so that's how we arrived
- 5 at our estimate.
- 6 BY MR. SMITH:
 - Q. You mentioned reasonable a lot of times.
- 8 Can you give me your definition of reasonable in
- 9 terms of forecasting?
- 10 A. In this case, reasonable is realistic or
- 11 likely.

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- 12 Q. And you would agree with me there could be
- 13 more than one reasonable forecast for the City of
- 14 Detroit, correct?
- 15 A. I would agree with that.
- Q. Page 18, Paragraph ix (a), you've got some 16
- 17 collection rates for residential property,
- 18 commercial property and industrial and utility
- 19 property. Were those assumptions based on your
- 20 judgement?
- 21 MR. STEWART: Which page?
- 22 MR. SMITH: 19.
- 23 BY MR. SMITH:
- 24 Q. On Page 19, you made -- you have some
- numbers for the collection rates you used of

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- THE WITNESS: Well, by this point, the
- legislature had already passed it, so it's whether
- or not the voters approve it. And so you know, you 3
- 4 have to say, you know, I follow the press, and at
- that point, some people are for it. Some people
- are against it. So 50/50 seemed reasonable. 6
- I mean, at the end of the day, we needed
- 8 to -- we were trying to come up with a reasonable
- method of thinking about what personal property tax
- 10 revenue the City would lose, and this seemed like
- the best method.
- 12 BY MR. SMITH:
- 13 Q. At the end of the day, nobody knows
- whether this new legislation is going to pass about
- 15 personal property taxes; is that correct?
- MR. STEWART: Objection. 16
- 17 THE WITNESS: I guess we'll know in two weeks,
- 18 a week and a half.
- BY MR. SMITH: 19
- 20 Q. Right now, though, I mean, when you put
- together your expert opinions, you had no way of
- knowing whether the personal property tax
- legislation would pass, correct? 23
- MR. STEWART: Objection. 24
- THE WITNESS: Yes. So the way of dealing with 25

50 percent for residential property, 3 percent for commercial property, 87 percent for industrial 2 3 property and 100 percent for utility property.

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- Were those assumptions you made based on 4 your judgment?
 - A. These were after looking at data provided by the City on their collection rates by type of
 - property, I then selected those rates.
- 9 Q. So in the baseline scenario, are you 10 assuming that the City is not going to collect more
- 11 than 50 percent of its residential property tax?
- 12 A. For part of it. So I kept the current
- 13 situation of about 50 percent collections on
- 14 non-delinquent for residential. I kept that
- 15 assumption for the next four years of the forecast,
- and I increased it after that. 16
- 17 Q. And why was it four years that you kept
- that assumption rather than five or six years? 18
- 19 A. It's coinciding with the reappraisal
- 20 study. So when the results go on, the forecast has
- things stabilizing on the residential side. 21
 - Q. So it's your belief that the reappraisal
- 23 study will result in the stabilization of property
- 24 tax, or let me ask you another question. Is it
- your view that the reappraisal study is going to

- 1 increase property tax collection rates?
- 2 A. So the forecast has, after the
- 3 reappraisal, a slight improvement to the collection4 rate.
- 5 Q. And why is that?

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- A. So there are two things. One, the
- 7 collection rate goes up because you remove certain
- 8 property that isn't paying off the roll, and so
- 9 your tax base becomes smaller, but your collection
- 10 rate goes up. And the second is that if you have
- 11 people that have now seen their property tax bills
- 12 go down and they had been protesting because they
- 13 thought they were too high, they were ridiculous,
- 14 we have a small improvement in those folks' pain.
- Q. And those improvements, were those just
- 16 numbers you picked based on your judgment?
- 17 A. So the improvements in those areas having 18 it -- kind of go back to times in history. So
- 19 before the most recent recession, as you noted
- 20 earlier, residential collection rates were in the
- 21 70s, and so use that historic information as a
- 22 guide to what's reasonable, you know, what kind of
- 23 improvement might we see. And so that helped me
- 24 select the collection rates in the forecast.
- Q. Okay. On Page 20, under heading B, it

- the relationship between reinvestment and
- 2 improvements in economic climate, correct?
 - A. It would be difficult to do that, but
- 4 you're right. There was no study that I looked at.
 - Q. You just kind of picked those numbers?
- 6 A. Ultimately I had to select some growth 7 rates.
- 8 Q. 20, down at the bottom of Page 20, you
- 9 have slight additions to taxable value of 1 percent
- 10 beginning in fiscal year 2017 for commercial and
- 11 industrial taxable values?
- 12 A. Uh-huh.

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- Q. Where did the 1 percent come from?
 - A. So in terms of looking at what has
- 15 happened, you know, to the City sort of post
- 16 downturns and what are kind of the size of
- 17 improvements, you know, using that kind of analysis
- 18 to help think about well, what are reasonable
- 19 growth rates, and at the end of the day selected
- 20 1 percent is a reasonable growth rate.
 - Q. On Page 21, you say the City's population
- 22 will continue to climb from 2024 until 2029. Do
- 23 you see that?
- 24 A. Yes.
- Q. And then below it talks about how you're

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- says Ms. Sallee forecasted the planned city
- 2 reinvestments would have a modest impact on tax
- 3 revenues. Do you see that?
- 4 A. Yes.
- 5 Q. In fact, did you personally forecast the
- 6 effect of reinvestments on tax revenues, or was
- 7 that somebody else?
- 8 A. So in this case, we have in the scenario
- 9 reinvestments improving the City's economic
- 10 climate, and that, in turn, improves the tax bases
- 11 and ultimately tax revenue.
- 12 Q. How does reinvestment improve the City's
- 13 economic climate?
- 14 A. So there are a number of different ways.
- 15 In this case, the City, in their reinvestment
- 16 scenarios that I looked at, had things for blight
- 17 reduction or improved safety, improved lighting,
- 18 things that could ultimately, you know, positively
- 19 impact various property tax bases on the
- 20 residential and commercial industrial side. And so
- 21 this scenario thinks about well, what are the
- 22 likely magnitude of that -- you know, what's the
- 23 magnitude of improvements to the tax base, and then
- 24 we sort of modeled that in this scenario.
- Q. You had no study or data, though, showing

- 1 forecasting no population growth from 2029 until
- 2 2033. Do you see that?
- 3 A. Uh-huh.
 - Q. Did you personally forecast the population

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- 5 growth figures that you use, or was that Mr. Cline?
 - A. So I prepared the forecast after
- 7 discussions with Mr. Cline and Katie Ballard.
 - Q. Have you actually looked at any of the
- 9 data on population growth in the city of Detroit?
- 10 A. For what period?
 - Q. For any period of time.
- 12 A. So I've looked at population in Detroit
- 13 since 2000.
- 14 Q. Okay. And that's all the data you've
- 15 looked at?
- 16 A. The only other information I've looked
- 17 at -- so in one of the reports that I mentioned
- 18 that looked at sort of population trends between
- 19 1980 and 2010, so Detroit was one of those cities
- 20 in that information. The year-by-year data I have
- 21 looked at since 2000.
- Q. And that's the -- is that the Brookings report?
- A. That's the Brookings report.
- 24 (Document marked No. 15)
 - Q. I'm going to hand you what's been marked

- as Exhibit 15, which is some information from that
- 2 Brookings report. Do you recall seeing this?
 - A. Uh-huh.
- 4 Q. And for Detroit, for example, during 1990
- to 2000, there was actually -- it's got a number 5
- 6 here of 4.8 percent and .5 percent. Do you see
- 7

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- 8 A. Yeah.
- 9 Q. And the 10-year growth is the .5 percent number. Do you see that? 10
- 11 A. Uh-huh.
- 12 Q. And the growth in Detroit during 1990 to
- 2000 is actually greater than other comparable 13
- 14 cities, correct?
- 15 MR. STEWART: Objection.
- THE WITNESS: It's below Akron. 16
- 17 BY MR. SMITH:
- 18 Q. But it's above Chicago. It's above
- Philadelphia. It's above Cleveland. It's above 19
- New Orleans. It's above Scranton. It's above
- Syracuse. It's above Toledo, right?
- 22 A. The Detroit metro area has been greater,
- but Chicago and Philly are just the city only.
- Q. And so there's been periods of time in the 24
- last couple of decades where there's positive

- been improving in recent years?
- 2 A. When you say auto industry, you mean both 3 domestic and international companies?
- 4 Q. Companies located in the Detroit area are improving in the auto industry, correct?
- 6 A. Well, again, so how do you measure
- 7 improvement? More car sales? What?
- 8 Q. More revenues, more car sales, doing 9 better in general.
- 10 A. So there are different measures. I mean,
- 11 what's important more than anything for -- well, I
- 12 guess there are two things that are important. It
- would be sort of cars that are being produced in 13
- the region and so jobs associated with that, and 14
- 15 then like I said, jobs and employment in the
- industry. I don't know off the top of my head what 16
- 17 employment in the auto industry has done in
- 18 southeast Michigan in recent years. It fell
- 19 dramatically the last decade, but I don't know
- 20 recently. 21
 - Q. I mean, what would you say are the drivers
- 22 of the economic health of the City of Detroit?
- 23 A. Can you be more specific with your
- 24 question?
- 25 Q. Well, I mean, what are the most -- what

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- population growth in Detroit, correct?
- 2 MR. STEWART: Objection.
- 3 THE WITNESS: Not in Detroit, the city, but the
- 4 metro area saw some growth. You had sort of a good
- auto industry between 1990 to 2000, and so Detroit
- metro, same population growth makes sense. I don't 6
- 7 think Detroit city gained population between 1990
- and 2000. 8
- 9 BY MR. SMITH:
- 10 Q. Do you believe that there is a positive
- relationship between the health of the auto
- industry and the population in Detroit? 12
- 13 A. There has -- historically the entire
- southeast region has been -- there's been a
- relationship with the fortunes of the auto
- industry, yes. 16
- 17 Q. And so the better the auto industry does,
- 18 the better the economy in Detroit; is that correct?
- 19 MR. STEWART: Objection.
- 20 THE WITNESS: I don't know about that. The
- better the economy -- the auto industry does, the
- better the entire southeast Michigan region does.
- I would agree with that.
- 24 BY MR. SMITH:
- 25 Q. Do you agree that the auto industry has

are the most important factors contributing to the

- economic health of Detroit? 3 A. So the economic health as measured by
- 4 what? 5 Q. Well, in your forecast, you used some
- 6 measures of the economy, right?
- 7 A. So a big driver in our analysis and
- 8 forecast is employment.
- 9 Q. Okay. So the higher the employment
- 10 levels, the more revenues you project for the City
- 11 all other things being equal?
- 12 A. Not necessarily. It depends. So all
- 13 other things, employment -- increased employment in
- 14 the city would, everything else being equal,
- 15 improve revenue.
- Q. The numbers for population that you cite 16
- in your report on Page 21 on population growth, 17
- were those just assumptions that you made based on 18
- 19 your judgment?
- 20 A. Which numbers?
- 21 Q. The .2 percent annual population growth,
- 22 no population growth from 2029 to 2033, .2 percent
- 23 population growth from 2034 to 2043, .3 percent
- annual population growth from 2044 until 2053.
- Were those numbers assumptions based on your

- 1 judgment?
- 2 A. So the forecast -- so the 10-year forecast 3 we followed the SEMCOG forecast, and then for the
- 4 30-year extrapolation followed SEMCOG up until
- 2029. Both us and SEMCOG have in 2029-30 no 5
- 6 population growth or sort of a leveling. And then
- 7 in going forward, the .2 percent and the .3 percent
- that you mentioned, I did analysis of sort of metro 8
- areas that had experienced a decade of population
- decline and what growth they had afterwards, and
- that analysis led me to select those two growth
- 12
- 13 Q. Does SEMCOG not project population values 14 after 2029?
- 15 A. SEMCOG has a projection until 2050.
- 16 Q. Why didn't you use the SEMCOG projection 17 during the entire forecast period?
- 18 A. So SEMCOG, they prepared their forecast
- 19 before the bankruptcy, before the reinvestment
- scenarios were put together, and so the 30-year 20
- extrapolation is off of the -- with the
- 22 reinvestment scenario, and so SEMCOG hadn't taken
- 23 that into account, and so we decided that we needed
- 24 to deviate from it slightly going after 2029.
- 25 Q. Do you project higher or lower population

- unlike kind of the old statutory revenue sharing in
- 2 Michigan where there was a way that money was
- supposed to be allocated, EVIP doesn't have that 4 sort of formula.
- 5 Q. Okay. Did you hold the rate of revenue
- 6 sharing constant over time in your forecast?
 - A. Only for the EVIP portion.
 - Q. And we know that the EVIP portion of state
- revenue sharing will not be constant during the 10
- or 40-year period you forecast, correct? 10
 - A. We don't know that.

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- 12 Q. I mean, if you were sitting here today,
- 13 would your -- has there been any two years when the
- EVIP portion of revenue sharing has been the same? 14
- 15 A. EVIP has been around for three years, so
- no, they haven't been the same each year. 16
- 17 Q. Okay. We know that the EVIP portion,
- 18 because it's based on a number of factors, is not
- going to be the same each year, correct? 19
- A. You're right. It's not probably going to 20
- 21 be the same each year. I don't know for certain.
- 22 Q. You've assumed a 2 to 3 percent sales tax
- 23 growth rate. What was that based on?
 - A. Based on what the Michigan Department of

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Treasury forecasts.

growth factors than SEMCOG for after 2029?

- 2 A. So in some years, our growth actually matches theirs. Overall, our population forecasts
- are slightly higher than SEMCOG.
- 5 Q. On Page 22, you have a rate of increase
- for -- of 3.4 percent of taxable value in 2024 and 6
- 2025, and then -- I mean, what's that's based on? 8
 - A. So as we discussed earlier, I use the
- 9 Congressional Budget Office forecasts, and they go
- 10 out 10 years. And so I continued sort of -- looked
- to see what overall is happening with home prices 11
- 12 and used that to help think through if Detroit, we
- have at the end of our 10-year, picking up and
- rebounding what's a reasonable growth rate in the
- 15 first part of our 30-year extrapolation.
- Q. Okay. If you go over to Page 24, in the 16 middle of the page, you have a statement that 17
- there's no set formula for EVIP payments for the
- 19 City of Detroit. That's a correct statement,
- 20 correct?

- 21 A. So what is meant by that is there's no --
- 22 there's no, you know, statutory formula or any
- 23 government formula for what needs to be allocated
- to the City of Detroit. There are components of
- EVIP, things that they are supposed to meet, but

- Q. Okay. Is the treasury -- do they forecast 1 2 it for years after 2025?
- 3 A. They do not.
 - Q. Okay. What period of time do they
- 5 forecast it for?
- 6 A. So the information that I used, you know,
- 7 started with actuals, so it probably started with
- fiscal year 2012, and then it went all the way to 8 9 2025.
- 10 Q. The -- you know that there's a forecasted 11 increase in income tax revenues, correct?
- 12 MR. STEWART: Objection.
- 13 THE WITNESS: I don't have the disclosure
- 14 statement in front of me, so I don't know exactly
- 15 what the income tax revenues are for the 10 and
- 16 40-year off the top of my head.
- 17 BY MR. SMITH:
- 18 Q. I mean, do you know if they increase -- do
- 19 you know if Ernst & Young is forecasting an
- 20 increase or decrease for income tax revenues over 21 10 or 40 years?
- 22 A. So an increase compared to what? So year 23 on year?
- 24 Q. Compared to 2013. I mean, what's the
- 25 trend in income tax? Do you know if it's

- 1 increasing or decreasing under the Ernst & Young
- 2 forecast?
- A. So we have income tax -- so I'm going off
- 4 memory. We have income taxes falling for a period 5 and then growing for another period.
- 6 Q. Okay. And corporate tax, is that similar
- that the Ernst & Young forecasts have a growth in corporate tax?
- 9 A. I don't want to comment on it based on 10 memory.
- 11 Q. Okay. On Page 25, you note that your
- 12 10-year forecast includes the legislature-approved
- 13 fiscal year 2015 revenue sharing payments for
- 14 Detroit. Do you see that? Do you see where I'm
- 15 at?
- 16 A. Yes, I do.
- 17 Q. Your prior forecasts, you did not use the
- 18 fiscal year 2005 revenue sharing payments for
- 19 Detroit, correct?
- MR. STEWART: Do you mean 2015?
- 21 MR. SMITH: 2015.
- 22 THE WITNESS: So previous iterations, we always
- 23 used what the most recent current law amount was,
- 24 so the legislature-approved fiscal year 2015 in the
- 25 first week and a half of June. And so in the

- 1 around there.
- 2 Q. Okay. And so using your assumption of
- 3 current law remaining unchanged led you, in your
- 4 prior forecast, to be off by approximately 35 to
- 5 \$40 million compared to your current forecast,
- 6 correct?

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- A. So using current law, we had planned
- 8 for -- so we used current law, which was lower than
- 9 the fiscal year 2015 amount.
- 10 Q. And using -- the assumption of using
- 11 current law led you to predict that revenue sharing
- 12 would be 35 to \$40 million lower than you're now
- 13 predicting, correct?
 - A. So using current law led us to -- so we
- 15 can compare what did we predict for 2015 compared
- 16 to -- 2015 versus actual. And so using current
- 17 law, we were slightly below. We don't know what's
- 18 going to happen to EVIP. It could be eliminated
- 19 next year, so this is --
- Q. And it could be increased by 100 percent?
 - A. It could be increased by 100 percent. You
- 22 never know, so this is a good way to do it.
- Q. And my question is but using the
- 24 assumption of no change in current law led you to

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25 underestimate state revenue sharing by 35 to

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- latest version, we incorporated fiscal year 2015
- 2 once it had been passed.
- 3 BY MR. SMITH:
- 4 Q. And did the incorporation of fiscal year
- 5 2015 revenue sharing payments materially increase
- 6 your forecast for the state revenue sharing?
- A. What do you mean by materially?
- 8 Q. Well, do you know how much -- did it
- 9 increase it?
- 10 A. So the EVIP payment to Detroit did go up
- 11 between 2014 and 2015.
- 12 Q. And do you know how much it did?
- 13 A. It went up by almost 4 million.
- Q. And then for periods after that, did you
- 15 use the 2015 rate?
- 16 A. We used the higher 2015 amount.
- 17 Q. And what additional amounts did using the
- 18 higher 2015 rate add to your forecast compared to
- 19 the last time you did it?
- A. Somewhere between 35, 40 million.
- Q. Okay. So incorporating the fiscal year
- 22 2015 revenue sharing payment into your forecast
- 23 increased revenue sharing by 35 to \$40 million; is
- 24 that correct?
- A. Going off the top of my head, but it's

- 1 \$40 million in your last projection compared to
- 2 this projection, correct?
- 3 MR. STEWART: Objection.
- 4 THE WITNESS: I wouldn't say underestimate.
- 5 The forecasts differ, and you're right. So using
- 6 this new assumption, we are forecasting a higher
- 7 state sharing EVIP revenue to Detroit. It remains
- 8 to be seen whether that actually happens.
- 9 BY MR. SMITH:
- 10 Q. There's no way we know what the actual
- 11 revenue sharing numbers are going to be over the
- 12 period of your forecast?
 - A. That's right.
- 14 Q. They could be much higher, or the state
- 15 could completely eliminate revenue sharing,
- 16 correct?

- 17 A. They could eliminate EVIP and do something
- 18 else or not do anything at all.
- 19 Q. The state could -- the City of Detroit
- 20 could find itself in bankruptcy again within the
- 21 next 10 years, correct?
- 22 MR. STEWART: Objection.
- 23 THE WITNESS: I have no idea.
- 24 BY MR. SMITH:
- Q. Well, if the state eliminates revenue

- 1 sharing payments, the City could find itself in
- 2 bankruptcy again within the next 10 years, correct?
- MR. STEWART: Objection. 3
- THE WITNESS: I have no idea. 4
- 5 BY MR. SMITH:
- 6 Q. In fact, you have no idea what's going to
- happen to the revenue streams that you measure in
- your forecast. There's too many factors, correct?
- 9 MR. STEWART: Objection.
- 10 THE WITNESS: So what we were asked to do was
- 11 using reasonable assumptions, put -- reasonable
- meaning here realistic assumptions, put together a
- 10-year forecast and then a 30-year extrapolation
- of that, and that's what we did.
- 15 BY MR. SMITH:
- Q. But there's -- your forecast can be 16
- 17 changed depending on actions by various people in
- 18 either the state government or the City of Detroit
- government, correct? 19
- 20 A. So -- so you know, the forecasting
- 21 exercise, as any forecasting entity would tell you,
- you know, you forecast, and your forecasts can't
- 23 really incorporate, you know, whimsical, random,
- whatever changes, large changes year to year, and
- the forecast exercise, you acknowledge that at the

- city of Detroit over the next 10 years depends on
- 2 the actions of state -- city officials in terms of
- 3 what they do with property tax assessments over the
- 4 next 10 years, correct?

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- A. I would say it's one factor.
- Q. And so right now you don't even -- nobody
- 7 can know the identity of the officials that are
- 8 going to influence revenues for the City in the
- 9 next 10 years, correct?
 - A. It's possible that elected officials in the future that we do not know affect revenues.
- 12 Q. And it's impossible to know what actions
- 13 officials in the city or state will take over the
- next 10 years that could materially impact the 14
- 15 revenues to the City of Detroit, correct?
- A. There are things that can happen that can 16 17 impact the revenue forecasts.
- 18 Q. And it's impossible to know what those
- 19 things are sitting here today?
- 20 A. The forecast takes into account what we
- 21 know, and there could be things we don't know.
- 22 Q. And one of the things we don't know is
- 23 what officials in the state or city will do which
- 24 could have a material impact on the revenues that
- you forecast, correct?

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- get-go. And so you're right. Anything could
- 2 happen.
- 3 Q. And the revenues received for property taxes and state revenue sharing depend on -- in the
- future, the actual revenues depend on actions by
- politically-elected state and city officials, 6
- 7 correct?

- A. I don't think I understand the question.
- 9 Q. Okay. The state revenue sharing depends
- 10 on the -- in the future over the next 10 years
- depends on the action of elected officials in 11
- 12 setting revenue sharing values, correct?
- A. So a portion of it depends on the 13 14 legislature.
- Q. And the largest portion of revenue sharing 15
- depends on the actions of elected officials, 16
- 17 correct?
- 18 A. The largest share for Detroit, not for the 19 entire state.
- 20 Q. And similarly the property tax depends on
- the action of officials in the city of Detroit in
- 22 terms of what they do with assessments over the
- 23 next 10 years, correct?
- 24 A. Say that again.
- 25 Q. The actual property tax revenues in the

- 1 MR. ALBERTS: Objection.
 - 2 THE WITNESS: Future officials could have some
 - 3 impact on the revenues. That's a possibility.
 - 4 BY MR. SMITH:
 - 5 Q. I mean, they will have an impact. I mean,
 - 6 the state officials set the revenue sharing level
 - 7 really, right? We know for a fact that state
 - 8 officials are going to impact the revenue available
 - 9 to the City, correct?
- 10 A. We know that the legislature does set the
- 11 amount of EVIP for Detroit.
- 12 Q. And we know for a fact that city officials
- 13 are in charge of the assessments of property to the 14 City, correct?
- 15 A. City officials set the property assessment 16 rolls, yes.
- 17 O. So we know as a matter of fact that
- 18 officials from the city and the state will take
- 19 unknown actions in the future that will have
- 20 unknown consequences for the revenues that you
- 21 estimate for the City of Detroit, correct?
- 22 A. It's possible that city officials, their 23 actions in the future affect the forecast.
- 24 Q. And the same as the state officials,
- 25 correct?

- 1 A. State officials can affect revenue that
- 2 the City receives.
- 3 MR. STEWART: Should we take a break? It's
- 4 been going about 90 minutes.
- 5 MR. SMITH: Sure.
- 6 THE VIDEOGRAPHER: Off the record. The time is
- 7 3:06 p.m.
- 8 (Whereupon, a short break was taken.)
- 9 THE VIDEOGRAPHER: We are back on the record.
- 10 The time is 3:14 p.m.
- 11 BY MR. SMITH:
- 12 (Document marked No. 16)
- 13 Q. Ms. Sallee, I'm going to hand you a copy
- 14 of what's been marked Exhibit 16. Have you seen
- 15 that document before?
- 16 A. What date is this?
- 17 Q. I believe this is the July one, the July
- 18 version of the forecast.
- 19 A. Then yes, I've seen it.
- Q. I just wanted to ask you about there's a
- 21 disclaimer on the front of the document. Are you
- 22 familiar with that?
- A. It's always on there. I don't know if
- 24 I've read every word of it.
- Q. Okay. Well, I'm going to ask you about

- 1 There will usually be differences between
- 2 forecasted and actual results because events and
- 3 circumstances frequently do not occur as expected
- 4 and those differences may be material.
 - A. I would agree with that statement.
 - Q. Do you agree that EY -- Ernst & Young
- takes no responsibility for the achievement of
- 8 forecasted results?

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- A. I think that's correct.
- Q. Do you agree that accordingly, reliance on
- 11 this report is prohibited by any third party as the
- 12 projected financial information contained herein is
- 13 subject to material change and may not reflect
- 14 actual results?
- 15 A. I'm okay with that.
- 16 Q. I'm going to hand you -- well, you agree
- 17 with that statement? When you say you're okay with
- 18 that, you agree with it?
- 19 A. Well, I guess as an EY employee, I'm
- 20 agreeing with this.
- Q. Okay. And those statements go -- I mean,
- 22 those are put together by experts at Ernst & Young;
- 23 is that correct?
- 24 MR. STEWART: Objection.
- 25 THE WITNESS: I didn't write this.

1 it, so --

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- A. Okay. Let me read it then. Okay.
- Q. Do you agree with all the statements in
- 4 the disclaimer that's on Exhibit 16 in front of 5 you?
- 6 A. Well, I don't know if I can agree to
- everything because some of it I don't know, say,
- 8 what the attestation standards are.
- 9 O. Okay. You don't know what the attestation
- 10 standards established by the AICPA are, correct?
 - A. I don't know what they are, no.
- 12 Q. Okay. With respect to your projections,
- 13 would it be fair to say that you express no
- 14 assurance of any kind on the information presented?
 - A. I do not. That would be true.
- 16 Q. And then the next sentence, let me know if
- 17 you agree with it. It is the client's
- 18 responsibility to make its own decision based on
- 19 the information available to it. Management has
- 20 the knowledge, experience and ability to form its
- 21 own conclusions relating to the client's 10-year
- 22 financial projections.
- 23 Do you agree with those statements?
- A. I'm okay with the statements.
- Q. Do you agree with the next statement?

- 1 BY MR. SMITH:
 - Q. Okay.

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- 3 A. I don't know who wrote it. I don't know
- 4 who wrote it.

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- 5 (Document marked No. 17)
 - Q. Why don't I hand you what's been marked as Exhibit

- 7 17. Let me know if you've seen this document before.
 - A. I have not seen this.
- 9 Q. Okay. Do you see that it's the disclosure
- 10 statement by the City, its fourth-amended
- 11 disclosure statement?
- 12 A. Where does say that?
 - Q. On the front page. The title there in the
- 14 middle, it says --
 - A. Fourth-amended, oh, I see. Okay.
- 16 Q. I just want to identify the document for
- 17 you.
- 18 A. Great.
- 19 Q. You haven't done anything to, obviously,
- 0 go through the disclosure statement and ensure that
- 21 the statements in there are consistent with the
- 22 assumptions in your projections, correct?
- A. What's the date on the fourth disclosure?
- Q. May 5, 2014 it was filed with the court.

- 1 disclosure statement.
- 2 Q. Okay. So you haven't done an analysis to 3 go through the fourth-amended disclosure statement
- 4 to make sure that all of your assumptions are
- consistent with the disclosure statement, correct?
- A. So we provided forecasts that were
- included in the previous version, and we hadn't
- made any changes in this version. So I had gone
- through the previous disclosure statement to make
- 10 sure our numbers were accurate. I have not gone 11 through this one.
- 12 Q. Okay. Have you actually read the text of 13 any of the disclosure statements?
- 14 A. I have.

6

- 15 Q. Okay. Then I'd like to direct you to
- Page 97 of 197. It's down in the -- the pagination 16
- is down in the right-hand corner --
- 18 A. Oh, I see.
- 19 Q. -- that I'm going to refer to.
- 20 A. Okay. So Page 97.
- Q. 97 of 197. 21
- 22 A. Okay.
- 23 Q. Do you see the section failure to achieve

projections are dependent upon the successful

reliability of other estimates and assumptions

relates to your projections that you've made?

Do you agree with that statement as it

A. I guess I don't have an opinion about this

Q. Okay. The next page at the top of the

Q. The next page, are you on the next page,

estimates and assumptions may not be realized and

uncertainties and contingencies, many of which are

MR. STEWART: What language? MR. SMITH: I'm waiting for the witness.

A. I am not yet. Hold on. Okay.

Q. The top of the page, it says these

are inherently subject to significant economic

implementation of the City's budget and the

projected financial performance?

accompanying the projections.

25 A. Okay.

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sentence.

page --

BY MR. SMITH:

Ms. Sallee?

1 Q. The next section, unforeseen financial 2 circumstances affecting the City's future financial performance, do you see that, that section?

A. Okav.

4

13

14

5 O. The disclosure statement says the plan and projections underlying the plan are based on 7 certain assumptions about the City's future

8 financial performance. Unforeseen events and

circumstances may occur affecting the City's future

10 financial performance resulting in those

11 assumptions proving inaccurate and the City being 12 unable to fulfill its obligations under the plan.

Do you agree with that statement as it relates to your projections?

15 MR. STEWART: Objection.

16 THE WITNESS: So in this case, I mean, so it's

17 talking about the entire plan. So you know, we did 18

revenue forecasts. And as you've -- this language 19 and other language has pointed out, there can be

20 unforeseen events and circumstances that can affect

21 them, and we don't know what they are.

22 BY MR. SMITH:

23 Q. And so do you agree with that statement as

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24 it relates to your projections?

25 A. In that sense, the City being unable to

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10

O. The disclosure statement says the

- fulfill its obligations, that seems a little kind
 - of not as applicable to the stuff that I did, but
 - 3 unforeseen events and circumstances may occur
 - 4 affecting the City's, say, future revenue
 - 5 collections, that applies.
 - 6 Q. Okay. So you agree that there are
 - 7 unforeseen circumstances and events that may occur
 - that affect the City's future tax revenues and
 - 9 revenue sharing payments?
 - A. Yes, I agree with that.
 - 11 Q. And then the last sentence, no guarantee
 - 12 can be made as to the City's future financial
 - performance due to a variety of unforeseeable
 - circumstances that may affect such performance. Do you 14
 - 15 agree with that statement as it relates to your projections?
 - 16 A. I agree you cannot make a guarantee on the 17 revenue forecasts that I've made.

18 (Document marked No. 18)

- 19 Q. I'm going to hand you what I've marked as
 - Exhibit 18, which is some of the spreadsheets from
- the projections relating to your work. Starting
- 22 with fiscal year 2015 and going to 2023, can you
- 23 tell me how you forecast the percent changes in the
- 24 assessed value of real property?
- 25 A. So this is not my spreadsheet, so this is

23 Do you agree with that statement as it 24 relates to your projections? 25 A. I would agree with the statement.

beyond the City's control.

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- 1 prepared based on the analysis I provided.
- 2 Q. Okay. I'm just wondering how did you --
- 3 did you forecast the real property, personal
- 4 property and Renaissance Zone numbers that are
- contained in this spreadsheet?
- 6 MR. STEWART: What exhibit number is this one?
- 7 MR. SMITH: It's 18.
- 8 THE WITNESS: So here this says change in
- assessed values, but it should be change in taxable
- value because these are -- so you see values, and
- these are taxable values, and these look like
- they're my numbers, yes.
- BY MR. SMITH:
- 14 Q. Okay. Are the values that are under the
- 15 heading change in assessed values your numbers?
- A. They are not how I prepared it. They've 16
 - calculated those based on the taxable values, and I
- 18 put together the taxable values that are shown
- 19
- 20 Q. Okay. So the numbers that are in this
- spreadsheet are your numbers, but they're really 21
- taxable values and not assessed values; is that
- 23 correct?
- 24 A. They're taxable values, yes.
- Q. So somebody made an error in putting 25

- picked based on your judgment for the growth rate, 2 correct?
- 3 A. After doing analysis, I selected growth 4 rates for each of the tax bases, and I had to use 5 my judgment to select those growth rates.
 - Q. And when you said you did analysis, you didn't calculate any of those growth rates, did you?
 - A. What do you mean by calculate?
 - Q. You didn't calculate any of the growth rates using a mathematical formula, correct?
- 12 A. Well, all of the analysis requires some 13 sort of mathematical formula.
- 14 Q. But those growth rates that appear in the spreadsheet, those aren't generated by a 15
- 16 mathematical formula, correct?

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- 17 A. I guess it depends on mathematical 18 formula. I mean, so math is used in the analysis.
 - Q. But you didn't -- the numbers that are
- 20 chosen for the growth rate are selected numbers.
- 21 They're not numbers that are calculated using a
- 22 mathematical formula, correct?
- 23 MR. STEWART: Objection.
- 24 THE WITNESS: Ultimately all of the numbers,
- 25 the growth rates, I had to select.

- together the description of this data in this
- spreadsheet, correct?
- 3 A. They labeled the change in values in a way
- that I wouldn't have labeled it.
- Q. They labeled it in an inaccurate way, 5 6 correct?
- 7 A. I would have used a different label.
- 8 Q. The taxable values shown here, they change 9
- from year to year, correct?
- 10 A. Taxable values change from year to year, 11 yes.
- 12 Q. And can you tell me are all those changes numbers you picked based on your judgment?
- 14 A. So as we talked about, to come to these
- total taxable value numbers for each year, I did 15
- analysis for each tax base and selected the growth
- rates, and that modeling feeds into those total 17
- 18 values.
- 19 Q. And the growth rates, all these growth
- rates vary in each year. Those were numbers you
- 21 picked based on your judgment, correct?
- 22 A. After doing analysis, I selected certain
- 23 growth rates, and I used my judgment, yes.
- Q. So all these different numbers for each 24
- year and each category of property are numbers you

- BY MR. SMITH:
- 2 O. If we look at the General Fund collection
- 3 rates, do you see where that is on this spreadsheet
- 4 down kind of towards the bottom?
- 5
- 6 Q. Did you select the General Fund collection
- 7 rates that vary from year to year for your
- 8 analysis?
- 9 A. So those were built up, as we discussed
- 10 earlier, by looking at the non-delinquent
- collection rates by each type of property and then
- also the payments from Wayne County. And so for 12
- historical years, I was able to see what the total
- collection rate was and then going forward had to
- 15 decide what that collection rate would be, so I had
- to use my judgment to ultimately select the
- 17 collection rate going forward.
- 18 Q. Okay. So for future years, 2015 going
- 19 forward, you selected the collection rates for the
 - various categories based on your judgment, correct?
- 21 A. Based on my analysis of the different
- 22 components and how they were being collected, I did
- 23 use my judgment to select those rates.
- 24 Q. But the collection rates you used are
- numbers you selected, and they're not numbers that

- 1 were generated by a calculation from a mathematical
- 2 formula, correct?
- 3 MR. STEWART: Objection.
- THE WITNESS: Well, again, math is involved, so 4
- 5 for this, if you -- you know, in the model, I've
- 6 gone through and said what are the collection rates
- 7 by different types of property based on data that
- the City provided, and I had to make an assumption 8
- about what that would look like during the forecast
- period. And then math is used then to get to the 10
- numbers that are here. At the end of the day, I
- 12 had to select information that generates this
- number. 13
- 14 BY MR. SMITH:
- 15 Q. All of the collection rates are selected
- numbers that are based on your assumption regarding
- what the collection rates will be in the future,
- 18 correct?
- 19 MR. STEWART: Objection.
- 20 THE WITNESS: So the collection rates here are
- 21 a product of my analysis and my judgment.
- 22 BY MR. SMITH:
- 23 Q. Okay. But they're not -- but the
- 24 collection rates aren't rates that are calculated
- for each year based on a mathematical formula where

- 1 Q. Okay. And my only point is the numbers
- 2 that were generated each year for collection rates
- were not generated by a mathematical formula. They 3
- 4 were based on your selection using your judgment,
- 5

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- 6 MR. STEWART: Objection. What is this, the
- 7 sixth time you've asked this now? I mean, it's
- getting late. How many times are you going to ask
- this question? She's answered it six times. Is
- your answer any different than any answer you've 10
- 11 given before to that question?
- 12 MR. SMITH: Listen, stop coaching the witness.
- 13 MR. STEWART: It's not coaching at all.
 - MR. SMITH: You're engaged in speaking
- 15 objections. What's the basis you have for making a
- speaking objection? 16
- MR. STEWART: Because you've harassed the
- 18 witness by asking the same question over and over,
- 19 which is improper.
- 20 MR. SMITH: Well, the video will show the
- 21 witness is smiling right now.
- 22 MR. STEWART: The video is going to show -- the
- 23 video is going to show this abusiveness. You're
- 24 arguing with the witness, and you ask the same
- question again and again and again. And

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- you plug in which year it is and then out pops a
- number for the collection rate, correct?
- 3 MR. STEWART: Objection.
- 4 THE WITNESS: Well, so all of these collection
- rates that are shown here, these were -- the
- various assumptions that build up to this were 6
- 7 adjusted, and so in some sense, I guess they were
- 8 calculated.
- 9 BY MR. SMITH:
- 10 Q. They were selected numbers, correct?
- 11 MR. STEWART: Objection.
- 12 BY MR. SMITH:
- 13 Q. That were selected after you made
- 14 adjustments based on your judgment, correct?
- A. Well, I don't know what you mean by 15 adjustments. 16
- Q. Well, you just mentioned that you were 17
- making adjustments to the numbers over time, right? 18
- 19 A. Well, I said I had to make certain
- 20 assumptions about what the different types of
- property, what the collection was going to be on
- non-delinquent and then what did the net revolving
- fund payments from Wayne County have to be. So
- they're a selection of those inputs, and then that
- informed the number that you see here.

it's abusive, and it's improper. Now, she's going

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- 2 to answer it one last time. Then I'm going to
- 3 instruct her after that because you've asked it how
- 4 many times now?
- 5 MR. SMITH: Once.
- 6 MR. STEWART: No. That's what the video is
- 7 going to show. Let's have it asked the sixth time,
- given the answer for the sixth time, and then we're
- 9 going to move on. So let's reread the question.
- 10 BY MR. SMITH:
- 11 Q. I'll just ask it so we don't have to worry
- 12 about finding it.

- A. Okav.
- 14 Q. The collection rates are selected numbers.
- 15 They're not calculated for each year using a
- 16 mathematical formula, correct?
- A. No. I mean, there are -- there is a 17
- calculation that underpins these numbers, and so I 18
- had to select inputs that -- this is true. I had 19
- 20 to select inputs that feed into this, and then they
- 21 were calculated.
- 22 Q. What's the mathematical formula that you
- used to calculate the collection rates for each 23
- 24
- 25 A. What kind of information or detail are you

- 1 looking for?
- 2 Q. Well, you're just said they're calculated
- numbers. I want to know the mathematical formula. 3
- 4 What did you add up or multiply to get to the
- collection rate for each year?
- 6 A. So each of our tax bases, residential,
- commercial, industrial, and there's real and
- personal property, and then there's utility
- personal property. So for each of those different
- tax bases, you have taxable value, and then you 10
- have -- you multiply that by the tax rate, and you
- 12 get the tax levy.
- 13 And then you have to say well, what
- 14 percent is going to be collected on time for each
- of the tax bases. So the formula is assign a 15
- collection rate for each tax base and multiply the
- collection rate times the tax levy and then add
- 18 those and then add in the net -- add in the Wayne
- County net revolving fund payments, and then you
- 20 add that in. And then --
- 21 Q. I'm not asking --
- 22 MR. STEWART: Don't interrupt her answer.
- 23 BY MR. SMITH:
- 24 Q. I'm not asking for a calculation of the
- property tax revenue.

- rates for each of the tax bases, and then this is
- 2 the output of that same calculation I described a 3
 - minute ago.
- 4 Q. So can you tell me why the collection rate 5 is 87 percent for, it looks like, 2020, 2021, 2022,
- 6 2023?
- 7 A. So again, here, important sort of point
- 8 with forecasts is when the reappraisal study we
- have hitting the tax bills, and that's in fiscal
- year 2020, calendar year I guess 2019, and in this 10
- 11 case, just like in the other forecast, there's an
- 12 improvement to the collection rate, and it's being
- 13 driven where certain people who weren't paying
- their property taxes decide to start paying them, 14
- and in here, looking at the higher percentage of 15
- 16 residential taxpayers start to pay their property
- 17
- 18 Q. The improvement in collections you assumed
- 19 in the reinvestment scenario is not based on any
- 20 study or data, correct?
- 21 A. The improvement in residential tax
- 22 collections after the appraisal is what you're
- 23 asking?
- 24 Q. Yeah. It's not based on any study or
- 25 data, correct?

- MR. STEWART: Finish your answer. He's not
- 2 allowed to interrupt you.
- 3 THE WITNESS: So you have tax revenue, and if
- 4 you divide tax revenue by total tax levy, that
- gives you the collection rate that's shown here.
- That's the mathematical formula. 6
- BY MR. SMITH:
- 8 Q. Who prepared this spreadsheet, do you
- 9

1

- 10 A. I'm not certain who did this one.
- 11 Q. With the reinvestment scenario, the
- collection rates that you used there, those were
- not calculated values. It looks like they're all
- 14 the same; is that correct? They differ some,
- 15
- 16 A. They do differ, so General City with the
- reinvestment scenario, the collection rate is 17
- higher than the without. 18
- 19 O. And the values you used for collection
- 20 rates in the with reinvestment scenario were not
- 21 calculated values. They're numbers you selected,
- 22 correct?
- 23 A. They're calculated values in the same way
- that the other ones were where in this case, I
- modified the individual non-delinquent collection

A. So I had conversations with the City to

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- 2 help think about what might be realistic around it.
- 3 Q. And nobody from the City provided you any
- 4 study or data supporting the improvement in the
- 5 collection rate you assume for the reinvestment
- 6 scenario, correct?
 - (Document marked No. 19)
- 8 A. Nobody provided any study or data to me.
- 9 O. Let me hand you what's being marked as
- 10 Exhibit 2 or Exhibit 19 rather. This is another
- 11 spreadsheet. Let me know if you recognize this one.
- 12 A. Yeah.

7

- 13 Q. Do you know who prepared this spreadsheet?
- 14 A. It looks like mine.
- 15 Q. Do you know when you prepared that
- spreadsheet? 16
- 17 A. I don't know when this was from.
 - Q. What was the purpose of the spreadsheet?
- 19 A. I pulled historical taxable value, state
 - equalized value information for the City of Detroit
- 21 and the State of Michigan.
- 22 Q. And halfway down the page, there's a line,
- 23 Case-Shiller change. Do you see that?
- 24
- 25 Q. What's the -- why did you consider it

- 1 useful to look at the history of the Case-Shiller
- 2 Index?
- 3 A. So the Case-Shiller Index shows what is
- 4 happening in the housing market for home sales, and
- so I wanted to see what trends the Case-Shiller
- 6 Index was -- was showing and compare it to
- 7 residential state equalized value and taxable
- 8 value.
- 9 Q. And why did you want to do that?
- 10 A. I wanted to see if -- I wanted to see how 11 similar or dissimilar they were.
- 12 Q. And were they similar or dissimilar?
- 13 A. They do not match.
- 14 Q. Which ones are higher, or how don't they
- 15 match?
- 16 A. So if you look at the state equalized
- 17 value in Detroit, the growth rates that are
- 18 positive in certain years are higher than the
- Case-Shiller Index in most years and -- well, not 19
- every year, I guess, so for some of them. And then
- the Case-Shiller Index is more negative in some
- 22 years, less negative in others, so they're
- 23 different.
- 24 Q. In 2012, you have a 4 percent increase for
- the Case-Shiller Index. Do you see that?

- 1 A. I would have to go check my formula. I
- 2 don't know.

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- Q. Okay.
- 4 A. I mean, I could --
 - Q. Why were you calculating those numbers?
- 6 A. I'm guessing I -- so throughout the
- 7 analysis, I wanted to see what was happening to
- 8 state equalized value in Detroit, so I calculated
- 9 multiple percentage changes for various times.
 - Q. Why did you want to know what was happening with state equalized value in Detroit?
- 12 A. So state equalized value in Detroit is
- 13 equal to the assessed values, and as we've talked
- about, I wanted to see if the change in assessed 14
- 15 values, how it was mimicking what was happening in
- the market, so I would calculate to see what change
- was happening to assessed values and compare it to 18 market trends.
- 19 Q. Okay. And did you find that assessed
- values generally did not track market trends or 20
- that they did track market trends? 21
- 22 A. So what you'll see, and this is
- 23 well-known, is that assessed values lag the market,
 - so it takes a couple years for either direction for
- assessments to follow the market.

1 A. I do.

4

- 2 Q. Did you ever update any of the numbers in 3 this spreadsheet beyond 2012?
 - A. Yes, I did.
- 5 Q. Did you prepare another spreadsheet that's more up-to-date than this one or not? 6
- 7 A. I have 2013 data in the spreadsheet now,
- 8 and as we talked about, I pulled -- I did look at
- Case-Shiller information part of it for 2014.
- 10 Q. And Case-Shiller continues to increase in 2013 and 2014, correct? 11
- 12 A. That's right.
- 13 Q. And the four numbers that are in the
- 14 rightmost column, those percentages, what are
- 15 those?
- A. I don't know. I mean, I calculated some 16 17 percentage change. I don't know what years,
- 18 though.
- 19 Q. I mean, what were you trying to calculate
- 20 there? What are the percentage changes
- 21 representing?
- 22 A. So I was looking at the change in state
- 23 equalized value during some period.
- 24 Q. Okay. Are all four of those numbers
- 25 changes in state equalized value?

- Q. So if housing prices are increasing
- currently, you would expect that a few years in the

- 3 future assessed values would increase, correct?
- 4 A. Other things equal, if the home prices are
- going up, you would -- you would -- in a normal
- market, you would expect assessments to go up. It 6
- 7 depends on where -- for each house how it's being
- 8 assessed whether the market is above or below the 9
- assessment. It really depends on --10
 - Q. But in aggregate --
- 11 MR. STEWART: Did you finish your answer,
- 12 Ms. Sallee?
- 13 THE WITNESS: I did. Thank you.
- 14 BY MR. SMITH:
- 15 Q. In aggregate, if the home price index like
- the Case-Shiller Index is increasing, you would 16
- expect that within a few years, that would be 17
- reflected in assessed values, and assessed values 18
- 19 would increase, correct?
- 20 MR. ALBERTS: Objection.
- 21 THE WITNESS: The problem why I don't want to
- 22 say yes to that is that Detroit is in this period
- 23 where they're reducing assessments, so even though
- 24 you could -- even though you're seeing this
- positive increase in home prices, if you have a

- 1 house that's overassessed, you could have the
- 2 situation where you're seeing this trend in the
- home prices and yet, the assessment on the house is
- lowered. So I don't want to say -- Detroit is an 4
- unusual situation for --
- 6 BY MR. SMITH:
- 7 Q. Historic --
- 8 MR. STEWART: Did you finish your answer?
- 9 THE WITNESS: I didn't. So where home prices
- have collapsed in such a way that you're seeing 10
- this unusual situation that really the system isn't
- 12 designed to deal with.
- 13 BY MR. SMITH:
- 14 Q. Typically after an increase in -- how many
- 15 years does it take for an increase in home prices
- 16 to result in an increase in assessed values?
- 17 A. For Detroit, I don't know.
- 18 Q. Did you look at that at all?
- 19 A. What do you mean by did I look at it?
- 20 Q. In the data, did you look at how long it
- takes for an increase in home prices to translate 21
- into an increase in assessed values?
- 23 A. So there are general trends that can be
- 24 observed. So you can see during the 2000s where
- you can see the market will pick back up, and it

- Exhibit 20. It's another spreadsheet, and you can
- 2 tell me if you created this spreadsheet. Is that
- 3 something that you created?
- 4 A. Yes.

5

- Q. And why did you prepare that spreadsheet?
- 6 A. I wanted to see what was happening in the 7
 - city of Detroit with existing home sales.
- 8 Q. And there's been -- for the most recent
- period, you looked at, was there a 28.03 percent
- 10 year-to-year change increase in home sales?
- 11 A. So the spreadsheet has a 28.03 percent
- 12 increase.
- 13 Q. And did you ever update this with more 14 recent data?
- 15 A. I did.
- Q. And has the increase gone up, or do you 16
- 17 know what the magnitude of the most recent data 18 shows the increase is?
- 19 A. Off the top of my head, I can't tell you.
- 20 Q. Okay. You're not -- I mean, is it
- 21 basically comparable to what the data in this
- 22 spreadsheet is?
- 23 A. I don't remember.
 - Q. And this is the Detroit realtors data that

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you relied on for your analysis that shows the

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- usually takes, you know, two to three years before
- that's fully incorporated in assessments. And
- that's in a non -- you know, that's in sort of a
- 4 kind of normal -- I hate to say normal, but that's
- not -- you know, the Detroit situation is kind of
- unique, and so I hate to say anything about Detroit 6
- 7 right now because it doesn't mimic what's happened
- perfectly in the past. 8
- 9 Q. But you've used assessed -- you've looked 10 at the data for assessed values in Detroit, correct?
- 11 A. That's right.
- 12 Q. And you looked at the Case-Shiller and
- 13 other housing price indices for Detroit, correct?
- 14 A. I have.
- 15 Q. And based on your review, when there's an
- increase in the housing price index, how long does
- it take to show up in the assessed values for the 17
- data in Detroit that you've looked at? 18
- 19 MR. STEWART: Objection.
- 20 THE WITNESS: You know, as I said, typically I
- would say a couple years, and I don't know if
- 22 that's -- I'll just say typically a couple years.
- 23 BY MR. SMITH:
- 24 (Document marked No. 20)
- 25 Q. Let me hand you what I've marked as

- 28.03 percent increase in home sales; is that
- 2 correct?

24

- 3 MR. STEWART: Objection.
- 4 THE WITNESS: So the 28.03 is the change in
- average price of existing home sales, and this is
- 6 the same type of data that I updated and used in my
- 7 analysis.

- 8 BY MR. SMITH:
- 9 Q. Okay. And you said -- it says on this
- 10 spreadsheet used existing home sales to forecast
- home prices and estimate uncapped TV. Did you, in
- fact, do that in forecasting property tax revenue? 12
 - A. So one of the analyses that I did was to
- think about the uncapping of taxable value on homes
- 15 sell, and so that exercise that I mentioned before
- was looking at what would the taxable value --16
- likely the capped value be for homes that were 17
- purchased five, 10, 15 years ago in Detroit and 18
- 19 what the taxable value would be if those homes sold
- today. And so I used this data to help do that
- 21 simulation and that exercise, and that informed my
- residential taxable value -- part of the 22
- 23 residential taxable value growth rate.
- 24 Q. Okay. And did you -- how did you take
 - numbers from this spreadsheet, if at all, to do

- 1 that?
- 2 A. So this information was combined with some
- 3 other information, and the average price was used
- 4 to -- so the average price and the number of sales,
- 5 those two pieces of information were used to model,
- 6 you know, in a given year what a home purchased so
- 7 many -- like, I said five, 10, 15 years ago what
- 8 was the average price of homes sold during those
- 9 periods, what would be then grown at the rate of
- 10 inflation, what would be their taxable value and
- then looking at today, what is the average price of
- 12 homes being sold in Detroit, and then what's the
- 13 difference in taxable value when the home sells.
- Q. Okay. If you look at the average price in
- 15 2006, it was 61,444, and it dropped to 16,068 in
- 16 2011. Do you see that?
- 17 A. Yes.
- 18 Q. What factors explain that drop in average
- 19 housing during that time period?
- A. Specifically, I mean, Detroit, like the
- 21 rest of the U.S. was in a recession, and so as
- 22 you -- I can't tell you exactly why homes fell, but
- 23 you have sort of a poor economy. You have higher
- 24 unemployment, and you have all those things that
- 25 lead to people not buying homes.

- 1 Do you see that?
 - A. I do.

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- Q. Did you write that?
- 4 A. I think this is mine, yes.
- 5 Q. Why were you thinking about losses to 6 taxable base?
 - A. So one of the -- the formula for
- 8 calculating taxable value on a home is you have
- 9 their taxable value from the previous year, and you
- 10 do any additions to the base, losses to the base,
- and then you would multiple it by the rate of
- 12 inflation or 5 percent, whichever is less. And so
- 13 part of residential taxable value is what are their
- 14 new additions, what we talked about earlier, or
- 15 losses. And so this was -- so being part of a
- 16 residential tax base, I thought about it.
- 17 Q. Did you think about -- what are the
- 18 factors that would lead to gains in the taxable
- 19 base?
- A. So if you put an addition on your house,
- 21 that would be an addition to the tax base. A new
- 22 house being built would be an addition to the tax
- 23 base.
- Q. And where did you -- did you ever look
- 25 into the data on those types of additions to the

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- Q. Do you think it's reasonable to expect
- 2 that the owner of a home worth 64 or 61.000 in 2006
- 3 would sell it for 16,000 five years later?
- 4 MR. STEWART: Objection.
- 5 THE WITNESS: I would be speculating to answer
- 6 that

1

- 7 BY MR. SMITH:
- 8 Q. I mean, the fact of the matter is people
- 9 hold onto their houses if the market price
- 10 declines, right?
- 11 MR. STEWART: Objection.
- 12 THE WITNESS: I don't know. Some sell. Some
- 13 don't.
- 14 BY MR. SMITH:
- 15 Q. You haven't investigated the extent which
- 16 people held onto their houses in Detroit during the
- 17 periods of decline in prices?
- 18 A. So the only data that I look at is sales,
- 19 and you see -- you see sales in certain years
- 20 higher than others, but you know, 2010, 2011, the
- 21 number of transactions looking fairly similar to
- 22 non-recession years, so that's the only piece of
- 23 information I looked at.
- Q. And at the bottom, you say -- you have a
- 25 reference thinking about losses to taxable base.

- 1 taxable base?
 - 2 A. So I looked at the building permit data.
 - 3 Q. So the increase in building permit data
 - 4 that we saw before would show an increase to the

- 5 taxable base or be indicative of one?
- 6 A. So I used the permit data to help me think
- 7 about additions to the tax base, and I'll stop
- 8 there.
- 9 Q. How did you use that to think about
- 10 additions to the tax base?
- 11 A. So I pulled the construction costs in
- 12 Wayne County, and then I apportioned the
- 13 construction to Wayne County based on its share of
- 14 taxable value and looked to see then that -- that
- 15 would be a growth in the residential tax base of
- 16 1 percent, which would be a half percent in taxable
- 17 value. When I say tax base, I meant to say it
- 18 would be a growth of -- well, so the market value
- 19 would be a growth equal to 1 percent. The taxable
- 20 value would be half a percent, so that helped me
- 21 think about well, what new construction activity is
- 22 happening and what addition to the tax base helped
- 23 me think through my growth rate.
- 24 Q. You have an assumed reduction in
- 25 population in 2013 compared to 2012 and the effect

- on residential taxable value. Do you see that? In
- 2 that spreadsheet, there's a couple lines on that.
- 3 A. Yeah.
- 4 Q. And you do a calculation there?
- 5 A. Uh-huh.
- 6 Q. And the calculation assumes that there's a
- 7 linear relationship between population decline and
- 3 residential taxable value; is that correct?
- 9 A. In this analysis, yes.
- 10 Q. And is that a reasonable assumption in
- 11 your view?
- 12 A. So is that a reasonable assumption? For
- 13 doing -- you know, doing multiple analyses, that
- 14 being one of the assumptions for analysis is, I
- 15 think, fine.
- Q. Did you do any testing of your assumptionof a linear relationship between population decline
- 18 and taxable value?
- 19 A. I did not do any testing of that assumption.
- Q. How did you get the population estimates
- 21 that were there on this spreadsheet?
- A. They should be census numbers.
- 23 (Document marked No. 21)
- Q. Okay. I'm going to hand you what's been
- 25 marked as Exhibit 21. You let me know if this is a

- 1 revenue, this didn't have really any effect.
- Q. Okay. Are the notes on the side
- 3 assumptions that you are making in your analysis?
- 4 A. Yes. I mean, this has all been replaced
- 5 once I got actual data.

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- (Document marked No. 22)
- Q. Okay. Exhibit No. 22, another spreadsheet
- 8 I'm wondering if you prepared.
- 9 A. Yeah, that looks like me.
- MR. STEWART: I haven't had a chance to see it yet.
- 11 BY MR. SMITH:
- 12 Q. And why did you prepare --
- 13 MR. STEWART: Hold on. Just a second. I just
- 14 got this. Don't answer any questions until I've
- 15 had a chance to see it. Okay. Sorry. Go ahead.
- 16 BY MR. SMITH:
 - Q. Why did you prepare this?
- 18 A. It's the building permit data we talked
- 19 about earlier.
- Q. Okay. So this is a mechanism of
- 21 estimating gains to the property tax base?
- A. So I used this to help think about the
- 23 residential property additions and helping me think
- 24 about the growth rate for residential property.
- Q. Did you update this spreadsheet with data

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- spreadsheet that you prepared.
- 2 A. Yeah.
- 3 Q. And why was this spreadsheet prepared?
- 4 A. So before the City provided a breakdown of
- 5 Renaissance Zone property by type of property, I
- 6 took the information I had about the total
- 7 Renaissance Zone property and the non-Renaissance
- 8 property by property type, and I used that
- 9 information to make certain assumptions and come up
- 10 with an estimate of Renaissance Zone property by
- 11 property type.
- 12 Q. And did you end up -- did these -- did
- 13 this spreadsheet end up influencing your property
- 14 tax value? I mean your property tax forecast.
- 15 A. So earlier iterations used some of this
- 16 analysis, and ultimately the taxable value subject
- 17 to general operating didn't change. And so
- 18 property tax revenue -- well, for the first year.
- 19 So this helped me think about the non-Renaissance
- 20 Zone tax bases, and then I used some growth rates.
- 21 But at the end of the day, I had the total
- 22 Renaissance Zone property amount, which was
- 23 subtracted from the total taxable value.
- 24 So what's subject to general operating
- 25 didn't change. So in terms of property tax

- 1 for 2013 and 2014?
- 2 A. I did update the spreadsheet, yes.
- 3 Q. And did the data show that permits and
- 4 construction amounts continued to increase?
- 5 A. It did
 - Q. And for 2012, there's a 41.2 percent
- 7 increase for single family. Is that construction
- 8 cost?

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- 9 A. Yes.
- 10 Q. And then for -- there's a 40.5 percent
- 11 increase for total buildings construction costs for
- 12 2012, correct?
 - A. Correct.
- 14 Q. Would it be fair to say there's a
- 15 significant increase in construction in Wayne
- 16 County based on the data that you've analyzed?
- 17 MR. STEWART: Objection.
- 18 THE WITNESS: There is an increase in Wayne
- 19 County based on this data.
- 20 BY MR. SMITH:
- Q. Why do you think there is an increase in
- 22 the -- in construction in Wayne County in the last
- 23 few years?
- A. I don't know. I'd have to speculate.
- Q. Well, you haven't investigated into the

- 1 reasons that there's increased construction activity?
- 2 A. So I haven't looked into the construction 3 activity in Wayne County as a whole. I haven't
- 4 been charged to do that, so no.
- 5 Q. Did you ask anybody at the City about new 6 construction in the city of Detroit?
- 8 Q. So you didn't investigate to find out
- whether construction is increasing in the city in
- 10 recent years, correct?
- 11 A. I did not ask the City if construction had 12 been increasing.
- Q. You didn't ask the City for information 13
- about how many permits the City had been issuing 14 for new construction? 15
- A. I did not receive that data, no. 16
- 17 (Document marked No. 23)
- 18 Q. I'm going to hand you Exhibit No. 23. Let
- 19 me know if this is a spreadsheet that you created.
- 20
- 21 Q. Why did you create that spreadsheet?
- 22 A. It's the Case-Shiller Index.
- 23 Q. And did that Case-Shiller Index data
- influence your property tax revenue forecast?
- 25 A. I don't know what you mean by influence.

- no taxes will ever be collected from the owner or
- 2 subsequent owners of that property?
 - A. Are you referencing something here?
- 4 Q. No. I'm just asking you a question. I'm 5
 - done with that document for now.
- 6 A. Okay. Can you say your question one more 7 time?
- 8 Q. If the owner of a property is for some
- period of time delinquent in paying taxes, does
- that mean that no taxes will ever again be
- 11 collected from that owner or subsequent owners of 12 the property?
- 13 A. If you're delinquent for some time, that
- 14 doesn't necessarily mean that you'll never have
- taxes on that property or from that owner. 15
- Q. Do you agree that it's more likely that 16
- 17 delinquent taxpayers own parcels of lesser value
- 18 than those taxpayers who are actually paying their
- 19

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- 20 MR. STEWART: Objection.
- 21 THE WITNESS: I don't understand the question.
- 22 BY MR. SMITH:
- 23 Q. Which -- do you agree that it's more
- 24 likely that people who are not paying their
- property taxes own lower-value properties than

- It was something that I looked at in forming my opinion,
- Q. And did you ever update this spreadsheet?
- A. Yes. 3
- 4 (Document marked No. 24)
- Q. I'm going to hand you Exhibit 24, which 5
- are some summaries that were produced regarding the 6
- property tax forecast. Do you know who created 7
- 8 these?
- 9 A. Yes. Yes, I do.
- 10 Q. Who prepared these?
- 11 A. So for some of them, I wrote them, and
- other ones Bob and Katie wrote them. 12
- 13 Q. Which ones did you write?
- 14 A. So I wrote Page 1, and I wrote the next
- 15 one, the next two-page document. I wrote portions
- of the following document.
- 17 Q. One entitled Detroit Revenue
- Extrapolation? 18
- 19 A. Right. I wrote some portions of that, and
- I wrote some portions of the long-term projections
- discussion item. And I didn't write any of the
- estimation of individual income taxes, and I wrote
- 23 portions of the last two pages.
- 24 Q. Okay. If an owner of a property has been
- delinquent in payment of taxes, does that mean that

- those who are paying their property taxes?
- 2 A. I don't know.
- 3 Q. In the document that I had handed you, the

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- 4 last exhibit, the first document, Changes to
- 5 Detroit Property Tax Forecast, you mention
- conversations with the City. Who would you have 6
- 7 been having conversations with that are reflected
- 8 in this document?
- 9 A. So this one doesn't have a date on it, but
- 10 I had conversations with Alvin Horhn, Gary Evanko,
- 11 Michael Jameson, Linda Beatty. I think that's it.
- 12 Q. Do you know when this document -- the
- 13 first page was created?
- 14 A. You know, I'm not sure. It would have
- 15 been sometime between, you know, between the -- so
- we did an update in February, so it would have been 16
- 17 around that February 2014 update.
 - Q. Okay. And then the next document entitled
- 19 Changes to Detroit Property Tax Forecast Since June
- 2013 mentions you had discussions with the COD
- 21 assessor's office. Do you see that?
- 22 A. Yes.

- 23 Q. Would those be the same people that you
- 24 were having discussions with?
- 25 A. Yes. So here by February, I had had a

- 1 couple conversations with Alvin Horhn, and I had
- 2 had at least one conversation with Gary, and he had
- provided some data to me. 3
- 4 Q. Do you have any familiarity with the 5 methods used by municipalities to estimate the
- 6 revenue generated by a tax increase?
 - A. Do you have a specific example?
 - Q. Well, I'm wondering if you have any
- knowledge about what methodology municipalities use
- to estimate revenue from a tax increase?
- 11 A. I don't know what -- I think it would vary
- 12 from city to city, so I don't know what a
- 13 particular city would do.
- 14 Q. Okay. But do you know -- are you familiar
- 15 with the method -- the various methods that cities
- 16 can use to estimate increases in revenue from a tax
- 17 increase?

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- 18 A. So there are, I would say, accepted
- 19 methods of estimating tax changes and its revenue
- 20 impacts.
- 21 Q. And what would be the accepted methods of
- 22 estimating increased revenue from a tax increase?
- A. So conceptually you would want to 23
- 24 understand how -- and you said a tax increase?
- 25 Q. Yeah.

1

- of the software tools we talked about earlier like
- 2 REMI to help you model changes to the tax base
- 3 given a tax policy change, and that would be an
- 4 accepted way of doing it.
 - Q. Would another method be IMPLAN or --
- 6 A. IMPLAN doesn't work for tax changes like 7
 - that.

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- 8 Q. If you were asked to forecast the rate of
- compliance with a tax, how would you go about that,
- or what factors would you consider?
- 11 A. So for rate of compliance, thinking about
- 12 compliance with the tax change, you would want to
- think about so what is the -- what is the tax base
- being affected. And there's literature on how 14
- 15 compliance differs across tax bases, and so I would
- consult the literature and also the historical
- performance to use that as a guide as to what the
- 18 compliance is and then what, obviously, is
- happening in terms of whether you're raising or
- 20 lowering taxes. And there's literature on that as
- 21 well, and you could consult that to help you think
- 22 through what happens with compliance whether you're

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- 23 raising or lowering taxes.
- 24 (Document marked No. 25)
- 25 Q. Why don't I hand you what I'm going to

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- mark as Exhibit No. 25. It's some data from the Michigan Realtors Association on residential home sales.
- 3 Is this the type of data that you looked
- 4 at in your analysis?
- 5 A. Yes.
 - Q. And for Detroit Board of Realtors, they've
- got a 14 to 13 year-to-date percent change of
- 42.13 percent in home prices. Do you see that?
- 9 A. Yes.
- 10 Q. So home prices based on the Detroit
- realtor data went up 42.13 percent in 2014 so far
- 12 compared with the prior year. Is that accurate?
- 13 A. You said the year-to-date average price
- 14 changed?
- 15 Q. Yeah.
- 16 A. Yeah, that's right.
- 17 Q. And you've updated your spreadsheets with
- 18 data such as this; is that correct?
- 19 A. Uh-huh.
- 20 Q. Okay. But you didn't use the updated data
- in your actual analysis or calculations; is that
- 22 correct?
- 23 A. So I used the data -- every time we
- 24 updated, I looked to see if growth rates needed to
- be updated, so it's one of the things that I would

A. So you would want to understand what is the -- so what does the tax increase mean? Is it a

- tax rate increase? Is it an addition to the tax
- 4 base? So you would have to think through how is
- your tax base going to change by whatever is being
- proposed to raise revenue. And so you could 6
- have -- with the tax increase, you could have any number of things. You could have an addition to
- the tax base making it bigger. You could have --
- 10 if you increased the tax rate, you would have to
- think about well, does that increase in the tax 11
- 12 rate, how does that affect the tax base.
- 13 There's a number of things. You know, you 14 would want to parse out sort of changes that affect your tax calculation, which would typically be your 15
- 16 rate and your tax base. 17 Q. And are there -- you said there are a
- 18 number of accepted methodologies for doing that
- 19 type of analysis?
- 20 A. I would say I don't know a number of, but 21 there is a way that you would go about doing it,
- 22 which is you could set up your analysis of here's
- 23 your tax change and thinking through all factors that affect, you know, the tax base, and that would
- be an accepted way of doing it. You could use one

- 1 look at in doing updates.
- 2 Q. Why have home prices increase by
- 3 42 percent in Detroit thus far in 2014 compared to 4 2013?
- 5 A. I don't know.
- 6 Q. Do you know any of the factors that contributed to that increase?
- 8 A. I don't know why average home price sales
- have gone up that much. I don't know. 10 Q. Let me ask you this. I mean, can you 11 identify any other cities that have had comparable
- 12 growth in average home prices in 2014 to Detroit?
- A. I haven't specifically looked at other 13 14 cities, so I don't know.
- 15 Q. Historically in Detroit, has there ever
- been a period of time where home prices have 16 17 increased by as much as 40 percent?
- 18 A. The period I looked at, there was not. I
- 19 haven't -- I would have to speculate. I don't know
- before the periods I looked at.
- 21 Q. What period did you look at?
- 22 A. So I had consistent data from 2001 onward.
- 23 Q. Okay. So the increase that we're seeing
- in 2014 in average home prices is greater than any
- of the increases that occurred at least since 2001

- BY MR. SMITH:
 - Q. On Page 15 of the report at the top --
 - A. Okay.

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- 4 Q. -- Ms. Kopacz says that financial modeling
- 5 is a highly subjective undertaking that is affected
- by the assumptions made and the professional biases 7
 - of the analysts developing the model. Do you agree with that statement?
 - A. I may not say highly. I think in
- 10 financial modeling, there's some art in addition to 11 science to it, so ...
- 12 Q. Do you agree the financial modeling is a
- 13 subjective undertaking that is affected by the
- assumptions made and the professional biases of 14
- 15 analysts developing the model? 16
 - A. I would agree with that.
 - Q. And you would agree that financial
- 18 modeling is both a science and an art?
 - A. I do. I do agree with that.
- 20 Q. Over on Page 25, there's a section called
- 21 the plan of adjustment.
- 22 A. Yeah.
- 23 Q. And she says even after many years of
- 24 practice with dysfunctional, insolvent,
- operationally troubled enterprises, I was confused

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- in Detroit; is that correct?
- A. I think that's correct.
- 3 (Document marked No. 26)
- Q. Let me ask you about what I'll mark as
- Exhibit 26. Is this the type of data that you got
- for your building permit spreadsheet?
- A. Yes. 7
- Q. Okay. And so this has some updated 8
- numbers just up to May 2014 of -- I guess there's a 9
- total of \$68 million in construction cost for
- permits that have been issued so far; is that correct?
- 12 A. That looks to be correct, yes.
- 13 Q. And is that -- do you know if that's an
- increase compared to prior periods or not?
- 15 A. When I looked at it, the -- so the
- 16 year-to-year change in the last few years had been positive.
- 17 Q. You have mentioned that you had reviewed
- or at least up to about Page 75 of Kopacz's report.
- I'm going to hand you a copy of that. Is that a
- copy of the report that you were talking about?
- 21 A. Let me look.
- 22. MR. STEWART: What exhibit number on this one?
- 23 MR. SMITH: 27.
- 24 (Document marked No. 27)
- 25 THE WITNESS: Yes, this looks to be the report.

by the City's projections in POA. Section E of

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- this report provides detail on how the projections
- 3 in our eyes are structured. Suffice it to say that
- 4 the 10-year projections, the 10-year, 40-year
- projections and the restructuring and reinvestment
- initiatives form an unusual construct for a 6
- 7 financial plan for an enterprise attempting to
- 8 emerge from bankruptcy. Do you see that?
 - A. I do.

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- 10 Q. You haven't ever participated in
- constructing financial projections that are similar
- to the ones that have been constructed in the 12
- 13 Detroit case, have you?
- 14 A. I have not been involved in putting
- 15 together -- what was the word you used?
- 16 Q. Projections similar to the type that are 17 in this Detroit bankruptcy.
 - A. I have not been responsible for putting
- 19 together this exact kind of format. That's true.
 - Q. Have you ever been involved in any
- construction of projections where you had to rely 21
- 22 on other experts for their own projections such as
- 23 the reinvestment projections that were given to you
- 24 from Conway MacKenzie?
- 25 A. So in work that I've done in looking at

- 1 the projections of, say, a particular project, I
- 2 would often rely on information provided by a third
- 3 party such as the planned construction costs for
- 4 the project. So they would forecast how that would
- 5 look like over that period of time, so I would have
- 6 to take somebody else's work and use it, which is a
- 7 little bit, I guess, similar to this situation
- 8 where we were looking at information projections
- 9 prepared by another group or expert.
- 10 Q. Page 27, the last paragraph, the second
- 11 sentence says the projections in the POA have not
- 12 been harmonized with the City's budget that was
- 13 passed by the City Council on June 5, 2014.
- 14 A. I see that.
- 15 Q. Were you aware that the projections that
- 16 Ernst & Young had done had not been harmonized with
- 17 the City budget?
- 18 A. I was not aware of that until I read this
- 19 part of the report.
- Q. Have you looked at the budget's
- 21 projections at all in doing your work?
- 22 A. I looked at past City budgets. I have not
- 23 looked at this June 5, 2014 budget.
- Q. On Page 52, there's an analysis here, the
- 25 sensitivity analysis for the revenue sharing. Do

- change in the 10-year assumption will result in
- 2 approximately 21 million change in collected -- oh,
- 3 that's income tax revenue. Never mind.
- 4 MR. STEWART: Sorry. Where are we?
 - MR. SMITH: Never mind. We're in a place
- 6 that's not relevant for Ms. Sallee.
- 7 BY MR. SMITH:

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- 8 Q. Do you have any plans to reserve -- to
- 9 read the rest of the Kopacz report or not?
- 10 A. I guess I haven't thought about it. I 11 don't know.
- 12 Q. Do you have any plans to do any additional 13 work before you testify?
 - A. I will probably do some preparation before
- 15 I testify, I'm guessing.
- 16 Q. But any additional changes to your
- 17 forecast, are you planning those before you
- 18 testify?19 A. No, I'm not.
- Q. In the historical data that you've looked
- 21 at, has the City always been in poor financial
- 22 shape?

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- A. I was not asked to look at the City's
- 24 financial position in the past, and so I didn't do
- 25 that. So I don't know.

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you see that?

A. Yes.

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- Q. And she says at the end of the first
- 4 paragraph the statutory payment of 5 percent change
- 5 in the allocation would have a cumulative impact of
- 6 70 million to the General Fund during the fiscal
- 7 year 2014-2023 period. Do you see that?
 - A. Yes, I do see that.
- 9 Q. In your view, is this sensitivity analysis
- 10 that Ms. Kopacz has provided showing a 5 percent
- 11 change in the statutory revenue sharing allocation
- 12 would have a \$70 million impact over the 10-year
- 13 period, is that reasonable?
 - A. Yeah, it is reasonable.
- 15 Q. Then underneath the graph or the chart she
- says the City of Detroit reasonable saw its state's
- 17 revenue sharing decreased significantly from a
- 18 combined annual total of 267 million in fiscal year
- 19 2009 to as low as 173 million in fiscal year 2012.
- Is that consistent with your
- 21 understanding?
- A. I don't have my spreadsheet in front of
- 23 me, but that seems about right.
- Q. Over on Page 61, at the bottom, it says
- 25 for the without-RRIs scenario, every 1 percent

- (Document marked No. 28)
- 2 Q. I'm going to hand you what's been marked
- 3 as Exhibit 28, which is an article entitled How
- 4 Michigan's Revenue Sharing Raid Cost Communities
- 5 Billions for Local Services. And in the third
- 6 paragraph, it says over the past decade, lawmakers
- 7 and governors from both political parties have used
- 8 some 6.2 billion in sales tax collections to fill
- 9 state budget holes rather than fulfill a statutory
- 10 revenue sharing promise to local communities
- 11 according to the Michigan Municipal League, which
- 12 released a city-by-city analysis earlier this month.

Is that consistent with your

14 understanding?

- 15 A. So it is true that the state has not in
- 16 the past allocated what statute would say is full
- 17 funding to municipalities. It hasn't done that.
 - Q. And the amount for -- in total, is it a
- 19 reasonable to say around \$6 billion over the last
- 20 decade?
- A. I don't know where that number is coming
- 22 from or how they've calculated it, so I don't know
- 23 if that's reasonable.
- Q. The last paragraph says Detroit, which
- 5 filed for bankruptcy protection last year, missed

1 out on 732 million between 2003 and 2013 for the 2 report.

3 Does that sound like a reasonable estimate 4 in the amount of revenue sharing that Detroit has lost as a result of the state's failure to fully

6 fund revenue sharing during that period?

MR. STEWART: Objection.

THE WITNESS: So I would have to perform an

analysis to see and actually look at the data

before I would say whether that number was

reasonable.

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12 BY MR. SMITH:

13 Q. I mean, you know it's been -- Detroit has lost out on hundreds of millions of dollars over 14

the last decade as a result of the state not fully 15

16 funding revenue sharing, correct?

17 A. So the state I know has not fully funded, 18 and I don't know at this moment exactly what the

19 impact on Detroit is -- has been.

Q. Well, you know that it would be at least 20

hundreds of millions of dollars, correct? 21

22 MR. ALBERTS: Objection.

23 THE WITNESS: I would want to do the analysis

24 before I would say that.

25

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Q. Okay. So the lawmakers are ignoring the

2 statute that sets the full funding levels for 3

revenue sharing; is that fair? 4 A. So I know part of it is expired, the

5 formula, so I can't tell you -- I can't remember

6 right now the exact relationship. What I do know

7 is the legislature boilerplate language is

8 allocating the EVIP money, and that's done each

9 budget cycle.

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10 Q. And you know that a lot of municipalities 11 are upset by the cuts to the revenue sharing

12 payments by the State of Michigan, correct? 13

A. So I've had conversations at my old job and through this project with Michigan Municipal 14

League or others, and over the past decade through 15

my conversations, municipalities have been upset

that they've not received more revenue sharing

18 money.

19 Q. And did you work with the Municipal --

20 what is it, the Michigan Municipal League in your

21

22 A. I -- they were -- well, so work with, yes,

23 in the sense that in certain projects, I would talk

with representatives from the Michigan Municipal

League. We never had any paid project from them or

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BY MR. SMITH:

1 2 Q. I mean, just from your knowledge of what

the sums have been for revenue sharing, it's not -all you have to do is add up the amount of the

cuts. Would that be fair?

MR. STEWART: Objection. 6

THE WITNESS: But I don't know what the

year-end cuts are. I would want to see the data. 8

9 BY MR. SMITH:

10 Q. So nobody ever -- you never tried to

figure out how much Detroit has lost out from the 11

12 state's failure to fully revenue sharing; is that

13 correct?

A. So in the work that I've done, I usually

look to see what actual revenues the City has 15

received, and so that's what I looked at, not the

difference between state fully funding and what 17

they received. I didn't look at that. 18 19 Q. The state's never changed the statute that

20 sets out the full funding level for revenue

21 sharing, correct?

22 A. My understanding is that the statute -- so

23 for statutory payments, part of it expired. I

24 think the statute still exists. I'm going off

25 memory. It's being ignored is what I've been told.

anything. 1

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Q. Is the Michigan Municipal League a

reliable source of information on payments that

4 have been made to the cities in Michigan?

A. I don't know.

(Document marked No. 29)

7 Q. Do you know Anthony Minghine? I'll just hand

you Exhibit 29. Do you know the author of this paper?

9 A. I do not know Anthony Minghine.

10 Q. Would it be fair to say that you don't --

you haven't done the work necessary to dispute the

calculation of the sums that have been lost to 12

13 Detroit or other cities as a result of not fully

funding revenue sharing that the Michigan Municipal

15 League has done, correct?

16 MR. STEWART: Objection.

17 THE WITNESS: I have not done an analysis of

full funding of the statutory payment in the past

19 and what cities have actually received in Michigan.

20 BY MR. SMITH:

Q. So you don't have any basis to dispute the 21

22 Michigan Municipal League's conclusions regarding

23 the amount that revenue sharing has been cut to

24 Detroit or the other cities, correct?

25 A. I have not done the analysis, so I would

- 1 have to do that before I could comment on whether
- 2 it was accurate.
- 3 Q. And in fact, the revenue sharing cuts are 4 described as a heist in this paper, right?
 - A. That's what the title says.
- 6 Q. I mean, there's a lot of widespread
- publicity about the problems that the cuts in
- revenue sharing have had for Michigan cities,
- 10 A. It is a topic in news articles and things 11 that I've read.
- 12 Q. And isn't it true that the state has cut
- the revenue sharing payments and used the money to 13
- balance the state budget? 14
- 15 A. So Michigan's financial -- fiscal
- situation was pretty dire after the 2001 recession,
- and so one form -- one way of achieving a balanced
- budget was to not allocate full funding for
- municipal revenue sharing.
- Q. But now Michigan has a balanced budget, 20
- 21 the state, correct?
- 22 A. Well, they always have a balanced budget.
- 23 They're legally required to each year.
- 24 Q. Well, if you look at this article, the
- last sentence on the page or last couple sentences

- BY MR. SMITH:
- 2 Q. How about in Flint, Michigan, do you think 3
 - they're upset that the state is running surpluses
- 4 while they're not paying them the full amount of
- 5 revenue sharing?
- 6 A. I did not ask them that question, so I 7 don't know.
- 8 Q. What does the state do with all the 9 surplus money?
- 10 A. I don't -- I haven't looked to see how 11 they've used the money. I don't know.
- 12 Q. Do you know why the governor's budget ended up including the increase in revenue sharing 13 that you've incorporated into your most recent 14
- 15 forecast?
- 16 A. I don't know why the legislature passed 17 the increase. I don't know why.
- 18 Q. Do you agree that you can't tell me what 19 the property tax rate is going to be over the next
- 20 10 years?
- A. I -- so property tax rates meaning all the 21
- 22 different types of millages, I don't know what all
- the different types of millages are going to be 23
- 24 over the next 10 years.
- 25 Q. Can you -- are you able to testify about

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- say the state is now in an enviable position,
- revenues that exceeded expectations. It is posting
- large surpluses, but has failed to take steps to
- restore local funding. Do you see that?
- 5 A. I do.
- 6 Q. And are you aware that the state in recent
- years has been posting large surpluses?
- A. So large, I don't know about large, so you 8
- would have to say well, what do you mean by large.
- 10 The state, the last two years they did have a --
- their revenues exceeded their planned budgeted
- expenses, so they were running a surplus in that 12
- 13
- 14 Q. And do you know how much those surpluses 15 were for the last two years?
- A. Off the top of my head, no. 16
- Q. Would it be fair to say that the fact the 17
- state is running surpluses has made the cities even 18
- more upset that the state isn't increasing revenue 19
- 20 sharing payments?
- 21 MR. STEWART: Objection.
- 22 THE WITNESS: I wouldn't know. I haven't
- talked to anyone, so I don't know how they're
- 24 feeling.
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the funds that the City expects to receive from the

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- State of Michigan in the future? 3 A. Not all funds, so the only thing that I've
 - said that I will speak about is the state revenue
- 5 sharing.

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- 6 Q. That's the only source of funds you can 7 talk about?
- 8 A. That's the only source of funds I'm going 9
- to talk about, yeah. 10 Q. And in terms of what the actual amounts
- 11 that are going to be given to the state, not the
- forecasts in your forecast, have you done any 12
- investigation to find out what, if anything, the
- 14 City knows about actual sources of funds that might
- 15 be provided by the state over the next 10 years?
- 16 A. Okay. So I got lost in that. What's your 17 question?
 - Q. Do you know who from the City deals with
- 19 the state on revenue sharing?
 - A. No, I don't know.
- 21 Q. And so would it be fair to say that you
- 22 haven't talked to the people at the City to find
- 23 out what, you know, actually might happen with
- 24 state revenue sharing over the next 10 years?
- 25 A. So I haven't talked with anyone at the

1 City about state revenue sharing. I'm not sure how

- 2 that would mean -- how the City would be affecting
- state revenue sharing. I mean, there's two parts 3
- 4 of it. The constitutional piece, I can't see how
- 5 City officials can affect that directly. And the
- 6 EVIP portion is being decided by the legislature.
- Q. Well, I'm just wondering not that they can
- affect it, but have you asked people at the City to 8
- give you what information they know about what might actually happen to revenue sharing over the
- next 10 years?
- 12 A. I have not had a conversation with anyone 13 at the City about what they think might happen to 14 revenue sharing in the next 10 years.
- 15 O. Have had you a conversation with anyone at the state about what might happen with revenue 16 17 sharing over the next 10 years?
- 18 A. Yes.
- 19 Q. Who did you have a conversation with?
- 20 A. Well, when you say state, I had a
- conversation -- I also had a conversation with Jay 21
- 22 Wortley at Treasury, and I had a conversation --
- several conversations with Jay Wortley, several
- 24 conversations with Jim Stansell at House Fiscal
- 25 Agency.

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referring to?

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2 MR. STEWART: Could I have the question read 3 back, please.

(Whereupon, the record was

read as requested.)

MR. STEWART: Objection.

THE WITNESS: He only -- we only talked about

his projections and what he thought was reasonable

for the sales tax and nothing beyond that.

10 BY MR. SMITH:

> Q. Why is the EVIP going to be eliminated potentially next year?

13 A. In my conversation with Jim Stansell, that 14 came up, and this is just his opinion. He's not a

15 legislator. He thought that people in the

legislature were not really in favor of the program 16

17 and that there had been some statements about it

18 saying that they wanted to change the program for

19 something else.

20 Q. And what is -- did he tell you what he anticipates might be substituted for EVIP? 21

22 A. He didn't know.

23 Q. So right now the only person you talked to

suggested that the EVIP program that you assume is

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going to continue for the next 10 years is -- may

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Q. And what did they tell you?

2 A. So Jim Stansell's pretty pessimistic about

EVIP, thinks it's going to be eliminated next year,

4 and there's some -- he thinks some program will be

put in its place, but he doesn't see it as -- I

asked him about our assumption keeping EVIP 6

constant in our forecast, and he agreed with that.

There's that -- it's very variable.

And then I talked to Jay Wortley when I received the state forecast of revenue sharing, the constitutional portion, and talked to him about

growth rates in sales tax revenue. And so that's, 12 I think, what we talked about there.

14 Q. Did he believe that sales tax revenue 15 would be increasing over the next 10 years?

A. He did.

17 Q. And did he give you any numbers about how

18 much he believes the sales tax revenue might increase over the next 10 years for Michigan?

20 A. So we used his -- the projections from his

21 office for the 10-year forecast for constitutional

22 revenue sharing.

23 Q. Did he identify any factors that might

increase the sales tax revenues above what he's 24

anticipated in the written document you're

be eliminated next year, correct?

2 A. So he's responsible for understanding

3 those kinds of programs. It's his duty at the

4 House Fiscal, and he thought that program might be

eliminated. The money associated with it would

6 still be distributed in some ways to the cities,

7 villages and townships.

8 Q. Did the state official, though, you spoke

with give you any idea about whether there would be

10 increases or decreases in revenue sharing at any

11 point in time?

12 A. He didn't comment on revenue sharing as a

13 whole, increases or decreases, no.

14 Q. Right now the information you have,

15 though, is -- I mean, the best information you have

is EVIP is likely to be eliminated, perhaps, within 16

17 about a year; is that correct?

A. So that was one piece of information I

19 received, and you know, we've decided as others

like Michigan Treasury to hold that funding for

21 Detroit constant in our forecast given that it is

22 uncertain. That program could be eliminated. It

23 could be replaced with something else. And our

24 most reasonable assumption is that that sort of

25 type -- that amount of money would likely go to

- 1 Detroit in our period.
- Q. Has anybody identified what EVIP would be replaced with if it's eliminated?
- 4 A. No.
- 5 Q. And is one reason that EVIP is going to be
- 6 replaced is that people don't like jumping through
- 7 all the hoops and requirements that it requires the
- 8 cities to do in order to calculate how much money
- 9 they're going to get?
- 10 MR. STEWART: Objection.
- 11 THE WITNESS: Well, so the legislators are the
- 12 ones that control its destiny, and they seem to
- 13 like that sort of thing.
- 14 BY MR. SMITH:
- 15 Q. I'm just trying to get an idea of why this
- 16 state official you talked to thinks EVIP is going
- 17 to be eliminated within a year.
- 18 A. He said there had been some statements on
- 19 the record by different -- so the Speaker of the
- 20 House, people in the senate, and they were saying
- 21 they didn't care for the program. So I think
- 22 that's what he was basing his decision on, and so
- 23 that was -- in our conversation came up. And so he
- 24 thought it would be replaced. There would be money
- 25 going to cities, villages and townships. It just

- 1 or 40 years, correct?
- 2 MR. STEWART: Objection.
- 3 THE WITNESS: I don't know what the City thinks
- 4 they're going to be for the next 10 or 40 years.
- 5 BY MR. SMITH:
- 6 Q. Have you ever forecasted population levels
- 7 before?

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- 8 A. Yes.
- 9 Q. In what context did you do that?
 - A. For specific projects that I worked on in
- 11 the past for public and private clients.
 - Q. And did you ever -- have you ever
- 13 forecasted population levels for a city before?
- 14 A. No, I don't think so. Is that right?
- 15 Yeah I don't think I have.
- MR. STEWART: We've been on the record about
- 17 90 minutes.
- 18 MR. SMITH: Okay. Let's take a break.
- 19 THE VIDEOGRAPHER: Off the record. The time is
- 20 4:46 p.m.
- (Whereupon, a short break was
- taken.)
- 23 THE VIDEOGRAPHER: We are back on the record.
- 24 The time is 4:55 p.m.

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- probably wouldn't be under EVIP for much longer.
- Q. Is it accurate that you're not the person
- to testify or you can't testify about thepopulation levels that will be in Detroit for each
- 5 year during the 10-year and 40-year forecast?
- A. So a clarifying question. So population,
- 7 I think I was identified as the person who can8 speak about those.
- 9 Q. Yeah, but you didn't do the actual
- 10 forecast of population levels, though, did you for
- 11 the Ernst & Young forecast?
- 12 A. So the population levels up until 2029 are
- 13 SEMCOG forecasts, and then post 2029 I put those together.
- Q. Did you ever talk to anybody at the City
- 16 about what they anticipate population levels will
- 17 be in the city?
- 18 A. Let me think. I might have. Some of the
- 19 earlier conversations we talked about things like
- 20 that. I don't know if I had a -- I don't know
- 21 actually if I had a conversation with anyone at the
- 22 City.
- Q. So it would be fair to say you can't tell
- 24 me what the City's view is regarding what the
- 25 population levels are going to be for the next 10

- 1 BY MR. SMITH:
- 2 Q. Ms. Sallee, would you like to know if
- 3 people from the City believe that the Ernst & Young
- 4 projections were unrealistic?
- 5 A. As a matter of just intellectual
- 6 curiosity, yeah, I would be interested to know
- 7 that.

- 8 Q. Well, wouldn't you also want to know that
- 9 for purposes of making sure that your forecasts
- 10 were done in a reliable way?
 - A. So the City's opinion doesn't mean
- 12 something is reliable or not. I would be
- 13 interested in knowing what they thought.
- 14 Q. Why would you want to know if the City
- 15 thought that the forecasts were unrealistic?
- 16 A. As I said earlier, I would be surprised by
- 17 that since I've had conversations with the City for
- 18 the things I've looked at and received data from
- 19 them.
- Q. Are your property tax calculations
- 21 assuming that certain activities by the City will
- 22 occur over time?
- A. What do you mean?
- Q. Well, I guess collections would be one
- 25 activity.

1 A. So my forecast assumes that the City does

- 2 collect property tax.
- 3 Q. I mean, do you know how property tax
- 4 collection is funded in the city of Detroit?
- 5 A. Do I know how property tax collections are
- funded in the city of Detroit to the physical
- 7 logistical collections? No, I don't.
 - (Document marked No. 30)
- 9 Q. Let me hand you what's been marked as
- 10 Exhibit 30, and you can let me know if you've seen
- 11 this letter before.
- 12 A. I don't think I have seen this letter.
- 13 Q. Okay. The first -- it's talking about the
- 14 projections that you've contributed to in this case, correct?
- 15 A. Let me read. Hold on. Okay. What's your
- 16 question?

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- 17 Q. This letter relates to the forecasting
- 18 project that you've been involved in for the City
- 19 of Detroit?
- A. It appears, yes.
- Q. And it says regarding the model, we wish
- 22 to make clear the following: Number one, the model
- 23 was constructed pursuant to the terms of the
- 24 engagement. Is that your understanding?
- 25 A. So I never saw the statement of work or

- 1 forecast data. Assumptions for inclusion in the
- 2 model and all such data assumptions are the
- 3 responsibility of the City.
- 4 Is that consistent with your
- 5 understanding?
- 6 A. So in the piece that pertains to me, the
- City did provide me with historical data, and we had
- 8 conversations. And then this says it's the responsibility
- 9 of the City. I don't have a comment on that.
- 10 Q. It says Ernst & Young accepts no 11 responsibility to any third party in respect of the
 - 2 model or the results it generates. Do you agree
- 13 with that statement?
 - A. It's consistent with the disclaimers
- 15 elsewhere you had me read.
 - Q. And do you agree with that statement?
 - A. I agree with that statement.
- 18 (Document marked No. 31)
- 19 Q. Let me hand you what I've marked as
- 20 Exhibit 31. Is this the Case-Shiller data that you
- 21 had relied on in doing your forecast?
- A. This looks like, yes, the Case-Shiller from FRED.
- 23 (Document marked No. 32)
- Q. I'm going to hand you what's been marked
- 25 as Exhibit 32. Can you identify this document for

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the engagements, so I don't know the terms is what

2 I'm saying.

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- 3 Q. Okay. Do you have an understanding about
 - whether the forecasting model that you've helped to
- 5 create is constructed pursuant to the terms of an
- 6 engagement agreement with the City?
- A. The things that I know are that we had an engagement or have an engagement with the City, and
- 9 I was brought on to do revenue forecasting. I
- 10 don't know -- I haven't seen any of the documents
- 11 pertaining to the engagement or the statement of 12 work.
- Q. Okay. It says the terms of the engagement
- 14 do not require EY to update the model for events
- 15 occurring subsequent to the production of the final
- 16 version of the model which accompanies this letter.
- 17 Do you see that statement?
- 18 A. I do.
- 19 Q. Is it your understanding that Ernst &
- 20 Young is not going to be doing any further updating
- 21 of the forecasting model?
- A. That's what this says. I hadn't been told
- 23 anything.
- Q. The next statement says the City provided
- 25 Ernst & Young with historical, projected and/or

1 me?

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- 2 A. Yes. The City provides this report of --
- 3 these are non-delinquent property tax collections
- 4 by type of property.
 - Q. Okay. And is it fair to say you didn't
 - verify the accuracy or reliability of this information?

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- 7 A. I had conversations with the City about
- 8 what it meant, and I took efforts to reconcile this
- 9 information with the collection rates that are
- 10 reported in the audited comprehensive annual
- 11 financial statement.
- 12 Q. Did you find discrepancies between the
- 13 collection rates you were provided by the City and14 the audited statements?
- 15 A. So this is non-delinquent property tax
- 16 collections by property type, and what's reported
- 17 in the CAFR is property tax collections divided by
- 18 tax levy. And so the CAFR collection rate is a
- 19 different -- a slightly different measure than
- 0 what's being presented here, and so I took steps to
- 21 make sure I understood why they were different.
 - (Document marked No. 33)
- Q. And -- okay. I'm going to hand you what
- 24 I've marked as Exhibit 33, a document entitled
- 25 Estimating Methodology Detroit Tax Forecast.

- 1 A. Okay.
- 2 Q. If you look on the second page of this
- 3 document, at the bottom, it says Jay Wortley
- 4 provided updated state aid spreadsheet to be
- consistent with any change in the state May sales
- 6 tax forecast. Do you see that?
 - A. Uh-huh.
- Q. And then it says Jay's estimates are about 8
- 30 percent lower than the MSU economists' estimates
- by 2022. Do you see that? 10
- A. I do.

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- 12 Q. Are you aware of estimates for sales tax
- revenues that are higher than the estimates that 13
- 14
- 15 A. So at the very beginning of the project,
- 16 we looked at forecasts put together by the MSU
- economists that's mentioned here, and this says
- that they are higher than what the state economist,
- Jay Wortley had put together. That's all I know
- 20 about that.
- Q. I mean, did you write this document? 21
- 22 A. I wrote pieces of it. So I wrote pieces
- 23 of this along with Bob Cline.
- 24 Q. Have you actually seen the estimates from
- the MSU economists on sales tax revenues that are

- When you say consensus revenue estimates for the
- City, what exactly are you talking about?
 - Q. Well, do you know that there's a
- 4 conference where there was a consensus revenue
- 5 estimate put together for the City?
- 6 A. When was that done?

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- Q. Well, I don't have the exact date, but you
- know that -- do you know that there's a process
- where there are consensus revenue estimates for the
- City that are put together because it's under the
- financial supervision by the state? 11
- 12 A. Uh-huh. So I know there's a process. I
- 13 have no idea if Eric Scorsone was involved.
 - (Document marked No. 34)
- 15 Q. I'm going to hand you an exhibit marked
- Exhibit No. 34. It's entitled State Revenue
- Sharing Growth Assumptions. In the middle, it says
- the metro areas accrue after a decade of population
- 19 decline and --
- 20 MR. STEWART: Let me -- I got it. Go ahead. Sorry.
- 21 BY MR. SMITH:
- 22 Q. And it lists Akron, Cleveland, Detroit,
- 23 New Orleans, Scranton, Syracuse, Toledo. Do you
- 24 see that?
- 25 A. I do.

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- different from what you used in your analysis?
- 2 A. I don't remember his -- I don't remember
- his estimates pertaining to funding ground state
- aid. I can't recall what his analysis said.
- 5 Q. Okay. The relevance of the state sales tax revenues is because it can affect the level of 6
- state revenue sharing; is that correct?
- 8 A. So sales tax revenue funds constitutional 9 revenue sharing, ves.
- 10 Q. Do you think that you were provided the
- 11 MSU estimates, or do you just not remember? 12
- A. So we were provided the MSU estimates, and we were provided those, I want to say, in May of
- 2013, so over a year ago. And we looked at them
- and analyzed them then, and I have not looked at 15
- them in probably a year. 16
- Q. Do you know whether the MSU economists 17 18 updated their estimates for sales tax revenue?
- 19 A. I have no idea if he's updated them.
- 20 Q. Eric Scorsone, was he the MSU economist? A. He is, yes.

- 22 Q. Do you know whether those sales tax
- revenue estimates were used in the consensus
- 24 revenue forecasts for the City?
- 25 A. I have no idea if -- so let me back up.

- Q. And that's the data from that Brookings study; is that correct?
- 3 A. That you showed me earlier, yeah.
 - Q. And would it be fair to say that there are
- a number of cities that have experienced prolonged
- periods of population decline, correct? 6
- 7 A. What do you mean by prolonged?
- 8 Q. Well, at least a decade of population
- 9 decline?
- 10 A. And you asked about cities?
 - O. Yes.
- 12 A. So when you looked at the last 30 years,
- it identified two cities that have had a decade of 14 population decline followed by some growth.
 - Q. Haven't there been more than -- it says
- the metro areas accrue after a decade of population 16
- decline, and it lists several cities here: is that 17
- 18 correct?
- 19 A. So in this case, I looked at cities in
- 20 metro areas where they had a decade or more of
- 21 declining population, and then they had a decade of
- 22 population growth overall. So cities that only had
- 23 population decline aren't identified here.
- 24 Q. Okay. But there are a number of cities
- 25 that have had a decade -- at least a decade of

- 1 population decline and then grew after that,
- 2 correct?
- A. So in the sense that there are cities that
- 4 have had a decade of population decline, there are
- 5 cities, and then they might have had one or two
- 6 years of growth, and they're not listed here
- 7 because that wasn't the criteria that I was looking
- 8 at.
- 9 Q. What was the criteria?
- 10 A. So I was looking at did a city or metro
- 11 area have a decade of decline, and then did they
- 12 have a decade where they experienced overall
- 13 population growth so I could think about what a
- 14 sort of long-run rebound in terms of population
- 15 might look like and used that to help me in my
- 16 analysis for Detroit.
- 17 Q. And one of the cities that has had a
- 18 decade of population growth after a decade of
- 19 population decline is Detroit, correct?
- 20 MR. STEWART: Objection.
- 21 THE WITNESS: So Detroit as a metro area had a
- 22 decade of decline, and then they had a decade of
- 23 growth following it. So the '80s, the metro area
- 24 declined, so not just Detroit, but suburbs as well,
- 25 and then it picked up in the following decade.

- 1 the municipalities were in bankruptcy during that
- 2 period.
- 3 BY MR. SMITH:
- 4 Q. None of the municipalities that
- 5 experienced a decade of population decline that
- 6 you've identified ever went into Chapter 9
- 7 bankruptcy, correct?
- 8 MR. STEWART: Objection.
- 9 THE WITNESS: Not that I'm aware of.
- 10 BY MR. SMITH:
- 11 Q. And you're not aware of any city that's
- 12 gone into Chapter 9 bankruptcy and said oh, the
- 13 remedy to our problems is to spend a billion more
- 14 dollars that we don't have.
- 15 MR. STEWART: Objection.
- 16 THE WITNESS: I haven't looked at specific
- 17 bankruptcies elsewhere.
- 18 BY MR. SMITH:
- 19 Q. Can you identify any other city that has
- 20 ever been in Chapter 9 bankruptcy?
 - A No

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- Q. Detroit, though, had this period of growth
- 23 that you identify in the 1990s, correct?
- 24 MR. STEWART: Objection. She said three times
- 25 it's the metro area, not Detroit. You continue to

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BY MR. SMITH:

- Q. And the Detroit metro area had a long-term
- 3 population growth after a decade of decline without
- 4 the kind of restructuring or reinvestment
- 5 activities that the City is proposing in this case,
- 6 correct?
- 7 A. The Detroit metro area had a decade of
- 8 good growth in the '90s when the auto industry was
- 9 doing well.
- 10 Q. Okay. And so the Detroit metro area had a
- 11 period of good growth without any restructuring or
- 12 reinvestment expenditure by the City or anybody
- 13 else, correct?
- 14 A. During the '90s, I don't know what
- 15 expenditures the various cities, villages,
- 16 townships, counties were doing during that period.
- 17 I don't know.
- Q. During the period of growth of the Detroit
- 19 metropolitan area in the decade of the '90s, you're
- 20 not aware of any city spending more than a billion
- 21 dollars in restructuring activities, correct?
- A. I haven't looked into it. I don't know.
- Q. Would that surprise you?
- 24 MR. STEWART: Objection.
- 25 THE WITNESS: My understanding is that none of

- 1 mischaracterize her testimony.
- 2 MR. SMITH: I'm just looking at the sheet that

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- 3 she has here. It says Detroit. On the document,
- 4 it says Detroit.
- 5 MR. STEWART: It says the metro areas that
- 6 grew. It says metro area. You're the one who's
- 7 mischaracterized it again and again. Now stop it.
 - MR. SMITH: Okay.
- 9 BY MR. SMITH:
- 10 Q. The Detroit metro areas, it grew in the
- 11 1990s, right?
- 12 A. The Detroit metro area did grow in the
- 13 1990s, yes.

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- Q. And there are a lot of people that work in
- 15 the city of Detroit that live in the Detroit metro
- 16 area, correct?
- 17 A. What do you mean by a lot?
 - Q. Well, I mean, do have any idea how many
- 19 people live in the Detroit metro area and work in
- 20 the city of Detroit?
- A. Off the top of my head, no.
- Q. Certainly there are examples that you've
- 23 identified of cities that have experienced a decade
- 24 of population decline and reversed that without any
- 25 restructuring or reinvestment initiative, correct?

- 1 A. So the analysis here, Chicago and
- 2 Philadelphia, had decades of decline followed by a
- 3 decade or more of population growth, and I don't
- 4 know what activities they undertook in terms of
- 5 reinvestment or restructuring. I don't know what
- 6 they did.
- 7 MR. STEWART: Can you tell us when there's five
- 8 minutes left.
- 9 BY MR. SMITH:
- 10 Q. On the second page of this document, you
- 11 mention conversations with Jim Stansell, correct?
- 12 A. Uh-huh.
- 13 Q. Did you write this document?
- 14 A. I wrote portions of it.
- 15 Q. Okay. In this document, you didn't
- 16 disclose that Jim Stansell had told you that EVIP
- 17 may be eliminated within a year, correct?
- 18 A. This document was written, I believe, in
- 19 January of 2013, and that conversation with Jim
- 20 Stansell was after that.
- 21 Q. Have you had any conversations with
- 22 anybody else at the State of Michigan other than
- 23 Mr. Stansell and Mr. Wortley?
- A. I don't think so.
- Q. Were they individuals that you had known

- 1 building permits data, and then the third page has
- 2 the realtor data, and it's not -- it's only going
- 3 up until 2013 it looks like. Do you see that?
- 4 A. Uh-huh.
 - Q. Is this the most recent version of the
- 6 spreadsheets you've created?
 - A. No.

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- 8 (Document marked No. 36)
- 9 Q. I'm going to hand you what I will mark as
- 10 Exhibit 36, and you can let me know if this is a
- 11 document that you created.
- 12 A. This is not a document I created.
- 13 Q. Do you know why this was created?
- 14 A. So it says at the bottom prepared by the
- 15 Office of Revenue and Tax Analysis Michigan Department
- 16 of Treasury, so this is the analysis from Jay Wortley.
- 17 Q. And do you know how more Wortley put
- 18 together this analysis?
- 19 A. Other than just being able to look at his
- 20 steps here, that's all the information I have.
- 21 Q. And did you rely on this analysis in your
- 22 revenue sharing opinion?
- A. I used his projections for the
- 24 constitutional piece in the 10-year forecast.
- Q. When you see for fiscal year 2013, 2014,

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- 1 before this case or not?
- 2 A. They were.
- 3 Q. And how did you know them?
- 4 A. I had -- so in my previous job, I did
- 5 mostly work in Michigan. In a number of projects,
- 6 I was either in meetings with them or obtained data
- 7 or information from them.
- 8 (Document marked No. 35)
- 9 Q. Let me hand you what I'm marking as
- 10 Exhibit 35 and let me know if you created this document.
- 11 MR. STEWART: I have two documents here. Is
- 12 this also --
- MR. SMITH: Never mind that one.
- 14 MR. STEWART: This is 35? Okay.
- 15 BY MR. SMITH:
- 16 Q. Did you create that document?
- 17 A. Yes
- 18 Q. What's the purpose of that document?
- 19 A. Well, so do you want me to talk to about
- 20 each of them or --
- Q. Are these separate spreadsheets doing
- 22 separate analyses?
- 23 A. Yes.
- Q. Okay. Got it.
- 25 The second page of this document has the

- 1 2015, he has consensus written underneath there, do
- 2 you know what that means?
 - A. I do.

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- O. What does it mean?
- 5 A. So Michigan has a consensus revenue
- 6 estimation process, and so these are the sales tax
- 7 numbers, or sales tax revenue numbers shown here
- 8 are the consensus estimates.
- 9 THE VIDEOGRAPHER: Counsel, we're at the
- 10 five-minute mark.
- 11 MR. STEWART: And I have a couple of questions
- 12 of my own.
- 13 BY MR. SMITH:
- 14 Q. Can you explain to me what exactly are the
- 15 reimbursement mechanisms under the new legislation
- 16 or that may or may not get passed related to
- 17 personal property tax?
 - A. What's your question?
- 19 Q. Can you explain to me what the
- 20 reimbursement mechanisms are under the proposed
- 21 legislation or measure that would change the
- 22 personal property tax?
- A. So portions -- so there are several
- 24 different ways that revenue is being replaced. One
 - 5 is a new use tax that's being created that would

- 1 allow money through the use tax to then be sent to
- 2 municipalities that meet certain requirements, and
- 3 the municipalities themselves would be able to levy
- a millage on real property. And there's rules 4
- 5 around how they can set that millage and what it
- 6 applies to, and they can set that rate equal to
- raising enough revenue to cover essential service.
- 8 Essential services isn't the word. It's more --
- it's the police, fire, those kinds of services.
- 10 Q. The amount of reimbursement that the City 11 receives under the personal property measure, is
- that within the control of the City to some extent? 12
- A. Within certain parameters, the City should 13 14 be able to levy a millage that replaces some of the
- lost revenue. 15
- 16 Q. And how would it do that?
- 17 A. Nobody really knows how all this is going
- 18 to work, so I don't know how they're going to do
- 19
- 20 Q. Have you had any discussions with anybody
- 21 at the City about what they're going to do if the
- personal property legislation ends up going into
- 23 effect?
- 24 A. We've had conversations generally about
- the personal property tax. They haven't told me

- 1 A. I think we've covered everything.
- 2 MR. STEWART: I have a couple of questions.
 - **EXAMINATION**
- 4 BY MR. STEWART:
 - Q. Ms. Sallee, you testified about population
- 6 estimates that you made?
 - A. Yes.

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- 8 Q. And some came from SEMCOG --
- 9 MR. SMITH: Objection.
- 10 BY MR. STEWART:
- 11 Q. -- in a certain period of time?
- 12 A. Yes.
- 13 Q. And others you came up with?
- 14 MR. SMITH: Objection. Leading.
- 15 THE WITNESS: That's correct.
- 16 BY MR. STEWART:
- 17 Q. Are you in a position to testify about the
- 18 City's anticipated population changes by year as
- 19 implied in the 10 and 40-year forecast?
- 20 A. Yes.
- 21 MR. SMITH: Objection. Asked and answered.
- 22 MR. STEWART: Thank you. That's all I have.
- 23 We are we done.
- 24 MR. SMITH: I assume nobody on the phone has
- 25 anything.

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what their plan is going forward.

- 2 Q. Would it be fair to say that you've
- modeled in your revenue forecasts the imposition of
- 4 a new tax that is not in effect yet under current
- 5 law?
- A. I think the right characterization of what 6
- 7 I've done is thinking about the probability of
- whether the law goes into effect and then what the
- likely reduction in revenue would be, and taking
- 10 those two factors into account inform the
- adjustment made for the personal property tax
- 12 repeal.
- 13 Q. And the amount of the reduction in revenue
- depends on what the City ends up doing in the
- future in terms of invoking mechanisms for
- reimbursement; isn't that correct? 16
- MR. STEWART: Objection. 17
- 18 THE WITNESS: My understanding is that the City
- 19 will be able to levy certain millages to replace
- some of the lost revenue, and I don't know exactly
- what that's going to look like.
- 22 BY MR. SMITH:
- 23 Q. Okay. Have we covered all the areas that
- you plan to testify about, or are there any areas
- that we haven't covered?

1 THE VIDEOGRAPHER: Off the record. The time is 2 5:24 p.m.

(FURTHER DEPONENT SAITH NAUGHT.)

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1 2	UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF MICHIGAN	1 2	I further certify that the taking of this deposition was pursuant to notice and that there
3	In re) Chapter 9	3	were present at the deposition the attorneys hereinbefore mentioned.
5 6 7 8	CITY OF DETROIT, MICHIGAN,) Case No. 13-53846 Debtor.) Hon. Steven W. Rhodes I, CAROLINE SALLEE, being first duly	5 6 7	I further certify that I am not counsel for nor in any way related to the parties to this suit, nor am I in any way interested in the outcome
9 10 11	sworn, on oath say that I am the deponent in the aforesaid deposition taken on July 24, 2014; that I have read the foregoing transcript of my	8 9 10	thereof. IN TESTIMONY WHEREOF: I have hereunto set my hand and affixed my notarial seal this 25th day
12 13 14	deposition, consisting of pages 1 through 333 inclusive, and affix my signature to same. CAROLINE SALLEE	11 12 13	of July, 2014.
15 16 17	Subscribed and sworn to before me this day of, 2014	14 15 16 17	NOTARY PUBLIC, COOK COUNTY, ILLINOIS
18 19 20 21 22 23 24 25	Notary Public	18 19 20 21 22 23 24 25	LIC. NO. 084-004143
	335		

STATE OF ILLINOIS)
) SS:

3 COUNTY OF COOK)

4 I, GINA M. LUORDO, a notary public within 5 and for the County of Cook County and State of

6 Illinois, do hereby certify that heretofore,

7 to-wit, on July 24, 2014, personally appeared

8 before me, at 77 West Wacker Drive, Suite 3500,

Chicago, Illinois, CAROLINE SALLEE, in a cause now

10 pending and undetermined in the United States

11 Bankruptcy Court, Eastern District of Michigan, In

12 re CITY OF DETROIT, MICHIGAN.

13 I further certify that the said CAROLINE

14 SALLEE was first duly sworn to testify the truth,

15 the whole truth and nothing but the truth in the

cause aforesaid; that the testimony then given by

17 said witness was reported stenographically by me in

18 the presence of the said witness, and afterwards

19 reduced to typewriting by Computer-Aided

0 Transcription, and the foregoing is a true and

21 correct transcript of the testimony so given by

22 said witness as aforesaid.

23 I further certify that the signature to

24 the foregoing deposition was not waived by counsel

25 for the respective parties.

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Malhotra Deposition Transcript (July 15, 2014)

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2	UNITED STATES BANKRUPTCY COURT	2	HEATHER J. HUBBARD, ESQ.
3	FOR THE EASTERN DISTRICT OF MICHIGAN	3	WALLER LANSDEN DORTCH & DAVIS, LLP
4		4	511 Union Street, Suite 2700
5	In Re:) Chapter 9	5	Nashville, Tennessee 37219
6		6	Appearing on behalf of U.S. Bank.
7	City of Detroit, Michigan,)	7	0
8		8	
9	Debtor.) Hon. Steven Rhodes	9	
10		10	SAM J. ALBERTS, ESQ.
11		11	DENTONS US, LLP
12		12	1301 K Street, N.W.
13		13	Suite 600, East Tower
14	The videotaped deposition of GAURAV MALHOTRA	14	Washington, D.C. 20005
15	Taken at 51 Louisiana Avenue, N.E.	15	Appearing on behalf of the Retiree Committee.
16	Washington, D.C.	16	
17	Commencing at 9:09 a.m.	17	
18	Tuesday, July 15, 2014	18	
19	Before: Gail L. Inghram Verbano	19	DOUGLAS G. SMITH, P.C.
20	Registered Diplomate Reporter,	20	KIRKLAND & ELLIS, LLP
21	Certified Realtime Reporter,	21	300 North LaSalle
22	Certified Shorthand Reporter-CA (No. 8635)	22	Chicago, Illinois 60654
23		23	Appearing on behalf of Syncora Guarantee, Inc.,
24		24	and Syncora Capital Assurance, Inc
25		25	
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1		1	
2	APPEARANCES:	2	KELLY DIBLASI, ESQ.
3		3	WEIL, GOTSHAL & MANGES, LLP
4	RONALD A. KING, ESQ.	4	767 Fifth Avenue
5	FRANK J. GUADAGNINO, ESQ. (Pittsburgh Office)	5	New York City, New York 10153
6	CLARK HILL, PLC	6	Appearing on behalf of Financial Guaranty
7	212 East Grand River Avenue	7	Insurance Company.
8	Lansing, Michigan 48906	8	
9	Appearing on behalf of the Retirement Systems	9	
10	for the City of Detroit.	10	
11		11	MICHAEL BHARGAVA, ESQ.
12		12	CHADBOURNE & PARKE, LLP
13	CEOFEDEN C CTENNADT FCO	13	1200 New Hampshire Avenue, NW
14	GEOFFREY S. STEWART, ESQ.,	14	Washington, D.C. 20036
15	CHRISTOPHER DIPOMPEO, ESQ.,	15	Appearing on behalf of Creditor Assured
16 17	SARAH A. HUNGER, ESQ.	16 17	Guaranty.
	JONES DAY	17	
18	51 Louisiana Avenue, N.W.	18	
10	Washington, D.C. 20001	19	
19 20	Appearing on behalf of the Debtor and the Witness.	20	
20	,	21	
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7	New York, New York 10017	7	By Ms. DiBlasi 321
8	Appearing on behalf of Merrill Lynch.	8	3
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18	telephone)	18	
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	Page 9		Page 11
1	MALHOTRA	1	MALHOTRA
2	Washington, D.C.	2	MR. KEATLEY: Benton Keatley, Sidley
3	Tuesday, July 15, 2014; 9:09 a.m.	3	Austin, on behalf of National Public Finance
4		4	Guarantee.
5	THE VIDEOGRAPHER: We are on the record	5	MS. ENGLISH: Caroline English, Arent
6	at 9:09 a.m. This is the videotaped	6	Fox, on behalf of Ambac Assurance
7	deposition of Gaurav Malhotra taken in the	7	Corporation.
8	United States Bankruptcy Court, Eastern	8	
9	District of Michigan, in re: City of	9	GAURAV MALHOTRA, having first been duly
10	Detroit, Michigan, Debtor, Chapter 9, Case	10	sworn according to law, was examined and testified
11	No. 13-53846, on Tuesday, July 15th, 2014.	11	as follows:
12	We are at the location of Jones Day, 51	12	
13	Louisiana Northwest, Washington, DC. My name	13	EXAMINATION
14	is Adam Miller, the certified legal video	14	BY MR. SMITH:
15	specialist. The court reporter is Gail	15	Q. Good morning, Mr. Malhotra. You've been
16	Verbano from Elisa Dreier Reporting Company,	16	deposed several times before; correct?
17	950 Third Avenue, 5th Floor, New York,	17	A. That's correct.
18	New York.	18	Q. So you understand I'm going to ask you a
19	Will counsel please state their	19	series of questions. And you'll let me know if
20	appearance and affiliation for the record.	20	you don't understand any of the questions;
21	• • •	21	correct?
22	MR. SMITH: Doug Smith for Syncora.	22	*****
23	MR. STEWART: Geoffrey Stewart, Chris	23	A. Yes.
	DiPompeo and Sarah Hunger, Jones Day, for the		Q. And feel free to take a break any time
24	witness and for the City of Detroit.	24 25	or whatever you need. Okay?
25	MR. ALBERTS: Sam J. Alberts from	<u> </u>	A. Okay. Thank you.
	Page 10		Page 12
1	MALHOTRA	1	MALHOTRA
2	Dentons on behalf of the Official Committee	2	Q. You know, you are working in this case
3	for the Retirees.	3	as an expert in financial analysis. Is that fair?
4	MS. HUBBARD: Heather Hubbard from	4	A. Yes.
5	Waller on behalf of US Bank.	5	Q. You're not holding yourself out as an
6	MR. KING: Ron King with Clark Hill on	6	expert in urban policy; correct?
7	behalf of Detroit Retirement Systems.	7	A. That is correct.
8	MR. BHARGAVA: Michael Bhargava from	8	Q. You're not an expert in health benefits?
9	Chadbourne & Parke on behalf of Creditor	9	A. That is correct.
10	Assured Guaranty.	10	Q. Not an expert on government?
11	MR. POPEHN: John Popehn from Houlihan.	11	A. Government what?
12	Lokey.	12	Q. Government in general: function,
13	MS. DiBLASI: Kelly DiBlasi, Weil,	13	operations.
14	Gotshal & Manges, on behalf of FGIC.	14	A. That is correct.
15	MR. GUADAGNINO: Frank Guadagnino, also	15	Q. You're not an expert in tax policy?
16	on behalf of the Retirement Systems.	16	A. That is correct.
17	MR. STEWART: Could the lawyers on the	17	Q. You're not holding yourself out as an
1	phone please give their appearances.	18	expert in tax forecasting?
18	priorite please give trieli appearances.		
18 19	MS. HOSBACH: Marguerette Hosbach, Ernst	19	A. That is correct.
		19 20	A. That is correct.Q. You're not an expert on blight
19	MS. HOSBACH: Marguerette Hosbach, Ernst		
19 20	MS. HOSBACH: Marguerette Hosbach, Ernst & Young in-house counsel.	20	Q. You're not an expert on blight
19 20 21	MS. HOSBACH: Marguerette Hosbach, Ernst & Young in-house counsel. MS. HALADYNA: Kelley Haladyna of	20 21	Q. You're not an expert on blight reduction?
19 20 21 22	MS. HOSBACH: Marguerette Hosbach, Ernst & Young in-house counsel. MS. HALADYNA: Kelley Haladyna of Dickinson Wright on behalf of the State of	20 21 22	Q. You're not an expert on blight reduction?A. Yes, I am not.

Page 13 Page 15 1 **MALHOTRA** 1 **MALHOTRA** 2 2 the City had applied for to actually help the City A. That is correct. 3 3 Q. Not an expert on casinos or wagering get the supporting information. 4 4 Q. Would it be fair that your only revenue? 5 A. That is correct. 5 experience with government grants is in the 6 6 Q. Not an expert on information technology? context with the City of Detroit? 7 7 A. Information technology in terms of what? A. No. I have a couple other cases where 8 Q. In terms of the systems, the type of our team has been heavily involved in terms of 9 systems, and implementing those systems and the 9 evaluating some of the grant-related revenues of 10 10 cost of the systems. other public sector entities. 11 11 Q. Okay. So would you hold yourself out as A. I'm not an expert in that. 12 12 Q. You're not an expert on transportation an expert on government grants? 13 systems for municipalities? 13 A. Government -- like I said again, 14 14 A. That is correct. government grants is a broad topic. I can talk 15 15 Q. You're not an expert in economics? about the grants specifically, how they relate to 16 A. I'm not an expert in economics. 16 the City of Detroit. 17 17 Q. You're not an expert on accounting? Q. Okay. You're not an expert on state 18 18 A. What do you mean by that? revenue sharing, are you? 19 Q. Well, you're not a CPA, are you? 19 A. I understand the implications for the 20 20 A. I'm not a CPA. City of Detroit of state revenue sharing. I mean, 21 21 they're broad questions. So if you ask me Q. And you don't hold yourself out as an 22 22 accounting expert, do you? specifically about Detroit, I can be more 23 23 A. Well, in my overall financial analysis specific. 24 expertise, my background in accounting and 24 Q. Well, you're not some sort of policy 25 financial analysis is a part of that. So I don't 25 expert on state revenue sharing; correct? Page 16 Page 14 1 **MALHOTRA** MALHOTRA 1 2 know what you mean by I'm an expert in accounting A. The policy on state revenue sharing is 3 or not. 3 generally set by the State, not the City. It's a 4 4 Q. Have you ever been qualified as an State-driven mechanism. 5 5 expert in accounting in any proceeding? Q. So you wouldn't hold yourself out as an 6 6 A. I have not. expert on state revenue sharing based on your 7 7 Q. You don't -- did you do any auditing of experience that you've had? 8 financial statements? 8 A. For what? For City of Detroit or just 9 9 A. I do not do auditing, no. state revenue sharing for the State of Michigan in 10 10 Q. You're not an expert in government general? 11 grants; correct? 11 Q. In general. 12 A. Well, government grants is a broad 12 A. In general, different states have 13 13 topic. What grants specifically are you talking different mechanisms in terms of how State aid is 14 about? 14 spent. So I can't talk to different states. I 15 Q. Well, any government grants, federal or 15 can talk to how the state revenue sharing impacts 16 state. You're not an expert in government grants? 16 the City of Detroit and the components and the 17 A. In what context? I mean, government 17 elements of that. 18 grants is a broad topic. And how they relate to 18 Q. Have you ever done forecasting for a 19 the City of Detroit, I can speak in-depth about; 19 city before the Detroit matter? 20 20 but I don't know what you mean by government A. We were working with two other cities 21 grants in general. 21 right now in terms of helping them forecasting. 22 22 Q. You've never been involved in applying Q. Which other cities are those? 23 23 for a government grant? A. Those are confidential. 24 A. Actually, our team helped prepare the 24 Q. I mean, just the name of the cities, you 25 City for some of the fire and SAFER grants that 25 can't disclose to me?

Page 17 Page 19 1 **MALHOTRA MALHOTRA** 2 2 A. That is correct. Q. You're not holding yourself out as an 3 Q. And what period of time have you been 3 expert in risk management or insurance; correct? 4 4 A. Again, I'll ask the same question: Risk doing that? 5 5 management, insurance for what? Because all of A. One of them has been over a year. One 6 6 of them has been in the last, I would say, six these points have specific implications on the 7 7 City of Detroit and the financial analysis and months. 8 8 forecasts for the City of Detroit. Q. Before you started your forecasting work 9 9 Q. Okay. Well, I mean, you've never done for Detroit, you didn't have any experience doing 10 10 any work in the area of risk management, have you? a forecast for a city; correct? 11 11 A. I've looked at a lot of the expenses A. We did it for Detroit Public Schools, 12 12 which was another large government sector -that the City of Detroit has been spending on risk 13 public sector entity. We did not do it for a 13 management insurance claims over the last three 14 14 years. So I understand where the City has been 15 15 Q. Okay. So before your work for the City spending that money. 16 of Detroit, you had never done forecasting for a 16 Q. Okay. Before your work for the City, 17 17 you didn't -- you hadn't done any work on risk city specifically; correct? 18 18 A. Most of the -- that is correct. management; is that correct? Q. You're not holding yourself out as an 19 19 A. No. When it comes to specific other 20 20 expert on Chapter 9 bankruptcy, are you? clients and you see where they are spending more 21 21 and if risk management is -- or self-paying, A. No, I'm not. 22 22 Q. This is the first Chapter 9 bankruptcy self-insurance claims is a big component, you have 23 23 you've worked on; correct? to analyze those costs. So I have looked at them 24 24 in specific instances where claims are a large A. Yes, it is. 25 25 part of a spend. Q. And you'd agree with me that Chapter 9 Page 18 Page 20 1 MALHOTRA 1 **MALHOTRA** 2 But I -- so all I'm asking is, are you 2 bankruptcy is extremely rare? 3 3 asking the question in the context of Detroit or A. I don't want to comment on that. 4 4 Q. You're not going to answer that just risk management? 5 5 question? Q. Risk management in general. You 6 6 A. Rare in context of what? Is it in wouldn't hold yourself out as an expert in that; 7 7 context of Chapter 11 or is it in context to other correct? 8 bankruptcies? So you have to give me a relative 8 A. I would -- I could only talk about the 9 9 point to answer that question. risk management and insurance claims for the City 10 10 of Detroit. That's what I would -- that's what I Q. It's very rare for a city -- out of all 11 the cities in the United States, it's very rare 11 would be comfortable talking about. 12 for a city to have entered into a Chapter 9; 12 Q. Were you involved in putting -- were 13 13 there some forecasts with the creditor proposal right? 14 A. Well, there are different state laws 14 that accompanied that? 15 that impact the ability of cities to enter 15 A. Which creditor proposal? 16 16 Chapter 9 or not. But I would say Chapter 9s are Q. The one in, I think -- guess it was 17 17 less common than Chapter 11s. I mean, I'm 2013, before the bankruptcy. 18 18 comfortable saying that. A. Yes, there were forecasts, and we were a 19 Q. Okay. And it would be a minute fraction 19 part of pulling those together. 20 20 of cities that ever have entered Chapter 9; Q. And that was my question. 21 21 A. Thank you for the clarification. 22 22 A. I don't understand minute or not. But I Q. You were personally involved in that? 23 23 think the number of Chapter 9 filings is limited A. I was. 24 24 relative to Chapter 11 filings. I'm comfortable Q. Okay. In your opinions in this case,

you're relying on some other experts, such as

25

saying that.

Page 23 Page 21 MALHOTRA 1 MALHOTRA 2 Mr. Cline, Ms. Sallee, Conway MacKenzie, Buckfire, 2 But, yes, the ones who have done the 3 3 and Milliman; is that correct? analyses will have better knowledge of all the 4 4 A. That is correct. details in them. 5 Q. And do you defer to Mr. Cline with 5 Q. In order to put together your forecast, 6 6 respect to his analyses of the various taxes in was it necessary to use experts in different 7 his report? 7 disciplines to assist you in pulling together the 8 A. When you say I defer to, I have looked 8 different pieces of the forecast? 9 at the assumptions and the details and some of the 9 A. Could you ask me the question again, 10 supporting information that Bob and Caroline have 10 please? 11 used and have conversed with them and had 11 Q. In order to perform your forecast, was 12 discussions with them about it. So I don't know 12 it necessary to use experts in different 13 your question about defer to them. 13 disciplines to pull together pieces of the 14 Q. Well, who is more knowledgeable about 14 forecast to help you put it all together? 15 15 the analyses Mr. Cline did? Mr. Cline or you? A. Yeah, when you say "was it necessary," 16 A. Mr. Cline did the analysis, so of course 16 in my judgment, having the right subject matter 17 17 he would be more knowledgeable about the analysis. expertise in various topics helps make the 18 18 Q. And Ms. Sallee would be more forecast more reliable versus less reliable. 19 knowledgeable about the analyses she did than you 19 Q. Okay. So you sought out experts in 20 20 would be; correct? diverse subject matters to assist you with 21 21 A. That is correct. different components of the forecast; correct? 22 22 Q. Okay. And Conway MacKenzie would be A. Yes. 23 23 more knowledgeable about their analyses than you Q. And that would include Milliman and 24 24 would; correct? Conway MacKenzie and Buckfire and your colleagues 25 A. In terms of the minutia and the detail, 25 at Ernst & Young; correct? Page 22 Page 24 1 **MALHOTRA** 1 MALHOTRA 2 the answer would be yes. But I have had A. That is correct. There were different 3 3 discussions with each one of them in detail about team members who were charged for first 4 4 the broad assumptions that are being used and the understanding all of the detailed assumptions for 5 5 sources of data that are being referred to as the a particular subject matter. 6 6 different teams have been pulling the information Q. And did you also rely on experts from 7 7 the City of Detroit in putting together your together. 8 Q. And Buckfire and Milliman would be more 8 analysis? 9 9 knowledgeable about their analyses than you would; A. When you say "experts from the City of 10 10 correct? Detroit," who are you referring to? 11 A. People who have worked on their specific 11 Q. Well, I guess, you relied on -- did you 12 part of the analyses would be more comfortable 12 rely on anybody from the City of Detroit? 13 13 with all of the detail and minutia in there, in A. Yes. The City of Detroit's management 14 their respective analysis. 14 team was involved in helping pull together some of 15 Q. Why are you relying on other experts in 15 this information that is in the forecast. 16 16 putting together your forecast? Q. Okay. And were there people at the City 17 17 A. Because, as I said, that there is -of Detroit whose expertise you relied on for 18 18 there are a lot of topics that are relevant in various assumptions or other information in your 19 19 this case, and each subject matter requires a forecast? 20 2.0 great amount of detailed information. And there A. I would say there was -- I don't know 21 are experts that we have on the case who are 21 about expertise versus not. We had lots of

Pages 21 to 24

discussions with lots of people at the City about

specific line items. I mean, as you can see, the

forecast has got a lot of detail in there. So we

had several discussions with several people. I

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analyses.

relying -- who are doing their work in that

detailed analysis. But I understand most of the

larger assumptions that are embedded in those

Page 27 Page 25 1 **MALHOTRA** 1 **MALHOTRA** 2 just don't know what you're referring to when you 2 the Detroit matter? 3 say expertise versus not. 3 A. I would say somewhere between 65 to 4 4 Q. Well, did they have -- I mean, did they 100 percent, depending on the week. 5 have expertise in various aspects of the City's 5 Q. And would it be fair to say that the 6 6 operations, the people that you relied on? Detroit matter is the most significant matter 7 7 A. The people that we talked to and relied you're working on? 8 on had, in their particular function, been doing a A. All of our clients are important and 9 certain job for a long time and understood, as 9 significant. I wouldn't say it's the most 10 10 well, why some of the changes in the historical significant versus least significant. 11 11 financials were either normalized or not. Q. Do you get some sort of billing credit 12 12 So we had lots of discussions. I just for the Detroit matter? 13 don't know how I can answer on relying on their 13 A. What does that mean? 14 14 expertise versus not. Q. Well, do you -- is your compensation 15 15 Q. Okay. You did rely on information from increased at all as a result of Detroit matter? 16 the City, though, in putting together your 16 Is it -- or not? 17 17 forecast; correct? A. There is no direct correlation between 18 18 A. That is correct. Detroit's billing and my compensation. 19 Q. And you know the emergency manager has 19 Q. Okay. How many people at Ernst & Young 20 characterized the City's operations as 20 are working on the Detroit matter? 21 21 dysfunctional; correct? A. Somewhere between 10 and 20. 22 22 A. I do not recall that specific comment. Q. And has -- how much, total, has Ernst & 23 23 Q. Well, a number of people have criticized Young billed the City for its work? 24 24 the City's operations as dysfunctional; isn't that A. I would have to go back and check, but I 25 25 think it's in excess of 10 million, but I don't correct? Page 26 Page 28 1 **MALHOTRA MALHOTRA** 1 2 A. It depends on what time frame people are have the exact number. 3 referring to. 3 Q. Would it be in excess of 20 million? 4 4 Q. Well, they've done it all the way A. No. 5 through -- in the last few years consistently Q. So someplace between 10 and 20 million? 6 called the City's operations dysfunctional. 6 A. That is a fair estimate. I don't have 7 7 MR. STEWART: Objection. the exact number. 8 BY MR. SMITH: 8 Q. The 10 percent holdback, whose idea was 9 9 Q. Correct? that? 10 10 A. I don't want to make -- that's -- I A. 10 percent holdback on what? 11 don't want to make a broad statement like that. 11 Q. On Ernst & Young's compensation that you 12 I'm not comfortable saying yes or no to that. 12 reference in your report. 13 13 Q. Okay. So you won't give an answer to A. It wasn't an idea. It was a -- a 14 that question? 14 negotiation with these -- with the City and the 15 A. I just -- I think if you could ask me 15 State in terms of the fees. 16 16 the question about a specific revenue or an Q. Okay. So in coming to your arrangement 17 17 expense line item and with -- but just a general for working on the Detroit matter, you negotiated 18 comment on operations, it's hard for me to make a 18 with both the City and the State; is that correct? 19 19 comment on that. A. Yes. Our engagement letter was sent to 20 20 Q. Okay. Are the City's operations today the City, and it was also then sent forward to the 21 dysfunctional or not? 21 22 22 A. I'm not an expert on judging whether all Q. And did the State or City request the 23 23 the operations of the City are dysfunctional or 10 percent holdback or did Ernst & Young propose 24 not. 24 that? 25 25 Q. What percent of your time is spent on A. It was a reduction in the fees. It

Page 29 Page 31 1 **MALHOTRA** 1 **MALHOTRA** 2 2 Q. Okay. Are you aware of any formal was -- it was, I think, brought up by either the 3 3 State or the City. I just don't remember studies by the City to ascertain whether it can 4 4 increase revenues more than it already has? specifically. 5 Q. Does the 10 percent holdback -- do you 5 A. There have been various consultant 6 6 have an arrangement like that in any other matter studies over the last few years, and so . . . 7 7 Q. Would it be fair to say that a number of that you've worked on? 8 consultants the City has retained have given it A. I would have to go back and check. We 9 9 ideas for increasing revenues significantly over offer discounts in different engagements, and I 10 10 the last few years? would have to go back and check. 11 11 Q. But have you ever done a contingent fee A. I don't know the definition of 12 12 "significantly" in the context that you're arrangement before for your work? 13 MR. STEWART: Objection. 13 referring to, but there's lots of consultants that 14 14 have provided ideas to the City for increasing I'm sorry. You were about to answer. 15 15 revenues. I didn't mean to interrupt your 16 16 Q. And the City has not adopted all the question, Mr. Smith. 17 17 ideas it's been provided for increasing revenues You have my objection, correct? 18 18 THE COURT REPORTER: I do. as of today; correct? 19 THE WITNESS: Can you ask your question 19 A. Some of these consultant studies go back 20 20 again? I'm sorry. a long way, and I think some of them have been 21 21 BY MR. SMITH: incorporated and some of them have likely not been 22 22 incorporated. So I can't comment whether each and Q. Have you ever had a contingent fee 23 23 arrangement in any other matter that you've worked every idea that's been brought forward by a 24 24 consultant to increase revenue has been 25 25 incorporated. MR. STEWART: Same objection. Page 30 Page 32 1 **MALHOTRA** 1 **MALHOTRA** 2 2 THE WITNESS: Yes. Q. Okay. But you knew that there are ideas 3 BY MR. SMITH: 3 that have been brought forth by experts the City's 4 4 Q. Have you ever had a contingent fee retained to increase revenues that haven't been 5 arrangement in any other bankruptcy matter you've adopted by the City; correct? 6 6 MR. STEWART: Objection. worked on? 7 7 A. I would have to go back and check. THE WITNESS: So I would just like 8 8 clarification in terms of which experts Q. Do you have any -- have you ever had a 9 9 contingent fee arrangement in any other matter you're referring to. 10 10 involving litigation? BY MR. SMITH: 11 A. I would have to go back and check. 11 Q. Well, you mentioned that there are a 12 12 series of consultants the City has hired to look Q. Does the 10 percent holdback apply to 13 13 all fees that Ernst & Young has charged or a at increasing revenues; correct? 14 14 A. That is correct. And what I was portion of the fees? 15 A. It would only be for the portion of the 15 referring to is historically, since this is going 16 back -- we can go back 5, 10 years, you will find 16 fees since the City has filed bankruptcy. 17 17 Q. Okay. And so it would cover the fees reports where, you know, people have ideas how to 18 18 that you're charging for your expert work in this increase revenue. 19 19 case, developing the report and testifying? Q. Yeah. And my only question is, the City 20 20 hasn't adopted all the ideas for increasing A. I believe so, yes. 21 Q. And it would also apply to the time that 21 revenue that have been provided by independent 22 22 Mr. Cline and Ms. Sallee have been putting in consultants; correct? 23 23 A. Sure. The City has -- has always had working as experts in the case? 24 24 A. I believe so, yes, but I would like to consultants that have provided ideas. Whether all 25 25 reconfirm that. of the ideas have been incorporated at a given

Page 33 Page 35 1 **MALHOTRA MALHOTRA** 2 point in time, it's hard for me to say. 2 involved in any policy decisions, but we were able 3 3 Q. Well, today -- as of today, you're aware to quantify the impact of what that was. 4 4 of revenue-generating ideas that have been Q. Okay. But you haven't been specifically 5 provided the City by consultants that it hasn't 5 retained by the City to generate ideas for further 6 6 implemented; correct? increasing revenue; is that fair? 7 7 A. I mean, is there a particular example A. I would say that is fair in general, 8 that you're thinking of? It would be a lot easier that we haven't gone to do a market study on 9 for me if somebody would say, "Has X, Y, Z been 9 specific rates and whether they should be 10 implemented?" I would have a better way to say yes 10 increased or not. 11 11 or no versus just a broad statement, have ideas Q. Whose depositions have you reviewed in 12 been incorporated by the City or not. 12 this case? 13 Q. Privatizing parking. It hasn't yet 13 A. Since when? 14 privatized parking? 14 Q. Well, since forever. I'm trying to find 15 15 A. That is correct. It has not been out whose depositions you have reviewed in the 16 privatized yet. You're correct. 16 case at any point in time. 17 17 Q. Or leasing out the water and sewage A. Whose depositions? 18 18 function; correct? That hasn't been done yet, has Q. Yeah, deposition transcripts. 19 19 A. I do not recall. I -- I was -- I think 2.0 A. I believe there is active mediation 20 I was sent Kevyn Orr's deposition from months ago. 21 21 going on in that, but you're correct. It has not That just comes to mind. But I do not recall any 22 22 been done yet. specific depositions that I've reviewed. 23 23 Q. So there are a number of proposals for Q. Have you reviewed Gary Evanko's 24 24 increasing revenue that the City has been provided deposition? 25 by outside consultants that haven't been 25 A. No. Page 34 Page 36 1 MAI HOTRA 1 **MALHOTRA** 2 implemented yet; correct? Q. Did you ever speak to Mr. Evanko in 3 A. You have listed two, and I agree that 3 preparing the forecast? 4 4 those two have not been implemented. A. I did not, but I know that there may 5 Q. Okay. And there are others you're aware 5 have been some -- yes, I have not. 6 that haven't been implemented; correct? 6 Q. And has anybody from Ernst & Young 7 7 A. You know, if there's others that you spoken to Mr. Evanko? 8 have specific examples on, I'm happy to say 8 A. I think Caroline Sallee may have 9 9 whether they have or have not. But I would say exchanged emails with him. I don't know if she's 10 10 those -- DWSD has not been implemented, and spoken to him or not. 11 there's mediation going on on that; and parking, 11 Q. The actual model that you started with, 12 my understanding is that there's some active 12 where did that come from that you used for your 13 13 forecast? discussions going on, but it has not been done 14 yet. 14 A. Came from Excel spreadsheet. 15 Q. Okay. The -- has the City ever asked 15 Q. Okay. Did you basically have to create 16 Ernst & Young to look for ideas to increase 16 the model? 17 17 revenues? A. Yes. It was -- it was supporting 18 A. I don't recall if there's a specific 18 information like the historical, actual 19 19 item that talks about how to increase revenues performance of the City, but it started from a 20 20 that is in our scope, but we have had discussions clean Excel spreadsheet. 21 with the City how to continue to improve the 21 Q. Okay. So the model that's used in the 22 22 processes of collections and so on and so forth. forecasting that you've prepared for Detroit was 23 23 There was active discussions when the created for purposes of this bankruptcy. Is that 24 City increased the corporate tax rate from 24 fair? 25 25 1 percent and 2 percent. And although E&Y was not A. It evolved into what we are using in the

Pages 33 to 36

	Page 37		Page 39
1	MALHOTRA	1	MALHOTRA
2	bankruptcy. We did not start off with a model	2	A. Well, let me just yeah, I would like
3	that was created for a bankruptcy.	3	to understand that question better. Testing in
4	Q. Okay. Would it be fair to say that the	4	what context?
5	model that you used for your forecasting was	5	Q. Any sort of testing. You never you
6	created for the City of Detroit; it didn't exist	6	don't even know what what was done in other
7	before your retention by the City of Detroit?	7	Chapter 9 bankruptcies; correct?
8	A. The model, the way it stands today,	8	A. Well, that's a broad I have some
9	was that is correct. It did not it wasn't	9	sense of what's going on in Chapter 9 bankruptcies
10	in existence before we started working on this	10	around the country, but not from what's happening
11	engagement.	11	in their financial models.
12	Q. Can you identify any Chapter 9	12	So I just don't understand your question
13	bankruptcy where an expert has done forecasting	13	of testing a financial model for Detroit against a
14	similar to what you've done in this case?	14	financial model for another Chapter 9. Is that
15	A. I have not gone and reviewed the	15	your question?
16	Chapter 9 bankruptcy, so I wouldn't be able to	16	Q. You don't know what financial models
17	comment if they have or have not.	17	have been used in other Chapter 9s; correct?
18	Q. So in preparing the model, you didn't	18	A. I do not know the components of the
19	seek to ascertain what had been done in previous	19	financial models of other Chapter 9 cases; that is
20	Chapter 9 bankruptcies so you could conform what	20	correct.
21	you did to standard practices in Chapter 9	21	Q. Before Ernst & Young was retained, was
22	bankruptcies; correct?	22	the City doing any forecasting?
23	MR. STEWART: Objection.	23	A. Forecasting for what? Budgets?
24	THE WITNESS: I don't know how other	24	Q. Its revenues and expenditures, similar
25	Chapter 9 bankruptcy financial models are	25	to the forecasts that you've produced in this
	Page 38		Page 40
1	MALHOTRA	1	MALHOTRA
1 2	MALHOTRA relevant to Detroit's Chapter 9 financial	1 2	MALHOTRA case.
2 3 4	relevant to Detroit's Chapter 9 financial	2 3 4	case. A. Well, I'll answer the first part of the question. I don't know whether they were similar
2	relevant to Detroit's Chapter 9 financial model. BY MR. SMITH: Q. Okay. That wasn't my question.	2 3 4 5	case. A. Well, I'll answer the first part of the question. I don't know whether they were similar or not. But, yes, the City goes through a budget
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	relevant to Detroit's Chapter 9 financial model. BY MR. SMITH: Q. Okay. That wasn't my question. You haven't looked at any other Chapter 9 financial models; correct? A. I did not go and look at other Chapter 9 financial models; that is correct. Q. So you didn't do any testing of the reliability of your model by comparing it with other models that have been used in other Chapter 9 bankruptcies; correct? A. What kind of models, though? Q. Financial models, forecasting models. A. Yeah, the financial forecasts for Detroit is based on the assumptions for Detroit. So I don't know why Chapter 9 models, the way you said it, in other Chapter 9 filings are even relevant for Detroit. Q. That's not my question. My only point is you haven't gone and	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	A. Well, I'll answer the first part of the question. I don't know whether they were similar or not. But, yes, the City goes through a budget process every year in which they produce a budget. Q. Okay. And so the City was producing its own forecast before you produced your forecast; correct? A. The City produces an annual budget which is what I said, every year. Q. Okay. And that's a forecast? A. Yes. It's a budget for the next year, for one year. Q. Okay. So the only the length of time the standard length of time the City used for its forecasts before Ernst & Young was retained was one year? A. That is broadly that is generally correct, yes. There was I don't remember whether there was specific instances where certain elements of the projection were carried forward
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1	MALHOTRA	1	MALHOTRA
2	that were probably, you know, taken out longer to	2	partially for the triennial budget. That's what I
3	see what the impact of those revenues or expenses	3	was referring to.
4	were.	4	Q. Okay. And is there other and there's
5	Q. You can't identify any budget for the	5	forecasts done for purposes of that triennial
6	City of Detroit that's done forecasting over a	6	budget; is that correct?
7	period as long as 10 years; correct?	7	A. The triennial budget is being developed
8	A. I do not recall of a 10-year budget that	8	in conjunction or, you know, similar to what the
9	the City had at that point in time; that is	9	first three years of the financial forecast look
10	correct.	10	like for the City.
11	Q. And the City's budgets, when they were	11	Q. Okay. And so there's a are there a
12	doing their forecasting, were all one-year	12	group of outside experts who were involved in
13	budgets; correct?	13	reviewing that that budget and forecast?
14	A. I thought I just answered that question,	14	A. I do not know of external parties
15	that they were they used to do a one-year	15	reviewing the triennial budget of the City
16	budget in general, and there were certain items	16	specifically.
17	that I think they could have had revenues or	17	Q. Do you work with Shavi Sarna?
18	expenses going on beyond one year.	18	A. I do.
19	But generally, you're right; the City	19	Q. What's is it Mr. Sarna's role on
20	generally does one-year budgets and now has	20	that, on the project?
21	started is going to start doing three-year	21	A. Shavi is one of our managers who is
22	budgets.	22	helping on various components of the project.
23	Q. Now there's a consensus group that's	23	Q. What components?
24	doing forecasting for the City; correct?	24	A. He's been looking at Department of
25	A. Consensus group in what way?	25	Transportation, looking at some of the revenue
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	Page 42		Page 44
1	MALHOTRA	1	Page 44
1 2		1 2	_
	MALHOTRA		MALHOTRA sources maybe on the revenue conference. He's
2	MALHOTRA Q. Well, there's a forecast that's called,	2	MALHOTRA sources maybe on the revenue conference. He's
2	MALHOTRA Q. Well, there's a forecast that's called, like, the consensus forecast that is put together,	2	MALHOTRA sources maybe on the revenue conference. He's been helping with some of the cash projections. A
2 3 4	MALHOTRA Q. Well, there's a forecast that's called, like, the consensus forecast that is put together, you know, in conjunction with the financial	2 3 4	MALHOTRA sources maybe on the revenue conference. He's been helping with some of the cash projections. A variety of detailed items.
2 3 4 5	MALHOTRA Q. Well, there's a forecast that's called, like, the consensus forecast that is put together, you know, in conjunction with the financial advisory board, I believe?	2 3 4 5	MALHOTRA sources maybe on the revenue conference. He's been helping with some of the cash projections. A variety of detailed items. Q. And is he working 100 percent of his
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A. I can't comment on that. 3. Q. Why can't you comment on it? 4. A. Because that's something that would be better asked of Ken Buckfire whether how the S47 million, whether it's reasonable or not. 7. Q. Okay. And you mentioned it's in mediation (right now. What exactly is going on there, based on your understanding? 11. Q. Your forecast doesn't include the 12. 47 million that Mr. Orr has mentioned as a potential annual revenue source from DWSD: 13. 4 correct? 12. A. I don't know. 13. Q. And you don't have any money from 14. That is correct. We do not have 15. A. That is correct. We do not have 25. The manual of the forecast: Correct? 22. A. That is correct. We do not have 25. The manual of the forecast is correct? 22. A. That is correct. We do not have 25. The manual of the forecast is correct? 24. A. That is correct. 25. C. And you don't have any money from 26. The forecast is correct? 26. A. That is correct. 27. A. That is correct. 28. A. That is correct. 29. C. And you don't have any money from 29. The forecast is correct? 29. C. Have you seen estimates of the potential of the forecast? 29. C. That are not included in the forecast is correct? 29. C. That are not included in the forecast is correct? 29. C. That are not re- what would be the biggest areas of potential cost saving		Page 45	Page	47
Q. And that's in your forecast; correct? A. Because that's something that would be better asked of Ken Buckfire whether how the \$47 million, whether it's reasonable or not. Q. Oxay. And you mentioned it's in rediation right now. What exactly is going on there, based on your understanding? Here, based on your understanding? A. I don't know. Q. Oxay And you forecast that you're aware that the City has looked at? A. I don't know. Q. Oxay Care there privatization are avare that the City has looked at? A. I'm sorry. It was too long a question. A. I'm sorry. It was too lon	1	MALHOTRA	1 MALHOTRA	
A. Because that's something that would be better asked of Ken Buckfire whether how the S47 million, whether it's reasonable or not. O. Okay. And you mentioned it's in mediation right now. What eachly is going on there, based on your understanding? 10 A. I don't know. 11 Q. Your forecast doesn't include the 12 47 million that Mr. Orr has mentioned as a 13 potential annual revenue source from DWSD; 13 A. That is correct. We do not have 14 correct? 15 A. That is correct. We do not have 15 forecast. 16 Q. And you don't have any money from 16 privatization or leasing of DWSD in the forecast; 20 correct? 17 A. That is correct. 18 Q. And you don't have any money from 17 privatization or parking in the forecast; 20 correct? 19 A. That is correct. 10 A. That is correct. 11 A. That is correct. 12 Q. And you don't have any money from 23 privatization of parking in the forecast; 21 correct? 18 MALHOTRA 2 revenue from privatizing parking? 3 A. I have not seen a direct estimate, but 19 revenue from privatizing he parking? 3 A. I have not seen a direct estimate, but 19 revenue from privatizing parking? 4 A. No, that's in totality. O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that on an annual basis or not? O. Okay. Is that one dear each of the cast in the level of staffing potentially. Poten	2	A. I can't comment on that.	2 \$6 million.	
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25 year '14 to fiscal year '15. It's almost 25 not an action the City can take unilaterally.	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	revenue from privatizing parking? A. I have not seen a direct estimate, but I've heard wide ranges of numbers. Q. What are the ranges of numbers you've heard for privatizing the parking? A. It could be 20 million or 50 or 100 million. There was a wide range. But Q. Okay. Is that on an annual basis or not? A. No, that's in totality. Q. Okay. That would be an up-front payment of between 20 and \$100 million? A. I do not Q. For parking? A know whether it's upfront or not. Q. Who is the most knowledgeable about privatizing the parking? A. I would say Miller Buckfire. Q. Do you know if there are other asset sales or privatization efforts the City has been contemplating or reviewing? A. Yes. There was a sale of the Veteran Memorial Building that got pushed back from fiscal	head from the standpoint of what has not be incorporated. I'm sure if some of the assets sold, there will be a corresponding reduction the level of staffing potentially. Potentially. But I do not you know, if there's a specific item that you have in mind, I'd be happy to whether it's in the forecast or not. Q. The City could always cut costs further by reducing wages; correct? A. Well, the City once the City is a part of a collective bargaining agreement, I think that's correct. Q. Well, the City could always amend the collective bargaining agreements to reduce wages correct? A. No. Q. Well, with the unions. It could cooperate with the unions to reduce wages further correct? A. It's been hard to do, looking at the correct or not. It has to be discussed with the unions, ratified by the union members. So i	are n in ssay don't

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Page 49 Page 51 **MALHOTRA** 1 1 **MALHOTRA** 2 Q. So in your experience, the emergency 2 factor on both the costs, because in certain costs 3 3 manager hasn't been effective in reducing labor the costs will go up because the level of service 4 4 is getting better. So it's hard for me to make 5 A. The employees are working with a 5 that statement. 6 6 10 percent wage cut. Q. Well, I know. But you -- I mean, I'm 7 7 Q. So, in your view, has the emergency just interested in revenues and costs; right? And 8 manager been effective or not in reducing labor 8 what the City has actually done. 9 9 So are there any privatization matters 10 10 A. In overall labor cost, I would say the you're aware of where the City has failed to 11 11 outsourcing of the solid waste helped reduce the either reduce costs or increase revenues? 12 12 labor cost, because those operations were A. Like I said, it depends on the level of 13 outsourced, I believe. But that did help the 13 service, so I can't -- I'd be speculating as to 14 14 reduction in labor costs compared to where they whether it's --15 15 were earlier. And I would say -- so I think he Q. It's not --16 has been effective in that in terms of 16 MR. STEWART: Please let him finish his 17 17 implementing some of those outsourcing answer. 18 18 Finish your answer. initiatives. 19 Q. Outsourcing and privatization is an 19 BY MR. SMITH: 20 20 effective mechanism, both of increasing revenue Q. Okay. Go ahead. 21 21 and reducing costs; is that correct? A. Whether the cost comes down or not, it 22 22 A. Not always. It has to be in the depends on the level of service. Whether the 23 23 construct of the level of service that it's revenue goes up or not, it's also in conjunction 24 24 provided. with the level of service. 25 Q. But outsourcing and privatization can be 25 So like I said earlier, like, if DWSD is Page 50 Page 52 1 **MALHOTRA** 1 **MALHOTRA** 2 an effective mechanism for increasing revenue and leased or something like that, the potential 3 reducing costs; correct? 3 revenue stream that may come from that is not 4 4 A. I thought I just answered that. It has included in this forecast. It could be an 5 5 to be in the construct of the level of service opportunity. 6 6 that has to be provided. Q. And I'm not talking about the 7 7 Q. Well, the City has used privatization privatization efforts that haven't occurred yet. 8 I'm talking about privatization efforts or and outsourcing as an effective mechanism of 9 9 increasing revenue and reducing costs; correct? outsourcing that has occurred, like you mentioned 10 10 A. Not always. In certain cases, the cost the garbage collection. 11 comes down, but the revenue does not go up. 11 A. That's correct. 12 12 Q. And I'm wondering, for the areas that Q. Okay. 13 13 A. And it all depends on the level of have been privatized already, are there any where 14 14 the City failed to realize cost savings or revenue service. 15 Q. I mean, have there been any 15 increases from the privatization effort? 16 16 privatization efforts the City's undertaken that A. I do not know. 17 17 you believe have not been successful in either Q. You can't identify anything where -- any 18 18 reducing costs or increasing revenues? privatization efforts, sitting here today, where 19 A. Can you ask me that again, please? 19 the City failed to realize cost savings or revenue 20 20 increases; is that fair? Q. Are there any privatization efforts the 21 City has undertaken that you believe have not been 21 A. That's not fair. So it depends on the 22 22 successful in either reducing costs or increasing level of service that has been provided as a part 23 23 of any outsourcing. revenues? 24 24 A. Yeah. Again, I keep coming back. It's Q. Okay. Can you identify for me any 25 25 the level of service that has the determining privatization effort the City has undertaken

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Page 55 Page 53 1 MAI HOTRA 1 **MALHOTRA** 2 already where it failed to realize cost savings or 2 depending on the circumstances and the level of 3 3 revenue increases? Can you come up with an service to reduce or eliminate the general fund 4 4 subsidy to Department of Transportation; correct? 5 A. I would not know that from the top of my 5 A. It could be explored, but I'm not sure 6 6 head at this juncture because it would all be whether the subsidy would be eliminated or 7 7 relative to the level of service. reduced. 8 8 Q. There have been proposals to move the Q. Your forecast doesn't include any 9 9 Department of Transportation to a regional adjustment for moving the Department of 10 10 authority. You're aware of that; correct? Transportation to a regional authority; correct? 11 A. There was some discussions about that; 11 A. That is correct. 12 12 that is correct. MR. SMITH: We can take a break. I 13 Q. And the City believed that it could 13 think the court reporter wants a break. 14 14 reduce the sums paid by the general fund to the THE VIDEOGRAPHER: Going off the record 15 15 Department of Transportation if it moved it to a at 10:02. This is the end of Tape No. 1. 16 regional authority; correct? 16 (Short break taken.) 17 17 A. No, I don't think that's correct. THE VIDEOGRAPHER: Back on the record at 18 18 Q. We'll look at some -- why -- what was --10:10. This is the beginning of Tape No. 2. 19 were there any benefits in terms of revenue or 19 BY MR. SMITH: 20 20 cost to the general fund from transferring the Q. At some point Ernst & Young was looking 21 Department of Transportation to a regional 21 at some ideas for cost cutting for the City; is 22 authority? 22 that correct? 23 23 A. The general fund subsidizes the A. Yes. 24 24 Department of Transportation significantly. That Q. And are there any proposals for cost 25 is fact. If it were moved into a regional transit 25 cutting that Ernst & Young raised that haven't Page 54 Page 56 1 **MALHOTRA** 1 **MALHOTRA** 2 authority, it would depend on the level of service been adopted by the City? 3 that had to be provided and what subsidy, if any, 3 A. Nothing substantive that comes to the 4 4 top of my head right now. If you have specific or in excess, the general fund would still be 5 5 responsible for if that transition were to take ideas, I could definitely say yes or no. But 6 6 nothing big that comes -place. 7 7 So it's that -- that would -- it would Q. I mean, are you still looking at cost 8 basically -- yes, the general fund continues to 8 cutting for the City, or did that stop at some 9 9 subsidize Department of Transportation. point? 10 10 Q. But by -- moving the Department of A. I would say that after the wage 11 Transportation to a regional authority, the City 11 reductions that were imposed on the employees with 12 12 respect to the 10 percent wage cuts and the could reduce or eliminate the subsidy from the 13 13 12-hour shifts that were imposed, which were, general fund, depending on the level of service; 14 correct? 14 again, big-ticket items with respect to wages, 15 A. No. Just because it moves the authority 15 the -- there was an ongoing focus in terms of how 16 16 to continue to reduce the costs also by -- in elsewhere, it doesn't -- it's hard to predict what 17 17 that structure of the transaction would look like, terms of the transition of the grid. 18 18 But I would say our focus was, in the because general fund also has the ongoing costs 19 19 that it subsidizes DDOT, so -- the Department of last few months, has not been on more cost cutting 20 20 Transportation. So I don't know whether the specifically on wages, but it was because of all 21 subsidy would be eliminated or not. 21 the imposition of the wage cuts that had already 22 22 Q. While -- I'm just saying that it's been made. 23 23 possible -- it's a mechanism -- moving the Q. The City also has made significant 24 24 Department of Transportation to a regional headcount reductions over the last couple of 25 authority is a mechanism that could be used years; is that fair?

Page 57 Page 59 1 **MALHOTRA** MALHOTRA 2 2 one. The City has reduced its payroll-related A. Yes. In the -- in the combination of 3 3 attrition and other cuts, the City has lost a costs compared to two years ago. But a lot of 4 4 that has also come through attrition. And whether tremendous amount of headcount. 5 Q. And those headcount reductions are an 5 not replacing them, what impact that has had on 6 6 important mechanism by which the City has the quality of service the City has provided, I 7 7 don't know. addressed its fiscal condition; would you agree 8 8 with that? Q. That wasn't quite my question. My 9 9 question is, the City engaged in headcount (Discussion held off the 10 10 reductions to cut costs to improve its fiscal stenographic record.) 11 11 condition; isn't that correct? I mean, there was THE WITNESS: Could you ask me the 12 12 a policy of the City that it put in place to question --13 BY MR. SMITH: 13 reduce headcount to save costs and improve the 14 14 fiscal condition; correct? Q. Yeah, I can ask it again. The headcount 15 15 reductions are an important mechanism the City has A. The biggest focus was wages, not 16 used to try to improve its fiscal situation; 16 headcount. The biggest focus was the level of 17 17 correct? wages. 18 18 Q. Okay. But then a secondary focus of the A. The headcount reduction has helped 19 reduce cost, but the impact on the service levels 19 City was to reduce headcount to save money, 20 20 correct, and improve the City's fiscal position? in specific departments is the question. But 21 21 A. I don't know if that was how the reduction in headcount, at least on the surface, 22 22 has resulted in lower wages or payroll-related attrition was being replaced. So I'm much more 23 23 costs compared to the past. comfortable saying that attacking the wages was 24 24 something -- or focusing on reducing the wages was Q. How much has the City saved in its 25 25 headcount reductions in terms of costs, a ballpark something that the City was much more focused on. Page 58 Page 60 1 MALHOTRA 1 **MALHOTRA** 2 figure? There could be instances where department --3 3 A. I can't give you a ballpark figure. specific department headcount for a particular 4 4 Q. Would it be hundreds of millions of department was focused on. But I remember that 5 5 dollars? there was a focus actually not to reduce the 6 6 A. Over what time frame? headcount at public safety. 7 7 Q. Over the last year or two. So I can't answer that question on the 8 8 headcount specifically. A. Last year or two? 9 9 Q. Two years. Since Ernst & Young has been Q. You would agree with me that headcount 10 10 working for the City, how much has the City been reductions by the City in the last two years have 11 able to save by headcount reductions? 11 cut City costs; correct? 12 12 A. The level of headcount by the City is A. It would be hard for me to give you a 13 13 lower today than it was two years ago, which has specific number. And the reason for that is, 14 there is also grant-related positions that have 14 resulted in lower payroll cost. 15 been reduced and grant-related positions, of 15 Q. How many people at the City contributed 16 16 course, a net zero impact because the to your forecast? 17 17 grant-related revenue has gone down as well. A. When you say "contributed to the 18 18 So just looking at the payroll line forecast" ---19 item, it's hard for me to give you an answer from 19 Q. Provided you with information for your 20 20 the top of my head. forecast. 21 Q. Do you agree that the City engaged in 21 A. I'd say there were several. I don't 22 22 headcount reductions for the specific purpose of have a number off the top of my head. Some more 23 23 reducing its costs and improving its fiscal detailed than the others. 24 24 condition? Q. Would it be more than 10 or 20? 25 25 A. It depends. I mean, there were -- if A. My answer would be similar to my earlier

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Page 63 Page 61 1 **MALHOTRA** 1 **MALHOTRA** 2 2 transcript to the Judge and ask him if he you look at -- I would be much more comfortable if 3 I had the forecast in front of me to look at by 3 thinks it's reasonable, but I can't get an 4 4 line item and say what information we would have answer to that question. 5 gotten from where. It's hard for me to just say 5 MR. STEWART: Let's do it. I'm happy 6 6 that it was 10 or 20 people giving us this to -- I'd be delighted to do that. He said 7 7 what do you mean by "numerous," and you forecast. 8 8 Q. All right. So you can't tell me the haven't answered him. 9 number of people from the City who have 9 BY MR. SMITH: 10 contributed to your forecast, sitting here today; 10 Q. Okay. More than 40 people. Would you agree that more than 40 people have contributed 11 11 correct? 12 12 MR. STEWART: Objection. inputs to your model? 13 THE WITNESS: That is correct. I don't 13 A. I don't think so. 14 14 Q. And more than 30 people? have the exact number of people that helped 15 15 us pull together on the forecast. A. I would have to take time to think about 16 BY MR. SMITH: 16 this, because of the -- the different input levels 17 17 Q. And you couldn't identify all the people that have come about. I don't know about the 18 that helped you from the City in preparing your 18 number of people, whether it's more than 30 now. 19 forecast; correct? 19 I don't think --20 20 A. I could identify this some of them, yes. Q. Yeah. So sitting here today, you can't 21 Q. But you can't identify all the people 21 identify the number of people who have contributed 22 22 from the City who helped you prepare your inputs to your model; correct? 23 23 forecast; correct? A. I can identify the number of firms or 24 24 organizations that have helped. The number of A. I could identify some of the people. 25 Q. But not all of them; correct? 25 people that work at each one of those firms, I Page 62 Page 64 1 **MALHOTRA MALHOTRA** 1 2 A. Well, maybe actually if we sit down and cannot talk about. 3 go through the line items, maybe I could identify 3 Q. Okay. Would it be fair to say that your 4 4 all of them. model is a complex model that depends on inputs by 5 5 Q. How many people from Conway MacKenzie a number of people? 6 6 assisted in preparing material for your forecast? A. I don't know if it's complex or not, but 7 7 A. I don't know of the exact number of it has required the input of three or four of the 8 Conway MacKenzie team members. But they have main firms that have been dealing with this 9 9 roughly, I would say, between five and seven key situation to pull the plan together for the City. 10 10 people that we were interacting with and -- in Q. When did you first create your forecast? 11 terms of getting the information on the 11 A. Which forecast? 12 reinvestment and restructuring component of the 12 Q. Well, have you created more than one 13 13 forecast. forecast for the City of Detroit? 14 Q. Would it be fair to say your forecasting 14 A. Well, there's the plan of adjustment. 15 depends on the inputs of numerous people at a 15 We have the financials, the 10-year financials and 16 16 the 40-year financials that are there. We have number of different organizations? 17 17 A. What do you define as "numerous" versus the update from July 2nd, along with the bridge 18 18 "a number of different organizations"? that's there. 19 19 I can tell you who we talked to at There were iterations of that previously 20 20 Conway MacKenzie, on which line items of the as a part of the third plan, amended plan. And so 21 restructuring and reinvestment forecast. 21 I just want to make sure you can ask me which 22 22 Q. That's not my question. specific forecast. 23 23 MR. SMITH: And, you know, this kind of Q. When was the first time you created any 24 answer, Geoff, is, again, obstruction of the 24 forecast for the City of Detroit? 25 25 deposition. You know, we can take the A. Any forecast? Probably

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1	MALHOTRA	1	MALHOTRA
2	two-and-a-half-plus years ago.	2	Q. Have you ever been asked to produce the
3	Q. Okay. Were there forecasts you created	3	five-year forecast in this case?
4	for the City of Detroit that were less than	4	A. So no, I do not know if we have or
5	10-year forecasts?	5	have not.
6	A. I think we started looking at a	6	Q. Okay. The okay. On the 10-year
7	five-year forecast sometime probably two-plus	7	forecast and 40-year forecast, there have been
8	years ago. I don't remember exactly.	8	many different versions of that. Would that be
9	Q. What was the purpose of that forecast?	9	fair to say?
10	A. I would have to go back and check. This	10	A. That is fair. Yes.
11	is over two years ago. I don't remember	11	Q. When was the first time that you what
12	specifically when we started developing the	12	was the first time you did the 10-year and 40-year
13	forecast. It was, again, to look at the	13	forecast?
14	liabilities of the City over a longer term versus	14	A. Well, I do not recall. I think the
15	on a more short-term basis.	15	10-year10-year forecast we had a version of in the
16	Q. And did you actually complete a	16	June 30th the June 13th proposal to
17	forecast a five-year forecast for the City?	17	creditors. That seems around the time frame when
18	A. When you say "complete," I mean, we may	18	we would have had the 10-year forecast sort of
19	have had different iterations. I don't know if	19	come together with the assumptions as of then.
20	there was ever something that was complete or not.	20	Q. And the five-year forecast, who chose
21	Q. So you had more than one iteration of a	21	five years for the length of time of the forecast?
22	five-year forecast for the City?	22	A. It was likely somebody at the City. I
23	A. Absolutely.	23	don't remember.
24	Q. Okay.	24	Q. Okay. The five-year forecast, did you
25	A. We would have had different inputs and	25	conclude that the City had positive revenues
	Page 66		Page 68
	5		5
1	MAI HOTRA	1	MAI HOTRA
1 2	MALHOTRA	1 2	MALHOTRA compared to costs during that time or not?
2	iterations, just like we have different versions	1 2 3	compared to costs during that time or not?
	iterations, just like we have different versions of the 10-year and the 40-year projections.	2	compared to costs during that time or not? A. I do not recall.
2	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the	2	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing
2 3 4	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the	2 3 4	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast?
2 3 4 5	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry.	2 3 4 5	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I
2 3 4 5 6	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did,	2 3 4 5 6	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of
2 3 4 5 6 7	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did, who has those forecasts and the documentation?	2 3 4 5 6 7	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of the City and how the costs were going to continue
2 3 4 5 6 7 8	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did,	2 3 4 5 6 7 8	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of
2 3 4 5 6 7 8	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did, who has those forecasts and the documentation? A. It would be somebody either at the City	2 3 4 5 6 7 8	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of the City and how the costs were going to continue to grow over the next four or five years.
2 3 4 5 6 7 8 9	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did, who has those forecasts and the documentation? A. It would be somebody either at the City or it would definitely be with our team as well.	2 3 4 5 6 7 8 9	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of the City and how the costs were going to continue to grow over the next four or five years. Q. Since the first ten-year forecast that
2 3 4 5 6 7 8 9 10	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did, who has those forecasts and the documentation? A. It would be somebody either at the City or it would definitely be with our team as well. Q. Did the five-year forecasts you produced	2 3 4 5 6 7 8 9 10	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of the City and how the costs were going to continue to grow over the next four or five years. Q. Since the first ten-year forecast that you prepared, how many times have you created
2 3 4 5 6 7 8 9 10 11	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did, who has those forecasts and the documentation? A. It would be somebody either at the City or it would definitely be with our team as well. Q. Did the five-year forecasts you produced before the bankruptcy use the same model that	2 3 4 5 6 7 8 9 10 11	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of the City and how the costs were going to continue to grow over the next four or five years. Q. Since the first ten-year forecast that you prepared, how many times have you created different versions of the 10-year forecast?
2 3 4 5 6 7 8 9 10 11 12	iterations, just like we have different versions of the 10-year and the 40-year projections. Q. And do you have possession of the documentation for those forecasts? Or the A. The 10 or the 40? I'm sorry. Q. For the five-year forecast that you did, who has those forecasts and the documentation? A. It would be somebody either at the City or it would definitely be with our team as well. Q. Did the five-year forecasts you produced before the bankruptcy use the same model that you've used for the 10-year and 40-year forecasts?	2 3 4 5 6 7 8 9 10 11 12 13	compared to costs during that time or not? A. I do not recall. Q. And what was the purpose of preparing the five-year forecast? A. I do not recall specifically, but I think we were starting to look at the expenses of the City and how the costs were going to continue to grow over the next four or five years. Q. Since the first ten-year forecast that you prepared, how many times have you created different versions of the 10-year forecast? A. Lots.
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Pages 65 to 68

	Page 69		Page 71
1	MALHOTRA	1	MALHOTRA
2	revised in a major way? I don't know how you	2	first created?
3	would characterize those.	3	A. I do not know that it's hundreds of
4	A. Sorry. Can you ask just repeat	4	changes or not. I mean, I don't know what you
5	what	5	is a is a change in an assumption a change that
6	Q. Well, let me ask again. You say that	6	you're referring to?
7	the you had one version of the ten-year	7	Q. Yes.
8	forecast in the plan of adjustment; correct?	8	A. I don't know if there's hundreds of
9	A. That is correct.	9	changes in the assumptions from what but I
10	Q. Okay. And then the July 2nd revision.	10	don't know. It's hard for me to define what are
11	You had another version of the 10- and 40-year	11	the key elements that have changed. I mean, we've
12	forecast; correct?	12	got we have produced the information when we
13	A. That is correct.	13	have updated information, we reflect that. And
14	Q. What were the big changes between the	14	the same thing with the settlements.
15	forecast in the plan and the July 2nd?	15	Q. So you can't tell me how many changes
16	A. So we've created a bridge that walks	16	you've made to your forecast since it was created;
17	through the changes, but I'll go off the top of my	17	correct?
18	head of what I recall. The forecasted revenues	18	A. I can tell you about the broad
19	were updated based on the updated information we	19	-
20	· ·	20	assumptions that have changed since we created the
21	had. We updated the potential LTGO settlement. We updated the economics of the the potential	21	forecast. The exact number of changes, you're correct; I cannot say. But I can talk about the
22	economics of a DPOA and DFFA change.	22	main assumptions that have changed since we had
23	· ·	23	developed the forecast.
24	We updated the timing and, I think, the	24	Q. And would it be fair to say that in
25	cost of the reinvestment and restructuring initiatives. And I think we updated the	25	order to ensure the reliability of your forecast,
	·	23	order to ensure the reliability of your forecast,
	Page 70		Page 72
1	MALHOTRA	1	MALHOTRA
2	MALHOTRA financing-related changes in terms of the timing	2	MALHOTRA you've continuously updated as assumptions change
2	MALHOTRA financing-related changes in terms of the timing for the 10- and 40-year those are the big ones	2	MALHOTRA you've continuously updated as assumptions change and other inputs change; correct?
2 3 4	MALHOTRA financing-related changes in terms of the timing for the 10- and 40-year those are the big ones that come to mind.	2 3 4	MALHOTRA you've continuously updated as assumptions change and other inputs change; correct? A. That is correct.
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2 3 4 5 6	MALHOTRA financing-related changes in terms of the timing for the 10- and 40-year those are the big ones that come to mind. Q. Would it be fair to say that there was a significant reduction in the amount of	2 3 4 5 6	MALHOTRA you've continuously updated as assumptions change and other inputs change; correct? A. That is correct. Q. Is there any has the City made any arrangement to continue to continue Ernst &
2 3 4 5 6 7	MALHOTRA financing-related changes in terms of the timing for the 10- and 40-year those are the big ones that come to mind. Q. Would it be fair to say that there was a significant reduction in the amount of reinvestment expenditure?	2 3 4 5 6 7	MALHOTRA you've continuously updated as assumptions change and other inputs change; correct? A. That is correct. Q. Is there any has the City made any arrangement to continue to continue Ernst & Young's work after the bankruptcy?
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	Page 73		Page 75
1	MALHOTRA	1	MALHOTRA
2	with the CFO and even likely the mayor, about	2	A. That is correct.
3	E&Y's role after the bankruptcy is over.	3	Q. And some of those assumptions are
4	Q. Thus far, there haven't been any	4	assumptions that were provided by other parties,
5	discussions about E&Y continuing work on its	5	such as Conway MacKenzie or the City or other
6	forecast after the bankruptcy; correct?	6	parties; correct?
7	A. There have been discussions about cash	7	A. Some of the assumptions, yes, were
8	management and cash forecasting. So when you	8	provided by the other parties, but I'm generally
9	say if you're referring to the 10-year and	9	aware of the broad assumptions that are in there,
10	40-year forecast, that is a part of the plan of	10	even for those provided by the other parties.
11	adjustment. I have not had a specific discussion	11	Q. And some of the assumptions for your
12	on that as of yet.	12	forecast you created; correct?
13	Q. Yet. But as of yet, there's been no	13	A. Yes.
14	discussion about Ernst & Young continuing to	14	Q. And as you mentioned, the assumptions
15	update its 10-year and 40-year forecast after the	15	for your forecast have changed over time, as
16	plan is confirmed; correct?	16	you've done different iterations of the forecast;
17	A. That is correct. We have had	17	correct?
18	discussions about updating or talking about cash	18	A. Well, the assumptions have changed
19	flows and cash management and some of the other	19	because of the settlements that have reached. So
20	work streams that I've mentioned. But we have	20	based on the terms of the settlements, you know,
21	to and John Hill and I have to sit down with	21	we have updated those. Some of the other
22	the mayor and get more specificity around what we	22	assumptions, which are also really extrapolations
23	will be doing going forward.	23	of run rates, are they are generally what they
24	Q. Would it be fair to say that the scope	24	are.
25	of Ernst & Young's role after the bankruptcy, has	25	So, yes, as the assumptions we have
	Dago 74		D 0.0
	Page 74		Page 76
1	MALHOTRA	1	MALHOTRA
1 2		1 2	
	MALHOTRA		MALHOTRA
2	MALHOTRA been confirmed, has not been agreed upon yet?	2	MALHOTRA changed the assumptions to reflect updated terms
2	MALHOTRA been confirmed, has not been agreed upon yet? A. That is correct.	2 3 4 5	MALHOTRA changed the assumptions to reflect updated terms of settlement with different parties for sure.
2 3 4 5 6	MALHOTRA been confirmed, has not been agreed upon yet? A. That is correct. Q. Do you have any idea when you might work	2 3 4 5 6	MALHOTRA changed the assumptions to reflect updated terms of settlement with different parties for sure. Q. The initial version of the forecast, 10-year and 40-year forecast you created would no longer be accurate, then; correct?
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Page 77 Page 79 1 **MALHOTRA** 1 **MALHOTRA** 2 latest updates are probably the best information 2 well documented all over about financial advisers, 3 3 we have as of date. how to create projections, look at the historical 4 4 Whether that makes all of those performance. 5 forecasts -- and I think you used the word 5 So, yeah, that's generally technical in 6 6 "inaccurate." That's -- it's just we have better nature, but not scientific. 7 7 information today than we had earlier. Q. But so the -- but is there any treatise 8 8 or other publication that you can identify for me Q. Okay. Your more recent forecasts would 9 be more reliable than your first forecast; is that 9 today that lays out the technical methodology you 10 10 fair? used for the Detroit forecast? A. I would say any financial journal that 11 11 A. I would say, yes, the most recent 12 12 forecasts are the best picture we would have as of you will pick up, from a financial adviser's 13 date, yes. 13 standpoint, has tons of articles written on how to 14 14 Q. Would it be fair to say that the longer build good -- develop reasonable forecasts. 15 15 the forecast, the less reliable the forecast? Q. But can you identify one article, 16 A. It depends on specific line items and 16 sitting here today, that contains the specific 17 17 methodology you used in the Detroit forecast? assumptions. But the further you get out there, 18 18 A. I do not recall one off the top of my the -- there is more uncertainty whether each one 19 19 of those assumptions will play out the way they head, no. 20 20 are in the forecast. Q. Before the Detroit matter, what was the 21 21 Q. And would you agree that the greater the longest period of time you ever did a forecast of 22 22 number of assumptions in your model, the more revenues or expenditures for? 23 23 uncertainty and potential for unreliability there A. I would say somewhere maybe between five 24 24 is with the model? and ten years. 25 25 Q. And you've never done -- I think you A. No, because --Page 78 Page 80 1 **MALHOTRA** MALHOTRA 1 2 Q. Well, all the other things being held testified you'd never done a forecast for a 3 constant, do you agree that the more assumptions 3 municipality before Detroit; correct? 4 4 that you have in a model, the greater the A. No, I did not testified to that. I 5 5 potential for uncertainty and unreliability? testified that I've done it for Detroit Public 6 6 A. No. Schools. I've developed a forecast for Detroit 7 7 Q. Why is that? Public Schools. 8 A. Because different assumptions can also 8 Q. But for an actual city, municipality, 9 9 offset each other. you've never done a forecast before Detroit's; 10 10 Q. Did you rely on any scientific or correct? 11 technical literature in creating your forecast? 11 A. For a city, that is correct. 12 A. I'm sorry? What is --12 Q. You did some forecasting for the Detroit 13 13 Q. Well, is there any scientific or Public Schools? 14 technical literature that lays out the methodology 14 A. That's right. 15 you used in your forecast? 15 Q. What was the length of time that you 16 16 A. The financial forecast, the way it's forecast for the Detroit Public Schools? 17 17 been developed is how it's generally developed by A. I would have to go back and look. It 18 18 all financial advisory firms. could have been up to five years. It was probably 19 19 Q. But that's not my question. Is there somewhere in that neighborhood or shorter. I 20 20 any scientific or technical literature you can would have to go back and check. 21 identify for me today that lays out the 21 Q. Are your forecasts that you've created 22 22 methodology that you used in creating the forecast in this case based on the business judgment of any 23 23 for Detroit? City officials? 24 A. I would say yes. A. I do not know of any scientific 24 25 25 methodology. Technical methodology is generally Q. And yet you -- which City officials

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Page 83 Page 81 1 MAI HOTRA 1 **MALHOTRA** 2 would -- who exercised their business judgment are 2 period, there may be different decision-makers who 3 3 your forecasts based on? are responsible for determining Detroit's policies 4 4 A. In terms of whether -- understanding the than the current decision-makers; correct? 5 assumptions that were in here, Kevyn Orr, you 5 A. That's right. I think there's going to 6 6 know, John Hill. So, I mean, Brent, who is a be some form of a govern -- an advisory board. 7 former budget director. There were several folks 7 But, yes, there will be -- you know, as people 8 who at least understood the broad assumptions that 8 transition into new roles, with any organization, 9 9 there would be new people coming in to fill those are in the forecast. 10 Q. And how does the business judgment of 10 roles. 11 Detroit officials impact your assumptions, or in 11 Q. And the new people who are in charge of 12 what way were you using that? 12 Detroit during the 10-year period may decide to 13 A. Could you repeat that question for me, 13 embark on different policies choices than you've 14 14 please. assumed in your forecasts; correct? 15 15 Q. How did business judgment of City A. They may or may not. I cannot speculate 16 officials play into your forecasts? 16 what they decide to do. 17 17 A. So -- and maybe I should have asked this Q. It would require you to speculate to 18 earlier. Can you just -- what do you mean by 18 determine what policy choices Detroit's future 19 "business judgment of the City officials" in the 19 leaders will make during the next 10 years; 20 20 context of the forecast? Can you just give me correct? 21 21 a --A. That's right. It would be speculating 22 Q. Well, I read your prior depositions, and 22 on that point. 23 23 I think you had said that you relied on the Q. And, in fact, it's possible that there 24 business judgment of City officials. So I'm 24 will be corrupt individuals who will be making 25 trying to use your term, and I'll ask you to 25 policy choices for Detroit in the future; correct? Page 82 Page 84 1 MALHOTRA **MALHOTRA** 1 2 elaborate on that. A. I cannot answer that. 3 A. Okay. So could you ask me the question 3 Q. That's a possibility, isn't it? 4 4 A. Anything is a possibility. again, please. 5 5 Q. I'm just asking, how did -- I guess Q. And, in fact, in the past, there have 6 6 what -- what -- when -- it would be fair to say been corrupt individuals who have made policy 7 7 that the assumptions in your forecast depend on decisions for the City of Detroit; correct? 8 A. I read what's in the press, but I do not certain policy choices by Detroit officials; 9 9 correct? know what policy decisions have been made in the 10 10 A. Yes. context of the general fund, so I cannot comment 11 Q. And, currently, the City is being run by 11 on that. 12 an emergency manager; correct? 12 Q. Well, I mean, there have been people 13 13 that have went to jail who were leaders of the A. That is correct, for -- the -- for some City of Detroit in the recent past; correct? 14 part. I think they're sharing with Detroit's 14 15 mayor and city council for certain aspects, but, 15 A. I've seen the press on that. 16 16 Q. And so it's not outside the realm of 17 17 Q. And the emergency manager is going to possibility that there might be individuals who 18 18 leave in the fall; is that your understanding? are engaged in criminal activity or corrupt 19 19 A. That's what's reported in the press. practices who are making policy decisions for 20 20 That's what I read. Detroit during the next 10 or 40 years; correct? 21 Q. Is that consistent with whatever 21 A. You can make any possibility that you 22 22 information you have working for the City? want. I do not know about any -- I don't want to 23 comment on that specific possibility or -- which 23 A. I do not have any other information 24 other than what I've read in the press. 24 is just, you know, a possibility of anything. 25 25 Q. And in the future during the ten-year Q. Okay. But you'd agree it's possible

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Page 87 Page 85 1 MALHOTRA MALHOTRA 2 that corrupt or criminal activity may be engaged 2 BY MR. SMITH: 3 3 in by Detroit's leaders during the period of your Q. Well, I guess -- I guess I'm asking you: 4 4 forecast; correct? How would you define "material"? 5 A. You know what? There's a possibility. 5 A. Well, settlement, the settlements we 6 6 Anything can happen. have reached or the City has reached are material. 7 7 Q. The assumptions in your model you Q. Are there other material changes? 8 8 mentioned had changed because of certain A. I would have to go back and look at the 9 settlements; correct? 9 bridge. But in my view, the major changes that 10 10 have happened are in context of the settlement. A. That is correct. Q. Are there changes that have been made to 11 11 And, of course, there have been changes, some that 12 the assumptions in your model over time that are 12 make the forecast better, some that make the 13 not the result of settlements? 13 forecast slightly worse so -- which at times may 14 14 A. Yes. or may not fully offset. 15 15 Q. And what kinds of changes in the But the big changes that have been 16 assumptions would those be? 16 incorporated into the forecast that I know of are 17 17 A. It's based on getting updated the settlements. Some of the timing of the 18 expenses have changed. But the biggest crux of 18 information. So, for instance, the stated -- the 19 19 state budget was approved for fiscal year '15 just the changes have been the settlements. 20 20 recently, because of which we had not initially Q. Okay. But outside of the settlements, 21 21 updated the State aid number. But we went ahead there have been big changes to the model that 22 22 and did so in the July 2nd update because we don't have to do with the settlements; is that 23 23 received confirmation from the State that the fair? 24 24 MR. STEWART: Objection. budget had been approved. And the incremental 25 25 State aid appropriation used the same methodology. THE WITNESS: Could you define what you Page 86 Page 88 MALHOTRA 1 1 MAI HOTRA 2 So the methodology did not change from what it was define as "big" in this context. 3 in the past; but basically now that we had a 3 BY MR. SMITH: 4 4 source of data that had been confirmed, we updated Q. Well, you just mentioned we're talking 5 5 that. about big changes, so --6 6 We updated the assumptions with regards A. So we're talking about big settlements, 7 7 to what the City would offer potentially for DPOA I thought. Those are the big changes. 8 and DFFA, even though there was not a settlement 8 Q. What are the most significant changes to 9 9 with them, but using the assumption that the cost the model outside of the settlements that have 10 would be the same as it was with DPLSA and DPCOA. 10 impacted the dollar amounts? 11 For property taxes, we received the latest 11 A. So I would say we have gone ahead and 12 12 information with respect to the State equalized updated the State aid revenue. We have gone ahead 13 13 value and updated the model based on that latest and updated the property tax revenue. We have 14 information that we had received. Again, not 14 updated the casino taxes. We have updated from 15 changing methodology. 15 what we received, some of the reorganization and 16 16 reinvestment timing. And these are, again -- you So when we receive updated information 17 17 with respect to firming up a recent trend better know, compared to the plan of adjustment that was 18 18 so that we can extrapolate, those are some of the filed on May 5th. 19 19 examples that we've used. We've updated some of the financing 20 20 Q. Would it be fair to say that there have changes in terms of the assumptions on the 21 been a number of material changes in the model 21 financing. 22 22 since you first created it for your forecast? I'm trying to think what else is not 23 23 MR. STEWART: Objection. settlement-related. 24 24 THE WITNESS: How do you define Those are the big ones that come to my 25 25 "material"? mind right now.

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Page 89 Page 91 1 **MALHOTRA** 1 **MALHOTRA** 2 Q. And when you say "the financing," are 2 identify any creditor, any lender that's willing 3 3 you talking about the exit financing? to offer the City exit financing on the terms 4 4 A. That's right. you've assumed; correct? 5 Q. Those assumptions for the exit financing 5 A. The RFP just went out last week, but I 6 6 have changed since the plan of adjustment; is that do not know of any as of now. 7 7 correct? Q. Did you have any role in the RFP for the 8 8 A. The assumptions with respect to the term exit financing? Did Ernst & Young have any role? 9 of the amortization, yes, has been changed. 9 A. It -- just to clarify and, you know, 10 Q. Okay. As far as you know, has the City 10 talked to the Miller Buckfire team about the 11 secured exit financing from anybody? 11 assumptions that were in the forecast overall, but 12 12 A. Not as of now, is my understanding, but we did not create the RFP. 13 Miller Buckfire has a better idea of that. 13 Q. Okay. But you've reviewed the RFP? 14 14 A. I have looked at some of the main items Q. And an assumption of your forecast is 15 15 the City will be able to obtain exit financing on that were sent out -- that were going to be sent 16 the terms you assume; correct? 16 out as a part of the RFP. I have an email on 17 A. That is the current assumption in the 17 that, yes. 18 18 forecast; you are correct. Q. But have you reviewed the entire 19 Q. And the forecast, would it be fair to 19 20 2.0 say, would change by hundreds of millions of A. I have reviewed some of the terms, but I 21 21 do not know if I've reviewed the entire document. dollars if no exit financing were obtained? 22 22 A. If you can be more specific. The I can't recall. 23 revenues would change, but over what time frame? 23 Q. Would it be fair to say that you would 24 24 Q. I see what you're saying. I mean the expect that if you if you were doing your forecast 25 exit financing is necessary for the City to emerge 25 a year or two from now, that the results of the Page 90 Page 92 1 MALHOTRA 1 **MALHOTRA** 2 from bankruptcy; correct? forecast would be different than your current 3 3 A. I don't know about necessary or not forecast? 4 4 necessary. I can talk about the assumptions that A. It depends. 5 5 Q. There's no way you can tell me whether have been made with respect to the sources and 6 uses of the financing. But I wouldn't comment on 6 the forecast that you have today will be the same 7 7 the necessary for exit versus not. in a year or two from now; is that fair? 8 Q. Were the assumptions for the exit 8 A. Yeah. It depends. Revenue -- if some 9 9 financing you used just numbers that were given to of the revenues change, do the expenses change or 10 10 you by Miller Buckfire? do they offset? I don't know, but that's what --11 A. The exit financing, yes. We had some 11 after two years, a forecast becomes an actual. 12 discussions with Miller Buckfire and with Jim Doak 12 And then you have actuals. You don't have a 13 13 from Miller Buckfire that I spoke to several forecast for two years. 14 times. And then we used the input that was 14 Q. Yeah. But the forecast, I mean, for the 15 provided by them to come up with the exit 15 remaining eight years, for example, I mean, 16 16 financing that's in -there's no way you can represent to the Court, for 17 17 example, that, you know, a year or two from now Q. But you haven't actually spoken with any 18 18 potential lender who is interested in giving your forecast would be the same for the remaining 19 19 Detroit exit financing; correct? years in the term of the 10-year period; correct? 20 2.0 A. I have not; correct. A. I cannot -- I cannot say that after two 21 Q. And you can't identify any potential 21 years ever single line item will be exactly the 22 22 lender who is interested in giving Detroit same as what it is in the forecast; that is 23 23 financing, can you? correct. 24 24 A. That is something Buckfire is running. Q. And you can't say that the total amounts 25 25 Q. But you don't have knowledge, even can't for revenue and expenditure will be the same;

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1	Page 93		Page 95
_	MALHOTRA	1	MALHOTRA
2	correct?	2	keep breaking on the hour. There are lots of
3	A. Two years from now, I cannot predict	3	questions and people have planes to catch.
4	that every single line item of revenues and	4	(Discussion off the stenographic
5	expenses will be exactly the same as it is in the	5	record.)
6	forecast today.	6	THE VIDEOGRAPHER: Going off the record
7	Q. And you also you can't predict that	7	at 10:59.
8	two years from now the total amount of revenue and	8	(Short break taken.)
9	expenditures will be the same as it is in the	9	THE VIDEOGRAPHER: We are back on the
10	model today; correct?	10	record at 11:05.
11	A. In two years I cannot say whether the	11	BY MR. SMITH:
12	exact total of the revenues for that 10 years will	12	Q. Mr. Malhotra, can you identify any time
13	be exactly the same or if the exact expenses	13	where Ernst & Young has ever done a forecast for a
14	will be exactly the same or if they offset each	14	city that's as long as 10 years?
15	other. I cannot tell.	15	A. I have not. I do not know about Ernst &
16	Q. How many inputs and assumptions are	16	Young. I mean, request practice or other tax
17	there in your model?	17	practices
18	A. There are we can go through the line	18	Q. Sitting here today, though, you can't
19	items, and I can talk to you about the	19	identify any such instance; correct?
20	assumptions. But there's a lot of line items, and	20	A. I do not know what it's a large firm,
21	there's assumptions in there. So	21	and I do not know I can tell you that I have
22	Q. Well, are there	22	not done a 40-year for a city before.
23	A I don't have the number of	23	Q. And in your forecast, you haven't
24	assumptions.	24	included funds necessary for Ernst & Young to
25	Q. Are there more than 100 assumptions and	25	update the ten-year forecast after the bankruptcy;
	Page 94		Page 96
1	MALHOTRA	1	MALHOTRA
2	in musta?		MALITOTICA
_	inputs?	2	correct?
3	A. I do not know if there are over a	2	
3 4	·	3 4	correct?
3 4 5	A. I do not know if there are over a	3 4 5	correct? A. There is not a specific line item that
3 4 5 6	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of	3 4 5 6	correct? A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for
3 4 5	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would	3 4 5	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast.
3 4 5 6 7 8	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up	3 4 5 6 7 8	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy;
3 4 5 6 7 8	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up from a third-party data source. So I'm you see	3 4 5 6 7 8 9	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy; is that correct?
3 4 5 6 7 8 9	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up from a third-party data source. So I'm you see my I'm just like	3 4 5 6 7 8 9	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy; is that correct? A. In in context of the specifically
3 4 5 6 7 8 9 10	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up from a third-party data source. So I'm you see my I'm just like Q. I'm saying assumptions or inputs to	3 4 5 6 7 8 9 10	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy; is that correct? A. In in context of the specifically the restructuring advisers currently, we
3 4 5 6 7 8 9 10 11	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up from a third-party data source. So I'm you see my I'm just like Q. I'm saying assumptions or inputs to cover all these things. Would there be more than	3 4 5 6 7 8 9 10 11	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy; is that correct? A. In in context of the specifically the restructuring advisers currently, we haven't we do not have a specific discrete line
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3 4 5 6 7 8 9 10 11 12 13 14 15 16	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up from a third-party data source. So I'm you see my I'm just like Q. I'm saying assumptions or inputs to cover all these things. Would there be more than 100 assumptions or inputs in your model? A. I cannot tell. MR. SMITH: We should take another break.	3 4 5 6 7 8 9 10 11 12 13 14 15 16	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy; is that correct? A. In in context of the specifically the restructuring advisers currently, we haven't we do not have a specific discrete line item to identify incremental fees for EY or Conway MacKenzie. Q. And have you assumed have you included any professional fees for Conway
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3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	A. I do not know if there are over a hundred assumptions or I mean, it's if there are over 100 discrete assumptions or not. I would say that some of these are basic extrapolations of what has happened in fiscal year '12 or '13, continuing. Some of these are directly picked up from a third-party data source. So I'm you see my I'm just like Q. I'm saying assumptions or inputs to cover all these things. Would there be more than 100 assumptions or inputs in your model? A. I cannot tell. MR. SMITH: We should take another break. MR. STEWART: Okay. That's fine. We haven't even been on the record an hour. MR. SMITH: Okay. Well, I'm not requesting it, Geoff, so if you want to complain about it MR. STEWART: It's okay.	3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	A. There is not a specific line item that has been called out for ongoing professional fees for EY in the context of updating the forecast. Q. And you haven't included funds for Conway MacKenzie or any other advisers to do work on a forecast going forward after the bankruptcy; is that correct? A. In in context of the specifically the restructuring advisers currently, we haven't we do not have a specific discrete line item to identify incremental fees for EY or Conway MacKenzie. Q. And have you assumed have you included any professional fees for Conway MacKenzie after the bankruptcy has concluded, in your forecast? A. Whether it is specifically included as a discrete line item or if it could be absorbed in some of the actual project implementation costs for both EY and Conway MacKenzie, it's something

Page 99 Page 97 **MALHOTRA** 1 1 **MALHOTRA** 2 ongoing assistance beyond the bankruptcy if there 2 Q. Well, any -- I mean, some of the, 3 is ongoing work and if there's a possibility that 3 quote/unquote, restructuring activities I've seen 4 4 within the different projects those fees get are things like make operations more efficient or, 5 absorbed, I do not know yet. 5 you know, things like that. 6 6 Q. As the forecast stands now, you don't A. Things like what? 7 7 have any money in the forecast currently for Q. Well, why don't I ask you this: Do you 8 8 ongoing work after the bankruptcy by Ernst & Young agree that there are some restructuring activities 9 or Conway MacKenzie; is that fair? 9 the City is planning to undertake that would save 10 10 A. I thought I just answered that: If it money? 11 11 isn't -- if it could be embedded in the individual A. Yes. 12 implementation projects of the restructuring, 12 Q. And do you agree that there's some 13 that's something we'll have to see. 13 restructuring activities the City is planning to 14 You are right. I do not have any 14 undertake that would, on balance, lead to 15 15 restructuring professional fees in that line item, increases in revenue for the City? 16 any more fees beyond the restructuring period. 16 A. Could you ask me that again. 17 17 Q. Okay. I mean, there's no -- you're not Q. Are there some restructuring activities 18 assuming that -- Ernst & Young or Conway MacKenzie 18 the City is planning to undertake that would, upon 19 will continue work for the City after the 19 balance, lead to increases in revenue for the 20 20 bankruptcy, in your forecast? City? 21 21 A. That's not true. A. There are some restructuring and 22 Q. Okay. How are you -- I mean, are you 22 reinvestment initiatives that will lead to 23 23 assuming one way or the other? increased revenues for the City. 24 24 A. Well, EY, as I've already mentioned to Q. And there are restructuring activities 25 you, is going to continue work on the HR 25 that will bring in more revenue than they will Page 98 Page 100 1 **MALHOTRA** 1 MALHOTRA 2 implementation project, and the fees for that will cost; correct? 3 likely come out of the HR implementation budget. 3 A. It depends on what time frame. 4 4 Q. What is the HR implementation project? Q. Well, but there were some restructuring 5 5 A. It's to help the City transition its activities the City is going to undertake where 6 6 existing payroll systems to a new system. the benefits in terms of increased revenue, where 7 7 Q. Is the City -- the City is still a reduction in costs outweigh the costs of the 8 producing one-year budgets, correct? Is that 8 initiative; correct? 9 9 correct or -- or not? A. It depends on what time frame, because 10 10 A. I think they are still going through you have to see when -- the overall result in 11 this interim process of a one-year budget, I 11 increased revenues compared to the costs incurred. 12 believe. But I need to make sure that they're 12 Q. Yeah. At the end of the -- over the 13 13 still doing one year or is it just the three years course of your projections; right? Over the 14 14 and the one year is a component of that. course of your 10-year projection, there are 15 Q. In the ordinary course of its business 15 restructuring activities where the benefits 16 16 operations, the City is currently doing only outweigh the costs of the restructuring activity; 17 17 three-year budgets or potentially one-year correct? 18 18 A. I'm not sure about that. There's a budgets; is that correct? 19 19 A. That would be correct. billion four in restructuring and reinvestment costs. And I don't know if over the ten years if 20 20 Q. Do you agree that there's some 21 restructuring and restructuring activities the 21 there is a billion four of revenue. 22 22 City is planning to undertake that don't cost any Q. Okay. So the City isn't -- you would 23 23 money, such as changing policies or things like agree with me that the City is engaging in some 24 24 that? restructuring activities that have a -- that have 25 25 A. Changing what policies? a negative cost benefit; correct?

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Page 101 Page 103 1 **MALHOTRA** 1 MAI HOTRA 2 2 A. Over the 10-year period, I do not -- of A. Maybe over 10 years, but it probably 3 3 changes over 40 years to -- for the revenues to the net 350 million that the City is spending, I 4 4 would have to go back and look exactly how much get better. 5 Q. You agree -- you know that the City is 5 increased revenue between all of the different 6 6 planning to spend hundreds of millions of dollars initiatives has been included. 7 7 on blight reduction; correct? But over 40 years, if you were to 8 8 A. That's correct. There's \$420 million in extrapolate, you know, I think the increased 9 the current forecast, 50 million of which is going 9 revenues would be higher. But I do not know 10 10 to be reimbursed by the hardest-hit funds. exactly. It would be easier to look at the 11 11 exhibits and then walk through it. Q. Okay. And do you know -- has the amount 12 12 of blight reduction funding decreased over the Q. Okay. But sitting here today, you 13 course of your forecast, the various iterations? 13 understand that over the 10-year period, the costs 14 A. I believe we had a number of, close to 14 of blight reduction exceed any benefits; correct? 15 15 \$500 million earlier. That went down to MR. STEWART: Objection. 16 420 million. 16 THE WITNESS: No, I don't. Exceed any 17 17 Q. Do you know why there was a reduction? benefits? 18 18 BY MR. SMITH: A. There was a reduction because of the 19 overall level of contributions the City was 19 Q. You agree that the costs of blight 20 20 committing to the pension systems. reduction exceed any revenues for cost reductions 21 21 that the City attributes to blight reduction over Q. Okay. So did the -- the 22 22 blight-reduction funds, were they reduced because the 10-year period; correct? 23 23 the City was increasing contributions to pensions? A. In a direct financial standpoint from 24 what I can relate it to, the answer is correct. 24 A. I don't know if it was only that or if 25 it was the -- I don't know if that was the only Because there's probably indirect benefits of Page 102 Page 104 1 **MALHOTRA MALHOTRA** 1 2 reason. But, yes, that's one I recall in which blight removal, which I cannot talk about. 3 the \$500 million went down to 420. 3 But from a direct-blight standpoint, 4 Q. Was one factor in the reduction of the 4 it's -- I know the City has increased revenues 5 blight expenditure the City's decision to increase 5 towards the last five years of the first ten. If 6 6 money to the pensions? you look at that run rate, it's the -- the blight 7 7 A. It was to not increase money to the expenditures that have being spent could 8 pensions. It was for the City to reach a theoretically be reimbursed -- you know, be 9 9 settlement on the pensions and the amount of money recuperated sooner. 10 10 that was required. But -- so it's just -- I don't have a 11 Q. And are you incorporating into your 11 direct answer, because you're spending the money 12 forecast any increase in revenue or decrease in 12 over 10 years and there's increased revenues over 13 13 the costs attributable to blight-reduction efforts the first 10 years; but the run rate in the last 14 by the City? 14 five years is much higher than it is in the first 15 A. I believe that in the restructuring and 15 five years. I don't know if that answers your 16 16 reinvestment scenario, there is an overall question. 17 increase in the revenues that has been assumed 17 Q. Yeah, but the total amount, if you 18 from the overall restructuring and reinvestment 18 calculate up the total amount -- well, first, let 19 19 initiatives. me ask you this. You say increase in revenues. 20 20 Q. Do you agree that the costs of the There's -- is there a line item for increase in 21 blight reduction outweigh any revenues or cost 21 revenues specifically from blight reduction, or is 22 22 reductions that you've incorporated into your it increase in revenue from all the reinvestment 23 23 forecast? activities? 24 A. Over what time frame? 24 A. It's the latter. It's broken out --25 25 Q. Either the 10- or 40-year period. well, there's three items. There's a discrete

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Page 107 Page 105 1 **MALHOTRA** 1 **MALHOTRA** 2 line item for increased revenue due to the 2 revenues, blight is a part of those reinvestment 3 operational-driven initiatives. There is a 3 expenditures. 4 4 discrete line item, then, of increased tax Q. But nobody -- you haven't done any 5 revenues because of overall restructuring and 5 analysis specifically on blight reduction, 6 6 reinvestment initiatives, which also includes correct, to find out what -- what amount of 7 7 blight. revenue generation or cost reduction is 8 Q. So there's no line item specifically specifically attributable to blight reduction; 9 quantifying any revenue increase from blight 9 correct? 10 10 reduction in your model; correct? A. It's a part of the overall restructuring 11 11 A. There is not a discrete line item. It and reinvestment initiatives. 12 would be a combination of the increased revenues 12 Q. So you haven't done that analysis; 13 as a part of the restructuring scenario. 13 correct? 14 14 Q. Okay. But some of the increase in A. If you're saying is what is the discrete 15 15 revenue is attributable to other restructuring item about blight, I would have to go back and 16 activities other than blight; correct? 16 look at it as to which line items it would likely 17 17 A. That would be a fair assumption. impact and over what time frame. 18 18 Q. And so you haven't tried to quantify the Q. But you haven't done that analysis? 19 increase in revenues or decrease in costs solely 19 A. Well, not -- not in a direct fashion, 20 attributable to blight reduction; correct? 20 21 21 A. That is correct. Q. Okay. And so you're not aware of any 22 22 Q. And so sitting here today, the cost of analysis -- I mean, Mr. Moore in his report, do 23 23 blight reduction looks like it will be greater you recall what he says? You can't quantify the 24 than any revenue or cost reductions attributable 24 amount of revenue that might be attributable to 25 to the entire reinvestment initiative? 25 blight reduction? Page 106 Page 108 1 MALHOTRA 1 **MALHOTRA** 2 A. No. 2 MR. STEWART: Objection. 3 Q. Would it be fair to say that you can't 3 BY MR. SMITH: 4 4 represent to the Court that the cost of blight Q. Do you recall that? 5 reduction will be lower than any revenues or cost A. Which report? 6 reductions attributable to the blight reduction? 6 Q. His expert report in this case. 7 7 A. You got to ask me that again. A. I have not read his expert report. 8 8 Q. Well, we've already established you Q. Have you read the expert reports of 9 haven't done any analysis of the revenues or cost 9 Cline or Sallee? 10 10 reductions attributable to blight reduction; A. I have them. I've not read through 11 correct? 11 them 12 A. I don't know. That's -- that's -- if --12 Q. Have you read the expert reports of any 13 13 expert in this case? I don't know about that. 14 Q. Okay. And so sitting here today, I 14 A. I glanced at Ken Buckfire's report. 15 mean, there's no analysis that the City has done 15 Q. Is that the only one? 16 A. That's the only one that comes to mind. 16 that shows that the costs of blight reduction are 17 17 outweighed by revenue increases or cost reductions Q. Okay. The baseline forecast is a 18 18 due to blight reduction; correct? steady-state forecast that depicts the City's 19 A. No. Over what time frame? 19 financial projection in the absence of 20 20 restructuring or reinvestment; correct? Q. I mean, you haven't done any analysis of 21 the revenues solely attributable to blight 21 A. That is generally true. It's based on 22 22 reduction; correct? the recent extrapolated results, assuming they 23 23 A. The overall -- I thought I said this. hold, yes. 24 The overall restructuring and reinvestment 24 Q. Okay. And the baseline forecast assumes 25 25 no reinvestment or restructuring expenditure; initiatives in the revenue -- in the increase in

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Page 109 Page 111 1 MAI HOTRA MALHOTRA 2 correct? 2 the state and federal government to fund 3 3 A. In the baseline model, those blight-elimination efforts; correct? 4 4 restructuring and reinvestment initiatives are A. I know about the hardest-hit funds that 5 broken out separately. So I don't know which line 5 are in the forecast. I do not know of other 6 6 item you're referring to. But on that particular specific blight-removal funding. 7 7 page, at least the one that comes to my mind, the Q. And the hardest-fit funds is \$52 million 8 8 restructuring and reinvestment initiatives are that the City had access to for blight reduction; 9 9 is that correct? broken out separately. 10 10 A. Yeah. I don't know if the City has Q. Okay. I'm just trying to figure out 11 whether the baseline scenario assumes that the 11 access to directly -- I don't know the exact 12 12 funding mechanism; but that's the assumption, that 1.25 billion, or whatever the amount is now for 13 restructuring and reinvestment, will be spent or 13 that money will be available to the City. 14 14 Q. And the City has already been spending 15 15 A. No. That assumption was that that money on blight reduction; correct? 16 amount will not be spent directly. 16 A. Yes. 17 17 Q. Do you agree that the baseline model Q. And there's been nobody, to your 18 doesn't include reinvestments like blight 18 knowledge, who has quantified any benefit in terms 19 19 reduction; correct? of revenue increase or cost reduction from the 20 20 blight-elimination efforts the City has been A. Yes. I mean, if -- it does not 21 21 discretely, if there was -- any additional funds engaged in so far; correct? 22 22 that -- like the hardest-hit funds that were made A. The increased revenues are a part of --23 available in the form of grants, those funds would 23 include a return on the restructuring and 24 24 reinvestment initiatives, which include blight. now be put into baseline because those hardest hit 25 funds aren't available. But the north of billion 25 Q. Yeah. But in the blight-elimination Page 110 Page 112 1 **MALHOTRA** MALHOTRA 1 2 dollars of reinvestment expenditures were not efforts that have already been undertaken, there's 3 included in the baseline. 3 no study or data showing that those have increased 4 4 Q. So the separate number of hundreds of City revenues or decreased costs, is there? 5 millions of dollars for blight reduction that's in 5 A. So of the blight-removal efforts that 6 6 the restructuring scenario is not included in the have already been undertaken -- can you specify? 7 7 baseline scenario; correct? What time frame are you going back? Is it --8 A. Those expenses were not included in the 8 Q. Over any time period. You've never seen 9 9 baseline scenario; that is correct. any study or data that shows that 10 10 Q. The City has been engaged in blight blight-elimination efforts in the City of Detroit 11 reduction for a few years; correct? 11 have resulted in revenue increases or cost 12 A. Yes. The City has had different 12 reductions; correct? 13 13 initiatives in terms of reducing the amount of A. I do not know of a direct study if 14 blight; however, new blight keeps coming up. So I 14 how -- taking down some of those properties has 15 don't know whether the City actually ever gets 15 had an impact on some of the property taxes or 16 16 ahead or not. not, if that is a study that directly correlates 17 17 Q. Yeah. And one problem with blight is it. I have not seen a study like that. 18 18 that blight is always generating more -- there's Q. Okay. The baseline model that you've 19 always more blight being created; correct? 19 calculated assumes there won't be substantial 20 20 A. It depends when you have, you know, a -investment in information technology; is that 21 there is a churning effect, if that's what you're 21 22 22 talking about, that sometimes new blight does A. When you say "substantial," it does not 23 23 replace old blight. But it -- yeah, that's -include -- the IT expense that's mentioned in the 24 24 that's accurate. restructuring and reinvestment initiatives is not 25 25 Q. And the City has received grants from included in the baseline.

Page 115 Page 113 **MALHOTRA** 1 1 **MALHOTRA** 2 Q. Does the baseline forecast include any 2 A. You should ask KPMG that. 3 cost savings the City has received as a result of 3 Q. Are they responsible for auditing the 4 4 the breathing spell provided by the bankruptcy City's financial data? 5 petition? 5 A. They are. 6 6 A. The baseline model was used to reflect a Q. You don't dispute that the City could 7 7 no-bankruptcy scenario and did incorporate the continue to cut costs if the bankruptcy petition 8 8 10 percent wage cut that the employees have were dismissed; correct? 9 already taken. So that was already reflected in 9 A. Could you ask me that again, please. 10 10 the baseline. Q. There are cost-cutting measures the City 11 11 Q. And the baseline scenario is not could take if the bankruptcy petition were 12 12 intended to be a measure of what happens if the dismissed: correct? 13 bankruptcy petition is dismissed; correct? 13 A. Like what? 14 14 Q. Well, it could reduce headcount. That's A. Well, you have to look at the individual 15 line items, because I would say some of those line 15 one: correct? 16 items, it will be reflective of what happens maybe 16 A. Unlikely. The City is already at a low 17 17 if the bankruptcy proceedings are dismissed. point in terms of the amount of headcount it 18 18 Q. And some of the line items in the already has. 19 baseline scenario will not be reflective of what 19 Q. Well, here's some things that could 20 20 happens if the bankruptcy petition is dismissed; happen. You could privatize some of the City 21 21 correct? services if the bankruptcy petition were 22 22 A. I would have to think through which of dismissed; correct? 23 23 those line items will and will not get impacted by A. I don't know about that. Again, I mean, 24 24 the bankruptcy proceeding. So some will; some I don't know if the City can cut more costs now. 25 will not. 25 Q. You haven't been asked to do any Page 114 Page 116 1 1 MALHOTRA **MALHOTRA** 2 Q. But, overall, you would have to make analysis of the costs and revenues to the City if 3 3 changes to the baseline scenario to create a the bankruptcy petition is dismissed; correct? 4 4 scenario where you had the bankruptcy petition A. We do not -- we do not have a scenario 5 5 of what happens if the City's bankruptcy dismissed; is that fair? 6 6 A. I don't know. I would have to look at proceedings are dismissed; that is correct. 7 7 this. It would be easier to have the baseline in Q. Have you been party to any conversations 8 with the City where there have been discussions front of me. I would have to look at it to say 9 9 about what might happen if the bankruptcy petition whether we would have to change the entire 10 10 baseline or not. is dismissed? 11 Q. There have been times where you received 11 A. Not directly, no. 12 12 Q. Do you know if there's any contingency reports of cash collections from the City that 13 13 were not properly categorized; correct? planning by the City about what might happen if 14 A. Yes. 14 the bankruptcy petition is dismissed? 15 Q. And there have been times where you 15 A. No. 16 16 received questionable reports regarding accounts Q. Has the City already begun restructuring 17 17 payable from the City; correct? efforts that fall within that restructuring and 18 18 A. When you say "questionable," it's -- I'm reinvestment plan that your forecast is based on? 19 19 just -- they were not -- they were not fully A. Some of the initiatives that are a part 20 20 of the restructuring and reinvestment budget have complete. 21 Q. And Ernst & Young still -- you haven't 21 been started already. 22 22 audited the City's financial data; correct? Q. What would those include? 23 23 A. That is correct. A. You would have to talk to Conway 24 24 Q. Would it be possible to audit the City's MacKenzie about that, because there's a detailed 25 25 financial data? risk of the items that are already -- or John

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Page 119 Page 117 1 **MALHOTRA** 1 MALHOTRA 2 Hill, actually, of the items that are already 2 A. The baseline assumes that those billion 3 underway. 3 four of expenses are not in the baseline. So 4 4 Q. And would the costs and revenues from that's what I'm comfortable telling you, that 5 those activities be incorporated in both your 5 those billion four of expenses are not in the 6 6 baseline and your restructuring scenario or not? baseline. 7 7 A. No. It's a part of the restructuring Q. You've been working with the City since 8 scenario. We are operating as one scenario now 8 May of 2011; is that correct? 9 that includes the restructuring and reinvestment 9 A. That sounds about right. 10 initiatives; so, yes, those costs and -- would be 10 Q. And you know that there was a financial 11 a part of the restructuring and reinvestment 11 stability agreement between the State and the 12 12 budget as laid out in the plan. City: correct? 13 Q. Okay. But I'm wondering, did you update 13 A. That is correct. 14 14 the baseline scenario or not really? Q. And that was a consent agreement between 15 A. I would have to go back and check, if 15 the State and the City; correct? 16 any of the items would be reflective -- what 16 A. And the city Council. Yes. 17 17 change in the baseline. We are much more focused Q. And the financial stability agreement 18 on the overall restructuring scenario. 18 imposed mutual obligations on the City and the 19 Q. Okay. So sitting here today, you don't 19 State to try to help restructure the City's 20 20 know whether or not you've incorporated costs from financial situation; correct? 21 21 restructuring activities that have already started A. There were some annex additions that 22 22 in the baseline scenario? were a part of the agreement in which both the 23 23 A. I would have to go back and look at State and the City had certain obligations, yes. 24 24 that. Q. And did the financial stability 25 Q. Okay. Is that apparent on the face of 25 agreement establish the financial advisory board Page 118 Page 120 MALHOTRA 1 1 **MALHOTRA** 2 the 10-year and 40-year forecasts? Or do you have 2 and revenue conferences that are still ongoing? 3 to go back to the Excel spreadsheets or some other 3 A. I think it was a part of the financial 4 4 source to figure that out? Or is it something stability agreement, yes. 5 that Conway MacKenzie would have to tell you? 5 Q. And the City agreed to operational 6 A. I'm just thinking. I think the -- it 6 reforms in the financial stability agreement? 7 7 would be in the overall restructuring and A. Yes. There were some operations 8 reinvestment scenario, because the timing of some 8 changes. I don't recall which ones, but --9 of the expenses had changed. So my guess is that 9 Q. And then the emergency manager was 10 10 it would be reflective in the update, to the best appointed by the State; correct? 11 of our ability. 11 A. Yes. 12 Q. And -- but would it be in the update of 12 Q. And the emergency manager put together 13 13 the baseline scenario? an operating plan. Do you recall that? 14 A. I don't think it would be in the 14 A. I do. 15 baseline cells, but we are -- like I said, we are 15 Q. That was around May of 2013; correct? 16 16 looking at this as one restructuring scenario. It A. I don't remember the exact date. 17 17 continues to be the focus. Q. And you agreed that the emergency 18 18 Q. But your assumption in your forecast is manager had indicated that the financial stability 19 that there would be no restructuring or 19 agreement was the starting point for the emergency 20 20 reinvestment outside of chapter -- if the plan manager's plan? 21 were not confirmed; is that fair? 21 A. I do not recall that. 22 22 A. Can you please repeat that. Q. Do you agree that the emergency 23 23 Q. Is one of the assumptions of your manager's operational plan, that was produced 24 24 forecast that there would be no restructuring or before the City went into bankruptcy; correct? 25 25 reinvestment if the plan were not confirmed? A. That is correct.

Pages 117 to 120

Page 123 Page 121 1 **MALHOTRA** 1 **MALHOTRA** 2 2 Q. And that operational plan, again, make easier for me to answer it. 3 discussed reforming and restructuring the City's 3 BY MR. SMITH: 4 4 operations to improve the City's fiscal condition; Q. Okay. Before the City filed its 5 correct? 5 bankruptcy petition, it was already engaged in 6 6 A. I would have to go back and look at that restructuring efforts to improve its fiscal 7 7 report. condition: correct? 8 8 Q. Has the City -- have the City and State A. That is correct. 9 9 recognized that the main issue facing the City's Q. And in your view, were the efforts the 10 government and its fiscal situation are the legacy 10 City took before the bankruptcy petition was filed 11 costs from the pensions and healthcare coverage? 11 to restructure its operations and improve its 12 12 A. That's -- can you repeat that question, fiscal condition, were those good efforts and 13 13 reasonable efforts by the City? please. 14 14 Q. Based on your work with the City and MR. STEWART: Objection. 15 15 State, do they recognize that the main fiscal THE WITNESS: There were several efforts 16 challenge to the City and State are the legacy 16 the City took in order to cut costs, some 17 17 costs -temporarily. Some were just deferrals. And 18 18 A. I'm sorry. so, you know, there were several initiatives 19 Q. -- from the pensions? 19 the City was working on. I would say the 20 20 A. Who is they? City did undertake several initiatives to cut 21 21 Q. The City and State officials that you've costs, cut the cash disbursements by either 22 22 worked with, did they recognize that the main deferring outflows or, in some cases, 23 23 challenge to the City and its fiscal situation are imposing some wage cuts on employees. 24 these legacy costs from the pension and 24 BY MR. SMITH: 25 25 healthcare? Q. So one strategy the City used to improve Page 122 Page 124 MALHOTRA 1 1 **MALHOTRA** 2 its fiscal situation before bankruptcy was to MR. ALBERTS: Objection to form. 3 3 defer expenditures; correct? THE WITNESS: I don't think that's the 4 4 A. The City was deferring contributions to only issue. I mean, it's declining 5 5 the pension systems in order to just cash flow day population, which is a significant issue that 6 6 has faced Detroit. So I don't know. You to day. 7 7 would have to ask the State and City Q. And was that lawful? 8 8 MR. ALBERTS: Objection. officials that question. 9 9 THE WITNESS: I don't know about that. BY MR. SMITH: 10 10 Q. Based on your work with the City before BY MR. SMITH: 11 11 Q. In your forecast, there's no deferral of the bankruptcy petition was filed, is it your view 12 12 contributions to the pension system, is there? that the City's efforts to restructure and improve 13 13 its fiscal operations before the bankruptcy A. In which forecast? 14 14 Q. In any of your forecasts. petition was filed were reasonable and good 15 efforts? 15 A. In the plan of adjustment, I do not 16 believe we are contemplating deferring pension 16 MR. STEWART: Objection. 17 contributions. 17 THE WITNESS: Could you just repeat the 18 18 Q. And deferral of pension contributions is question, please. 19 19 (Thereupon, the requested portion a strategy that a number of cities have used to 20 20 improve their fiscal situation; correct? was read back by the reporter as 21 21 A. I can't -- I don't know about that. above recorded.) 22 22 THE WITNESS: So I still don't Q. You haven't done any investigation to 23 determine what measures other cities have taken to 23 understand the last part of that question. 24 The City -- I mean, if you can just rephrase 24 improve their fiscal situation have been, have 25 25 the last part of your question, it will just

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Page 127 Page 125 1 MALHOTRA 1 **MALHOTRA** 2 A. What do you mean? In what particular 2 cities that have cut services in order to address 3 context? 3 fiscal distress? 4 4 Q. Well, have you done any investigation of A. Yes. In fact, Detroit's been doing it 5 other cities to find out what efforts they've made 5 probably for a long time. 6 6 to increase revenues or decrease costs to address Q. And there are cities that have engaged 7 7 fiscal distress? in privatization in order to improve their fiscal 8 8 A. I've kept up with what other cities are situation: correct? 9 9 sometimes doing to improve revenue initiatives. A. Cities have privatized assets all over 10 10 Q. One successful strategy cities have used the country. Whether it improves their fiscal 11 11 to improve revenues is to raise tax rates; position or not, I can't comment on that. 12 12 correct? Q. Are you from Chicago? 13 A. I do not know about that. I'm sure if 13 A. I live in Chicago, yes. 14 you increased tax rates -- I don't know what the 14 Q. Okay. Well, we have something in 15 impact is on collections. So I don't know if that 15 common. You know the City in Chicago privatized 16 is successful or not successful. 16 its parking system; right? 17 17 A. A lease -- and turned to a long-term Q. Okay. Do you agree that one strategy 18 that cities have used to increase revenues is to 18 lease agreement. 19 raise tax rates? 19 Q. And received more than a billion dollars 2.0 20 A. If tax rates are increased and the for doing that; correct? 21 21 collection levels do not drop and the wage levels A. Yeah, I don't remember what the exact 22 remain the same, one could imply that collections 22 revenue was, but that may sound reasonable. 23 were going up. But I do not know -- I can tell 23 Q. And the City of Chicago has also cut, 24 24 that in Detroit, the City increased the corporate you know, its costs in other ways in order to 25 income tax rate from 1 percent to 2 percent. And 25 address fiscal distress; correct? Page 126 Page 128 1 **MALHOTRA** 1 **MALHOTRA** 2 so that did result in higher collections. A. Like what? 3 Q. Another strategy that cities have 3 Q. Well, I think it's cut some wages and 4 4 implemented to improve their fiscal situation is probably cut headcount. 5 5 to increase fees for services; correct? A. I don't know about that. 6 6 A. Yes. And it depends on the level of Q. You know that the City of Chicago is 7 7 service and the collectability of those increased contemplating a significant increase in property 8 8 fees. taxes? 9 9 Q. And another strategy cities have used to A. I don't know what "significant" is. 10 10 improve their fiscal situation is improve Q. Well, you know the City of Chicago is 11 collection of taxes; correct? 11 planning to increase property taxes, correct, in 12 A. If the collection rates improve and 12 order to address its fiscal situation? 13 13 everything else remains the same, that would A. I don't know how much of that is driven 14 improve the taxes. 14 by the State versus the City. I haven't paid too 15 Q. A number of cities, in order to deal 15 much attention to those taxes going up. 16 16 with fiscal distress, have cut services; correct? Q. Okay. Well, you must not live in the 17 17 A. Like what? city. 18 18 Q. Like a lot of different kinds of A. I do live in the city. 19 services, city services. There have been cities 19 Q. So do I. I've been paying attention. 20 20 that have cut police and fire service in order to You're aware, though, that there are 21 address fiscal distress; correct? 21 plans to increase property taxes, whether they're 22 22 A. I can't talk about one that specifically driven by the State or they're driven by the City, 23 comes to mind where police and fire has been cut 23 in Chicago in order to address the fiscal 24 significantly. 24 situation; correct? 25 25 Q. Are you aware that there have been A. Yeah, I read about that.

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Page 131 Page 129 1 **MALHOTRA** MALHOTRA 2 Q. And you're aware that Chicago city 2 A. Not on a day-to-day basis. That's 3 3 pensions are significantly underfunded; correct? something that, you know, the emergency manager is 4 4 A. Underfunded compared to what? 5 Q. Well, compared to Detroit, Chicago's 5 But if there are specific questions on 6 6 pensions are much less funded than Detroit's assumptions or on the forecast, yeah, I speak to 7 7 the State on that. pensions are; correct? 8 8 A. I don't know the assumptions that City Q. Okay. So the City -- the emergency 9 9 of Chicago is using, and so I don't know exactly manager keeps the State apprised on a day-to-day 10 what that funded status is. 10 basis of the City's financial condition and 11 11 Q. Would you agree that there are a number efforts at fiscal improvement; correct? 12 12 MR. STEWART: Objection. of cities in the country that are having to deal 13 with fiscal distress and fiscal crisis? 13 THE WITNESS: You would have to ask the 14 14 A. I know of two other cities -emergency manager that. 15 15 Stockton -- that are in Chapter 9. So, I mean, I MS. FOX: Object to form. 16 don't know what you mean by a number of cities all 16 THE WITNESS: You would have to ask the 17 17 over the country facing fiscal distress. emergency manager that. 18 18 Q. Have you done any investigation into the BY MR. SMITH: 19 fiscal condition of any other cities? 19 Q. Are you aware of any funding the State's 20 20 provided to the City to support its restructuring A. Yes. 21 21 or -- and investment plan? Q. And you're aware that there are other 22 22 A. There's \$194.8 million coming in from cities in the country experiencing fiscal distress 23 23 the State in terms of pension that's coming in. and crisis; correct? 24 24 Q. But does the State -- oh, okay. So the A. There are some other cities in the 25 25 country facing financial distress, yes. State has agreed to contribute to the pension Page 130 Page 132 1 **MALHOTRA** 1 MALHOTRA 2 Q. Did -- before its Chapter 9 filing, had funds for City workers; is that fair? 3 the City put together a restructuring plan? Say 3 MR. ALBERTS: Objection to form. 4 4 around March of 2013? THE WITNESS: It's a part of the grand 5 5 A. I do not recall if it was a bargain. 6 6 restructuring plan or the City -- I'm sure had BY MR. SMITH: 7 7 pulled together some short-term like -- five-year Q. Other than contributing to the pension 8 8 fund, has the State provided any funding to forecast at that point in time to, say, lay out 9 9 what the expense side could be or at least get a support the City's restructuring and reinvestment 10 10 better handle on it. plan? 11 Q. The City did make a proposal to 11 A. I think the State had also assisted with 12 12 some portion of the professional fees. creditors that would have accomplished a 13 13 restructuring outside of Chapter 9; correct? Q. And other than paying professional fees 14 A. That was the June proposal in terms of 14 and the pension and contributing money to 15 laying out what the financial resources available 15 pensions, has the State provided any funding in 16 16 to the City were to meet its legacy liability of support of the City's restructuring and 17 17 legacy obligations. reinvestment plan? 18 18 Q. Are you involved in communications A. Well, just to be clear on the first one, 19 19 directly with the State of Michigan in your work as you just asked the question, as a part of the 20 20 on -- for the City of Detroit? contribution to the grand bargain, that money does 21 A. Off and on, and not on a day-to-day 21 not have to be put into the pensions by the City. 22 22 basis. So the City is having funding available for the 23 23 Q. Do you keep the State of Michigan restructuring and reinvestment plan. I just want 24 24 informed about the City's activities with respect to make that clear. 25 25 to its financial situation? Other specific projects, I would defer

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Page 135 Page 133 1 **MALHOTRA** 1 MALHOTRA 2 to Conway MacKenzie in terms of that billion four, 2 and look at the projections or the actual 3 3 if -- what assistance is being provided, if any, costs before and after to be able to answer 4 4 by the State, because I know the State does that. 5 continue to provide specific grants that work 5 BY MR. SMITH: 6 6 through the different departments. Q. Okay. Did the City initiate plans to 7 7 Q. You're not aware of any special funding improve tax collection before filing the 8 8 that State has designated for reinvestment and bankruptcy petition? 9 9 A. The City has been working on trying to restructuring Detroit? 10 10 A. I believe the hardest hit funds of the improve tax collections the entire time. I mean, 11 \$50 million -- \$52-1/2 million I think are coming 11 it's an ongoing process to improve the process, 12 12 through the State. I'm not sure. you know, collection efforts in any fashion 13 Q. Is it your understanding that the 13 possible. 14 14 194 million that the City is receiving from the Q. There is significant revenues that are 15 15 State doesn't have to go into the pension fund but owed in taxes that the City has not collected each 16 could be used to pay other creditors? 16 year; correct? 17 17 MR. STEWART: Objection. A. I do not know about that. 18 THE WITNESS: No, that's not my 18 Q. Well, how much in revenue -- do you know 19 understanding. 19 how much in revenue the City is not collecting 20 20 BY MR. SMITH: each year in taxes? 21 21 Q. Okay. It has to go into the pension A. I do not. 22 22 fund? Q. So you haven't done any analysis that --23 23 A. Yes, that is my understanding. in your forecast to try to quantify amount of 24 24 Q. Okay. And is that the way your forecast revenue that could be obtained through increased 25 treats that money? Is it accounted for in your 25 tax collection? Page 134 Page 136 1 **MALHOTRA** 1 MALHOTRA 2 2 forecast? A. EY has not done an analysis on 3 3 delinquent taxes today and what efforts could be A. Yes. 4 4 Q. Would it be fair to say that the made to collect those delinquent taxes. I know 5 5 emergency manager made significant progress in the City has been working on, you know, providing 6 6 cutting costs and increasing revenues before the relief so that people come out and -- or amnesty 7 7 bankruptcy petition was filed? programs, and we know that the City has made good 8 A. What did you mean "significant"? 8 efforts on those. 9 9 Q. Well, use your definition of I do not -- we have not gone out -- EY 10 10 "significant." has not gone out to try and come up with a 11 Would you say that the emergency manager 11 collection effort for any delinquent taxes. 12 12 Q. But over the 10-year period of your had made significant progress in cutting costs and 13 13 forecast, you haven't quantified the amount of increasing revenues before the bankruptcy petition 14 was filed? 14 taxes that will go uncollected if current trends 15 A. I don't know what your definition of 15 continue; correct? 16 16 A. We have a collection-rate assumption in "significant" is. I will say that the emergency 17 17 manager -- I don't know about the revenue the forecast that continues to improve over the 18 18 forecast period. So I would have to go back and initiatives, but -- in my view, I think there was 19 19 some ongoing cost cutting even continuing then. see if we can quantify what -- your question. But 20 20 Q. Okay. So using your definition of I know that we are assuming that the collection 21 "significant," did the emergency manager make 21 rates would actually increase over the forecast 22 22 significant progress in cost cutting before the period. 23 23 bankruptcy petition was filed? Q. Is that true for all taxes? 24 24 MR. STEWART: Objection. A. Well, at least in the big one where --25 25 THE WITNESS: I would have to go back in property taxes, I believe that is the case. We

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Page 137 Page 139 1 **MALHOTRA** 1 **MALHOTRA** 2 2 can go down the line. On casino taxes, there is changes that you have factored into your forecast? 3 no issue because the collection rates are fine. 3 A. I would have to go back and check. 4 4 On the income taxes, I would have to go back and Not -- nothing that comes to mind specifically. 5 check. If you were to ask me a more detailed question, 6 6 Q. As far as you're aware, on the income I'd be able to answer. 7 7 tax you haven't incorporated an estimate in your Q. Over the 10-year period, one thing that 8 forecast for an increase in revenue that would 8 can obviously impact your forecast is if there are 9 occur if there were withholding for reverse 9 changes in policy, such as change in tax rates or 10 commuters or if there was piggybacking with state 10 other policy changes that affect revenues or 11 11 taxes; correct? costs; correct? 12 12 A. That is correct. We have not got a --A. If you change the assumption, the 13 we do not have in the baseline an initiative 13 numbers will change. You are correct. 14 14 specifically on the reverse-commuter tax issue. Q. Where did you get the assumption to hold 15 Q. And it's not in the restructuring 15 tax rates constant? 16 scenario either; correct? 16 A. That was the -- discussion with the 17 17 A. I do not think it is, but I would -- you emergency manager. 18 should confirm that with Conway MacKenzie. 18 Q. Where did you get the assumption to --19 Q. Okay. Or would it be Mr. Cline that did 19 as far as you're aware, not incorporate, you know, 20 20 that, or -withholding for the income tax or piggybacking 21 21 A. On the specific reverse commuter, if with the state tax? 22 22 it's -- if that revenue has been -- if that A. I do not recall. My -- I do not recall 23 23 revenue has been included in the restructuring and specifically because there was not enough 24 24 reinvestment operating initiatives, you would have substantive information that was available to 25 to talk to Conway MacKenzie about that. 25 judge what, if any, that impact was. But I was Page 138 Page 140 1 **MALHOTRA** 1 **MALHOTRA** 2 Q. Okay. So sitting here today, though, as not a part of those discussions. 3 3 far as you're aware, it's -- there's not been a Q. Do you agree the City is able to pay its 4 4 specific addition for implementing income tax bills right now? 5 5 withholding or piggybacking with the state tax; A. What bills? 6 6 Q. All of its bills. I mean --7 A. That is correct. Not that I know of. 7 A. Well, under the restructuring scenario, 8 Q. And there have been no -- you haven't 8 it's different. So you have to be more specific 9 attempted to forecast what would happen if tax 9 about what bills. While the City is in bankruptcy 10 10 rates increased; correct? or . . . 11 A. Which tax rates? 11 Q. You included in your forecast, I think 12 Q. Any of the tax rates. You haven't built 12 it is called, a contingency fund or something like 13 13 in an increase for any tax rates in your that. Do you recall that? 14 forecasting model; correct? 14 A. A contingency reserve. 15 A. That is a policy question. Yes, we have 15 Q. Or reserve. And how much is that? 16 16 not baked any increases in the tax rate, because I A. We used about -- we used 1 percent of 17 17 think they're already at the max in certain cases. revenues. 18 18 But we have left tax rates where they are today. Q. And how much money does that work out 19 Q. But the State and the City, in the 19 to? 20 20 A. On almost \$11 billion of revenues -- on cooperation, could raise any of the tax rates; 21 21 more than \$11 billion of revenues, it's about 22 22 A. I don't know what legislation is \$100 million of contingency. 23 23 required for that. You would have to ask the Q. And before the City went into 24 24 State or the City. It's a policy question. bankruptcy, did it have a contingency reserve? 25 25 Q. Are there any policy -- potential policy A. It wasn't discretely called out. I do

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Page 143 Page 141 1 **MALHOTRA** 1 **MALHOTRA** 2 not know, in the budget, if there was a specific 2 Q. Do you agree that if the petition is 3 contingency reserve or not. I would have to go 3 dismissed, efforts to increase tax collections 4 4 back and check. will continue? 5 Q. Sitting here today, though, you're not 5 A. I do not know, because it would -- the 6 6 aware of any contingency reserve the City had City would require funding for all these 7 7 before entering bankruptcy; correct? initiatives. 8 A. I don't know if it was entered into 8 Q. So you don't know one way or the other? 9 specific line items or if it was not. So -- but I 9 A. I do not. 10 10 do not recall of a specific contingency reserve Q. If the petition is dismissed, would it 11 that was at least in the budget. The City always 11 be fair to say that the City will continue to try 12 12 tries to budget for deficit elimination to to increase revenues? 13 basically account for the previous year's deficit, 13 A. Yes. 14 14 but I don't know if it's a line called Q. If the petition is dismissed, will the 15 15 "contingency reserve." City continue to try to cut costs? 16 Q. Was there a contingency reserve in the 16 A. I do not know about that. 17 17 version of the forecast you did for the fourth Q. If the petition is dismissed, will the 18 18 plan? City continue to use privatization efforts to 19 A. I'm sorry? 19 improve its fiscal situation? 20 20 Q. Fourth plan. Fourth amended plan. A. I do not know about that. 21 21 A. I would have to go back and look at the Q. If the -- would it be fair to say that 22 fourth amended plan. 22 you just don't know what -- what will happen if 23 23 Q. Okay. Have there been prior -the petition is dismissed, because you haven't 24 24 A. Oh, yes. I'm sorry. That was the plan investigated what specific activities will 25 of the adjustment filed. Yes, there was a 25 continue or not? Page 142 Page 144 1 **MALHOTRA** 1 **MALHOTRA** 2 2 contingency. A. Yeah. If the petition is dismissed and 3 3 Q. And was it in the same amount or not? the City has to continue to pay its legacy bills 4 4 A. I think it was -- the amount of the as they were prior to the bankruptcy, that's going 5 5 contingency was pretty much the same because it to be a problem for the City; based on which, I do 6 6 was driven off 1 percent of revenue. not know what the City will have the ability or 7 7 So if the revenues changed slightly, the will not have the ability to do. I have not fully 8 contingency would have changed slightly. But the 8 looked at that. 9 9 methodology was the same: It was 1 percent of Q. You haven't been asked to look at what 10 10 would happen if the petition is dismissed by the revenues. 11 Q. Were there versions of the plan where 11 City or the State; correct? 12 12 you had no contingency reserve? A. That is correct. 13 13 Q. And you're not offering any opinion A. I would have to go back and look. 14 Q. You don't know whether the contingency 14 about -- have you reviewed Syncora's objection to 15 reserve was in all versions of your plan, sitting 15 the bankruptcy petition? 16 16 A. No. here? 17 A. I don't know if it was -- the 1 percent 17 Q. So you're not offering any opinion about 18 18 the analysis in Syncora's objections which shows was in all versions or not. 19 19 Q. You agree that if the petition is how much money it believes creditors could receive 20 dismissed, some blight-reduction efforts would 20 if the petition were dismissed; correct? 21 continue; correct? 21 A. That's correct. 22 22 A. It depends on the amount of money the Q. The -- and nobody's asked -- nobody has 23 23 City has available to fund. Something that is asked you to do such an analysis, from the City or 24 grant-funded, like the \$50 million, if it is still 24 State: correct? 25 25 available, presumably it would be spent. A. That is correct.

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1	MALHOTRA	1	MALHOTRA
2	Q. Can you identify any city in fiscal	2	exist; correct?
3	crisis that's planning to spend approximately a	3	A. Or may replace existing taxes in some
4	billion dollars in new reinvestment spending?	4	fashion.
5	A. I do not know of another city which is	5	Q. And where did that assumption come from?
6	probably in the same condition as Detroit, but	6	A. We've left the tax policy the same as it
7	that would be I do not know.	7	is today.
8	Q. Can you identify any city that's	8	Q. And did that come from the emergency
9	planning to spend approximately a billion dollars	9	manager?
10	in new reinvestment while not raising tax rates?	10	A. That's what I thought I said earlier.
11	A. I do not know.	11	MR. SMITH: Okay. Why don't we take a
12	Q. Can't identify such a city?	12	break.
13	A. I haven't done the analysis to go out	13	THE WITNESS: Okay.
14	and take a look.	14	THE VIDEOGRAPHER: Going off the record
15	Q. So you can't identify any examples?	15	at 12:12 p.m. This is the end of Tape No. 2.
16	A. I just said I do not know.	16	(Short break taken.)
17	Q. Can you identify any cities that are	17	THE VIDEOGRAPHER: We are back on the
18	planning to spend hundreds of millions of dollars	18	record at 12:21. This is the beginning of
19	on blight reduction?	19	Tape No. 3.
20	A. I do not know.	20	BY MR. SMITH:
21	Q. Can't identify any such a city; correct?	21	Q. Mr. Malhotra, you agree that it's
22	A. I haven't gone out and done this	22	possible to increase the money available to pay
23	particular analysis, so I do not know.	23	creditors by changing the assumptions in your
24	Q. You agree that not every city has a	24	forecast; correct?
25	municipal income tax; correct?	25	A. If you change the assumptions, the
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1	MALHOTRA	1	MALHOTRA
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	MALHOTRA A. That is correct.		MALHOTRA
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2 3 4 5 6 7 8 9 10 11 12 13 14 15	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities	2 3 4 5 6 7 8 9 10 11 12 13 14	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct?
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures.	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money.
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that fair? A. It's a tax policy question. From a tax	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money for creditors; correct?
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that fair? A. It's a tax policy question. From a tax policy standpoint, we've just left the existing	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money for creditors; correct? A. If if you change you have to look
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that fair? A. It's a tax policy question. From a tax policy standpoint, we've just left the existing policy as is over the forecast period,	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money for creditors; correct? A. If if you change you have to look at it in aggregate. If you change a particular
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that fair? A. It's a tax policy question. From a tax policy standpoint, we've just left the existing policy as is over the forecast period, essentially.	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money for creditors; correct? A. If if you change you have to look at it in aggregate. If you change a particular discrete assumption and assume everything else
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that fair? A. It's a tax policy question. From a tax policy standpoint, we've just left the existing policy as is over the forecast period, essentially. Q. Okay. So one of your assumptions is	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money for creditors; correct? A. If if you change you have to look at it in aggregate. If you change a particular discrete assumption and assume everything else remains the same and if you assume in that
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	MALHOTRA A. That is correct. Q. And there are many cities that don't have wagering tax; correct? A. That is correct. Q. And there are cities that don't have access to a corporate tax; is that correct? A. I assume so. I do not know for sure. Q. Okay. Would it be fair to say that Detroit has revenue streams from tax sources that other cities lack, other comparable cities? A. I would say Detroit has used taxes from sources to fund its expenditures that other cities have not had to maybe use to fund their expenditures. Q. Okay. And your one assumption of your forecast is that there will be no new taxes that are created to provide new revenue. Is that fair? A. It's a tax policy question. From a tax policy standpoint, we've just left the existing policy as is over the forecast period, essentially.	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	MALHOTRA numbers will change. Q. So that's correct? A. I just said if you change assumptions, numbers change. Depends on what assumptions you change. Q. It's possible to change the assumptions in a manner that will increase the money available to pay creditors; correct? A. Like what assumptions are you referring to? Q. Well, you could increase tax rates and potentially increase the money available to pay creditors; correct? A. If you have more revenue in the forecast than is currently projected, you will have more money. Q. So it's possible to change the assumptions in your forecast to provide more money for creditors; correct? A. If if you change you have to look at it in aggregate. If you change a particular discrete assumption and assume everything else

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Page 149 Page 151 1 MAI HOTRA **MALHOTRA** 2 everything else is the same, yes, there will be 2 you know, increasing. And there may be some 3 3 more money. changes in pension. DDOT subsidy will continue to 4 4 go as is. So --Q. And you're not claiming that it's 5 impossible for the City to pay creditors more 5 Q. Well, you agree that there's a large 6 6 money than is reflected in your forecast; correct? disparity in the recovery between the bondholder 7 7 creditors and the retiree creditors under the A. You say "impossible." It's -- I mean, 8 the City has -- if you change the assumptions on plan: correct? 9 any of these items, the money could go up or the 9 MR. STEWART: Objection. 10 10 THE WITNESS: I don't know what you money could go down. 11 11 Q. And so it's certainly possible -- well, define by "large disparity." 12 12 BY MR. SMITH: we covered that already. And we've also covered 13 that you're not doing any comparison between the 13 Q. Well, there's a large numerical 14 14 disparity in terms of percentages that bondholders scenario of the dismissal of the petition and the 15 15 restructuring scenario; correct? recover versus the retirees; correct? 16 A. Well, like your question was, have I 16 MR. STEWART: Objection. 17 17 been asked to do a dismissal scenario? Not MR. ALBERTS: Objection. 18 18 directly. But the baseline scenario, if you look THE WITNESS: A large disparity? I 19 19 at some of the line items, they're going to be the would say that based on the assumptions that 20 20 same as in a dismissal scenario, likely, which is are shown in the 40-year, based on those 21 21 going to make the baseline scenario reflective on assumptions, the pension recoveries under 22 22 some of those line items what the City is likely those assumptions are higher. OPEB is the 23 23 to face. same as some of the other unsecured 24 24 Q. And some of the line items would be creditors 25 25 different in the baseline scenario and dismissal: BY MR. SMITH: Page 150 Page 152 1 MALHOTRA 1 MALHOTRA 2 correct? Q. But my client you know is getting a lot 3 A. There could be. It would be -- if I 3 less than other creditors in the bankruptcy; 4 4 look at each one of those line items, some of the 5 5 assumptions, for instance, on pension, right, may A. The COPs are getting the same treatment 6 6 or may not change. But, you know, for instance, as OPEB and -- in terms of the numerical recovery 7 7 under the assumptions we've used and the other some of the retiree healthcare projections, I 8 mean, if you look at the baseline scenario -- and unsecured creditors. 9 9 again, going by memory, even if you are to add the Q. What's the percent recovery of OPEB 10 10 reinvestment expenditures in there, you're looking versus its claims? 11 at somewhere close to a \$5 billion deficit based 11 A. I think it's roughly 10 percent. 12 on the assumptions that were in there in the 12 Q. And other unsecured creditors, who are 13 13 you thinking about? baseline. And some of them will just get 14 replicated for a dismissal scenario. 14 A. Yeah. Those are the general other 15 Q. And there are some things you don't --15 unsecured creditors, which is about 10 percent as 16 16 you don't know what's going to happen after well. 17 17 dismissal, right, because you haven't investigated Q. And the percent of recoveries, you can't 18 18 it; correct? represent that those would remain the same in a 19 19 A. I have not done a specific analysis on dismissal situation if you don't know what percent 20 20 each of a dismissal scenario; but I can say that, recovery would be; correct? 21 you know, the payroll assumptions will not change 21 A. Yeah. I would not know for each one of 22 22 that much. Payroll is what it is. The revenues the classes what that would mean, because in a 23 23 dismissal, I have not thought through how each are -- generally are what they are. The -- I'm 24 trying to go by memory. 24 class would get impacted. But what I can say, 25 25 Retiree healthcare will continue to be, based on that baseline scenario, is the City's

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Page 155 Page 153 **MALHOTRA** 1 **MALHOTRA** 1 2 access to funds, I mean, the City is likely to 2 so --3 have huge deficits from that baseline scenario 3 Q. And the City decides the level of 4 4 service: correct? assumption. 5 5 A. Yes. It's the City and it's what the Q. You can't -- you can't --6 6 MR. STEWART: He didn't finish his citizens require for some level of service. So I 7 7 don't know if the City will be able to reduce answer. 8 8 BY MR. SMITH: overtime it the bankruptcy is dismissed. 9 9 Q. The City certainly has the power to Q. You can't --10 10 MR. STEWART: Mr. Malhotra, did you reduce overtime if the bankruptcy is dismissed; 11 11 correct? finish your answer? 12 12 A. It would depend on the level of service THE WITNESS: I was just about -- I 13 wanted to just make clear that the City was 13 and the staffing. And my guess is within that 14 14 comes in the collective bargaining agreements, so showing huge deficits based on the 15 15 I'm not sure I can answer that, that the City assumptions in that baseline scenario, and 16 16 can -- whether the City can or cannot reduce some of which are going to be very similar to 17 17 a dismissal scenario. overtime. 18 18 BY MR. SMITH: Q. So you haven't looked into whether the 19 Q. And some of them will be different: 19 City can reduce overtime if the petition is 20 20 correct? dismissed; correct? 21 21 A. Yeah. It's -- we have assumed that in a A. Some of them, yes. Like pension comes 22 22 to mind, may or may not be different. I would baseline scenario, for instance -- maybe if I can 23 23 have to look at that. refer to that -- that the level of overtime is 24 24 reflective of the current overtime run rate the Q. And it's certainly possible some of the 25 25 City is experiencing. So if the case is creditors may receive higher recoveries under the Page 154 Page 156 1 MAI HOTRA **MALHOTRA** 1 dismissal scenario; correct? dismissed, I don't know what impact that actually 3 MR. STEWART: Objection. 3 has on that overtime. 4 4 THE WITNESS: I don't know. I haven't Q. Can you identify any Chapter 9 5 5 bankruptcy where a City claimed that it could done that math. 6 6 BY MR. SMITH: reliably costs -- costs -- forecast costs and 7 7 Q. Nobody from the City has asked you to do revenues over a period as long as 10 years? 8 that kind of analysis; correct? 8 A. I have not looked at the other Chapter 9 9 9 A. That is correct. plans. But this is the best information we can 10 10 Q. Has the City already implemented a pull together, at least for Detroit. 11 software system for improved tax collections? 11 Q. So there's no City that you're aware of 12 A. I do not know. 12 that is claiming that it could forecast costs and 13 13 Q. You'd agree that it's possible for the revenues for a period as long as 10 years 14 City to reduce overtime if the petition is 14 reliably; correct? 15 dismissed; correct? 15 A. I do not know whether they do or do not. 16 16 A. I'm sorry. Can you please repeat that. I haven't done -- I haven't looked -- I haven't 17 Q. The City can reduce overtime costs if 17 undertaken an exercise to go out and look at what 18 the petition is dismissed; correct? 18 other cities would be doing in this context. 19 19 A. How? Q. So you haven't looked to see whether, 20 20 Q. Not have as many overtime hours. I No. 1, other cities even try to forecast costs and 21 mean, it's within the City's discretion how many 21 revenues for a period as long as ten years; 22 22 overtime hours that it has its workers work; correct? That's not something you've 23 23 correct? investigated? 24 A. No. It depends on the level of service 24 A. I have not, no. 25 25 that has to be provided and the manpower you have, Q. And you also haven't looked --

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Page 157 Page 159 1 MALHOTRA MALHOTRA 2 investigated what methods, if anything, a city 2 A. That would be a question for Conway 3 3 that has been -- that might attempt to forecast MacKenzie, because I know there's some fees in the 4 4 costs or revenues over a period as long as 10 restructuring of the investment initiatives, 5 years has used to ascertain what reliable methods 5 operational revenue line items. So that would be 6 6 are out there that have been used? a question for them, whether they have. 7 7 A. I'm sorry. That was way too long a Q. You agree that Detroit has the power to 8 raise additional revenues by implementing new auestion. 9 Q. You haven't done any investigation to 9 fees; correct? 10 10 A. No. It depends on whether you can identify whether there are methods that have 11 reliably been used to estimate costs and revenues 11 collect those fees and what the expenses are to 12 for a City for a period as long as 10 years; 12 collect those revenues and what you are levying 13 correct? 13 fees on. 14 14 Q. Okay. But there's the potential for A. Cities' revenues are made up of taxes. 15 15 And if you keep the tax policy essentially the additional revenue to be generated by implementing 16 same, the rest of it is pretty straightforward. 16 new fees; correct? 17 17 Expenses, mostly the City's expenses are headcount A. As long as the new fees -- the expenses 18 and legacy liabilities-related. 18 incurred to generate new fees don't exceed the 19 19 So there isn't -- I mean, there's fees. I mean, I don't -- if there's a specific 20 20 articles out there in financial journals on fee that you're referring to, it would be easier 21 21 municipal accounting and municipal budgeting, for me to comprehend. But it's just -- if you 22 22 so -- you know, which I read off and on. So I increase any new fee, depends on whether you're 23 think through a methodology standpoint, there is 23 going to collect it, the costs you're going to 24 24 incur to collect it. no scientific methodology in this -- in Detroit 25 25 that would be different for any other city. Q. And you may have included additional Page 158 Page 160 1 **MALHOTRA** 1 MALHOTRA 2 Q. Can you identify one article on revenues from new fees in your forecast; you just 3 3 municipal budgeting that you've read? don't know, sitting here today; correct? 4 4 A. Not off the top of my head, but there's A. No, I did not say that. I said in the 5 5 governing publications that I get every week, and Conway MacKenzie revenue initiatives that were 6 6 there's -- also articles, I think -- or there's specifically highlighted, there are fees. I just 7 7 articles that talk about long-term budgets don't know if they're new fees or not. But I 8 potentially. But I haven't studied it in detail. 8 think that would be a question to ask them. 9 9 Q. And there's no literature cited in Q. Okay. So you don't know whether your 10 10 any -- in your report that would support your forecast is assuming there will be new fees or 11 methodology; correct? 11 not, sitting here today? 12 A. That's right, because as I mentioned, 12 A. I would have to go back and look at --13 13 the methodology is pretty straightforward for a if I had the exhibits, I would be able to go back 14 municipality when you look at the taxes -- when 14 and look at the details and try and ascertain if 15 you look at revenue base and you look at the 15 they are new or not. 16 16 Q. Okay. That would be details that were expense base. If you keep policy assumptions 17 17 aside, it's a pretty straightforward analysis. provided to you by Conway MacKenzie that you would 18 18 Just like you would do with any other corporation, have to look back to? 19 19 it's just financial forecasting. A. Yes. Those are line items I would look 20 20 Q. Have you published any publications on at. 21 forecasting? 21 Q. Do you agree that the City of Detroit 22 22 A. I have not. has a long history of fiscal mismanagement? 23 23 Q. Are there -- in your forecasts, have you A. I would say that the City historically 24 24 included any sums attributable to new fees imposed has run deficits. Fiscal mismanagement, you know,

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I don't want to comment on that. I would say the

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by the City that it's not currently imposing?

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1	MALHOTRA	1	MALHOTRA
2	City has historically run deficits.	2	getting educated with the financial constraints
3	Q. Do you agree that the City has been in	3	that Detroit was feeling.
4	poor fiscal condition for decades?	4	Q. Are you aware that there are other
5	A. I wouldn't be able to comment on	5	cities of Michigan that are under the supervision
6	decades. I've looked at the last four or five	6	of an emergency manager?
7	years, that's what I can comment upon.	7	A. Yes.
8	Q. Has the City been in poor fiscal	8	Q. How many cities?
9	condition for the last four or five years you've	9	A. I don't know.
10	examined?	10	Q. It's approximately six or so. Is
11	A. The City has been actually, yes,	11	that
12	suffering deficits. And so that is what I can	12	A. I don't know.
13	comment upon. The City's expenses have exceeded	13	Q. Don't know.
14	its revenues over the last four or five years.	14	And there are other cities in Michigan
15	Q. Before the current petition for	15	that are facing fiscal distress; correct?
16	bankruptcy was filed, are you aware of anybody in	16	A. What's your definition of "fiscal
17	the City of Detroit suggesting that it should file	17	distress."
18	for bankruptcy within the last four or five years	18	Q. Well, significant enough that they've
19	that you've examined?	19	triggered an emergency manager under the statutory
20	A. I'm sorry. Can you say it again.	20	scheme; correct?
21	Q. If you've looked at a four- or five-year	21	A. If that's what your definition of
22	period during which Detroit had a poor fiscal	22	"fiscal distress" is and there is an emergency
23	condition, are you aware of anybody recommending	23	manager, yeah, likely.
24	that Detroit enter Chapter 9 bankruptcy before the	24	Q. What's your definition of "fiscal
25	current petition was filed?	25	distress"? I mean, do you have one or not?
	·		<u> </u>
	Page 162		Page 164
1	MALHOTRA	1	MALHOTRA
2	A. I do not know. And when you say "poor	2	Not off the top of my head right now.
3	fiscal," I just want to be clear: Detroit was	3	But I just want to make sure I'm answering your
4	running deficits. Its expenses exceeded its	4	question appropriately when you ask fiscal
5	revenues. In terms of and your second question	5	distress. I mean, your previous question was
6	was about filing for bankruptcy prior to can	6	about an emergency manager, which there are cities
7	you please repeat me. Sorry.	7	that have emergency managers.
8	Q. If the four or five years that you've	8	Q. Are you aware of any other city in
9	looked at when Detroit was running deficits, are	9	Michigan that's in Chapter 9 bankruptcy?
10	you aware of anybody recommending Detroit enter	10	A. No, I am not.
11	Chapter 9 before the current petition was filed?	11	Q. You mentioned that you had done some
12	A. I don't know if somebody had or had not	12	work for the Detroit Public Schools; correct?
13	recommended. But four or five years is a long	13	A. Yes.
14	time. I looked at the financial results of	14	Q. And the did the Detroit Public
15	Detroit during those four or five years. I was	15	Schools undergo a restructuring?
16	not around in Detroit for the last four or five	16	A. Not a formal restructuring from a
17	years.	17	Chapter 9 perspective, no.
18	Q. But you were not aware of anybody	18	Q. But did the Detroit Public Schools
19	recommending that?	19	undergo a restructuring in the sense of cutting
20	A. During what time frame?	20	costs and improving revenues in order to improve
21	Q. The last four or five years.	21	their fiscal condition?
22	A. Before the bankruptcy? I don't know.	22	A. There was some there was some
23	It could have been. I mean, there was always	23	restructuring that did go on at Detroit Public
24	discussions that you can what happens in	24	Schools, but the issues were sort of different.
^=			
25	Chapter 9 versus what doesn't? People were just	25	Q. Okay. Were you involved in that

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Page 167 Page 165 1 MALHOTRA 1 **MALHOTRA** 2 restructuring? 2 not the City of Detroit. 3 A. To a certain extent, yes. 3 Q. Okay. Is the Detroit Public Schools, 4 Q. What extent -- what was your role in the 4 have they been operating in a deficit situation? 5 restructuring of the Detroit Public Schools? 5 A. For what year? 6 6 A. All of the -- we were assisting the Q. For the last -- for the years during 7 7 schools in terms of looking at the cash-flow which you've been working for them. 8 projections, looking at their assumptions in terms 8 A. Well, I was working for them three years 9 of what the student count would be and how the 9 ago. 10 10 district would have to address its short-term and Q. Oh, okay. For the last three years, 11 long-term obligations and what some of the options 11 have the Detroit Public Schools been operating at 12 12 were. a deficit? 13 Q. And the Detroit Public Schools cut costs 13 A. I would have to go back and look. 14 14 Q. The Detroit Public Schools haven't in order to improve their fiscal situation; 15 correct? 15 entered Chapter 9; correct? 16 A. Yes. 16 A. Sorry? 17 17 Q. And nobody from -- in the Detroit Public Q. The Detroit Public School System has not 18 Schools suggested that they enter Chapter 9; 18 entered Chapter 9; correct? 19 19 A. That is correct. 20 20 A. There were -- in any distress situation Q. And does the Detroit Public Schools owe 21 21 these days, you always have discussions on what a money to the general fund? 22 Chapter 9 could or could not mean. 22 A. To the City's general fund? 23 23 Q. Okay. But the Detroit Public Schools Q. To the City's general fund. 24 successfully restructured without entering 24 A. I think so. But I would have to go back 25 Chapter 9; correct? 25 and check. But I think there is a reconciliation Page 166 Page 168 1 1 MAI HOTRA **MALHOTRA** 2 A. I wouldn't say that. between what the City owes Detroit Public Schools 3 Q. Why wouldn't you say that? 3 for some tax payments and what the Detroit Public 4 A. I don't know what your definition of 4 Schools owes the City for some utilities. So 5 "successfully restructuring" is. there's back-and-forth on some reconciliations. 6 6 Q. And is that reflected in your forecast? Q. Okay. Well --7 7 A. Detroit Public Schools hasn't filed A. I would have to go back and check in the 8 public lighting department revenues, if there's Chapter 9 in the last three years, but I don't 9 9 any past-due reconciliation. know what your definition of "successfully 10 10 structuring" is. But it would -- at least ongoing future 11 Q. Okay. The Detroit Public Schools 11 amounts would continue to get reflected in the 12 12 revenues that would be forecasted. improved its fiscal condition; correct? 13 13 A. If you followed the budgets of Detroit Q. Are all outstanding debts owed to the 14 Public Schools in the last couple of years, they 14 general fund reflected in your forecast or not? 15 have not improved that significantly. 15 A. If all delinquent bills that Detroit may 16 16 Q. The Detroit Public Schools has -have or the general fund may have are -- you know, 17 17 they -- are they in bad fiscal shape, or are they I do not know what those amounts are, how much of 18 18 those amounts hold any merit. So I do not recall in good fiscal shape? 19 19 A. I can't comment on that. You should of any specific bad-debt collection, for instance, 20 20 that is baked into the forecast. look at their budgets to ascertain whether they 21 21 Q. Are all amounts owed to the general fund are or are not. 22 22 Q. I get to ask the questions, and then you from other funds or public entities in the City of 23 23 can give me your comment on it. Detroit reflected in your forecast? 24 24 A. I don't want to comment on what the A. To the best of our ability, the "due to, 25 25 fiscal condition is of an ongoing client that is due froms," other funds would constantly get

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Page 171 Page 169 1 **MALHOTRA** 1 **MALHOTRA** 2 2 updated, yes. fees, again, there's amnesty programs that 3 Q. But delinquent debts are not reflected 3 are offered so that people are caught up. 4 4 in your forecast; correct? So it's not as easy as going to a 5 A. I don't know what those delinquent debts 5 corporation and running an accounts 6 are. So . . . 6 receivable aging report and saying, you know, 7 7 Q. Why is it that you don't know what the Let's go have -- collect these taxes. The 8 City does try its -- at least its efforts to delinquent debts owed to the general fund are? 8 9 A. From whom? 9 go out and improve collections. 10 10 Q. From -- are from the people that you're But, I mean, I could -- we could walk 11 11 not incorporating into your forecast. I guess -through each one of the line items in more 12 12 the ones that, you know, are owed to the general detail. 13 fund, why can't you just ask the City what debts 13 BY MR. SMITH: 14 14 are owed to you? Give me a list of them so I can Q. I get it. So it's not possible, given 15 plug them into my forecast. 15 the information you have, to estimate how much the 16 MR. STEWART: So what's the question? 16 City is owed in delinquent debt obligations; is 17 17 BY MR. SMITH: that fair? 18 18 A. Yeah, I do not have that information; Q. I guess my question is, why is it that 19 the City can't tell you what debts are owed to it? 19 that's correct. 20 20 MR. STEWART: Objection. Q. The Detroit Public Schools, are you 21 21 THE WITNESS: Let me start with looking aware that there was an emergency manager 22 at the components of the revenue. All right? 22 appointed to supervise them? 23 When you look at income taxes in terms 23 A. Yes. 24 of what the income tax collection process is, 24 Q. And are you aware that the Detroit 25 what the City's best estimate for its 25 Public Schools depend on property tax revenue for Page 172 Page 170 1 **MALHOTRA MALHOTRA** 1 2 estimated revenues are, and then the City's their operations? 3 3 A. As one of the revenue sources that internal process to send reminders and 4 4 Detroit Public School has, property taxes is one notices for those people that have not filed 5 5 of them. income tax returns; after that, the City also 6 6 Q. And grant revenue is another source of goes through a process in which it provides 7 7 amnesty programs. So that's income taxes. funding for the Detroit Public Schools? 8 8 A. Yes, and State aid. When you look at the property taxes and 9 9 Q. And why are you no longer working for you look at the residential component, the 10 10 City sends out its property tax bill. Within the Detroit Public Schools? 11 11 A. I have recently been reengaged by that property tax bill, if the property owner 12 12 **Detroit Public Schools.** has not paid the property taxes, that 13 13 receivable doesn't just become delinguent, Q. When was that? 14 14 A. Last month. because that then gets transferred to Wayne 15 15 Q. And who hired you? County. 16 16 Wayne County actually advances the City A. The emergency manager. 17 17 pretty much what that delinquent receivable Q. And have you looked at the Detroit 18 18 Public Schools' most recent budget? was. And after a process in which they can 19 19 A. Yes. even foreclose on the property or not and if 20 20 Q. Okay. And are the Detroit Public they have recovered enough taxes or not, they 21 basically do a charge back to the City. 21 Schools running a surplus? 22 22 So in the first -- it's sort of -- it's A. You would have to look at their CAFR for 23 23 a delinquent tax revolving fund. But my that. Their budget generally is always balanced. 24 24 point is you have to look at every component. Q. And from reviewing their budget, you're 25 25 When you look at past-due parking fines and aware that they've been cutting costs; correct?

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Page 173 Page 175 1 **MALHOTRA** 1 **MALHOTRA** 2 A. No. 2 you can reduce without adverse impact to the 3 Q. You don't know -- I mean, do you know 3 citizens as the population declines; correct? 4 4 one way or the other whether the Detroit Public MR. STEWART: Objection. 5 Schools have been cutting costs under the 5 THE WITNESS: I don't know about that. 6 6 supervision of the emergency manager? It depends. It depends. You have to look at 7 7 A. I wouldn't be able to comment on that. this almost on a department-by-department 8 8 Q. Do you know that there have been school basis, is an easier way to look at it. 9 closings in the City of Detroit Public Schools? 9 BY MR. SMITH: 10 A. Yes; and the student headcount has also 10 Q. Yeah. I'm asking just some. There are 11 dropped consistently in terms of reduced revenues. 11 some services like that. 12 12 A. Why don't you just ask me that question Q. And you agree that as population 13 declines, there's some services for which you can 13 again, please. I'm sorry. 14 14 reduce expenditures, because there's a reduced Q. There are some services that you can --15 15 population; correct? that are -- that are tied to the level of 16 A. It depends over what time frame and what 16 population that you can reduce as population 17 level of service you want to provide. 17 declines; correct? 18 Q. Yeah. But you agree with me that there 18 MR. STEWART: Objection. 19 are some services that if population declines, 19 THE WITNESS: As population declines and 20 20 then the need for those services declines and you if you decide -- and if the City decides to 21 21 can reduce the costs of the services; correct? reduce the level of services, it may or may 22 22 A. No. And the reason for that is, you not be. I mean, you have -- the reason I'm 23 23 have to look at which services you're offering and saying this, if you look at the public 24 24 how much of that is actually almost a fixed-cap lighting department and you're still buying 25 cost and how much of a population reduction have 25 electricity on the grid, so you just have to Page 174 Page 176 1 **MALHOTRA** 1 MALHOTRA 2 you suffered, if it's a small population decline look at it on a piece-by-piece basis, which 3 or if it's large, or what time frame or what area 3 is just --4 4 you have to provide that service. BY MR. SMITH: 5 5 Q. Yeah. I'm not saying all services. And so I just want to make it more 6 6 defined in terms of what population decline and --MR. STEWART: Let him finish his answer. 7 7 or what time frame. In general, if you are THE WITNESS: There may be -- if the 8 providing less services, the assumption would be 8 level of service from the City declines, 9 9 that those should cost less. I'm comfortable there is a possibility that the level of cost 10 10 saying that. that the City has to incur will be less, I'm 11 Q. Okay. So if you have a large population 11 comfortable saying that. 12 of clients, such as you say that Detroit has 12 BY MR. SMITH: 13 13 suffered, you can afford to reduce some City Q. Yeah. And as population declines, there 14 services, correct, because there's less 14 are some services that a City can reduce and 15 population? 15 reduce its costs; correct? 16 16 MR. STEWART: Objection. A. It's possible. 17 17 THE WITNESS: As the City has already --Q. Before the Chapter 9 plan, did the City 18 18 the City has already done that. ever look at ways to reduce its pension 19 BY MR. SMITH: 19 liabilities? 20 20 Q. Okay. And so there are some services A. Not directly in terms of what -- the 21 that you may want to continue at the same levels 21 City was deferring pension contributions; but I 22 22 even if there's a population decline; correct? don't know if the overall magnitude of the 23 23 A. I'm sure that that could -- I think so, liability as such was being reduced. 24 yes. 24 But I do recall that the City was 25 25 Q. And then there are some services that continuing to defer pension contributions, but I

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Page 179 Page 177 1 **MALHOTRA** MALHOTRA 2 would have to go back and think if the liability 2 fiscal situation; correct? 3 3 reduction was a part of it or not. A. Any additional money over the 4 Q. Did the City lobby the State for 4 assumptions in the current forecast with the 5 additional funds since you've been working with 5 current assumptions; because new -- I want to make 6 6 them to help it improve its fiscal situation? clear: If there's new federal money or new state 7 A. I do not know. I mean --7 money and there's new expenses, that does not 8 improve the financial profile. Q. Okay. You're not --9 A. If the City -- if the administration or 9 So what I want to make clear is, if you 10 10 hold everything else constant and you just add council did, I do not specifically know. 11 11 Q. Well, you agree that the State could more money into the mix, yes, it makes the picture 12 12 better. But I want to make sure that distinction improve the fiscal situation of the City by 13 contributing additional funds to the City; 13 is clear, that if there is new funding that's 14 14 available but there are new expenses that need to correct? 15 15 A. I do not know about that. If -- if the be funded, then the position doesn't -- does not 16 City -- if somebody provides the City more money, 16 get better. 17 17 the City will have more money. Q. Are you aware that Detroit has had to 18 18 Q. Okay. And its fiscal situation would be return money to the federal government that it 19 better than it otherwise would; correct? 19 received in grants because it didn't utilize the 20 20 funds in a timely manner? A. If -- if all these other assumptions are 21 21 held constant, that's just a net add. If the City A. I do not know about that specific 22 22 would have more money -- the reason I'm being example. I would have to go back and look into 23 23 clear about this, the fiscal situation of the City that. 24 24 is not just a one-year situation. It's a Q. Okay. You don't know what the treatment 25 25 long-term situation that deals with its legacy is in your forecast in terms of if there are these Page 178 Page 180 1 **MALHOTRA** 1 MALHOTRA 2 liabilities. But if you're saying that -- that clawbacks of federal funds, how those were treated 3 the assumption is the City has more money, that's 3 going forward in your forecast, whether they're 4 4 better for the City. Yes. assumed to continue at the same rate or not? 5 5 Q. Yeah. And increasing revenue sharing, A. I would have to go back and look at 6 6 if the State did that, that would be better for that. If the general fund is responsible in any 7 7 the City; correct? way for any clawback, I would have to look into 8 A. If the revenue-sharing amount were 8 that. 9 9 higher and everything else were held constant, you Q. Are there actions that you're aware of 10 10 could -- that assumption would result in more that we haven't discussed yet that the City has 11 money for a particular time frame. I don't know 11 discussed potentially taking in the future that 12 what time frame, because the State aid is no 12 would increase revenues or decrease costs, 13 13 longer -- the portion of the State aid is no potentially? 14 longer driven by the legislature in terms of 14 A. Nothing that comes to the top of my head 15 having a specific appropriation every year. 15 right now. 16 16 So you have to look at these things over Q. Are you generally included in 17 17 what time frame, whether it's short- or long-term. discussions regarding actions the City might take 18 18 Q. Any additional money that the State to increase revenues or decrease costs? 19 19 provides the City will improve its fiscal A. It depends on how substantive the item 20 20 situation: correct? is. 21 A. Any additional money that the City gets, 21 Q. So you're not always included in those 22 22 with everything else being constant, is better for discussions? 23 23 the City, yes. A. I wouldn't be included in every single 24 Q. And any additional money the federal 24 discussion that happens at the City about revenues 25 25 government provides the City will improve its and expenses.

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Page 183 Page 181 1 **MALHOTRA** 1 **MALHOTRA** 2 2 Q. What project are you undertaking for the judgment scenario projections? 3 3 Detroit Public Schools that you've just been Q. Why don't we start currently. What are 4 4 the biggest drivers for the City's costs? retained for? 5 5 A. Salaries, wages -- I'm sorry. Salaries A. That's confidential. 6 6 Q. Does it have anything to do with this and wages. Historically it's been retiree 7 7 healthcare, pension, debt service, the Department case? 8 8 of Transportation subsidy. Those are sort of the A. It does not have anything to do with 9 9 this case. big ones that come to mind. 10 10 Q. And how was it that you came about that Q. And under the restructuring scenario, 11 11 engagement? Did that have anything to do with the biggest drivers for the City's cost, do they 12 12 this case? change? 13 13 A. Yes, they do. A. No. 14 Q. Okay. What are the biggest drivers for 14 Q. In your view, was the creditor plan a 15 15 the City's cost under the restructuring scenario? viable plan, the one that was proposed before the 16 16 A. It would be salaries, wages, pension, bankruptcy? 17 17 the reinvestment expenditures. City does not --MR. STEWART: Objection. 18 18 the OPEB and unsecured debt obligations are THE WITNESS: I think it was the best 19 information the City had, so -- and -- about 19 20 20 the amount of resources the City would have Q. Are the unsecured -- I mean, are the 21 21 over the next 10 years. OPEB, is that still a big cost driver under the 22 22 BY MR. SMITH: restructuring scenario or not? 23 23 Q. And the City concluded that it could, in A. It is not. It's -- it is -- it's been 24 24 the creditor plan, implement its restructuring reduced significantly. 25 25 Q. But the City adds a large cost driver initiatives outside of Chapter 9; correct? Page 182 Page 184 1 1 MAI HOTRA MALHOTRA 2 A. If everybody had agreed and the City under the restructuring scenario in terms of the 3 could have moved forward, in terms of having 3 restructuring and reinvestment expenditures; 4 4 consensual agreements with its creditors. 5 5 Q. Have you done any runs of your forecast A. Yes. But also, again, I would like 6 6 where you changed assumptions or inputs to see how clarity. Are you talking about 10 years or 40 7 7 those affected the total revenues or expenditures years? 8 in your forecast? 8 Q. Well, either 10 or 40 years. I guess 9 9 A. I'm sorry. Can you repeat that. the reinvestment moneys, are they all spent in the 10 10 Q. Have you done any sensitivity analyses 10 years? 11 or alternative scenarios for your forecast to see 11 A. They are. So for the 10 years, I would 12 how changing different inputs in the forecast 12 like to draw clarification, because the top five 13 13 impact the results? revenue items would be the property taxes, the 14 A. We run the various iterations of the 14 sale taxes for services, the income taxes, but 15 model, which I'm sure all of you already have. 15 also the proceeds received from the grand bargain, 16 16 So, I mean, those are all different iterations. which are significant over the first 10 years, and 17 17 Q. What are the biggest drivers of City the moneys coming in from the assumption of the 18 18 revenues? Detroit Water and Sewer Department. And the 19 19 A. It's the top five revenues, which is expenses are really not as high on pension because 20 20 they're being funded by an alternate source in the property taxes, income taxes, sales and charges

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But, really, salaries and wages and sort

of the core operating and reinvestment costs, and

then, of course, some retiree healthcare and debt

service. But the point is in the first 10 years,

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first 10.

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City's costs?

for services, State aid, casino taxes.

Q. What are the biggest drivers for the

scenario? Under post -- under the plan of

A. Salaries -- well, I'm sorry. Under what

Page 187 Page 185 1 MALHOTRA 1 **MALHOTRA** 2 2 Based on the assumptions that we have the City's, you know, revenues and expenses are 3 slightly different than when you look at it over a 3 from Milliman, you look at PFRS, the value of 4 4 their COLA is almost 350 to \$400 million. The 40-year picture. 5 Q. I mean, the pension costs aren't being 5 value of their freeze is roughly another 6 6 significantly cut under the restructuring plan; \$55 million. So you have roughly \$400 million 7 correct? 7 right there. 8 8 A. No, that's not correct. But that's, you know, some of the 9 9 context of the cuts -- and I know there's probably Q. Well, they're being funded from a 10 10 different source; is that correct? additional details, but that's -- in my mind, 11 11 A. Well, there's two separate questions. conceptually, the cuts that have taken place in 12 12 If you would just rephrase your question. pension. 13 Q. Well, I mean, forget about the State 13 Whether you define it as significant or 14 14 aid. I mean, just the pension costs are not being not, I don't know. 15 15 cut significantly under the restructuring Q. Do you agree that the level of services 16 scenario; correct? 16 the City provides is a matter for the business 17 17 MR. ALBERTS: Objection. judgment of the City leaders? 18 18 A. The level of services is with the City THE WITNESS: Well, I don't know what 19 your definition of "significantly" is. So if 19 leaders of the new transition board or in the 20 20 context of even the amounts available for the City you ask me a specific question, I can give 21 21 to spend. So I think you sort of -- it's a you a perspective on the pension cost. 22 22 BY MR. SMITH: balancing act between the services as well as the 23 23 Q. I'll use your definition of amount of money available to expend. 24 24 But that's probably with the mayor and significantly. Are the pension cost --25 25 MR. STEWART: You interrupted his answer city council, the emergency manager, the board. Page 186 Page 188 1 MALHOTRA 1 **MALHOTRA** 2 again. I'd ask you just to wait a second, That's potentially where I would think it is with 3 3 Mr. Smith, and let him finish his answer probably input from others. I don't know. 4 4 before you ask your next question. Q. So your position is that the level of 5 5 BY MR. SMITH: services within the City is a matter for the 6 6 Q. Did you have anything else to say? business judgment of the City leaders in power at 7 7 A. No. Could you just ask me your question the time; correct? 8 again now, please. A. In conjunction with, I would say it's 9 9 Q. In your -- under your definition of the supervisory board and what level of funding is 10 10 "significantly," are -- the pension costs are not available. So, you know, it's not just saying one 11 being cut significantly under the restructuring; 11 group can only decide all the levels of services 12 correct? 12 regardless of what financial ability the City has 13 13 A. I think the pension cuts are the value or does not have from a resources standpoint. 14 of the liability. 14 Q. Do you agree that any of the assumptions 15 So for General Retirement System, just 15 in your model can change over the 10-year and 16 16 based on the value of the freeze, that's a 40-year periods you forecast? 17 17 \$95 million cut in the liability. The value of A. Can any of the assumptions change? Yes. 18 the COLA that is being eliminated is roughly 18 Q. Do you agree that the timing of the 19 467 million, of a cut. The value of the 19 reinvestment expenditures could change from the 20 20 4-1/2 percent reduction is an estimated assumptions in your model? 21 \$125 million. You add the ASF to that, that's 21 A. Yes. 22 22 another couple of hundred million dollars. MR. SMITH: I'm going to mark as 23 23 So all in, we're looking at somewhere Exhibit 1 a copy of this 10-year financial 24 between -- I haven't done the math -- 900 million 24 projection. 25 25 to a billion. (Exhibit Malhotra-1 was marked for

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Page 191 Page 189 1 **MALHOTRA** 1 **MALHOTRA** 2 2 Q. Okay. And it's the policy of Ernst & identification.) 3 MR. ALBERTS: Would you please recite 3 Young to always put this disclaimer on its 4 4 forecast. Is that fair? the Bates numbers. 5 MR. SMITH: It's POA00706519. 5 A. Generally, yes. I mean, it's -- the --6 6 BY MR. SMITH: yeah. Generally, yes. 7 7 Q. And that's because forecasts don't give Q. You got it? 8 A. Yes, I do. you information about what actual results will be: 9 9 Q. Okay. On the front of the projections 10 that you prepared, there's a disclaimer by Ernst & 10 A. That's why it's a forecast. 11 11 Q. So that's correct; correct? Young; correct? 12 12 A. That is correct. A. A forecast is not an actual; that is 13 Q. And you state that "There will usually 13 correct. 14 14 be differences between forecast and actual results Q. And there are a number of things that 15 15 can change that can make forecasts deviate because events and circumstances frequently do not 16 occur as expected and those differences may be 16 materially from actual results; correct? 17 17 A. Yeah. "Materially" is depends on sort material." 18 18 Do you agree with that statement? of what assumption is changing. But as --19 A. I do not. 19 information in the future can change materially as 20 20 Q. And "E&Y takes no responsibility for the well. 21 21 Q. Okay. And there are a number of factors achievement of forecasted results." 22 22 Do you agree with that statement? that could change that could cause the forecasts 23 23 you've done for the City of Detroit to change A. Yes. 24 Q. And it says, "Accordingly reliance on materially from the actual results that are 2.4 25 this report is prohibited by any third party as 25 achieved: correct? Page 190 Page 192 1 1 MALHOTRA **MALHOTRA** 2 A. Yes. If there are -- of course, changes 2 the projected financial information contained 3 3 herein is subject to material change and may not that are unforeseen that we don't know about that 4 4 reflect actual results." can have an impact on the forecast, yes. 5 5 Q. And that's why you've told third parties Do you agree with that statement? 6 A. Yes. I have in-house counsel on the 6 that they shouldn't rely on forecasted results 7 7 phone. But yes. you've prepared for the City of Detroit; correct? 8 8 A. I think that the information is Q. And is this type of disclaimer and set 9 9 of statements attached to any forecasts that specifically highlighting what could happen with 10 10 Ernst & Young makes? any forecast. And so I think for the parties to 11 A. We try our best to. Sometimes we miss, 11 look at this, they have to realize what they're 12 12 looking at. but that's -- we generally -- yes. 13 13 Q. Okay. And you caution third parties Q. And this statement is based on a 14 consensus view of experts at Ernst & Young 14 that they should not rely on your forecasts; 15 regarding forecasts; correct? 15 16 16 MR. STEWART: Objection. A. It says that from a forecast standpoint, 17 17 THE WITNESS: I do not know the exact it is subject to change. And so third parties 18 18 basis of where the exact statement has come have to sort of understand what they're looking 19 from. 19 at. That's what I would say. And beyond that, 20 20 BY MR. SMITH: it's probably a legal question which I cannot 21 Q. Okay. You always put this statement on 21 answer. 22 22 any forecast that you would create. Is that your Q. Well, your forecast, you put right on 23 the front of it that "Reliance on this report is 23 general practice? 24 24 A. Like I said, we try to, but it's -- at prohibited by any third party"; correct? 25 25 times we miss. A. That's what it says.

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Page 193 Page 195 1 MALHOTRA **MALHOTRA** 2 Q. And the reason that reliance on your 2 the bridge between the plan of adjustment and the 3 3 forecast is prohibited is because you recognize June 2nd financials. 4 4 that circumstances can change and the forecast may Q. The City recognizes the Department of 5 deviate materially from actual results; correct? 5 Transportation is charging fees that are below 6 6 A. That is what is written here, yes. market rates; correct? 7 7 A. I wouldn't be able to comment on that Q. And you agree with what's written there; 8 correct? 8 whether they're below market or not. 9 9 Q. Okay. You haven't done any A. I do. 10 10 Q. Have you done any investigation to investigation into that at all? 11 11 determine if there are any cost-cutting measures A. I have not studied that particular piece 12 that could be undertaken that are not reflected in 12 in terms of the level of service compared to the 13 the forecast? 13 fees; but I do know that, in the forecast, there 14 14 A. From a cost-cutting standpoint -- from a are some increased fees that are forecast. 15 15 further cost-cutting standpoint, most of the Q. And you're -- and in the last year or 16 initiatives, I believe, are in here in terms of 16 two, the City has reduced the subsidy from the 17 17 the outsourcing -- I'm just trying to think if general fund to the Department of Transportation; 18 18 there are any other initiatives from an correct? 19 opportunity standpoint. I would have to give that 19 A. Yes, for a short while while the level 20 some more thought on a department-by-department 20 of service was down and when the general fund paid 21 21 on behalf of the Department of Transportation some basis. 22 Q. You said that the Department of 22 self-insurance claims. 23 23 Transportation, the subsidy it gets from the So although ideally, from an accounting 24 24 general fund, is a significant cost driver; standpoint, the City should have reflected those 25 correct? 25 self-insurance claims still being paid by the Page 194 Page 196 1 **MALHOTRA** 1 **MALHOTRA** 2 A. It is. It's -- it has been a big cost Department of Transportation and then the general 3 3 driver for the general fund, historically. fund subsidy being higher, I think the way at 4 4 Q. And the City has been attempted to least the accounting was shown is that the general 5 5 implement cost-cutting measures in the Department fund was paying the self-insurance claims 6 6 of Transportation; correct? directly. So it artificially lowered the subsidy 7 7 A. That is correct. when that's not the case in reality. 8 8 That being said, the subsidy was lower Q. And the City has also attempting to 9 9 implement revenue-increasing measures in the than historical levels because of reduced service. 10 10 Department of Transportation; correct? Q. Okay. But if you take all the payments 11 A. I believe so, yes. 11 that the general fund made to the Department of 12 12 Transportation, have they been reduced? Q. And the City recognizes that further 13 13 cost can be cut from the Department of A. Compared to what time frame? 14 14 Transportation; correct? Q. Compared to the past. I mean, I'm 15 A. I don't know about that. 15 trying to figure out -- you were just talking 16 16 about two separate payments, the subsidy and the Q. Well, they're planning to implement some 17 cost-cutting measures. You know that; correct? 17 insurance charge. And I'm just wondering if you 18 18 take the payments together, were the general fund A. Well, as I said earlier, it has been a 19 19 big driver of a subsidy. They have been driving payments to the Department of Transportation, have 20 20 new revenue initiatives. They have cut costs they -- were they lower or not? 21 historically. And -- but that has come at the 21 MR. STEWART: Objection. 22 22 level of a larger decline in services. Just read the question, please. 23 23 And, in fact, some of the revenues for (Thereupon, the requested portion 24 24 the Department of Transportation are going done was read back by the reporter as 25 25 versus up in the near future as is reflective in above recorded.)

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Page 197 Page 199 1 **MALHOTRA** 1 MALHOTRA 2 THE WITNESS: I believe the Department 2 expenditures than it otherwise would have. Is 3 3 of Transportation has had a lower subsidy in that fair? 4 the last year or two compared to that same 4 A. Yes. We have a change based on the 5 time frame before that. I can look through 5 updated information we have, yes. 6 6 this and get a more precise answer. Q. Okay. Is there any portion of the 7 BY MR. SMITH: 7 increased subsidy to the Department of 8 Q. The -- your forecast, though, assumes 8 Transportation that's not due to this legislation 9 that the subsidy to the Department of 9 from the State? 10 Transportation will increase; correct? 10 A. I believe it is a small portion that's 11 11 A. Because of the lower revenue based on related to an increased subsidy to the People 12 12 Mover. But I would say the biggest change is the how the new revenue sharing agreement is set up 13 for the Department of Transportation. 13 one change driven by the State. 14 14 Q. What's the new revenue sharing Q. And I'm going to hand you a copy of 15 15 agreement? Exhibit 2, which is a copy of the disclosure 16 A. So our -- the State has a new way of 16 statement. 17 17 dispersing transportation-related grants to all of (Exhibit Malhotra-2 was marked for 18 the various transportation departments throughout 18 identification.) 19 the state; and that, in fact, caused a reduction 19 BY MR. SMITH: 20 20 Q. If you could turn to Page 82, please. in the Department of Transportation's annual 21 21 MR. STEWART: This is absolute 82, not revenue by almost 6 to 6-1/2 million dollars 22 22 annually. And that was a significant impact to 82 of '197; right? 23 23 the forecast. In addition, we have some MR. SMITH: Yeah. 24 additional subsidiaries required for the People 24 BY MR. SMITH: 25 Mover. 25 Q. At the bottom there's a section called Page 198 Page 200 1 **MALHOTRA** 1 **MALHOTRA** 2 But to offset some of those increased 2 "Failure to Achieve Projected Financial 3 costs, the City has incorporated some 3 Performance." 4 4 opportunities in order to not fully have to bear Do you see that? 5 the cost of that decreased revenue from the State 5 A. Yes. 6 and some increased funding for the People Mover. 6 Q. Okay. And the disclosure statement 7 Q. Okay. So the State -- during the 7 says, "The projections are dependent upon the 8 pendency of the bankruptcy, the State has reduced 8 successful implementation of the City's budget and 9 funding to the Department of Transportation; is 9 the reliability of other estimates and assumptions 10 10 that correct? accompanying the projections." 11 A. There is -- it's not just for the 11 Do you agree with that statement as it 12 Detroit Department of Transportation. There is, 12 relates to your projections you've done for the 13 based on this new legislation -- which is, I think 13 City of Detroit? 14 State Operating Act 51 -- an assumption of a 14 A. Yes. 15 6-plus-million-dollar decline annually for the 15 Q. And when you say implementation of the 16 Department of Transportation. 16 City's -- well, you didn't put this together, 17 17 We have only incorporated that impact but -- why don't I ask you this: Have you used 18 for the first ten years and have assumed that the 18 information from the City's budget in your 19 Department of Transportation has to find other 19 forecast? 20 20 ways to mitigate that impact beyond the first ten A. Yes. 21 years. 21 Q. Okay. And then if you turn to Page 83 22 22 at the top, it says, "These estimates and Q. Okay. If I follow you, the State cut 23 23 funding for the Department of Transportation and assumptions may not be realized and are inherently 24 24 other departments around the state, and that subject to significant economic uncertainties and 25 required the general fund to make greater 25 contingencies, many of which are beyond the City's

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Page 201 Page 203 1 **MALHOTRA** 1 **MALHOTRA** 2 2 control." proposal like Detroit's results in increased 3 Do you agree with that statement as it 3 population; correct? 4 4 A. Well, what particular part of the pertains to your projections you've done? 5 A. Yes. 5 proposal are you referring to of Detroit's 6 6 Q. And then if you look at the next proposal? 7 7 Q. Any of it. I mean, there's no study section, Section K, the second sentence: 8 8 "Unforeseen events and circumstances may occur showing that any part of the restructuring and 9 9 affecting the City's future financial performance, reinvestment proposal Detroit is making is 10 10 resulting in those assumptions proving inaccurate associated with an increase in population; 11 11 correct? and the City being unable to fulfill its 12 12 obligations under the plan. No guarantee can be A. I do not know about the -- direct 13 made as to the City's future financial performance 13 linkage that you're talking about but -- of a 14 14 scientific study. I don't know what a scientific due to a variety of unforeseeable circumstances 15 15 study is out there that would address this that may affect such a performance." 16 16 Do you agree with that statement -particular issue. 17 17 Q. Okay. You're not aware of any such those statements as they relate to your 18 18 projections? study you can cite sitting here today; correct? 19 A. Yes, I do. 19 A. I'm not aware of a scientific study of 20 20 Q. In your analysis, in your projections such sort that I can cite. 21 21 MR. STEWART: It's about 1:30. Whenever that you do, is there any time-series analysis 22 22 that you do or not? you want to break for lunch. 23 23 A. For which particular line items? MR. SMITH: Yeah, we can break. 24 24 Q. For any of them. MR. STEWART: If you just finish 25 25 A. Not generally. whatever your line of questions is. Page 202 Page 204 1 1 **MALHOTRA** MALHOTRA 2 Q. You agree that there's no scientific MR. SMITH: No, we can take lunch now. 3 literature or data quantifying any increase in 3 THE VIDEOGRAPHER: Going off the record 4 4 municipal revenue as a result of a restructuring at 1:29. This is the end of Tape No. 3. 5 5 or reinvestment effort like Detroit's; correct? (Luncheon recess from 1:29 p.m. to 6 6 MR. STEWART: Objection. 2:03 p.m.) 7 7 THE WITNESS: I do not know if there is THE VIDEOGRAPHER: We are back on the 8 8 or is not. record at 2:03. This is the beginning of 9 9 BY MR. SMITH: Tape No. 4. 10 10 Q. You're not aware of anything you can BY MR. SMITH: 11 cite, sitting here today; correct? 11 Q. Do you agree that Detroit's Chapter 9 A. I can't cite -- make a specific citation plan will put them in a better fiscal position 12 12 13 13 on that, no. than many other comparable cities? 14 Q. You agree that there's no scientific 14 A. I don't know about comparable cities. I 15 literature data demonstrating an increase in 15 think Detroit will be in a better position than it 16 16 population associated with a reconstruction or was before it entered into Chapter 9. 17 17 reinvestment proposal such as that Detroit is Q. Will Detroit be in a better position 18 18 making here? among other cities once it emerges from Chapter 9 19 A. I don't know what you mean by 19 under the plan? 20 20 "scientific." It's the -- it's the assumption of A. Which other cities are you referring to? 21 a safer and cleaner city, being able to hold on to 21 Any specific ones? 22 22 its population or increase it over the long-term Q. Well, cities of comparable size. 23 23 compared to where we are today. A. I haven't done that analysis. 24 24 Q. But there's no study of any kind or data Q. There are several enterprise funds that 25 showing that a reconstruction or reinvestment 25 are associated with the City. You're aware of

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Page 205 Page 207 1 **MALHOTRA** 1 **MALHOTRA** 2 that; correct? 2 the new changes with the state revenue being 3 A. That is correct. 3 declined. So it's -- we have done an analysis. 4 4 Q. And the general fund makes payments to Q. And you understand that there's been a 5 those enterprise funds; is that correct? 5 study the City had done that shows that the fees 6 6 A. No. I -charged by the Department of Transportation can be 7 7 Q. Well, we were talking about the increased? 8 8 Department of Transportation subsidy. A. I don't recall the study specifically, 9 A. Yes, the Department of Transportation, 9 but I heard about this. And I believe there are 10 10 yes. increased fees in their operating initiatives and 11 11 Q. Are there any other enterprise funds their restructuring and reinvestment initiatives. 12 12 that the general fund subsidizes? Q. You know that the City transferred 13 A. I think the airport, but that's about it 13 16,000 properties to the Detroit Land Bank 14 14 that the general fund subsidizes. recently; correct? 15 15 Q. Are there any enterprise funds that pay A. I am not close enough. I do not know 16 the general fund money on balance? 16 specifically. 17 17 A. Yes, for central service fees, Detroit Q. Okay. I mean, there's nothing in your 18 18 Water and Sewer Department, I believe the street forecast that takes into account any potential 19 fund. But I would think -- the parking department 19 reimbursement from the Detroit Land Bank for 20 20 for other admin-type services, the general fund properties that the City may give it, is there? 21 21 would provide to these other enterprise funds. A. Not that I am aware of. 22 22 Q. Does your forecast assume that payments Q. As far as you're aware, the City didn't 23 23 to the general fund from enterprise funds will get anything in return for the 16,000 properties 24 24 increase or decrease? it transferred to the land bank; correct? 25 25 A. I'm not sure about the 16,000 properties A. They are kept consistent with where the Page 206 Page 208 1 MALHOTRA 1 **MALHOTRA** 2 rates are; and if there are any increased being transferred to the land bank, so I cannot 3 reimbursements, it would be -- it's generally a 3 speculate on what reimbursement the City did or 4 4 pass-through. So if the costs go up, the did not get. 5 5 reimbursements will go up. Q. Do you have any understanding exactly of 6 6 Q. You haven't done any investigation to what financial relationship there is between the 7 7 determine what measures the enterprise funds can general fund and the land bank? 8 take to either increase payments to the general 8 A. No, I have not -- that -- I'm not close 9 9 fund or decrease payments out of the general fund? enough to that. 10 10 A. Because enterprise funds are supposed to Q. You know that the City of Detroit 11 be net neutral. So we've already talked about the 11 collects only about half of the property taxes 12 Department of Transportation, but we can talk 12 that are owed; correct? 13 13 about that again more specifically. Because that A. No, that's not correct. 14 is the department that has a subsidy that's 14 Q. What percent is your understanding in 15 compared to the other enterprise funds. 15 value that the -- of property taxes the City 16 16 Q. But you haven't done any analysis to 17 17 ascertain whether the Department of Transportation A. I have to look at the capital. But it's 18 18 a higher percentage when you take into can cut costs more or increase revenues so that 19 19 the subsidy from the general fund can be consideration the delinquent taxes that the City 20 20 decreased: correct? receives from Wayne County at the end of every 21 A. No, that's not correct. We've looked at 21 fiscal year. There's a settling-up concept that 22 22 the -- spent time with the Department of goes, but I believe the amount is higher than the 23 23 Transportation to understand what cost components 50 percent that you just stated. 24 24 there are, what revenue estimates they have. Q. Do you know what percent of the income 25 25 That's one of the ways that we understood about tax is collected?

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Page 209 Page 211 1 MALHOTRA 1 **MALHOTRA** 2 A. I would have to go back and look. But 2 the City will also have billions of dollars in 3 on the commercial and industrial, on the corporate 3 expenditures; correct? 4 side it would be a high number. But I do not know 4 A. That would be consistent with what the 5 specifically of the exact percentage collection. 5 forecasts are, yes. 6 6 Q. You don't know what the percent Q. Do you have any understanding about what 7 collection is for the individual income tax; 7 the amount in terms of dollars is of the reduction 8 correct? 8 in the COPs claim under the plan? 9 A. Well, even the individual income tax has 9 MR. STEWART: Objection -- pardon me. 10 different components between residents working in 10 Objection. 11 the city, residents working out of the city and 11 THE WITNESS: Well, as a part of the 12 nonresidents. And I do not know off the top of my 12 plan, the COPs claim is -- the claim is 13 head what the collection rate is for each one of 13 roughly a billion four forty, and the 14 those components. 14 estimated recovery based on the assumptions 15 15 Q. Do you know how many companies actually in the plan are roughly 10 percent. 16 pay the corporate tax? 16 BY MR. SMITH: 17 17 A. I do not. It's -- I do not. Q. What are the most -- what are the key 18 Q. Do you know if there are -- do you have 18 assumptions of your forecast being modeled? 19 any information about exceptions or reductions in 19 A. They are -- they're -- we can walk 20 20 taxes available to corporations or other entities through each one of the line items in the key 21 21 within the City? assumptions there. 22 22 A. There is the -- the renaissance zone, Q. Well, how about I ask you this: Are the 23 23 but that's probably more in relation to property key assumptions of your forecasting model 24 taxes. In terms of corporate income taxes, I'm 24 reflected in your expert report? 25 not aware of any specific incentives that would be 25 And I'll hand you a copy of it in a Page 210 Page 212 1 **MALHOTRA** 1 **MALHOTRA** 2 provided by the City. second, which I will mark as Exhibit 3. 3 Q. What is the treatment of property taxes 3 (Exhibit Malhotra-3 was marked for 4 4 within the renaissance zone? identification.) 5 5 A. I believe that it is more in the context THE WITNESS: Could you please repeat 6 of properties that are in the renaissance zone 6 the question. 7 7 will have a slightly different taxable value that BY MR. SMITH: 8 is associated with it versus the properties that 8 Q. I could just ask the question again. 9 9 are not in the renaissance zone. And that, Are the key assumptions in your model 10 10 however, the properties in the renaissance zone reflected in your expert report, or are there some 11 make up a small component of the overall total 11 key assumptions that are not in the report? 12 12 properties and the total property taxes, but I A. If I may, I would say the majority of 13 13 would have to look through the details to kind of the assumptions are in the expert report or have 14 explain the exact structure. 14 been mentioned in the assumptions of the model 15 15 Q. The property tax in the renaissance that are exhibits or -- to the expert report. 16 16 zone, is it lower? 17 17 A. Well, I don't know if it's the rate or Q. Does your expert report contain a 18 the assessed values. I would have to go back and 18 complete and accurate account of your expert 19 19 check how the mix is built up. opinions in this case? 20 20 Q. Do you agree that under your forecast, A. Yes. 21 over the course of the next 10 years, the City 21 Q. Do you anticipate doing any further work 22 22 will bring in billions of dollars of revenue? before the confirmation hearing? 23 23 A. Over the next ten years, the City's A. Further work on what? 24 24 projections are about \$11 billion in revenue. Q. On the forecasts or developing any other 25 25 Q. Over the course of the next ten years, opinions?

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Page 213 Page 215 1 MALHOTRA **MALHOTRA** 2 A. If we reach more settlements, we will 2 you say that your projected revenues and 3 3 update the forecast as those settlements come expenditures are reasonable forecasts. 4 4 Do you see that? 5 Q. What settlements are in process that 5 A. Yes. 6 6 you're talking about? Q. You'd acknowledge that other independent 7 MR. STEWART: Before you answer, 7 experts could come up with reasonable forecasts 8 that differ from your forecast; correct? Mr. Malhotra, I just simply caution you to 9 9 A. I don't know what other experts would remember that you're not permitted by the 10 10 judge's order to disclose anything that's come up with. It's up to them. 11 11 been going on in mediations. Subject to Q. I know. But my only question is, there 12 12 that, please answer the question. could be reasonable forecasts of the general 13 THE WITNESS: All right. Thank you. 13 fund's revenues and expenditures that are 14 14 We're working on the Detroit Police different from the forecasts you put together; 15 15 correct? Officers Association and with the Detroit 16 16 A. I don't know about that. I feel that Fire Fighters Association to hopefully wrap 17 17 these are reasonable forecasts, and I can't talk up those negotiations. 18 18 to what other forecasts would be reasonable or not BY MR. SMITH: 19 Q. And what are specifically the issues 19 reasonable that are not generally the forecasts 20 20 that you're trying to wrap up there? that I have in front of me. 21 21 Q. You're not taking the position that your A. That's --22 22 MR. STEWART: Once again, please answer forecasts are the only reasonable forecasts of 23 23 with that same admonition about mediation. general fund revenues and expenditures that could 24 24 be made; correct? THE WITNESS: That's subject to 25 25 A. I am taking the position that based on mediation. Page 214 Page 216 1 **MALHOTRA** 1 **MALHOTRA** 2 BY MR. SMITH: the assumptions we have in here, these are the 3 3 Q. Okay. Is there anything that's not forecasts that I -- I seem or deem are reasonable. 4 4 subject to mediation that you could talk about So I can't talk to what other forecasts may or may 5 5 relating to settlements in the works or not? Or not be reasonable unless I understand assumptions 6 6 is it all part of mediations? and so on and so forth. 7 7 A. It's generally the discussions are part Q. My only question is, is your forecast 8 of mediations. the only reasonable forecast that's possible of 9 9 Q. Okay. In your expert report you the general fund revenues and expenditures? 10 10 mention -- on Page 1 you say you've forecasted A. I don't know. I can talk to these 11 revenues and expenses for the City's general fund; 11 forecasts being reasonable. I don't know whether 12 correct? 12 other forecasts are reasonable or not. 13 13 A. That is correct. Q. Over on Page 4 of your report, you 14 14 Q. You haven't attempted to forecast identify some of the experts that you're relying 15 revenues and expenses for the entire city; 15 on; correct? Such as Mr. Cline and Ms. Sallee. 16 16 A. That's correct. correct? 17 17 Q. Page 7 of your report at the bottom of A. That is correct. 18 Q. And if you look at -- why did you 18 the page, you talk about the assumptions, some of 19 19 perform a 40-year forecast? the assumptions that you made. Do you see that? 20 20 There's a section called "Assumptions." A. It was to get a longer-term view of the 21 liabilities that the City was signing up for in 21 A. That's correct. 22 22 Q. And it would be fair to say that your terms of the various settlements to ascertain and 23 23 understand the City's ability to meet the forecasts are based on a series of assumptions; 24 24 obligations that it was signing up to. correct? 25 25 Q. On Page 2 of your report in the middle, A. Yes.

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Page 217 Page 219 1 MALHOTRA 1 **MALHOTRA** 2 Q. And among the assumptions you rely on 2 historical trends in your report, you typically 3 3 are the analyses provided to you by Mr. Cline and looked at three or four years of historical data; 4 Ms. Sallee regarding the City's tax revenues; 4 is that correct? 5 correct? 5 A. Yes, that is correct. 6 6 A. That is correct, after I've had Q. And then did you use a mathematical 7 7 formula to identify the trend? Or how did you discussions with them and conversations and looked 8 8 at what they've done and their sources they've identify a trend that you would extrapolate? 9 9 A. It was based on discussions, looking 10 10 Q. And then you mention that you have -through the financial -- detailed financial 11 over on Page 8, you based your forecasts and sales 11 records that the City had to ascertain if there 12 and charges for services on assumptions regarding 12 were one-time items or not. 13 historical trends; correct? 13 Q. You didn't use mathematical techniques 14 14 MR. STEWART: Where on the page are you? to identify trends in the historical data; 15 15 MR. SMITH: 8, Paragraph B. We're still correct? 16 in the assumptions section. 16 A. One-time blips -- there's not a formula 17 17 that you can run to identify a one-time, which is MR. STEWART: Got it. Yeah. Thank you. 18 THE WITNESS: Yeah. It says it's based 18 a part of sort of what I was explaining earlier 19 19 on historical trends. It's just this morning about what all financial advisers 2.0 20 extrapolations based on historical trends. will do, is to not run stretchy formulas to 21 BY MR. SMITH: 21 identify whether something is an anomaly or not or 22 Q. So your forecasts are also based on a 22 theoretical formulas. It's sort of understand 23 23 series of extrapolations from historical trends; what the trends are based on discussions and, you 24 24 know, the financial records we have available. 25 25 A. That is correct. After they're adjusted Q. You could use -- you could use Page 218 Page 220 MALHOTRA 1 MALHOTRA 1 2 for things that we know that have happened or regression analysis or some other analysis to 3 3 changed, that is correct. identify trends in historical data; correct? 4 4 Q. And you adjusted your extrapolations A. Those are -- regression analyses would 5 5 based on information that you received from the be used for much larger data sets. When you are 6 6 City: correct? looking at an individual, we actually did a far 7 7 A. That is -- that is correct, based on more detailed analysis than just using a broad 8 known information that we had from the City or any 8 regression by looking at detailed line items by 9 9 other source; yes. department to try and analyze what of these 10 10 Q. And so you would have discussion with expenses could be deemed one time versus normal 11 the department managers at the City, and then you 11 trends. 12 would change the numbers in your extrapolations to 12 Q. So when you say you looked at historical 13 13 trends, there wasn't any mathematical analysis reflect what the people at the City departments 14 were telling you; is that fair? 14 involved. You just have people look at the 15 A. It's a little more complicated, because 15 historical data and then identify a number that 16 what you do is you look at the last three to four 16 you assumed for your calculations? 17 years of every line item in the departments, and 17 A. No. 18 you basically ascertain what is normalized versus 18 Q. What did you do with the historical data 19 19 if there's anomalies in the actual historical to identify -- I'm trying to figure out what you 20 20 mean by "historical" -- how did you derive the results. And then you used a normalized 21 extrapolation. Then you also have discussions 21 historical trends that are discussed in your 22 22 with the City and the other professionals involved report? 23 23 about changes that are impacting that normalized A. I'd be happy to give you an example. We 24 24 trend that's been extrapolated. go through a particular department. You look at 25 25 Q. So when you say that you relied on what the average headcount was. So use an

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average. You look at what the average salaries were. You look at during those years, if there is an anomaly, there is a significant increase or decrease, you want to talk to management at the City to figure out why there was an increase or a decrease compared to an historical average trend, again, an average.

Based on that, then you basically have discussions about if you were to use the average and then have discussions about what are some of the initiatives or changes that are taking place within the department that will actually impact that line item.

So it's a much more detailed exercise.

- Q. So if I understand, when you're -- in order to come up with the historical trends, you would typically look at three or four years of data; correct?
- A. We use -- yes, about four years of data, that is correct.
- Q. And then you would calculate an average
 based on that simple arithmetic average based on
 that data?
 - A. We would use a simple mathematic average

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some of the historical trends would show, having discussions with the City and the other professionals at the City to try and ascertain what the normalized level was. But at the end of the day, that was the process we went through.

Q. Do you know -- can you identify for me, in 8C you talk about forecasting operating revenues, including parking, court fines; grant revenue; license permits and inspection charges; and revenue from the use of assets based upon recent trends as adjusted to account for recent or expected events.

Are you able to tell me what adjustments were made to those numbers?

A. Yes. We made sure that the revenue was, from the grant standpoint was adjusted for the expiration of the public safety grants, which was the fire and SAFER grants in the years -- if I go back here, I'll be able to tell -- fiscal year '16 and '17, as well as the expiration of some small cops grants.

When I meant cops, I mean the police officers grants. In the years '15 and '16, which were small, there was also the transition of the

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as well as pay probably more attention to the last one or two years, which was most relevant versus just looking at only a simple average of four or five years.

Q. Would you use some sort of weighted average in calculating the trends or not?

A. The -- it would be not a weighted average. It would be, in terms of historical trends, more depictive of the run rate of the last year versus a weighted average. But you would look at these three or four different data points at the same time to ascertain what the implications were from the forecast data.

Q. And you may go with the average value or some other value based on conversations with people at the City?

A. That is correct.

Q. Okay. So the conversations with people at the City dictated the ultimate value that you would use in your analyses when you're identifying these historical trends; is that fair?

A. I don't know about dictated versus not. But in terms of using the financial advisory

experience, we have about -- coming up with what

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health and wellness department in which it has been transitioned out of the city, which is why the grant-related revenues and the grant-related expenses fall simultaneously to reflect that.

Q. On Page 9 you mention, at the bottom, 175 million for the exit financing.

Do you see that?

A. Yes, I do.

Q. Was that a number that Mr. Buckfire gave you?

A. I think it was from Miller Buckfire that we got the size of the exit facility, which was 120 plus 180 million, less fees.

Q. At Page 10 you mention a 10 percent wage reduction. Where did that number come from?

A. So that reflects that in fiscal year '14, the salaries already incorporate a 10 percent wage reduction that was imposed on all of the police or public safety and the ongoing 10 percent imposition of wage reductions on nonpublic safety. So fiscal year '14 reflected that starting point.

Q. And then you assume that there will be a reversal of headcount reductions beginning in fiscal year 2015; is that correct?

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Page 225 Page 227 1 MALHOTRA 1 **MALHOTRA** 2 A. That is correct. It is to replace some 2 Q. I mean, was Milliman asked to do a 3 of the attrition that has been ongoing over the 3 special analysis specifically for purposes of, you 4 4 last six to eight months, that there was a gradual know, your expert opinions? 5 increase in headcount to replace the attrition. 5 A. Not for my expert opinions but they were 6 6 Q. As the result of the reversal in asked to do a specific analysis on the per-head 7 headcount reductions, there will be increased 7 cost of the medical plan the City was planning to 8 8 costs to the City; correct? offer. 9 9 Q. And is there written documentation A. Yes. There will be increased costs. 10 10 Hopefully there will be increased revenues. But, regarding that? 11 11 yes, the increased headcount for the City will A. Yes, there is. result in increased payroll costs compared to that 12 12 Q. And why were they asked to do that 13 same time frame earlier. 13 analysis? 14 14 A. So that the City could use more accurate Q. Do you know how much increased payroll 15 15 costs, in ballpark, from the reversal in assumptions in terms of what the healthcare costs 16 headcount? 16 would be for its employees in the foreseeable 17 A. I do not because I have to look at the 17 future. 18 grant-funded positions. But I would have to look 18 Q. And then you state that medical 19 at that detail, which I can probably get to. 19 inflation is capped at 4 percent after fiscal year 20 20 2009 -- '19. Where does that come from? Q. You assume some wage-inflation rates for 21 21 different periods of time on Page 10. Where did A. That is based on an assumption, which is 22 22 those numbers come from? a risk in the plan; but that the medical inflation 23 23 A. That was a part of the settlement. is capped at 4 percent after fiscal year '19. 24 24 Q. Okay. Page 10, Paragraph C, you assume Q. I mean, who gave you that assumption? 25 bonus payments of 2.5 percent for non-uniformed 25 Was that something you were given, or you came up Page 226 Page 228 1 MALHOTRA 1 MALHOTRA 2 and 3.0 percent of salary for uniformed employees. with it yourself? 3 3 Where did those numbers come from? A. I think it was based on a discussion 4 4 A. It's part of a settlement. with Evan Miller of Jones Day, that we had that 5 5 Q. Okay. You talk about health and benefit discussion on what assumptions to use for the 6 6 expenditures in Paragraphs D and Page 10. cost-effective medical beyond the first five years 7 7 Do you see that? and at what point they should be capped. 8 A. I'm sorry? 8 Q. Okay. And, I mean, what is the 9 9 Q. The bottom paragraph on Page 10. justification for capping the medical inflation 10 10 A. Yes. rate, et al.? 11 Q. You talk about health benefit 11 A. The justification is that the City has 12 expenditures. Do you see where I'm at? 12 to figure out a way between the employees and the 13 13 A. Yes. City, how -- that those costs don't just keep 14 Q. And you got that information from 14 rising at a very significant level going forward. 15 15 Q. Okay. But right now, there's no 16 16 A. The per-head costs of the plan, yes, we mechanism in place to cap medical inflation at any 17 17 got from Milliman. value, including 4 percent; correct? 18 Q. Do you know how they came up with those 18 A. There is not in the first five years a 19 numbers? 19 cap that has been put into place from what I can 20 20 A. They looked at the actual census data. recall. 21 They looked at the usage of what the plan was of 21 Q. But after 2019, there's no mechanism in 22 22 the -- by individual participants, I believe. But place to cap medical inflation or cap medical 23 23 I do not want to speculate on what they did. But inflation at 4 percent, is there? 24 24 they were given information to ascertain what the A. A mechanism -- I mean, those are -- it's 25 25 plan design of the City would cost. very clear that those are the assumptions in the

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Page 231 Page 229 1 **MALHOTRA MALHOTRA** 2 plan. And between the City and the unions and the 2 inflationary index, which was lower than the 3 3 supervisory board, that mechanism will have to be overall just so that the averages would be close. 4 put into place. There isn't, to my understanding, 4 Q. Do you know what period of data you 5 a mechanism in place today other than it's built 5 looked at? 6 6 into the assumptions in the plan of adjustment. A. From the Bureau of Economic Analysis, I 7 7 think the average was less than 2 percent for the Q. Okay. But right now nobody has provided 8 8 any mechanism to actually achieve a 4 percent cap last 20 years. 9 on medical inflation; correct? 9 Q. You talk about a decrease after 10 A. I thought I just answered your question, 10 transition to the health and wellness department. 11 11 which is, get that -- the mechanism is the What is that talking about? 12 12 A. That is basically -- the health and assumption that is baked into the plan of 13 adjustment. And if going forward the City and the 13 wellness department is a grant-funded department, 14 advisory board and the unions are all coming 14 and it was transitioned out of the City. So the 15 15 together, it's very clear what the assumption is grant-associated revenues that were associated 16 16 in the plan of adjustment. with the health and wellness department and the 17 17 Q. But then nobody has agreed to -- there's grant-associated expenses or the payroll-related 18 no binding agreement, is there, to cap medical 18 expense of the health and wellness department were 19 19 inflation at 4 percent right now? transitioned out. So it was more or less a net 20 20 offset. A. There is -- there is no binding 21 21 agreement that I know of other than it's very Q. On Page 12, Paragraph 3, you're assuming 22 22 a 1 percent annual cost of inflation for clear that is the assumption in the plan of 23 23 utilities. What's that based on? adjustment. 24 24 A. It's the same assumption as earlier. We Q. I mean, does the plan assume a 4 percent 25 rate, or is the rate not specified in the plan? 25 looked at the -- I can repeat it. Page 230 Page 232 1 **MALHOTRA MALHOTRA** 1 2 A. In the plan documents in the disclosure Q. That's okay. It's the Bureau -- what 3 statement, I would have to go back and look. But 3 was it? The Bureau of Economic --4 4 in the financial projections, it's clearly A. The Bureau of the Economic -- the US 5 5 articulated that a 4 percent cap has been used. Bureau of Economic Analysis and adjusting for the 6 6 Q. I mean, it's possible that there won't items that we had already, discretely, had an 7 7 be a 4 percent cap on medical inflation; correct? inflationary component attached to it. 8 A. I mean, there's a lot of things in the 8 Q. And then you assume the 1 percent annual 9 9 plan that are possible. It's an assumption. cost of inflation for purchase services, that's 10 10 Q. Page 11 you've got this assumption of a for the same source? 11 1 percent annual class of inflation for 11 A. That is correct. 12 professional and contractual services. Do you 12 Q. And then you've got an increase 13 13 know where that came from? adjustment for increased prisoner pre-arraignment, 14 A. Yeah. We looked at the -- we looked at 14 function costs, and payroll processing management. 15 a couple of sources in terms of what the 15 Where did that come from? 16 16 historical inflation was over the last 20 years. A. The increased prisoner pre-arraignment 17 17 And I think we got that information from the BEA, function costs would have come from the police 18 18 which is the Bureau of Economic Analysis, and department. And the additional payroll processing 19 19 looked at -- the historical inflation rate was cost was based on the estimate provided in

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transitioning the HR payroll system from its

Q. Page 13, Paragraph 9, you talk about the

DDOT subsidy being projected to increase. How did

existing structure today to a new system.

you determine the increase, the size of the

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increase?

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just shy of 2 percent.

But when we looked at certain other

incorporated, like a 2 percent salary increase or

a 4-to-6 percent medical inflation increase, the

rest of the expenses we only used a 1 percent

elements of the cost that we had already

Page 233 Page 235 1 **MALHOTRA** 1 **MALHOTRA** 2 A. So the subsidy increase is predominantly 2 annual wage growth assumption come from? 3 3 driven, as stated here, in terms of the revised A. So that comes from the long-term CBO, 4 4 methodology in the State-calculated and which is the congressional budget office outlook 5 State-operating assistance. And we continued to 5 that's pulled together, which basically forecast 6 6 use a 1 percent inflation for -- most of the long-term inflation to be 2.2 percent. And so we 7 7 used the 2 percent for the second -- for the first expenses, other than for salaries and wages, we 8 8 used a -- the same assumptions as we had used for and second decade and then 2.25 for the third and 9 all of the non-uniformed professionals, as well as 9 fourth decade. 10 the expenses related to healthcare were also based 10 Q. The 2.0, how many years of data is the 11 on the same assumptions as the non-uniformed 11 CBO --12 12 professionals. A. It goes out --13 Q. 14, Page 14, Paragraph L, talks about 13 Q. -- number based on? 14 the exit financing. Are all those assumptions 14 A. It goes out until 2053. 15 15 that you used, such as the data, the note, and the Q. And what would -- if you used a wage 16 term and the interest rate, are those -- they were 16 growth of 1 percent, the cost to the City from 17 all information provided by Miller Buckfire; 17 wages would be significantly reduced; correct? 18 18 correct? A. If you change only that assumption from 19 A. That is correct. I had discussions with 19 2 percent to 1 percent, that would -- yes, the 20 20 them about it in terms of the structure, but most cost would come down. 21 21 of those assumptions are provided by Miller Q. Do you have an idea of the dollar amount 22 22 Buckfire. that the cost would come down if you changed the 23 23 Q. Page 15, Paragraph 0, you talk about wage growth to 1 percent? 24 24 blight reduction. And you note that A. I don't have that handy, no. 25 blight-removal expenditures exclude heavy 25 Q. And would it be hundreds of millions of Page 234 Page 236 1 MALHOTRA MALHOTRA 1 2 commercial blight. dollars? 3 Do you see that? 3 A. Starting when? In what time frame? 4 4 A. That is correct. Q. Well, throughout the entire time frame. 5 5 Q. The City's blight-reduction plan will --A. I don't want to speculate. I would 6 6 it won't reduce commercial blight at all in the rather just do the math because it has a 7 7 city; correct? compounding feature to it which also impacts 8 A. The current estimate that is provided in overtime. So I would rather just do the math and 9 9 the plan, my understanding is, does not include give you an answer. 10 10 commercial blight removal in the forecast. Q. I mean, would it -- I'm just trying to 11 Q. And Page 15, Paragraph Q, you talk --11 get an order of magnitude on that, the wage growth 12 the contingency reserve was set at 1 percent. How 12 13 13 A. Like I said, I would prefer to do the did you determine that number? 14 A. So I looked at the revenues over the 14 math versus just give you a guesstimate, because 15 next 10 years, and I looked at the top five 15 it's a big number with respect to what the City 16 16 revenues. And they were essentially growing by an pays for payroll, and I would rather be accurate 17 17 approximate rate of 1 percent a year over the in terms of making a wage assumption impact. 18 18 forecast period of 10 years. And used that as a Q. Changes in the wage growth factor can 19 19 level of contingency to be put into the plan. have a significant effect on the City's revenues, 20 20 Although revenues are increasing at a because the wage expenditures are a significant 21 faster rate beyond 10 years, we only left a 21 component of the City's total expenditures; is 22 22 1 percent contingency to be in the plan. that fair? 23 23 Q. Page 19, Paragraph B, at the top, you MR. STEWART: Objection. 24 assume a 2 percent annual wage growth and then 24 THE WITNESS: I would say wages are --25 25 2.25 percent after that. Where does the 2 percent wages and salaries and health benefits

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Page 237 Page 239 1 **MALHOTRA MALHOTRA** 2 2 combined are the largest portion of the correct? 3 3 City's budget. And assumptions with respect A. To the -- I'm sorry. 4 4 to wage growth are -- have an important and Q. The 36th District Court in Detroit. 5 material impact on the City's assumptions, A. That are owed to? 6 6 everything else being constant. Owed. Owed to it. Are you aware of 7 7 that? BY MR. SMITH: 8 8 A. I'm not sure of the exact dollar amount Q. Other than the wage growth assumption, 9 are there other assumptions that can have a 9 or if it's hundreds of millions of dollars. 10 10 Q. You haven't investigated that at all? significant effect in terms of the overall 11 11 A. I haven't done that on 36th District revenues or expenditures? 12 12 A. Over 10 years or 40? Court, no. 13 Q. Over 10 years. 13 Q. And your forecast doesn't include sums 14 14 A. Yes. I mean, over 10 years the City was attributable to collection of the amounts that are 15 15 relying upon its revenue increases that are owed to the court system? 16 16 forecasted in the plan based on various operating A. I believe the operating initiatives in 17 17 the Conway MacKenzie reinvestment expenditures do. initiatives and -- which may or may not 18 18 So that would be an appropriate question to ask materialize. 19 19 The City is relying upon all the 20 20 third-party funding coming in to make expansion Q. But you don't know, sitting here today, 21 21 contributions. Beyond that, the City is on the how the amounts owed to the court system in hook for its unfunded liability on its pensions at 22 22 Detroit are treated in your forecast? 23 23 the end of the 10 years, which has to get A. Like I just said, there's collections of 24 incremental court dues in the Conway MacKenzie 24 amortized. 25 25 model, but I would ask them about the exact So I would say those are some of the Page 238 Page 240 1 MAI HOTRA **MALHOTRA** 1 2 assumptions that come to my mind right now, but we specifics. 3 could go through each one in more detail. 3 Q. But you really didn't know what the --4 4 Q. Your forecasts don't include any amounts you don't know how much you're assuming will be 5 5 that could be derived from privatizing Detroit's collected from moneys owed the court in your 6 6 interest in the DetroitûWindsor Tunnel, do they? 7 7 A. No, they do not. A. You know what? I could get to it. I 8 Q. And has Ernst & Young in the past done don't know sitting here, but I could get to it if 9 9 some work on increasing revenue from the we go all through the exhibits between this one 10 10 DetroitûWindsor Tunnel? and there's one from the restructuring agreement 11 A. Yes. 11 and reinvestment initiatives that's actually, from 12 Q. What kind of work were you doing? 12 I remember, discrete line item on 36th District 13 13 A. Our team had looked at just the lease Court. I just can't recall that year-by-year 14 arrangement and trying to ascertain to make sure 14 dollar amount. 15 that Detroit was collecting its full share -- or 15 Q. Do you have any idea how Conway 16 16 the appropriate share of its rent. I can go back MacKenzie went about figuring out how much money and get more details, but that's the extent of 17 17 could be obtained that was owed to the court 18 18 what I remember. system? 19 19 Q. Have you done any investigation into A. No. I would be speculating if I tried 20 whether Detroit's interest in the tunnel can be 20 to answer that. 21 privatized? 21 Q. And, in general, do you have an 22 22 A. I have not. understanding of how Conway MacKenzie went about 23 23 Q. The -- there's a significant -- there's calculating the amounts that it's given you in its 24 hundreds of millions of dollars that are owed to 24 reinvestment projection? 25 25 the court in Detroit. You're aware of that; A. I can say what -- the process I went

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Page 243 Page 241 **MALHOTRA** 1 **MALHOTRA** 1 2 through to understand where they were coming up 2 those grants. Where there's been recent grants 3 3 with the numbers, is we had several -- several that have been awarded, we have shown that. 4 4 discussions with their team and discussions on a We have even the State funding that 5 by-department basis to make sure that if they were 5 comes in -- or the federal funding that comes into 6 6 revenue initiatives that they were including in Department of Transportation. Other than the 7 7 their particular assumptions that we had not information we know, we've kept it generally flat. 8 So we've highlighted for grants we know. Like the already included in the baseline, we went that --9 through that on several assumptions, including 9 grant for blight remediation, we have included 10 headcount. 10 that. 11 11 So -- and so the process that we went Q. There was a recent federal grant of 12 12 through was to make sure that we weren't \$300 million that was announced. Are you familiar 13 double-counting revenues or expenses. So we went 13 with that? 14 14 A. Yes. When you -- I'm sorry. When you through a fairly detailed process to ensure that. 15 15 (Discussion held off the say recent, this is probably six, eight months 16 stenographic record.) 16 ago, if that's the same grant you're referring to. 17 17 BY MR. SMITH: Q. I'm not sure if it was six or eight 18 Q. Does your forecast take into account 18 months ago, but you've got a \$300 million grant 19 outsourcing of fleet maintenance? 19 from the federal government incorporated into your 20 20 A. We do not include that in the baseline. forecast. 21 21 I would have to go back and check if that A. First, I would like clarification on 22 22 what grant for \$300 million we're talking about, assumption is there in the restructuring and 23 23 reinvestment initiatives, but I know the just so that . . . 24 24 outsourcing of fleet maintenance is not included Q. Are you assuming that there will be any 25 in the baseline. 25 significant private donations to the City --Page 242 Page 244 1 **MALHOTRA MALHOTRA** 1 2 Q. Okay. You know that the City has been donations or grants over the course of the ten 3 investigating outsourcing fleet maintenance; 3 4 4 correct? A. Donations. Well, you've got the grand 5 5 A. Yes. bargain or -- but --6 6 Q. Okay. And do you know what the Q. Other than the grand bargain, are any 7 7 projected savings are supposed to be from contributions by private entities incorporated 8 outsourcing fleet maintenance? 8 into your projections? 9 9 A. I do not know that off the top of my A. We've got the hardest-hit funds, which 10 10 head in terms of what the exact savings were we've talked about, that is coming in. Can't 11 potentially from fleet outsourcing. 11 recall if any -- the specific one-off donations 12 Q. That's okay. It's going to take you a 12 that are coming in. 13 13 long time; you don't have to feel like you have to For the federal guides that were highlighted, we went through -- and this was back 14 look it up. 14 15 A. Okay. 15 again, six, eight months ago, from what I 16 16 Q. And you're not sure whether it's in the recall -- and in some detail to ascertain what 17 17 restructuring or not? grants, if any, were applicable for the City of 18 18 Detroit and the general fund in the plan of A. I don't want to speculate. I'm not sure 19 19 on that. adjustment. 20 20 Q. You're assuming that grants to the City Q. Who did the analysis of what grant 21 are going to continue at the same level of -- at 21 moneys were available? Was that something your 22 22 the same funding level; correct? team did or was that somebody else that did that? 23 23 A. Grants are spread out over a lot of A. My team did that. 24 departments. So where we know of discrete grants 24 Q. And, certainly, you can't represent to

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the Court that over the course of the next ten

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that are expiring, we have shown the reduction of

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Page 245 Page 247 **MALHOTRA** 1 MAI HOTRA 1 2 years, there won't be incremental additional grant 2 Q. Well, I mean, there are ongoing --3 3 money from the federal, state, or -- governments compared to whatever the last reported period is, 4 4 or private donors that's not incorporated into do you agree that the economy is improving? 5 your forecasts; correct? 5 A. I -- if you can give me a specific 6 6 A. Yeah. I cannot say whether these grants question on compared to what time frame. It's 7 7 will go up or the existing grants will go down. I hard for me to give you an answer. 8 can just talk about the assumptions that we have 8 Q. Okay. So you can't tell me whether the 9 right now. 9 economy is improving in Detroit? 10 10 Q. Do you believe all -- well, I assume all A. Compared to what time frame? 11 11 the cost savings and revenue initiatives that are Q. There's no -- nothing in your analysis 12 12 discussed in Mr. Moore's report, expert report, that takes into account improving economic 13 are incorporated into your forecast? 13 conditions in the City of Detroit? 14 14 A. I have not read Chuck Moore's report, A. There is assumptions with respect to 15 but the revenues and expenses, as provided to us 15 how -- since the last recession. Maybe if I can 16 by Conway MacKenzie on the restructuring and 16 put that into context. Right? Since the last 17 17 reinvestment initiatives and the corresponding recession, yes, Detroit's economy is improving. 18 18 operating revenue increases, have been So I'm comfortable to say that. 19 incorporated into the plan of adjustment and the 19 But that's -- I'm just trying to figure 20 20 July 2nd updates. out if it's a short-term time frame that you're 21 21 Q. Are you aware that there are a number of trying to compare or much longer. Since the last 22 22 businesses in Detroit that are operating without recession, Detroit's economy is improving. 23 23 licenses? Q. In the short term, Detroit's economy is 24 24 A. I do not know. improving also? 25 Q. Your forecast doesn't incorporate any 25 MR. STEWART: Objection. Page 246 Page 248 1 MALHOTRA 1 MALHOTRA 2 THE WITNESS: In the short term, you amounts for increased revenue due to requiring 3 businesses that are operating without licenses to 3 mean since the recession. 4 4 obtain licenses as required by law? BY MR. SMITH: 5 5 A. I do not know of businesses operating Q. Well, which -- what recession are you 6 6 without licenses. So I do not know. talking about? 7 7 Q. Do you know whether the corporate A. Well, 2008/2009. 8 income -- I mean, the business tax reports are 8 Q. I got it. 9 9 audited at all by the City of Detroit? A. And since 2008/2009, Detroit's economy 10 10 A. That would be a KPMG or a Plante Moran has improved. But when I look at overall revenue 11 question. 11 basis, State revenue sharing is down, so State aid 12 Q. You just don't know the answer? 12 is down. 13 13 So I just want to make sure. I'm just A. Yeah, we're not involved in any of those 14 audits, so I can't tell. 14 trying to draw some specificity around your 15 15 Q. Do you agree that City revenue should question. 16 16 Q. So the economy in Detroit has been increase as the economy improves? 17 17 improving since 2008 or 2009; correct? A. Yes. Overall, if the economy continues 18 18 A. Relative to 2000 -- 2008/2009, the to do well, Detroit will get -- potentially 19 19 benefit from its pro rata share, as long as the economy is better today. 20 20 Q. And since that time, the State has been overall trends and the issues that are specific to 21 Detroit are taken into consideration at the same 21 decreasing State payments through revenue sharing 22 22 time. to Detroit; correct? 23 23 Q. Do you agree that the economy is A. I don't want to draw a correlation improving in Detroit? 24 24 between those two things, between the improved -25 25 A. Compared to what time frame? between the end of a rescission and the State's

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Page 251 Page 249 1 **MALHOTRA MALHOTRA** 2 decline. I can say the State revenue sharing has 2 increase. Do you agree with that? 3 3 declined since 2008 or 2009 compared to where we A. I would have to give that some thought 4 4 in terms of that direct link, which was your are today. 5 Q. And, in fact, the State has reduced 5 questioning this morning, that -- which was that 6 6 revenue sharing by hundreds of millions of dollars there is no direct link between blight and any of 7 7 to Detroit in the last decade; correct? the revenues. 8 8 But -- and my answer remains consistent, A. I have the numbers since 2008. And 9 since 2008, the number, from what I can tell from 9 which is blight expenditures are a part of the 10 10 these -- my information here, it's roughly about overall reinvestment package, which should help 11 \$60 million that Detroit's revenue sharing has 11 the overall revenue and property taxes and income 12 12 gone down, annual. taxes of the city. 13 Q. Annually? 13 Q. I mean, do you know who came up with 14 14 this idea to spend hundreds of millions of dollars A. That's correct. 15 15 Q. So \$60 million a year from 2008 to the on blight reduction? 16 present is the reduction in Detroit's revenue 16 A. It was a -- part of the overall 17 17 sharing? restructuring effort; but I would -- on more 18 18 A. I would actually like to -- now that I details on that, I'm sure Conway MacKenzie will 19 19 have this in front of me, I would like to clarify. 20 20 The real revenue decline has really started after Q. But you just don't know whose idea it 21 21 2010 in State aid from -- and I want to just make was to spend hundreds of millions of dollars on 22 22 sure that's clear for the record, because I said blight reduction? 23 23 2008 earlier. A. There were several discussions on blight 24 24 From 2008 to 2010, State aid was reduction as we were developing the plan. I do 25 continuing to go up. And since 2010, it has come 25 not remember one specific person's idea it was. Page 250 Page 252 1 **MALHOTRA** 1 **MALHOTRA** 2 down for the years '11, '12; and then in '13 and 2 Q. And nobody is willing to claim credit to 3 '14 has taken a slight increase back, but still 3 be the father of the blight-reduction effort; is 4 not at the same level as it was in 2010. 4 that fair? 5 5 Q. Since 2010, approximately how much has A. I can tell you I am not -- I cannot 6 6 the State cut revenue sharing in total? answer that. 7 7 A. In total, if I were to look at it MR. SMITH: I'm going to hand you what 8 through fiscal year '14, it's -- compared to 2010 8 I'm going to mark as Exhibit 4, which is an 9 through 2014 in aggregate, the State aid has been 9 email attaching some materials from the 10 10 lowered by -- in excess of \$200 million. financial advisory board. 11 Q. Yeah. Do you know why the State's cut 11 Here you go. 12 the aid, the revenue sharing aid? 12 (Exhibit Malhotra-4 was marked for 13 13 A. I believe it's been cut for lots of identification.) 14 local municipalities based on what the State 14 BY MR. SMITH: 15 budget was, but I do not know the exact basis of 15 Q. And you'll recall that we are talking 16 that last cut. 16 about consensus revenue reports. And if you look 17 17 Q. Do you believe that blight-reduction at the Bates No. POA00537604, you'll see that 18 efforts should improve property values in the 18 there's a revenue consensus conference report 19 City? 19 there. 20 20 A. Overall, yes, in terms of the A. I'm sorry. What page are you on? 21 blight-reduction initiatives, should help either 21 Q. It's POA00537604. Do you see that 22 the collection rates or a cleanup of the tax roll 22 revenue consensus conference report? 23 in terms of the assessed values. 23 A. Yes. 24 Q. And then just by virtue of the fact that 24 Q. And there's some projections in that 25 blight has been reduced, property values should 25 report. Have you seen those before?

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Page 253 Page 255 1 MALHOTRA 1 **MALHOTRA** 2 A. I do not recall going through this, but 2 for that, please. 3 I would say that I know some of my team members 3 MR. SMITH: You know, actually, this 4 would have attended this, but I do not recall 4 doesn't have a Bates number on it, but it was 5 reading through this report. 5 Moore Exhibit 7 if that helps. 6 Q. Okay. You didn't attempt to do any 6 MR. ALBERTS: Thanks. 7 effort to reconcile your projections with the 7 BY MR. SMITH: 8 consensus revenue conference projections; correct? 8 Q. You've got the document in front of you; 9 A. Well, I believe the revenue conference 9 right? 10 assumptions were triangulated with the assumptions 10 A. I do have it. 11 that we had in the plan of adjustment. But we 11 Okay. Does that look familiar or not? 12 haven't done that recently, but it's a process 12 A. It looks familiar. I've seen this 13 that we would undertake versus not. 13 before. 14 Q. Okay. I mean, do you know what the 14 Q. Okay. If you turn to Page 72, it talks 15 differences or similarities are between your 15 about grant funds that remain unspent and 16 assumptions and the revenue conference? 16 38.9 million at risk of recapture. 17 17 A. I would have to read through this Do you see that? 18 report, but it's something that we can -- we can 18 MR. STEWART: 74? 19 19 MR. SMITH: 72. 20 20 Q. Well, sitting here today, you just don't THE WITNESS: Yes, I see that. 21 know what differences or similarities are between 21 BY MR. SMITH: 22 the consensus reports and your projections; 22 Q. Okay. I mean, have you done any 23 23 investigation into whether the City has recently 24 A. I'd be happy to go through this and 24 had federal grant moneys recaptured or not? 25 provide some of the big changes. 25 A. I have not. Page 254 Page 256 1 **MALHOTRA MALHOTRA** 1 2 Q. My question is have you done that Q. Okay. Do you have any idea how the risk 3 exercise? 3 of recapture of federal grant moneys is treated in 4 4 A. I'm trying to think if this particular your forecast? 5 date or not. But I believe we had -- as I flip A. We do not have a specific recapture of 6 through this and we look at some of these cash 6 federal grant money incorporated in the forecast. 7 7 projections, that we had looked at what some of Q. Over on Page 92 it discuss the 36th 8 the changes were between the revenue conference --8 District Court. And it's -- it says that the 9 9 or the differences between the revenue conference current accounts receivable is 279 million -- oh, 10 10 and the short-term outlook. I just don't have it whoops. It's on Page 91. Sorry. 11 in front of me. I can't recall what the 11 Do you see the bullet that says, 12 differences were. But I think they were some 12 "Collection rates are extremely low with limited 13 13 categories that were up, some categories that were proactive collection efforts and process in 14 down. 14 place"? 15 (Exhibit Malhotra-5 was marked for 15 A. Yes. 16 16 identification.) Q. And it notes that the accounts 17 BY MR. SMITH: 17 receivable for the quarter are 279 million with 18 Q. I'm going to hand you what's been marked 18 200 million payable to the City? 19 19 as Exhibit 5, "Operational Restructuring Summary." A. Yes. 20 20 Have you ever seen that document before? Q. Do you have any idea how that was 21 A. Is this the Conway MacKenzie report? I 21 treated in your forecast? 22 22 can flip through it --A. It has not been included in the baseline 23 Q. Yeah, it is a Conway MacKenzie report. 23 forecast, but I do not know if it's included in 24 24 It says on the first internal page. this Department of Revenue initiatives of 82.3 25 25 MR. ALBERTS: Can you give a Bates range million on Page 92 --

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Page 257 Page 259 1 **MALHOTRA** 1 **MALHOTRA** 2 2 O. Okav. BY MR. SMITH: 3 A. -- that have already been highlighted 3 Q. Have you ever seen this document before? 4 here. 4 A. I have seen it. I have not studied this 5 Q. But, certainly, your forecast does not 5 report. 6 6 assume that all of the money owed to the court Q. Okay. If you turn to Page 240, there is 7 7 will be collected; correct? a discussion of \$440 million of reinvestment funds 8 A. Well, again, I would -- this is a better 8 listed in the plan of adjustment. 9 question for Conway MacKenzie. But Page 92, from 9 Do you see where I'm at? 10 what I'm seeing, shows \$82 million of revenue 10 A. I see that sentence. 11 initiatives related to the 36th District Court. 11 Q. And then it goes on to say -- talk about 12 Q. Which is equal to -- my question, is 12 the portion of it that represents money that's 13 your forecast -- you're not saying that, in your 13 subject to the bankruptcy court approval, which it 14 14 forecast, that all the money owed to the court is lists as 368 million. 15 15 going to be collected; correct? Do you see that? 16 A. I have not included specifically -- if 16 A. Yes, I see that. 17 your question is, have we included \$200 million of 17 Q. And then it goes on to note that "that 18 incremental collections from the court for 18 allocation is not guaranteed. It is contingent 19 receivables that are almost seven years old, we 19 upon the realization of projected future cost 20 have not included it. 20 savings and revenue for the City. If future 21 21 Q. And sitting here today, you don't know revenue or cost savings are not realized at the 22 what, if any, incremental collections you've 22 projected levels each year, the \$368 million in 23 23 included in your forecast for the court; correct? blight elimination funding has the potential to 24 24 MR. STEWART: Objection. shrink significantly." 25 THE WITNESS: When you say -- I would 25 Do you see that? Page 258 Page 260 1 MALHOTRA 1 MALHOTRA 2 say that that's a question on Conway A. I see that. 3 3 MacKenzie for the new revenue initiatives Q. And were you aware that the blight 4 4 that they have incorporated for the 36th expenditures were contingent on the City realizing 5 5 District Court. revenue increases or cost reductions from 6 6 BY MR. SMITH: blight-removal efforts? 7 7 Q. Yeah, and Conway MacKenzie is not here. A. Yes, of course. It's -- the City does 8 My question is, do you know what's in your own 8 not have a fixed obligation. 9 9 forecast regarding --Q. Okay. So it could be that only a small 10 10 A. I do know what's in my own forecast. fraction of the blight-reduction money is actually 11 Q. Okay. How much money do you forecast 11 spent by the City over the next ten years; 12 will be collected from the courts in your 12 correct? 13 13 forecast? A. That is not the City's intent. 14 A. So there is approximately, I would say, 14 Q. If it turns out that revenue is not 15 between 180 -- around 180-plus million dollars of 15 realized or costs are not reduced from blight 16 revenues that are included from the 36th District 16 reduction, then a significant portion of the 17 17 Court over the next ten years. But I do not blight-reduction money may not be spent by the 18 18 believe there is any collection of past-due City on blight reduction; correct? 19 accounts receivable as a new revenue initiative 19 A. No. It -- the blight expenditure of the 20 20 included in that forecast. City is not a fixed-debt-type obligation that the 21 Q. I'm going to hand you what I've marked 21 City has taken on. It is not a sinking fund for 22 22 as Exhibit 6, which is a report of the Blight blight remediation. 23 23 Removal Task Force. Q. Yeah. The City has no obligation to 24 (Exhibit Malhotra-6 was marked for 24 spend any of the blight-reduction money; correct? 25 25 identification.) A. The City may not have a legal obligation

Pages 257 to 260

	Page 261		Page 263
1	MALHOTRA	1	MALHOTRA
2	to spend the blight money as it's laid out, but	2	A. Okay. Thank you.
3	that is not the intent. It's not a legal	3	Q. Do you agree that the blight reduction
4	obligation to make a debt-like instrument.	4	money is contingent upon the realization of
5	Q. The City's intent is that the blight	5	projected future cost savings and revenue for the
6	expenditure is contingent upon certain results	6	City?
7	being achieved; correct?	7	A. What page are you on?
8	MR. STEWART: Objection.	8	Q. I'm on Page 240.
9	THE WITNESS: Could you ask me the	9	A. Yes, I agree with this statement. I
10	question again, please?	10	don't agree with your earlier statement.
11	BY MR. SMITH:	11	Q. Okay. So you agree that the blight
12	Q. The City's intent is that	12	the blight-elimination funds are contingent upon
13	blight-reduction expenditures will be contingent	13	the realization of projected future cost savings
14	upon the realization of projected future cost	14	and revenue for the City; correct?
15	savings and revenue for the City; correct?	15	A. Yes. That's not a fixed obligation, but
16	A. The City is budgeting for its blight	16	it depends on making sure that the if there's
17	expense. But if something unforeseen happens,	17	an unforeseen event and the City's budget hasn't
18	it's not like there's a default because the City	18	changed dramatically, we have to look at starting
19	did not spend that blight amount in that	19	a default-type option.
20	particular year. So it's I'm trying to make	20	Q. In fact, much of the expenditures that
21	the distinction between a fixed-debt-type	21	you projected over the 10 years are they're
22	obligation versus not.	22	expenditures the City is not legally obligated to
23	Q. And I'm not saying there will be a	23	make; correct?
24	default or anything like that. I'm saying that	24	A. Can you define, other than blight, which
25	the blight expenditure is a discretionary	25	specific expenditures you're talking about?
	Page 262		Page 264
1	MALHOTRA	1	MALHOTRA
2	MALHOTRA expenditure by the City; it's not legally	2	MALHOTRA Q. Well, a lot of the I mean, the wages.
2	MALHOTRA expenditure by the City; it's not legally obligated to make it; correct?	2	MALHOTRA Q. Well, a lot of the I mean, the wages. The City can reduce headcount; correct?
2 3 4	MALHOTRA expenditure by the City; it's not legally obligated to make it; correct? A. I would say it's not legal legally	2 3 4	MALHOTRA Q. Well, a lot of the I mean, the wages. The City can reduce headcount; correct? A. The wages are going to be a part of a
2 3 4 5	MALHOTRA expenditure by the City; it's not legally obligated to make it; correct? A. I would say it's not legal legally obligated, but I don't know. It would be up to	2 3 4 5	MALHOTRA Q. Well, a lot of the I mean, the wages. The City can reduce headcount; correct? A. The wages are going to be a part of a five-year collective bargaining agreement.
2 3 4 5 6	MALHOTRA expenditure by the City; it's not legally obligated to make it; correct? A. I would say it's not legal legally obligated, but I don't know. It would be up to the City whether that's really considered	2 3 4 5 6	MALHOTRA Q. Well, a lot of the I mean, the wages. The City can reduce headcount; correct? A. The wages are going to be a part of a five-year collective bargaining agreement. Q. But people can be fired; right? Or is
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Pages 261 to 264

Page 267 Page 265 1 1 MAI HOTRA **MALHOTRA** 2 2 THE WITNESS: Yes, it's the 24th of MR. ALBERTS: By the way, do you have 3 3 Bates range for the Blight Removal Task February, 2014, "Detroit News." 4 4 BY MR. SMITH: 5 5 Q. Here's Exhibit 8, a copy of another MR. SMITH: No. It's a public document 6 6 on the Internet. document, February 19, 2013. Memorandum to 7 7 Governor Snyder. There's no Bates number on it. MR. ALBERTS: Okay. 8 8 It's publicly available. BY MR. SMITH: 9 9 You've seen this report before; correct? Q. The -- and I've just handed you a news 10 10 article that's another public document. This news A. I believe I have. The subject is 11 11 article discusses a proposal to withhold tax on throwing me off and it's supplemental 12 documentation, and so I just don't know if this is 12 reverse commuters. 13 13 the original report of the financial review team Do you see that? 14 14 A. That's what the, yes, subject says. or some addendum to it. 15 15 Q. There's an original and then this Q. And we were talking about the 16 16 supplemental that is -- they're two separate reverse-commuter situation earlier today; right? 17 17 documents. You're correct. A. Yes. 18 18 A. So I don't remember the supplemental. Q. And there's a MacKenzie study that notes 19 that there was a -- it found that there was 19 Q. Okay. That's fine. If -- but you see 20 20 that in front of, you've got a supplemental report approximately 140 million in 2009 of uncollected 21 of a Detroit financial review team to Governor 21 income taxes from Detroit residents working 22 22 outside the City? Snyder; correct? 23 23 A. That's what this sentence says here. A. Yes, that's what the subject --24 24 Q. I mean, are you aware of that MacKenzie Q. And the Detroit financial review team 25 25 recommended the appointment of an emergency study that found that there was \$140 million of Page 266 Page 268 MALHOTRA 1 1 **MALHOTRA** 2 manager for Detroit; is that correct? taxes that were not being collected? 2 3 A. I do not know of a specific MacKenzie 3 MR. STEWART: Are you asking him what 4 study. There have been various estimates based on 4 the document says or what he remembers or 5 various inputs from people to try and estimate a 5 what? If you're asking him -- I think he 6 range. I do not know of a specific MacKenzie 6 said he didn't remember this document, so I'm 7 7 study that MacKenzie did on their own to estimate iust --8 that 140 million. 8 MR. SMITH: I'm asking what he 9 Q. You're offering no opinion on the amount 9 remembers. 10 10 of forgone income tax revenue based on failure to MR. STEWART: So you don't have to look 11 collect from reverse commuters or anybody else; 11 at the document; just answer his question. 12 12 correct? THE WITNESS: I do not remember the 13 13 A. That is correct. financial review team says emergency manager 14 (Exhibit Malhotra-8 was marked for 14 or if they determined an emergency exists. 15 identification.) 15 BY MR. SMITH: 16 BY MR. SMITH: 16 Q. Okay. You know that the Detroit 17 17 Q. I'm going to hand you what's been marked financial review team concluded that there was a 18 as Exhibit 8. 18 financial emergency? 19 MR. ALBERTS: Do you have a date of that 19 A. Yes. 20 news article, please? If you're not going to 20 Q. And if you look at Page 8 at the top, 21 bring them, I'd like a little more -- you 21 it's the -- the financial review team concluded 22 know . . . 22 that operational dysfunction contributes to the 23 23 MR. SMITH: Do you want to read the date City's serious financial problem. 24 24 for me. Do you see that conclusion of the 25 MR. STEWART: It's the 24th --25 financial review team? First sentence on Page 8.

Pages 265 to 268

Page 269 Page 271 1 MALHOTRA **MALHOTRA** 2 2 Q. And is that included in your current A. Yes, I see that. 3 Q. Okay. And isn't it true that the -- I 3 forecast of \$300 million? 4 4 mean, many independent reviewers, including the A. The dollars that were in our collective 5 financial review team, attributed the poor fiscal 5 view in terms of discussions with the City that 6 6 conditions in Detroit to operational dysfunction were appropriate to be included, they were 7 7 included, yes. or mismanagement? 8 8 Q. I mean, when you say that -- whenever MR. STEWART: Objection. 9 THE WITNESS: It's one of the items 9 the City gets a federal grant, you don't 10 10 necessarily include all that money in your that's mentioned on the list, is operational 11 dysfunction, but -- this operational 11 forecast or the general fund; is that correct? 12 dysfunction. And that's what this piece of 12 A. Yeah, it depends -- I mean, there is an 13 13 paper says. analysis, which I don't know if you have handy or 14 14 BY MR. SMITH: not, but that defines each one of the programs 15 Q. And ever since you've been working for 15 that made up the \$300 million in funding. 16 16 the City of Detroit, has the City been trying to Some of it was related to the general 17 17 improve its operational functions in order to fund. For instance, the hardest-hit funds were 18 18 included in the general fund; however, then there improve its fiscal condition? 19 A. Yes. I mean, the City has been facing 19 were some other funds, like, for instance, I 20 20 lots of challenges. But in the amount of resource recall, for M-1 Rail that had nothing to do with 21 21 that it has available, the City has tried to make the general fund or even the general fund subsidy 22 22 to DDOT. changes where it could. 23 23 MR. STEWART: Been on the record So you have to look at the individual 24 24 components that make up that \$300 million on which 90 minutes. Be a good time for a break? 25 MR. SMITH: Sure. 25 we have an analysis to ascertain what funds were Page 270 Page 272 1 MALHOTRA 1 **MALHOTRA** 2 THE VIDEOGRAPHER: Going off the record included in the budget. 3 3 at 3:31. This is the end of Tape No. 4. Q. So because you're only forecasting the 4 4 (Short break taken.) general fund revenues and expenditures, you don't 5 5 THE VIDEOGRAPHER: We are back on the include all grant moneys that are given to the 6 6 record at 3:43. This is the beginning of City: correct? 7 7 Tape No. 5. A. We include those that would impact the 8 BY MR. SMITH: 8 City or the initiatives that the City has 9 9 Q. Mr. Malhotra, if you had that blight highlighted, even through, you know, other 10 10 removal task force report in front of -- do you particular departments. If there is going to be 11 have that? If you turn to Page 4 -- actually, 11 more expenses in other departments that would be 12 12 reimbursed by new grant funds, they're not Page 2. Sorry about that. 13 13 Page 2, it talks about how, in included because they would be offset. 14 September 2013, the Obama administration announced 14 Q. Well, I mean, what my question is, the 15 a \$300 million federal effort focused on working 15 \$300 million, you don't include with it all of 16 16 with the City to address key areas of importance, that money in your forecast for the general fund; 17 17 including blight removal, public works, and public correct? 18 18 safety. A. The \$300 million, we have done an 19 19 A. I'm sorry. analysis of those funds that are applicable to the 20 20 Q. Page 2? general fund or those funds that may be applicable 21 A. Is that this? 21 to other funds with a general fund may be 22 22 Q. Page 2 right up here. It's Arabic 2. providing a subsidy. But so there's detailed 23 23 It talks about the \$300 million grant from the analysis on that to walk through the \$300 million. 24 24 federal government. Do you see that? Q. And my only question is not every penny 25 25 of the \$300 million is included in revenues in A. Yes, I do.

Pages 269 to 272

	Page 273		Page 275
1	MALHOTRA	1	MALHOTRA
2	your forecast; is that correct?	2	not know off the top of my head.
3	A. I would answer that what we've	3	Q. Do you have any ballpark idea?
4	collectively felt were the relevant dollars to be	4	A. No. I don't want to speculate.
5	included have been included.	5	Q. Would it be more than \$100 million?
6	Q. And then there's some other dollars	6	A. I don't want to speculate.
7	within the 300 million that are not included in	7	Q. Okay. The \$300 million, though, you've
8	your forecast; correct?	8	at least taken account of in your analysis; is
9	A. As there would be other dollars that	9	that correct?
10	could be a reimbursement of an expense that is not	10	A. That is correct. We have accounted for
11	included either. So the you know, my answer is	11	it. We have analyzed that \$300 million; that's
12	sort of consistent with what I said earlier	12	correct.
13	Q. Well, I'm trying to understand how	13	Q. Did your forecast, before
14	grants are treated in your analysis	14	September 2013, take into account the
15	A. Sure.	15	\$300 million, or was that a special amount that
16	Q is what I'm trying to understand.	16	was given to the City that was not that was in
17	And if there's a grant that's going to some other	17	addition to historical-type amounts?
18	entity that's not the general fund but it's still	18	MR. STEWART: Objection.
19	part of the City, is all of the money from that	19	Can I just have the question reread,
20	grant, would that be picked up in revenue for	20	please.
21	your in your analysis?	21	(Thereupon, the requested portion
22	A. It depends on what grant it is, because	22	was read back by the reporter as
23	there are some non-general fund grants that have	23	above recorded.)
24	expenses and revenues that equal each other that	24	MR. STEWART: I think he said
25	are detailed out.	25	historical-type amounts. When you reread it,
	Page 274		Page 276
1			
_	MALHOTRA	1	MALHOTRA
2	MALHOTRA So if there was a new expense or a new	1 2	
			MALHOTRA I'm not sure you put the word "type" in. That is my question.
2	So if there was a new expense or a new	2	I'm not sure you put the word "type" in.
2	So if there was a new expense or a new grant funding that was made available to the City	2	I'm not sure you put the word "type" in. That is my question.
2 3 4	So if there was a new expense or a new grant funding that was made available to the City for which the City had to do additional things to	2 3 4 5	I'm not sure you put the word "type" in. That is my question. THE WITNESS: The \$300 million was
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2 3 4 5 6	So if there was a new expense or a new grant funding that was made available to the City for which the City had to do additional things to make sure that it was compliant with that new grant, that would mean an incremental expense, but	2 3 4 5 6	I'm not sure you put the word "type" in. That is my question. THE WITNESS: The \$300 million was some of that was already amounts that the different departments were forecasting; some
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Page 277 Page 279 1 **MALHOTRA** 1 **MALHOTRA** 2 2 grant. For instance fire and the SAFER grant has THE WITNESS: Part of it was new grants 3 3 that were renewed, and then there were some its own unique set of requirements, and the same 4 4 thing with the police grant. new grants, like for the hardest-hit funds, 5 5 So I would say it varies. for -- which were incremental revenues that 6 6 the City was getting. Q. Are there any people that are typically 7 7 BY MR. SMITH: involved in grant work at the City? 8 8 O. And --A. There is a grant -- there are several. 9 9 A. Or assumption. I don't want to name any one particular person, 10 10 Q. And my question is, since you started because there are several people, and I think that 11 11 that effort is starting to get streamlined better your forecast, the City has received incremental 12 12 grant revenues that it did not expect to receive in terms of the grant management; but there are 13 and were not forecasted to receive. Is that 13 still people at different departments that chase 14 14 grants specific to their department. correct? 15 15 A. That is correct in the context of the Q. You're not offering any opinion saying 16 hardest-hit funds. That assumption was not 16 that the City can't raise taxes; correct? 17 17 included in the earlier version of the forecast. A. That's a policy question. The City is 18 18 on the highest end, likely, of its comparable tax Q. And there -- are there still some 19 hardest-hit funds that haven't been allocated 19 rates, but I'm not offering an opinion on changes 20 20 beyond the 52 million that the State has in its in tax policy. 21 21 Q. You're not offering any opinion on possession? 22 22 A. I'm not sure. whether the City can pay creditors more money than 23 23 Q. Have you done any investigation into it's planned to pay; correct? 24 24 A. Could you repeat that again, please. potential grants, incremental grant revenue that's 25 not already included in your forecast that the 25 Q. You're not offering any opinion on Page 278 Page 280 1 MALHOTRA 1 MAI HOTRA 2 City may have access to over the next 10 years? whether or not the City can pay creditors more 3 A. For the grants that we know of 3 money than it's planned to pay under the plan? 4 4 specifically, like SAFER and fire, although they A. I am saying that the assumptions that 5 were being removed from the baseline because we are in the forecast are reasonable based on which 6 6 knew that they were expiring, but I believe those the moneys that are available to spend are 7 7 are the grants that I know of specifically. distributed to creditors have been calculated. 8 But new and incremental grants over and 8 Q. Okay. In your -- in your scenario that 9 9 above what's already in the baseline, I do not you've done. But you're not offering any opinion 10 10 know off the top of my head. about whether you can change the assumptions or do 11 Q. You just haven't done an investigation 11 other things to pay creditors more money. That's 12 12 into potential incremental grants? not within the scope of your work? 13 13 A. Right. I mean, the -- we have the grand A. No. If the assumptions change, those 14 bargain that's already highlighted that you 14 moneys available for creditors would go up or 15 already know about. You know, new grants over and 15 down. I'm okay with that, and -- if the 16 16 above all the grant money that's already in the assumptions change. But, you know, the amounts 17 forecast, we have not done an investigation on 17 available to creditors as shown in the projects, 18 18 in my view, are reasonable. 19 19 Q. Who at the City is the person -- or are Q. Okay. But then the amounts as shown in 20 20 there multiple people that are responsible for the projections that go to creditors can be 21 interacting with the state or federal government 21 increased if you change the assumptions; correct? 22 22 to get grants? A. It depends on what assumptions. I mean, 23 23 A. There are many people, because they are if you -- and I've said this earlier. If you 24 24 different grant writers in specific departments change an assumption and you leave everything else 25 25 because they are chasing a particular type of constant, there has to be a change in a result.

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Page 281 Page 283 1 MALHOTRA MALHOTRA 2 2 differences between forecasted and actual Q. That's right. And so if you change 3 3 certain of the assumptions in your model, then you results." Correct? That's what your 4 4 representation is. can increase the amount of money that the 5 creditors receive: correct? 5 A. Yes. 6 6 A. I would ask you to be more specific in Q. Okay. And so you're not attempting to 7 7 terms of what certain assumptions mean. calculate actual results; you're calculating 8 8 forecasted results: correct? Q. Okay. We can go back to tax rate 9 increases again. I mean, increasing the tax rate 9 A. Forecasts are not results. Forecasts 10 10 or the collection rate on taxes. You could are forecasts. These includes reasonable 11 11 projections or reasonable forecasts. So I'm increase the amount of money available to 12 12 sorry. I don't understand your question. creditors: correct? 13 A. It's a twofold question. Increasing tax 13 Q. You're not trying to calculate actual 14 14 results. It says right here on the front of your rates and if you assume that everything else 15 15 projections. remains constant, that more people are actually 16 going to leave -- because if you increase tax 16 A. That's right, because it's a forecast. 17 17 rates and more people leave, you're not going to In the future, it will become an actual. 18 Q. And so you're not trying to calculate 18 increase revenues. 19 19 Q. Okay. Well, we'll assume that you the actual amount of money that is going to be 20 20 available to pay creditors over the next 10 years? increase tax rates and hold everything else 21 21 constant. There will be more money for creditors; A. My answer remains the same as earlier. 22 22 right? This -- the projection show what amounts would be 23 23 A. If there is more money for creditors available for unsecured creditors based on the 24 24 forecast as laid out herein. The \$630-odd million under any assumption, there is more money for 25 creditors. 25 are in Note B that is laid out are the recoveries Page 282 Page 284 1 **MALHOTRA** 1 MALHOTRA 2 2 Q. And my only point is you could change under Note B. 3 the assumptions in your model and you can generate 3 And so that is the nominal dollars that 4 4 more money for the creditors; correct? will be paid out under Note B, regardless of the 5 A. It depends on what assumptions you forecast in some fashion. 6 6 change. And so if you change the assumptions in THE VIDEOGRAPHER: Excuse me. Go off 7 7 the model, the answers will change; that is the record? Going off the record at 8 correct. 4:01 p.m. 9 9 Q. And you're not attempting to calculate (Discussion off the record.) 10 10 THE VIDEOGRAPHER: Back on the record at an actual amount that will be available to 11 creditors; correct? Because you're doing a 11 4.02 12 12 BY MR. SMITH: forecast; right? 13 13 A. It's a reasonable forecast. So it's, in Q. In the proposal for creditors, do you 14 my view, the information that we have today. 14 recall that there was a provision in there for 15 Q. But you're not trying to calculate 15 some notes that could be adjusted if the City 16 16 actual values in your forecast, by definition; received additional grant funds for blight 17 17 correct? reduction? 18 A. I'd like to understand that question 18 A. I believe I remember there was 19 better, because, I mean, we are projecting what 19 something; but if I could see it, I would get 20 20 the actual values or recoveries are based on the refreshed. But there was --21 plan adjustment with respect to the notes. So I 21 MR. SMITH: I only have a couple copies 22 22 just want to make sure that I understand the of this, unfortunately, but I will label it 23 23 context of the question. as Exhibit 9. It's Executive Summary of the 24 Q. Okay. Your disclaimer on the front of 24 Proposal from Creditors. And if you look at

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your projections says, "There will usually be

Page 285 Page 287 1 **MALHOTRA** MALHOTRA 2 2 utilized in place of the general fund sums in the Here you go. 3 3 (Exhibit Malhotra-9 was marked for 10-year projections in amount equal to 75 percent 4 4 of the general fund revenues that would otherwise identification.) 5 BY MR. SMITH: 5 be spent on blight, but for the outside funds, 6 6 Q. Page 59, it talks about blight shall be applied to reduce the principal amount of 7 7 the notes. reduction. 8 8 Do you see that? MR. STEWART: I may have two of these. 9 9 A. I do. That's what it says, yes. MR. SMITH: I'll take one if you've got 10 10 Q. And so the City contemplates that it may 11 11 have additional grant moneys available from the MR. STEWART: Yeah, I do. This doesn't 12 12 have a clip on it. federal government, the state government, or 13 MR. SMITH: Okay. I was just going to 13 nonprofit entities to engage in blight reduction 14 14 ask about Page 59, that's the only page. efforts over the 10-year period; correct? 15 15 A. This was over and above the \$500 million BY MR. SMITH: 16 Q. Do you see where I'm talking about? 16 estimate that was included for blight removal in 17 17 this particular proposal. The City was A. Yes, I do. 18 18 contemplating how, if more than -- after spending Q. And you've got -- and there was going to 19 19 be a provision about -- say that there would be an \$500 million, if additional funds were being made 20 20 amount equal to 75 percent of the general fund available or during -- to help fund that 21 21 \$500 million, how some of those proceeds could be revenues that would otherwise be spent on blight, 22 22 but for the outside funds, that would be applied shared. 23 23 Q. And certainly the City recognizes that to reduce the principal amount of the notes. 24 24 Does that refresh your recollection in the next 10 years, it may receive additional 25 25 moneys from the federal, state governments, or about how it was a proposal to give creditors Page 286 Page 288 1 1 MALHOTRA **MALHOTRA** 2 nonprofit entities to engage in blight reduction; these notes where they could potentially get 3 reimbursed if there were additional funds for 3 4 4 A. No, because it could be increases for blight that came into the City? 5 5 certain -- I do not know other revenues that are A. I thought the 75 percent was asset 6 6 coming through to the City for blight remediation, sales -- I think the 75 percent was related to 7 7 asset disposition proceeds. and if something happens, we have to look at the 8 8 overall construct if any other funding is being Q. I'm looking at the paragraph above that. 9 9 taken away. There's two paragraphs here. 10 10 A. Okay. Q. Yeah. My point here is only that the 11 Q. The first one is grants and other -- I'm 11 City recognizes that there could be new grants 12 12 from the federal government, state government, or looking at the second paragraph on the page. It 13 13 nonprofit entities for blight rejection -- blight says, "Grants and other amounts received to offset 14 costs of addressing blight." 14 reduction that it will receive in the next 10 15 Do you see that where I'm at? 15 years; correct? 16 16 A. Yes, and I do now. Thank you. A. That's what the City proposed in 17 17 Q. And the City was provided -- [reading]: June 2013, which is evident in the \$52 million in 18 18 If the City receives any cash grants or other hardest-hit funds that the City has --19 19 payments after the effective date and before the Q. That would be one example, but the City 20 20 also contemplated it might get money other from maturity date from the State of Michigan, the 21 federal government, or any other government or 21 other sources; correct? 22 22 nonprofit entity not affiliated in any way with A. Not that I know of. 23 23 Q. Well, nonprofit entities; right? It the City for the purpose of funding programs or 24 activities to address blight that are included in 24 contemplated that it might get money for blight 25 the 10 Year plan, blight revenues, and that can be reduction from nonprofit entities?

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Page 289 Page 291 1 **MALHOTRA** MALHOTRA 2 A. Well, the City has a grand bargain that 2 A. It's been in this -- it's been during 3 3 is existing with the City's ability to fund its the last year. We did not anticipate that 4 reinvestment program because the grand bargain 4 \$50 million of blight remediation that have come 5 moneys are coming into the pension. 5 through, thanks to the federal government and how 6 6 Q. Okay. So even in the months since this it comes through the state. So but those are --7 7 creditor proposal, the City has already received they could be considered one-time items and were 8 8 tens of millions of dollars in money that it not expected in the June 2013 proposal. 9 didn't realize it would receive from various 9 Q. Okay. The forecasts that are included 10 10 sources; correct? in the June 2013 proposal, are those, given what 11 A. The \$52 million of funds that were for 11 we now know, materially inaccurate? 12 12 A. I don't know what you define as hardest-hit funds were not contemplated in the 13 June 2013 proposal for blight. 13 "materially inaccurate." 14 14 Q. And then additional revenue from the Q. Why don't you use your own definition of 15 15 grand bargain wasn't contemplated in the creditor "materially inaccurate." 16 16 MR. STEWART: Objection. 17 17 A. That is correct. THE WITNESS: Well, I can explain 18 18 Q. And so I mean, in less than a year, the changes have been made since the June 2013 19 19 City has been able to generate significant proposal. I mean, based on the income taxes 20 20 and the property taxes information or we can additional revenues from sources that it did not 21 21 go line item by line item to bridge what has expect to receive back in June of 2013; correct? 22 22 A. No. I don't think it's the City -- I changed. 23 mean, when you look at the grand bargain in terms 23 So I do not know the definition of 24 of it's a very specific use that it's being 24 "materially inaccurate." 25 25 directed towards. So it's not that the City has BY MR. SMITH: Page 290 Page 292 1 **MALHOTRA MALHOTRA** 1 2 just, you know, gotten an extra \$800 million for Q. You can't provide me with a definition 3 its general fund. So . . . 3 of "materially inaccurate"; correct? 4 4 Q. But there are unpredicted receipt of A. I'm sorry. Can you ask me that again? 5 tens of millions of dollars in revenue that have 5 Q. Can you provide me a definition of 6 occurred for the City between June 2013 and the 6 "materially inaccurate" that you would use? Yes 7 7 present; correct? or no. 8 A. Could you repeat that question, please. 8 A. No, I don't know what the context 9 9 Q. The City is -- in the last year the City "materially inaccurate" is. I mean, so I can't 10 10 has received tens of millions of dollars in provide a definition of materially inaccurate. 11 unanticipated revenue from various sources: 11 Q. Can you provide me a definition of 12 correct? 12 "scientifically reliable"? 13 13 A. No, I cannot. I can provide you with an A. Let me being specific. The grand 14 bargain was not contemplated in June 2013. The 14 understanding of what the changes are in the 15 uses of the grand bargain, in terms of the money 15 assumptions, but "materially inaccurate" or 16 16 "scientifically reliable," I can't put that into being spent, were not contemplated in June 2013. 17 17 The City has received revenues, but the context. 18 18 City has also now got expenses. For the Q. Can you tell me what, in your view --19 hardest-hit funds, those are new moneys that the 19 well, you're aware that the Department of 20 20 City has received in order to help assist the Transportation brings in hundreds of millions of 21 funding of its blight remediation. 21 dollars each year; correct? 22 22 Q. Okay. I mean, just in the -- within a A. In terms of revenues? 23 23 few months, the City received more than Q. Yes. 24 24 \$50 million it didn't anticipate to fund blight A. Somewhere between 100 and \$150 million 25 remediation; correct? 25 or up to \$200 million. So I don't know if it's

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Page 293 Page 295 1 **MALHOTRA** 1 **MALHOTRA** 2 hundreds and hundreds of millions. 2 self-insured, there can be lumpiness in terms of 3 3 Q. Are you aware that the Department of claims in particular years. And so it's hard to 4 4 Transportation have saved approximately 40 million draw just a straight line, because one-off claims 5 by doing scheduling changes? 5 that are extremely expensive can throw those 6 6 A. Over what time frame? averages off. 7 7 Q. I don't know. Over whatever the time Q. Do you know whether -- if the City has 8 8 frame was that ---over a year. considered other initiatives that are not 9 A. I don't know if I can say that. 9 reflected in the Conway MacKenzie report or the 10 Q. Do you know -- I mean, can you tell me 10 reinvestment plan? 11 what changes the Department of Revenue -- I mean, 11 A. Other initiatives to --12 12 Department of Transportation has made in the last Q. To increase revenues or decrease costs. 13 year to either increase revenues or decrease 13 A. Yes. I do not know the specifics, but 14 14 I've -- they always continue to be new initiatives costs? 15 15 A. I think the -- in the last 18 months, or new expenses that are developed. But I don't 16 they reduced the amount of service that was on the 16 know of any specific new initiatives over and 17 roads in order to reduce the level of subsidy. 17 above the ones that have been mentioned in the 18 Q. And who directed the Department of 18 Conway MacKenzie information. They may be 19 Transportation to do that? 19 replacements that, you know, one doesn't happen; 20 20 A. I don't remember if this was during the the other one may happen. But I don't know of 21 21 time of Mayor Bing and his administration in order incremental initiatives. 22 22 to reduce some of that overall subsidy level or Q. Well, so there is some replacement 23 23 Chris Brown, who was the former chief operating initiatives that have been developed to replace 24 24 officer. the initiatives in the reinvestment plan; is that 25 25 Q. And are you aware that the City believes accurate? Page 294 Page 296 1 MALHOTRA 1 MAI HOTRA 2 that many of the workers' compensation claims that A. I wouldn't say they have been developed. 3 are filed against it are meritless? 3 But there always is -- because these investment 4 4 A. I do not know whether they were all -initiatives require money, there always is a 5 5 many of them are meritless or not, but I know the renewed effort to make sure that all of the 6 6 City is undertaking initiatives to further control expenses and the revenues match up with respect to 7 7 its workers' comp changes. the initiatives. John Hill can probably talk to 8 Q. Okay. And do you know how your forecast 8 this much better. 9 9 takes into account the City's initiatives to Q. Would it be fair to say that the 10 10 restructuring and reinvestment initiatives are not reduce workers' compensation costs? 11 A. The workers' compensation costs are 11 static, but rather are -- they're dynamic and can 12 12 generally based on the most recent trend in terms change over time? 13 13 A. Yes, they could change over time in of what the City has been spending. So, yeah, 14 14 that -- that is what I know. terms of the components and the mix overall, yes. 15 15 Q. I mean, do you know whether you've Q. And is John Hill the person to ask about 16 16 that, or is that a question for Conway MacKenzie? incorporated in your forecasts any reduction in 17 17 Or who's the -workers' compensation costs attributable to the 18 18 City efforts over the next 10 years to reduce A. Probably both. 19 19 costs? Q. Or every City witness that happens to 20 20 A. I believe that would be a question for show up for a deposition. 21 Conway MacKenzie. 21 Are there any initiatives that you're 22 22 Q. You just don't know one way or the other aware of to increase revenues or decreased costs 23 23 sitting here? that the City has rejected? 24 24 A. Yeah. And the reason for that is A. We talked -- I don't think the City has 25 25 workers' comp claims, since the City is ever rejected looking at any considerations to

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Page 297 Page 299 **MALHOTRA** 1 1 **MALHOTRA** 2 increase revenues or reduce costs as long as they 2 You were laughing. 3 3 can be feasible and reasonable. In my view -- and Q. No, go ahead. 4 4 it's not -- things that are not just rejected. I A. Those revenue initiatives could replace 5 mean, the City is always looking to improve the 5 the revenue estimates or initiatives that are 6 6 operations. already in the forecast. 7 7 Q. Okay. So in your experience the -- you Q. Okay. But your analysis assumes that 8 8 anticipate that the City, going forward, will there won't be any new revenue initiatives or 9 9 continue to look for new opportunities to increase cost-reduction initiatives that increase revenues 10 10 revenues and reduce costs? or decrease costs above and beyond the current 11 11 A. In my view, the City would do its best forecast; correct? 12 12 to try and at least recognize and accomplish the A. No. They could continue to work on 13 revenue initiatives, which are quite a few, that 13 initiatives to even accomplish what is in the 14 14 have already been incorporated into the plan to current forecast. But it could come through other 15 15 achieve its plan of adjustment. initiatives versus new initiatives. If you're --16 Q. But you would expect that, going forward 16 so my question -- answer is the same as earlier. 17 17 during the next 10 years, the City will look to Q. Yeah, you're not getting my question. 18 A. Sorry. Okay. If you could please 18 develop other initiatives in addition to the 19 reinvestment initiatives that could increase 19 rephrase it, then. 20 20 revenue or decrease cost. It just won't stop Q. One of the assumptions is that the 21 21 introduction -- one of the assumptions that you're doing that; right? 22 22 A. No. I think the City will continue to making is there will be -- there will be no new 23 23 focus its -- my belief is, is that the City will initiatives that increase revenue above your 24 continue to try its hardest to ensure that the 24 forecasted amounts during the 10-year period; 25 25 revenue initiatives that are in the plan are met correct? Page 298 Page 300 1 **MALHOTRA** MALHOTRA 1 2 and the significant costs assumptions that are in MR. STEWART: Objection. 3 the plan are not exceeded. 3 THE WITNESS: I apologize. I'm still 4 4 Q. Okay. One of the assumptions in your not getting your question. 5 5 forecasts for the next 10 and 40 years, the City BY MR. SMITH: 6 6 will not embark on any new initiatives to increase Q. Okay. 7 7 revenues further or decrease costs; correct? A. If you could rephrase it, it might make 8 A. Can you run that by me again, please? 8 it easier for me. 9 9 Q. Okay. One of the assumptions in your Q. One of your assumptions is that new 10 10 forecast is that during the next 10 and 40 years, initiatives -- new initiatives developed within 11 the City won't implement initiatives to increase 11 the next 10 years will not increase revenue above 12 revenues or decrease costs above and beyond the 12 your projections; correct? 13 13 reinvestment initiatives; correct? A. No, that's not correct. 14 A. I just want to be specific. Like, for 14 Q. Okay. How does -- so you agree that 15 instance, asset sales, like of parking or water 15 revenue may be increased above your projections in 16 16 and sewer, are not included in this forecast. So the next 10 years? 17 17 if the City continues to embark upon an asset A. No, I did not say that. I am saying 18 18 that revenue initiatives are based on the plan. sales program, those could be additive to what's 19 19 mentioned, what's highlighted in the assumptions Doesn't mean the City stops working towards new 20 20 initiatives. The City could work towards new here. 21 Q. And as a general matter, any new revenue 21 initiatives. That could -- those could replace or 22 22 initiatives or cost-reduction initiatives in the augment the existing -- the existing initiatives 23 23 next 10 or 40 years would have to be added on to that are already in the plan.

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I can't say with -- in a definitive

manner that new initiatives will be incremental to

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your projections; correct?

A. No. It could -- I'm sorry. Go ahead.

1	Page 301		Page 303
1	MALHOTRA	1	MALHOTRA
2	what's in the plan or not.	2	same question again and again and he's given
3	Q. Okay. So you agree that new initiatives	3	you the answer. You're not allowed to keep
4	may increase revenues above what you've projected?	4	doing that. I haven't objected to
5	A. So as I've said this now I'm getting	5	MR. SMITH: So you're saying I can't ask
6	tired. So	6	the question.
7	If you change the assumptions and you	7	(Simultaneous cross-talk.)
8	leave everything else the same, if you add more	8	MR. STEWART: It is really abuse.
9	revenue, it will result in a different answer.	9	MR. SMITH: It's not abusive.
10	Q. I mean, and your example of asset sales	10	MR. STEWART: It is abusive, and it's
11	is kind of what I'm getting at, but it's not just	11	improper.
12	the privatizations. I'm trying to get at a more	12	MR. SMITH: So you're saying
13	general point. If there are new estate sales that	13	MR. STEWART: You've asked this five
14	- '	14	times, six times. Just let's find the
15	could you're assuming there won't be new asset sales above what what you've already assumed in	15	
16		16	answer. We're going to reread it.
17	the plan; correct? A. That is correct.		And when you reread it, Madam
		17	Reporter
18	Q. Okay. And so, more generally, you're	18	MR. SMITH: Let's go off the record.
19	assuming there won't be new initiatives that	19	MR. STEWART: retype it into the
20	increase revenue above what you've projected in	20	record.
21	the forecast currently; correct?	21	MR. SMITH: Let's go off the record, and
22	MR. STEWART: Objection.	22	you can have her look off the record. But
23	THE WITNESS: Same question you've asked	23	it's not going to count on my time.
24	me earlier, and my response remains the same	24	MR. STEWART: Okay. Then ask your next
25	as earlier.	25	question.
	Page 302		Page 304
1	MALHOTRA	1	MALHOTRA
2	BY MR. SMITH:	2	MR. SMITH: Are you directing him not to
3	Q. Okay. And what was the response?	3	answer the question
4	MR. STEWART: It's in the record. He's	4	MR. STEWART: He just answered the
5	not going to repeat you've asked him this,	5	question.
6	I believe.	6	MR. SMITH: He didn't answer.
7	MR. SMITH: No, I think he has answered.	7	MR. STEWART: Yes, he did.
8	MR. STEWART: Well, I'm going to ask the	8	Reread his last answer.
	reporter to find the question and read his	0	
9	1	9	MR. SMITH: His answer was "I've already
9 10	answer. If you want to repeat it, this will	10	MR. SMITH: His answer was "I've already answered."
	·		· 1
10	answer. If you want to repeat it, this will	10	answered."
10 11	answer. If you want to repeat it, this will come from the record. It's not	10 11	answered." MR. STEWART: That was his answer.
10 11 12	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not	10 11 12	answered." MR. STEWART: That was his answer. MR. SMITH: Okay.
10 11 12 13	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer.	10 11 12 13	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH:
10 11 12 13 14	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing	10 11 12 13 14	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue
10 11 12 13 14 15	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing MR. SMITH: I just want to	10 11 12 13 14 15	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue initiatives different from those that are in the
10 11 12 13 14 15	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing MR. SMITH: I just want to MR. STEWART: Please don't interrupt. I	10 11 12 13 14 15	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue initiatives different from those that are in the reinvestment plan; correct?
10 11 12 13 14 15 16	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing MR. SMITH: I just want to MR. STEWART: Please don't interrupt. I don't interrupt you.	10 11 12 13 14 15 16	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue initiatives different from those that are in the reinvestment plan; correct? A. That is correct.
10 11 12 13 14 15 16 17	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing MR. SMITH: I just want to MR. STEWART: Please don't interrupt. I don't interrupt you. MR. SMITH: Yes, you do.	10 11 12 13 14 15 16 17	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue initiatives different from those that are in the reinvestment plan; correct? A. That is correct. Q. Okay. And so your plan is essentially
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10 11 12 13 14 15 16 17 18 19	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing MR. SMITH: I just want to MR. STEWART: Please don't interrupt. I don't interrupt you. MR. SMITH: Yes, you do. MR. STEWART: Please don't interrupt me. I'd like the reporter to find that	10 11 12 13 14 15 16 17 18 19 20	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue initiatives different from those that are in the reinvestment plan; correct? A. That is correct. Q. Okay. And so your plan is essentially assuming that the revenue initiatives that are in the reinvestment plan will continue for 10 years;
10 11 12 13 14 15 16 17 18 19 20 21	answer. If you want to repeat it, this will come from the record. It's not MR. SMITH: So you're directing him not to answer. MR. STEWART: No, I'm directing MR. SMITH: I just want to MR. STEWART: Please don't interrupt. I don't interrupt you. MR. SMITH: Yes, you do. MR. STEWART: Please don't interrupt me. I'd like the reporter to find that question before and reread the answer since	10 11 12 13 14 15 16 17 18 19 20 21	answered." MR. STEWART: That was his answer. MR. SMITH: Okay. BY MR. SMITH: Q. Your forecast doesn't include revenue initiatives different from those that are in the reinvestment plan; correct? A. That is correct. Q. Okay. And so your plan is essentially assuming that the revenue initiatives that are in the reinvestment plan will continue for 10 years; correct?
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Pages 301 to 304

Page 307 Page 305 1 **MALHOTRA** 1 **MALHOTRA** 2 A. No. 2 correct? 3 Q. So there could be new initiatives that 3 A. It depends on if all the other items 4 4 remain the same and the City achieves all of its increase revenues above your projections; correct? 5 A. If there are new revenues and everything 5 revenue estimates already and if there is a new 6 6 else remains the same, everything else remains the initiative on top of that. So everything else has 7 7 to remain the same in order for that statement to same, it would be new increment -- if there's new 8 8 incremental revenues, the data would be different. be correct. 9 What I'm trying to say is the City --9 So that's the only way I can answer it, 10 when you say the new initiatives will result in 10 is you're asking if there's going to be a new 11 11 new revenues, that's not correct. That's because revenue initiative to increase more revenues; and 12 12 new initiatives may further augment and support my answer is, no, not necessarily, because new 13 the initiatives that are already in here to get 13 initiatives could replace existing initiatives and 14 14 the revenue that the City is projecting. It's not still yield the same amount of revenue. 15 15 just newfound incremental revenue. Q. And I'm -- you're -- one of the 16 Q. And my point is you're assuming that 16 assumptions in your model is new initiatives won't 17 there won't be new initiatives that provide 17 yield additional revenue over the next 10 or 40 18 incremental revenue; correct? 18 years; correct? 19 A. My point -- my point is that the 19 MR. STEWART: Objection. 20 2.0 THE WITNESS: I've said no to that -assumptions that are in here reflect the 21 21 initiatives that are in here. If everything else I've said no to that. 22 22 remains the same and all you do is you say that BY MR. SMITH: 23 23 let's assume there is a new revenue item, that Q. I guess I'm trying to figure out how you 24 24 would be a new assumption; that will result in can say no to that. 25 more revenue, assuming all the other initiatives 25 A. Well, if you --Page 306 Page 308 1 **MALHOTRA** 1 MALHOTRA 2 and all the other assumptions are exactly the same 2 MR. STEWART: That's not a question. 3 and the City has already accomplished the revenue 3 MR. SMITH: Yes, I --4 items that are laid out in its investment plan. 4 MR. STEWART: No, it isn't. That's not 5 Q. So you are assuming that there won't be 5 a question. 6 new revenue initiatives that augment the revenue 6 MR. SMITH: Stop interrupting. You 7 above and beyond what you've projected; correct? 7 really are obstructing the deposition --8 A. We have not assumed any asset sales from 8 MR. STEWART: Let's call the judge. 9 DWSD and public parking in these projections. If 9 MR. SMITH: -- and smirking. 10 10 that is what you're referring to, that is correct, MR. STEWART: Let's call the judge. 11 if you are not referring to those discrete asset 11 MR. SMITH: You're just --12 sales in these projections. 12 MR. STEWART: Let's get him on the 13 13 Q. And there are other initiatives other phone. I'm going to have the reporter read 14 than those two that the City might develop in the 14 these questions. And I'm going to move for 15 next 10 or 40 years that could lead to incremental 15 sanctions against you. 16 MR. SMITH: Okay. Let's -revenues; correct? 16 17 17 MR. STEWART: Objection; asked and MR. STEWART: You keep pushing and 18 18 you'll wish you hadn't. 19 THE WITNESS: Could you repeat that 19 MR. SMITH: There's no basis. 20 20 again, please. MR. STEWART: You wait. You just wait. 21 BY MR. SMITH: 21 Now, what's your next question? 22 Q. There are other initiatives other than 22 BY MR. SMITH: 23 23 the parking and the DWSD that you mentioned that Q. The City could get new grants that add 24 could -- the City might develop within the next 10 24 incremental money in the next 10 or 40 years; 25 or 40 years that could add incremental revenues; 25 correct?

Pages 305 to 308

Page 309 Page 311 1 **MALHOTRA** 1 **MALHOTRA** 2 A. It depends if the City has to increase 2 would yield, the math would yield. 3 3 the expenses in order to get those grant moneys. Q. And what was the discussion? 4 4 Q. Okay. The City could get new grants A. The hundreds of millions of dollars that 5 that provide more revenue than expenses over the 5 the City would lose in terms of lowering tax 6 6 next 10 or 40 years; correct? 7 7 A. That -- if there is a net additional of Q. What were the tax rate reductions that 8 overall proceeds and everything else remains the 8 the City was considering? 9 same, that would result in more proceeds. I mean, 9 A. I do not know the City was considering 10 10 it's -- A, the grants then have to service more any specific reductions. These were discussions 11 11 costs, more than the costs that have been or overall scenarios that the City was just -- and 12 12 incurred; and, B, everything else has to remain EY were talking about. But, again, these were 13 exactly the same in order for there to be more 13 policy decisions that we were not involved in. 14 14 But we looked at -- sorry. Go ahead. money. 15 15 MR. SMITH: Why don't we take a break. Q. No. Go ahead. Go ahead. 16 THE VIDEOGRAPHER: We are going off the 16 A. All I was saying is we looked at what 17 17 record at 4:32. the, at least the short-term impact would be if 18 18 (Short break taken.) any of the tax rates for the City had to be 19 THE VIDEOGRAPHER: We are back on the 19 lowered further. 20 20 record at 4:39. Q. But you said you were calculating 21 21 BY MR. SMITH: hundreds of millions of dollars in revenue losses Q. Mr. Malhotra, do you have the disclosure 22 22 from tax rate reductions. I'm just wondering what 23 23 statement there in your exhibits? rates you were looking at when you were doing that 24 24 A. Yes, I do. kind of analysis. 25 Q. If you look at Page 168. 25 A. I do not have that handy, but it would Page 310 Page 312 1 MALHOTRA 1 MALHOTRA 2 A. 168 of 197? be if you were to get the taxes in line with the 3 Q. No, 168 of -- the page number in the 3 suburbs or if you were to, I think, reduce the 4 4 middle of the page. There is a section entitled 2.4 percent income tax rate on city residents down 5 5 "Rationalization of Nominal Tax Rates." to 1.2. It was somewhere in that neighborhood. 6 6 Do you see that? Q. And when was -- were you calculating 7 7 A. I do. that these tax rate reductions would occur? 8 Q. And in the middle of the first 8 A. We did not have any specific timeline, 9 9 paragraph, there's a sentence that says [reading]: but it was sort of an annualized impact of showing 10 10 The City is considering the possibility of what the impact would be of the reduced taxes. 11 lowering selected income and property tax rates to 11 Q. And when did you do that analysis? 12 levels that are competitive with surrounding 12 A. I would say sometime in the last year 13 13 or -- is when we would have looked at it. localities in order to reverse the City's 14 14 population decline, foster job growth and expand Q. Who did you interact with with respect 15 the overall tax base. 15 to that analysis? 16 16 Do you see that? A. Bob Cline and Kevyn Orr. 17 17 Q. And why was the City looking at reducing A. Yes, I do. 18 Q. Does your forecast incorporate tax --18 19 19 tax rate reductions? A. I don't know if the City was looking to. 20 20 A. No, it does not. The City wanted to just have an understanding of 21 Q. Have you had any discussions with the 21 what the magnitude was, because the City, as we've 22 22 City about reducing tax rates? discussed earlier, is on the higher, if not the 23 23 A. We had some discussions with the City on highest, level in terms of what the City's tax 24 24 the impact of lowering tax rates in terms of what rates are and if that has been a driver of the 25 25 the math would yield, in terms of what the numbers ongoing population decline and has resulted in the

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Page 315 Page 313 1 **MALHOTRA** 1 **MALHOTRA** 2 population decline. 2 A. I have not. 3 And so if the tax rates were lowered, if 3 Q. Okay. I wanted to ask you about Page 4. 4 the City's position gets more competitive or not, 4 You see that it says -- you on Page 4 now? 5 I think that's sort of the impetus behind looking 5 A. I am. 6 6 at or considering this --Q. Do you see that it says at the top of 7 7 Q. So the tax rate reduction is something the page, "Since 2006 the district has been faced 8 the City was contemplating would occur after the 8 with budgetary and financial challenges"? 9 bankruptcy? 9 Is that consistent with your 10 A. No, not that -- A, the City was not 10 understanding? 11 contemplating. The City wanted to understand what 11 A. I cannot provide context in 2006. 12 the impact was. I don't think the City was 12 Q. It says the general fund deficit has 13 contemplating anything with respect to a reduced 13 ranged from as high as 327 million to a low of 14 income tax. 14 76.5 million. 15 Q. How much time did you spend doing that 15 Do you see that? 16 analysis? 16 A. I see that's what it says on this page, 17 A. I have to go back and look. My guess is 17 18 it was a very short discussion. Very, very short. 18 Q. And then the next paragraph says, "We 19 Q. You didn't do anything -- any analysis 19 are in line to eliminate the legacy deficit and 20 20 showing that decreasing property tax rates would show a positive fund balance by the conclusion of 21 21 increase population; correct? the 2017 to '18 fiscal year. There has been 22 22 A. I would have to defer to Bob Cline strong progress." 23 23 whether he looked at any of that or not. But Do you see that's the report of the 24 overall, just the magnitude of lowering any income 24 public school system? 25 taxes for the City was so dramatic that it was a 25 A. That's what it says. Page 314 Page 316 1 **MALHOTRA MALHOTRA** 1 2 very, very short discussion with Kevyn Orr. Q. And then it goes on to say that the 3 Q. Okay. So the City, based on your 3 Detroit Public Schools has reduced costs by over 4 4 interaction with them, has concluded that it would 225 million. 5 5 not be feasible to reduce tax rates, given the Do you see that? 6 6 A. I see that. revenue loss? 7 7 A. I would say that's a policy question. I Q. And then it says, "There has been 8 can't tell you that there are no assumptions in substantial financial and operational progress 9 9 the forecast that contemplate a tax reduction in confirmed by external reviews as evidenced by this 10 10 either the 10 years or the 40 years. past year's action by the United States Department 11 Q. I'm just wondering why it's still in the 11 of Education to remove the district from high-risk 12 12 status as well as a resolution of 53 million in plan that they're talking about that. 13 13 audit findings and a sharp reduction in audit A. Yeah. I do not know actually. That's 14 something that we can probably look into. 14 findings from 84 to 9." 15 15 MR. SMITH: Okay. I want to hand you Do you see that? 16 16 what I'll mark as Exhibit 10, which is the A. I see that. 17 17 Detroit Public Schools fiscal year 2015 Q. I mean, I think you know that the 18 18 proposed budget. Detroit Public Schools has been under the 19 (Exhibit Malhotra-10 was marked for 19 supervision of an emergency manager; correct? 20 20 identification.) A. That is correct. 21 BY MR. SMITH: 21 Q. And you know that the Detroit Public 22 22 Q. You got that in front of you? Schools have engaged in millions of dollars of 23 23 A. I do. cost reductions; correct? 24 24 Q. Have you had a chance to review this A. You have to look at cost reductions as 25 25 document at all? whether they're grant-funded costs or they're not

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Page 319 Page 317 1 **MALHOTRA** 1 **MALHOTRA** 2 grant-funded costs. I don't want to comment upon 2 practice, in what context? 3 3 overall cost reductions for the district. A. Well, when I've been in this seat 4 4 Q. Do you agree that the Detroit Public getting deposed. 5 School System has improved its fiscal situation 5 Q. Do you have any training programs or 6 6 over the last few years? anything like that for depositions or working as 7 7 A. I thought I answered that earlier. an expert witness at Ernst & Young? 8 This is what their report says. But I 8 A. I do not know. 9 am not willing to -- I do not know specifically. 9 MR. SMITH: Why don't we take a break --10 And I do not -- Detroit Public Schools has faced 10 before we take a break, though, and go off 11 the same challenge -- has faced similar 11 the record, Geoff, one thing is I wanted to 12 12 challenges, but I do not know if their overall just request on the record that those 13 financial profile is that much better or not. 13 documents relating to the five-year 14 Q. The Detroit Public Schools, though, you 14 projections that Mr. Malhotra mentioned be 15 recognized and reported that they have improved 15 produced. 16 their fiscal situation; correct? 16 MR. STEWART: Let me take it under 17 17 A. That's what it says on this page. If advisement. I don't know that they haven't 18 you want, I can look at some pages at the numbers 18 already been produced. But we'll -- we'll 19 further back that will show that the deficit has 19 see what we can do. 20 20 continued to increase at Detroit Public Schools, MR. SMITH: Okay. Let me just ask one 21 21 which is on Page 23. or two other questions. 22 22 Q. Okay. The Detroit Public Schools, you BY MR. SMITH: 23 23 say, face similar challenges to the City of Q. You don't -- do you recall anything 24 Detroit; is that correct? 24 about what the methodology was in the five-year 25 A. They've faced a reduction in student 25 projections or not, sitting here today? Page 318 Page 320 1 **MALHOTRA** 1 MALHOTRA 2 2 count. Detroit has faced a reduction in A. Yeah. They were generally 3 3 population. They're sort of related from that extrapolations. We did not go into a lot of depth 4 4 context. at that point in time on the five years. They 5 5 were general extrapolations. But we started Q. And the City and public schools receive 6 6 revenue from some of the same sources, such as building -- started building up the -- modeling up 7 7 property taxes; correct? in a much more detailed manner and -- for 10 8 years. So I do not know of anything specific, but A. Yes, although the schools have a 9 9 it was just general extrapolations. They weren't specific millage associated with it. But, yes, 10 10 they are -- they have the same working capital very detailed. 11 cycle in terms of when the property taxes are 11 Q. Were the five-year -- was the five-year 12 12 collected. forecast, was that model the basis for the later 13 13 Q. Do you have any idea why in-house 10-year forecast or was it a different model? 14 counsel for Ernst & Young is on the phone today? 14 A. No. The ten-year was a different model, 15 MR. STEWART: You can answer that, but 15 because we started getting into a lot more detail 16 16 in terms of revenue estimates and so on and so don't reveal privileged information. In 17 17 other words, nothing you said with the forth that we did not have earlier. 18 18 lawyer, including in-house counsel, can be Q. To recall the five-year forecast and 19 conveyed in response to the question. 19 what was done, would you have to refer back to 20 20 THE WITNESS: Marg is it on the phone documents relating to the five-year forecast? 21 with us all the time when it comes to these 21 A. Yes, I would. 22 22 issues. So my guess is it's customary Q. You can't provide me with any other 23 23 information about it right now? practice. 24 24 BY MR. SMITH: A. Not as of now. 25 25 Q. Right. When you say it's customary MR. SMITH: Thanks. Now we can go off

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Page 323 Page 321 1 **MALHOTRA** 1 **MALHOTRA** 2 2 the record. forward? 3 THE VIDEOGRAPHER: Going off the record 3 A. They're based on what the estimated of 4 4 the UAAL is at 2023, yes. at 4:53. 5 5 Q. And is it correct that the -- the City's (Discussion off the record.) 6 6 THE VIDEOGRAPHER: Back on the record at contributions to these pension claimants is based 7 7 on the amount that's necessary to provide those 4:55. 8 8 **EXAMINATION** claimants with the adjusted pension amounts set 9 9 BY MS. DiBLASI: forth in the Chapter 9 plan? 10 10 Q. Good afternoon, Mr. Malhotra. My name A. You have to repeat that question. 11 11 Q. Is it correct that the City's is Kelly DiBlasi. I'm an attorney for FGIC, and I 12 12 just have some follow-up questions for you. contributions to the pension claimants are based 13 Your 10- and 40-year projections were 13 on the amount that would be necessary to provide 14 them with the adjusted pension amounts set forth 14 calculated using claim amounts for the PFRS and GRS that are set forth in the plan of adjustment; 15 15 in the plan? 16 16 A. Over the first 10 years, the amount of 17 A. Yes. For what, PFRS OPEB or PFRS 17 contributions that are in the plan are consistent 18 pension? 18 with the settlements that have been reached with 19 O. Pension. 19 the retiree committee and the retirement systems. 20 20 A. Yes. The amounts are laid out in the Q. For the first 10 years, you said? 21 21 A. That is correct. After that, the City plan of adjustment, and they're based on 22 has to -- is on the hook for funding the UAAL that 22 information we received from Milliman. 23 23 Q. A portion of the funds to be distributed exists at the end of 2023. 24 Q. Okay. 2.4 to holders of PFRS pension claims and GRS pension 25 claims comes from the foundations, the DIA Corp. 25 And those contributions will come out of Page 322 Page 324 1 MALHOTRA 1 **MALHOTRA** 2 and the State of Michigan; correct? the general fund: correct? 3 3 A. I'm sorry. Which contributions? 4 4 Q. And then beginning in 2023, the City is Q. I'm sorry. The City contributions to 5 obligated to start contributing to those claim the pension to fund the UAAL after 2023 will come 6 6 out of the general fund; correct? 7 7 A. The City is making some contributions A. The City contributions after 2023 in 8 even prior to 2023 to the GRS. But post 2023, the 8 addition to the third-party funding that is 9 9 City has to -- is responsible for the amortization available for the City will come from the general 10 10 of the UAAL that exists at 2023. fund. 11 Q. And can you explain what the UAAL is. 11 Q. Have you analyzed the -- have you 12 A. I'm sorry. I'm sorry. Let me just --12 prepared alternative forecasts in a scenario where 13 13 in addition -- the City is responsible for the the UAAL is greater than you've projected in the 14 amounts after 2023. In addition to, there are 14 existing forecasts as a result of the pension 15 still some proceeds that are going to continue to 15 funds having to disgorge the proceeds of the COPs 16 come from third parties in the second decade that 16 transaction? 17 17 will be going to pensions. So I just wanted to A. Could you ask me that again. It's a 18 18 make that clear. long question, and I'm tired. 19 19 Q. Understood. Q. I understand. 20 20 You mentioned the phrase "UAAL." Can You testified earlier that you've run 21 you please explain what that means. 21 your projections, changing the assumptions and --22 22 A. It's the unfunded actuarial assumed you've run them, I think you said, lots of times 23 23 liability. using different assumptions plugged into the 24 24 Q. Do your projections rely on an model; correct? 25 25 assumption as to what the UAAL will be going A. That's right.

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Page 327 Page 325 1 **MALHOTRA** 1 **MALHOTRA** 2 2 expenditures? Q. Okay. Have you ever run an alternative 3 3 scenario where you've changed the assumption for A. That's -- that's correct, based on the 4 4 assumptions of the legacy expenditures that were the UAAL and the basis for that change is a 5 in there and the reinvestment costs are added on disgorgement by the pension plans of the proceeds 6 6 of the COPs transactions? separately, that those -- those were the broad 7 7 assumptions. A. I have not run a scenario like that. 8 8 Q. Why not? Q. The assumptions for the legacy 9 9 A. We have not been requested to run that expenditures in the base-case scenario are the 10 10 scenario. full amount of those legacy costs; correct? 11 11 A. I would have to look at each one Q. Do you know why you've not been 12 12 individually. But for OPEB, it's the requested? 13 A. No. 13 unrestructured costs, for instance, and the same 14 14 thing for the COPs. Excuse me. Q. Do you -- what do you think would happen 15 15 There were some varying assumptions on in that type of a scenario? 16 MR. STEWART: Objection. 16 the pension, is -- were the assumptions for the 17 THE WITNESS: I don't want to speculate. 17 legacy liabilities. 18 18 I would have to spend a lot of time thinking Q. Okay. So just to be clear -- and I 19 through that. 19 think you used the word "unrestructured." They're 20 the unrestructured, nonrestructured legacy 20 BY MS. DiBLASI: 21 21 obligations? Q. Do you have even a directional sense for 22 22 whether the City in that scenario would be able to A. Yes, that is generally correct. Like I 23 23 fund its pension contribution obligations? said, there have been some changes for pension. 24 24 But most -- I would say predominantly those costs A. Pension contributions as of when? 25 25 were the pre-bankruptcy filing run rate. Q. Beginning in 2023. Page 326 Page 328 1 MALHOTRA 1 MALHOTRA 2 2 A. If the UAAL at the end of 2023 were Q. Have you run an alternative base-case 3 higher than what we have currently estimated based 3 scenario -- excuse me. Let me restart. 4 4 on the information from Milliman, based on the Your base-case scenario assumes that the 5 5 same assumptions, the amount of funding required City pays those legacy expenditures as in when 6 from the City would be higher. 6 they come due; correct? 7 7 Q. Would the City be able to pay that A. Yes. 8 higher amount? 8 Q. Have you run an alternative base-case 9 9 A. What higher amount? scenario where you assume the full amount of those 10 10 Q. What you've just described, a situation same legacy expenditures are owed but you make 11 where the UAAL is higher beginning in 2023; and, 11 different assumptions about the timing for the 12 therefore, the City's contributions are higher 12 City's payments of those legacy expenditures? 13 13 than you've currently forecasted. A. No. 14 A. It depends on how much higher. 14 Q. Why not? 15 Q. You testified earlier about the -- I 15 A. We haven't been asked to do so, and 16 16 think you referred to it as the base-case scenario it's -- it's similar to what the City has been 17 in your 10-year projections. Do you recall that? 17 doing historically, is pushing off not making 18 Do you know what I'm talking about when I refer to 18 legacy payments when they come due in order to 19 19 the base-case scenario? fund operations. 20 20 A. Yes, I know what you're talking about. Q. So you haven't run an alternative 21 Q. Okay. And am I correct in understanding 21 base-case scenario where the City for some period 22 22 that this base-case scenario shows the forecast was forbearing from paying some portion of those 23 23 for the general fund for the next 10 years, legacy expenditures? Correct? 24 24 assuming that the City pays all of its projected A. Not that I can recall. And things like 25 25 operating expenses as well as the legacy pension, if the City is not contributing towards

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Page 331 Page 329 1 **MALHOTRA** 1 **MALHOTRA** 2 pension, it's just making a situation worse, 2 So I'm just making sure we're on the 3 because the plans continue to deplete assets and 3 same page here. 4 4 the position of the funds continues to get worse Have you run an alternative 40-year 5 and worse. 5 forecast that provided for a different treatment 6 6 Q. Does your base-case scenario include any of the art than what is currently contemplated by 7 assumptions regarding asset sales by the City? 7 what's referred to as the grand bargain? 8 A. Not -- I mean, just things like a 8 A. No. 9 building and the typical asset sales that continue 9 Q. Why not? 10 in normal course, but nothing substantive like 10 A. We weren't asked to do so. 11 DWSD or the parking system. 11 Q. Do you know why you were not asked to do 12 Q. How about art? 12 so? 13 A. No. 13 A. No. 14 Q. Have you run alternative versions of the 14 Q. Have you ever considered the impact on 15 the City's revenues if the DIA museum was closed? base-case scenario that include an assumption 15 16 regarding a sale of DWSD or parking or art? 16 A. No. 17 A. We have not run a scenario with parking 17 Q. Have you ever considered the impact on 18 or art. 18 the City's revenues if the DIA art collection was 19 Regarding DWSD, we did run a scenario a 19 20 20 long time ago -- and I can't remember when -- or a A. No. 21 few months ago, in which we were looking at a DWSD 21 Q. Have you ever considered the impact on 22 lease scenario versus not. So that's the only 22 the City's revenues if the art collection was 23 thing that comes to mind for DWSD. 23 removed from the City of Detroit? 24 Q. In the 40-year projections, you 24 A. No. 25 summarize the hypothetical distributions to 25 Q. Earlier you testified in response to one Page 330 Page 332 1 **MALHOTRA** 1 **MALHOTRA** 2 creditors. And you've included a present-value of Mr. Smith's questions about your expert report 3 calculation using a 5 percent discount rate; 3 that if the City reaches more settlements, you 4 4 correct? expect to update your forecast, is that correct? 5 5 A. That is correct. A. Yes; if the settlements change the 6 Q. What's the basis for using 5 percent? 6 forecast in any way. 7 7 A. We looked at a couple of items in terms Q. Putting that aside, is there any 8 of what the average interest rate was on the LTGO 8 additional work or changes that you expect to make 9 9 debt outstanding of the City; looked at the to your forecasts? 10 10 long-term interest rates on AA-rated municipal A. Not as of yet that comes to mind. We do 11 bonds; and then had discussions with the Miller 11 not have an updated version since the July 2nd 12 Buckfire team to ascertain whether they were 12 update. 13 13 reasonable or not. Q. A few minutes ago we were talking about 14 Q. Will you be testifying about the -- as 14 alternative base-case scenarios where you assumed 15 an expert about the reasonableness of that 15 different treatment of assets, and you testified 16 16 that you did run an alternative scenario where you 5 percent discount rate? 17 A. I don't know. I would have to check, 17 assumed that there was a lease for DWSD. 18 but I've had discussions with Ken Buckfire and Jim 18 Do you recall that? 19 19 Doak on that, so I would have to go back and A. Yes. It was done -- I don't know if it 20 20 check. was just the base-case scenario or if it was a 21 Q. We spoke previously about alternative 21 base-case including the restructuring scenario. 22 22 formulations of the base-case scenario. I now And my recollection is it was a base case plus the 23 23 want to shift the focus a little bit and talk restructuring investments if what could -- what 24 24 about potential alternative versions of the could potentially happen if there was a DWSD 25 25 40-year forecast. transaction.

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	Page 333		Page 335
1	MALHOTRA	1	MALHOTRA
2	Q. How much annual revenue did you assume	2	CERTIFICATION
3	could be derived from that DWSD leasing	3	I hereby certify that I have read the
4	transaction?	4	foregoing transcript of my deposition testimony,
5	A. This is a few months ago. I think at	5	and that my answers to the questions propounded,
6	that point in time the scenario was roughly a	6	with the attached corrections or changes, if any,
7	\$47 million lease payment annually, but I would	7	are true and correct.
8	have to go back and check.	8	
9	Q. Do you know if those if that	0	CALIDAY MALLIOTDA
10	alternative scenario was produced?	9 10	GAURAV MALHOTRA
11	A. I believe it would have been produced.	10	
12	I don't know. I don't I haven't seen the few	11 12	
13	documents that have been produced. But my guess	13	
14	is they were circulated with the advisers	14	
15	potentially, but I have to go back and look.	15	
16	MS. DiBLASI: Geoff, we'll check. And	16	
17	if we're not able to find it, we'll come back	17	
18	to you.	18	
19	MR. STEWART: Give me a call.	19	
20	MS. DiBLASI: Just one moment, please.	20	
21	BY MS. DiBLASI:	21	
22	Q. Do you think that upon emergence from	22	
23	the Chapter 9 bankruptcy case, Detroit will be	23	
24	AA-rated will be a AA-rated credit?	24	
25	A. I do not know. I think that that's	25	
	Page 334		Page 336
1	MALHOTRA	1	MALHOTRA
2	something I would let Ken respond to.	2	CERTIFICATE OF SHORTHAND REPORTER
3	Q. And when you considered the	3	CERTIFICATE OF SHORTHAND REPORTER
4	appropriateness of a 5 percent discount rate for	4	I, Gail Inghram Verbano, Registered
5	present-valuing creditor distributions, did you	5	Diplomate Reporter, Certified Realtime Reporter,
6	look at the LTGO interest rates or did you look at	6	Certified Shorthand Reporter (CA) and Notary
7	their yields?	7	Public, the officer before whom the foregoing
8	A. I can go back and check. I thought we	8	proceedings were taken, do hereby certify that the
9	looked at the LTGO interest rates.	9	foregoing transcript is a true and correct record
10	Q. Is the B note an LTGO bond?	10	of the proceedings; that said proceedings were
11	A. That's I cannot say. I don't think	11	taken by me stenographically and thereafter
12	it's an LTGO bond.	12	reduced to typewriting under my supervision; and
13	MS. DiBLASI: I have nothing further.	13	that I am neither counsel for, related to, nor
14	MR. STEWART: Anyone on the phone?	14	employed by any of the parties to this case and
15	MS. HUNGER: Does anyone on the phone	15	have no interest, financial or otherwise, in its
16	have any questions?	16	outcome.
17	MS. DiBLASI: We're done.	17	
18	MR. STEWART: I guess you're done.	18	
19	THE VIDEOGRAPHER: This concludes the	19	
20	video deposition at 5:15 p.m. Going off the	20	0.11.1.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2
21	record.	0.7	Gail Inghram Verbano, CSR, RDR, CRR
22		21	CA-CSR No. 8635
23	(Videotaped deposition concluded at	22	
24	5:15 p.m.)	23	
25		24	
⊿3		25	

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EXHIBIT 8

Kopacz Deposition Transcript

Page 3 Page 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-IN THE UNITED STATES BANKRUPTCY COURT 2 ALFREDO R. PEREZ, ESQ. FOR THE EASTERN DISTRICT OF MICHIGAN 3 Weil, Gotshal & Manges, LLP 4 700 Louisiana Street, Suite 1700 5 Houston, Texas 77002 6 Appearing on behalf of Financial Guaranty In Re) Chapter 9 7 **Insurance Company** 8 9 CITY of DETROIT, MICHIGAN,) Case No. 13-53846 LISA SCHAPIRA, ESQ. 10 Chadbourne & Parke, LLP Debtor.) Hon. Steven Rhodes 11 30 Rockefeller Plaza New York, New York 10112 12 13 Appearing on behalf of Assured Guaranty DATE: July 31, 2014 14 **Municipal Corporation** TIME: 9:12 a.m. 15 SHANNON L. DEEBY, ESQ. 16 VOLUME 1 17 Clark Hill, PLC VIDEOTAPED DEPOSITION OF MARTI 18 151 South Old Woodward Avenue KOPACZ, held at the offices of Squire Patton 19 Suite 200 Boggs, 30 Rockefeller Plaza, New York, New York, 20 Birmingham, Michigan 48009 pursuant to Order, before Hope Menaker, a 21 Appearing on behalf of the Retirement Systems Shorthand Reporter and Notary Public of the State 22 for the City of Detroit of New York. 23 24 25 Page 2 Page 4 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 APPEARANCES 2 JENNIFER K. GREEN, ESQ. (Via Telephone) 3 3 GEOFFREY S. STEWART, ESQ. Clark Hill, PLC 500 Woodward Avenue, Suite 3500 4 CHRISTOPHER DiPOMPEO, ESQ. 4 5 5 ALEXANDER BLANCHARD, ESQ. Detroit, Michigan 48226 б 6 Appearing on behalf of the Retirement Systems Jones Day 7 7 51 Louisiana Avenue, N.W. for The City of Detroit 8 8 Washington, D.C. 20001 9 Appearing on behalf of the Debtor 9 SAM J. ALBERTS, ESQ. 10 10 Dentons US, LLP 11 STEPHEN C. HACKNEY, ESO. 11 1301 K Street, N.W. 12 Kirkland & Ellis, LLP 12 Suite 600, East Tower 13 300 North LaSalle Street 13 Washington, D.C. 20005 14 14 Chicago, Illinois 60654 Appearing on behalf of the Retiree Committee 15 Appearing on behalf of Syncora 15 16 16 17 KATHLEEN HITCHINS, ESQ. 17 ALLAN S. BRILLIANT, ESQ. 18 Sidley Austin, LLP 18 Dechert 1501 K Street, N.W. 1095 Avenue of the Americas 19 19 20 Washington, D.C. 20005 20 New York, New York 10036 21 Appearing on behalf of National Public Financing 21 Appearing on behalf of Macomb County 22 22 23 23 2.4 24 25 25

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1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	- MAKII KOI ACZ - VOLUME I-	2	THE VIDEOGRAPHER: Good morning.
3	OLGA KOGAN, ESQ. (Via telephone)	3	We're now on the record.
4	Davis Polk & Wardwell LLP	4	The date is July 31st, 2014, and the
5	450 Lexington Avenue	5	time is approximately 9:12 a.m. We are
6	New York, New York 10017	6	located at the offices of Squire Patton
7	·	7	Boggs, 30 Rockefeller Center, New York, New
1	Appearing on behalf of Merrill Lynch		York.
8		8 9	
	HEATHED HUDDADD, ECO. (Via talanhana)	10	We are taking the deposition of Marti
10	HEATHER HUBBARD, ESQ. (Via telephone)		Kopacz In Re: City of Detroit bankruptcy,
11	Waller Lansden Dortch & Davis, LLP	11	U.S. Bankruptcy Court, Eastern District of
12	Nashville City Center	12	Michigan, Southern Division, Chapter 9, Case
13	511 Union Street	13	Number 13-53846.
14	Suite 2700	14	My name is Thomas Devine and I am the
15	Nashville, TN 37219	15	video specialist with Elisa Dreier Reporting.
16	Appearing on behalf of US Bank	16	The court reporter is Hope Menaker,
17		17	also with Elisa Dreier Reporting.
18	A GO PREGERE	18	At this time I would like to ask the
19	ALSO PRESENT:	19	attorneys to please introduce themselves for
20	Jochen Schmitz, Greenhill & Co. LLC	20	the video record. Please state your name,
21	Thomas Devine, Videographer	21	the firm with which you are affiliated and
22	Brian F. Gleason, Phoenix	22	whom you represent after which the court
23		23	reporter will swear in the witness, then we
24		24	may proceed.
25		25	MR. STEWART: I'll start. Geoffrey

2 (Pages 5 to 8)

Page 9 Page 11 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Stewart, Chris DiPompeo and Alex Blanchard of MR. STEWART: We need to set up the 3 Jones Day for the City of Detroit. 3 dialing. MR. HACKNEY: Steve Hackney of 4 4 THE VIDEOGRAPHER: Should I go off 5 Kirkland & Ellis for Syncora. 5 the record for a second? 6 6 MR. WAGNER: Jonathan Wagner, Kramer MR. STEWART: For one second while we 7 Levin Naftalis & Frankel representing the Ad 7 do that, yeah. 8 THE VIDEOGRAPHER: Okay. The time's 8 Hoc Holders 9:14. We're going off the record. 9 MR. PEREZ: Alfredo Perez, Weil, 9 10 (Whereupon, there was a brief recess 10 Gotshal & Manges, for Financial Guaranty 11 in the proceedings.) 11 Insurance Company. 12 MR. BRILLIANT: Allan Brilliant, MR. STEWART: Back on the record. 12 Dechert LLP, on behalf of Macomb County by 13 Hello. This is Marti Kopacz's deposition in 13 14 and through its public works commissioner --14 New York. Is anyone on the line? 15 Allan Brilliant, Dechert LLP, on behalf of Hi. This is Marti Kopacz's 15 16 deposition in New York. Is anyone on the 16 Macomb County by and through its Public Works 17 Commissioner, Anthony Marrocco, and on behalf 17 telephone line? 18 of Macomb Interceptor Grain Green District. 18 MS. KOGAN: Yes. 19 MS. DEEBY: Shannon Deeby of Clark 19 MR. STEWART: Okay. We're going to Hill on behalf of the General Retirement 20 go on the record, but why don't you just 20 21 System of the City of Detroit and the Police 21 state your name and spell it for the court 22 and Fire Retirement System of the City of 2.2 reporter? 23 23 MS. KOGAN: Sure. My name is Olga, Detroit. 24 O-L-G-A, Kogan, K-O-G-A-N, and I'm from Davis 24 MR. KANE: Scott Kane of Squire 25 Patton Boggs for the witness. 25 Polk on behalf of Merrill Lynch. Page 10 Page 12 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 MR. STEWART: Anyone else on the MR. LERNER: Peter Lerner of Squire 3 3 Patton Boggs for the witness. phone? 4 MR. GLEASON: I'm not an attorney. 4 MS. HUBBARD: Yes. Heather Hubbard, 5 5 MS. HITCHINS: Kathleen Hitchins with H-U-B-B-A-R-D, at Waller Lansden for U.S. 6 Sidley Austin, National Pub -- on behalf of 6 Bank. 7 7 National Public Finance Guaranty Corporation. 8 8 MS. SCHAPIRA: Lisa Schapira of THE VIDEOGRAPHER: Okay. I'm going 9 9 Chadbourne & Parke on behalf of Assured to bring us back on the record. Guaranty Muni Corp. 10 10 (Whereupon, a brief discussion was MS. QUADROZZI: Jaye Quadrozzi of 11 11 held off record.) 12 Young & Associates on behalf of Oakland 12 THE VIDEOGRAPHER: The time now is 13 13 9:18 a.m. and we're back on the record. County. 14 MR. STEWART: Okay. Swear the 14 MR. ALBERTS: Sam J. Alberts from 15 Dentons on behalf of the Official Committee 15 witness. 16 16 of Retirees. 17 THE VIDEOGRAPHER: Thank you. 17 MARTI KOPACZ, called as a witness, 18 MR. STEWART: Is there anyone on the 18 having been duly sworn on July 31, 2014, by a 19 phone? Is there anyone on the phone? 19 Notary Public, was examined and testified as 20 MR. KANE: No. I -- it seems --20 follows: 21 MR. LERNER: There were people who 21 22 22 indicated they were dialing in, but we 23 23 weren't responsible for setting up the call. **EXAMINATION BY MR. STEWART:** 24 24 So whoever -- whoever set the dial in, ought Good morning, Ms. Kopacz. Q. 25 to organize --25 Good morning.

Page 13 Page 15 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Q. I'm Geoffrey Stewart of Jones Day. A. This appears to be the order 3 We've met before, have we not? 3 appointing me as the expert witness. 4 4 Okay. Paragraph 2 of the order We have. 5 Good. I've got to ask you a couple 5 specifies what the Court has asked you to do, Q. б 6 of preliminary questions first of which is -correct? 7 could you, for the record, give us your name and 7 A. Yes, it does. 8 8 address? Q. And could you tell me what it is you 9 9 A. Martha, middle initial E, middle were instructed by the Court or asked by the Court 10 10 initial M, Kopacz. Address is 10 Post Office to do? Square, Suite N605, Boston, Massachusetts. 11 11 I was asked to investigate and reach 12 MR. STEWART: And let me mark as the 12 a conclusion on, A, whether the city plan is 13 13 feasible as required by 11 U.S.C. Section 943(b)(7), first exhibit a document entitled "Expert 14 Report of Martha E.M. Kopacz." 14 and, B, whether the assumptions that underlie the 15 15 City's cash flow projections and forecasts Madam Reporter, could you mark that 16 regarding its revenues, expenses, and plans are 16 as Exhibit 1? 17 (Whereupon, Kopacz Exhibit 1 was 17 reasonable. 18 marked at this time.) 18 And does your report -- and did you O. 19 19 do that work? BY MR. STEWART: 20 20 Ms. Kopacz, I'm placing before you Α. I did that work. 21 Exhibit 1. Is that the expert report you 21 And does your report contain your 22 submitted in this case? 22 conclusions as a result of having done that work? 23 Yes. I believe so. 23 A. A. It does. 24 24 Exhibit 1 to -- Exhibit 1 to Okay. So let me ask you a little bit O. Q. 25 25 about the background of the report. Exhibit 1 is your curriculum vitae. It's very Page 14 Page 16 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 much towards the back. We don't have tabs here. It's a fairly long document, is it 3 3 I'm just going ask you if that is what it purports not? 4 to be. 4 It is. A. 5 5 Went through a number of drafts? Is that a history of your education Q. 6 6 and employment? A. 7 I believe it is. 7 A. Do you plan on issuing a second Okay. Is it accurate as you sit here 8 report or a further report before the time of your 8 9 today? 9 testimony in this case? 10 10 I don't know. A. It is. A. 11 11 Okay. Now, you were engaged as an Who else from Phoenix worked -- by O. expert in this case? 12 12 the way did you, within Phoenix, have name or a 13 A. I was -- I am. 13 moniker for this work, like Project Otto or --14 And -- okay. Was that pursuant to an 14 A. 15 order of the Court? 15 O. -- anything, no fancy handle like 16 16 that? Α. Yes. 17 MR. STEWART: Let me mark as 17 A. No, we did not. 18 Exhibit 2 the Court Order of April 22nd, 18 Okay. You just called it the Detroit Q. project or something like that? 19 2014. 19 20 20 (Whereupon, Kopacz Exhibit 2 was A. 21 marked at this time.) 21 Okay. Who besides yourself from Q. 22 22 BY MR. STEWART: Phoenix worked on the project? Ms. Kopacz, I've placed before you 23 23 My partner Brian Gleason. 24 the document the reporter has marked as Exhibit 2. 24 Okay. What area did Mr. Gleason work Q. 25 Could you tell me what Exhibit 2 is? 25 on, if any, in particular?

Page 17 Page 19 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Brian worked on almost all areas. Phoenix spent working on the project up to today, A. 3 Q. Okay. Who else? 3 if you can estimate? 4 4 Albert Mink. I don't know. A. A. 5 Okay. And tell me what Mr. -- what 5 Is there a range of numbers you would 6 6 parts of the report or the project Mr. Mink worked be comfortable with? 7 7 A. No. 8 8 Primarily issues related to Q. Okay. Do you know how much in terms 9 9 accounting and finance operations of the City and of dollars the billings have been to date for 10 10 Phoenix's work? Okay. And who else? 11 We have submitted bills only through 11 Bob Childree. 12 12 Α. May and I don't know. 13 13 Q. Who is Mr. Childree? Q. Okay. 14 Bob is -- was a subcontractor to 14 A. There is a court record and they're A. 15 Phoenix for this project. 15 on the docket. And what -- what work did Mr. 16 16 Okay. Now, Exhibit 2 to your report 17 Childree do on the project? 17 is a list of materials considered, I believe, or 18 Bob worked on accounting, finance, 18 documents and sources. Do you have Exhibit 2 in 19 19 IT, and pension. front of you? 20 Okay. Who else? 20 Q. A. Yes. 21 Mike Gaul. 21 Okay. Maybe I should just ask you. A. Q. 22 And what parts of the project did 22 What does Exhibit 2 purport to show? 23 23 Exhibit 2 is a list of documents or Mr. Gaul handle? 24 24 Oh, boy, a lot. Revenue, pension, information sources that either I or my team 25 blight, forecasts. Those were his main areas of 25 members or both of us reviewed as part of our Page 18 Page 20 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 assignment. focus. 3 3 When you say light, are you referring Okay. Were there any other materials Q. to --4 4 you considered above and beyond those set forth in 5 5 A. No, blight. Exhibit 2? 6 Oh, blight. 6 A. Not that I can think of. Q. 7 7 Is it possible for you to estimate as A. Blight. Oh, Blight, okay, that's different. 8 you sit here today, if it were all printed, what 8 the physical volume would be of the materials 9 Who else? 9 10 10 Kevin Barr. listed in Exhibit 2? A. 11 11 Who is Mr. Barr? Tens of thousands, maybe hundreds of O. A. 12 Kevin is a member of my team who 12 thousands. 13 worked extensively on the financial models and the 13 Of pages? Q. 14 14 A lot. A lot. projections. 15 15 Okay. Anyone else on the team MR. STEWART: Let me mark as O. 16 besides those you've identified? 16 Exhibit 3 this document. 17 Jack Murdoch was added to the team 17 (Whereupon, Kopacz Exhibit 3 was 18 late in the process as we were generating the 18 marked at this time.) 19 (Whereupon, a brief discussion was report. 19 20 20 held off record.) Okay. What areas did Mr. Murdoch 21 work on? 21 BY MR. STEWART: 22 22 Ms. Kopacz, I'm placing before you Basically whatever Kevin and Michael 23 needed him to do. 23 Exhibit 3. I represent to you this is a document 24 from Jones Day listing the materials that were 24 Okay. How many hours do you 25 estimate -- excuse me -- that the people from 25 provided by the City of Detroit to Phoenix. This

Page 21 Page 23 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 is a spreadsheet that Jones Day has updated as we 2 contains a list of all the meetings that you and 3 went along. 3 others at Phoenix held. Am I correct on that? 4 4 Have you seen versions of Exhibit 3 This is the contact log that the 5 before? 5 Judge asked me to keep. I, in turn, then asked my 6 6 A. I have not. team to keep a contact log as well. 7 You have not. Are you aware that 7 O. Okay. O. versions of it were given to members of your team 8 8 A. So, it's -- there really are kind of as the project went along? 9 9 two sections to it. One is all of the contacts 10 10 I'm not sure I understand that that I was involved in and then the second part of 11 it is contacts that team members had that I wasn't 11 auestion. 12 12 Do you know whether anyone from your involved in. O. 13 team has seen this document or versions of it? 13 Q. Okay. 14 Not that I know of. 14 A. And it could -- it could be phone 15 15 calls, it could be e-mails. Most of them are Okay. Let's go to Exhibit 4 of O. your -- of your report. Do you have Exhibit 4 16 16 face-to-face meetings. 17 before you? 17 Sure. You began your work shortly 18 18 after your appointment on April 22nd? A. I do. 19 19 I began my work on April 22nd, yes. O. And what does Exhibit 4 set forth? 20 20 And certainly continued it up until Exhibit 4 sets forth the open Q. 21 information requests as of the date of my report. 21 the time you submitted your report? 22 Okay. Your report was, what, the 22 A. I did. 23 25th? 23 And have you continued working since Q. 24 24 Α. July 18th. then? 25 25 July 18th. Have some of these Q. Other than to prepare for this Page 22 Page 24 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 materials since July 18th been provided to you? 2 deposition, no. 3 A. I don't think so. I don't think so. 3 Okay. During the period of time 4 Q. Okay. Do you know for a fact that 4 between April 22nd and July 25th, how many 5 5 all of these materials, in fact, exist? meetings do you believe that you personally had in 6 A. I do not know that. 6 connection with this project? 7 7 Has the absence of these materials More than 50. O. A. 8 8 And who in general -- you met with affected your analysis in any way? 9 The -- some of the requests here I 9 the mayor, did you not? 10 10 would still like to receive. I met with the mayor. A. 11 11 And John Hill who is the city CFO? Q. Sure. Q. 12 A. Because it would -- obviously, I 12 A. I did. 13 asked for it because I thought it was -- would be 13 And the emergency manager? Q. 14 helpful and it would be more information. 14 A. 15 15 I reached my opinion on the And counsel for various creditors? O. 16 information I had so, you know, I don't know how 16 Α. 17 17 to answer that. In the sense of yes, I'd still Okay. And members of the City Q. 18 like to have them, but --18 Council? 19 19 Q. Sure. Α. Yes. 20 -- I didn't have it and I was still 20 O. Members of the city government? 21 able to reach an opinion. 21 A. 22 22 In other words, you were able to work And those are just some categories. O. around the absence of these materials? 23 23 What other categories of person have 24 24 I did. I not mentioned in summarizing the persons with A. 25 Okay. Exhibit 3 of your report 25 whom you met?

Page 25	
	Page 27
1 - MARTI KOPACZ - VOLUME 1- 1 - MARTI KOPACZ - VOLUM	
2 A. Financial advisors to creditors and 2 A. Some people were completely	
3 the city. 3 percent dedicated to Detroit and every	
4 Q. And by name who would those be? 4 preexisting client responsibilities really	
5 A. Ernst & Young, Conway MacKenzie, 5 those in evenings and weekends, so a larger through the second seco	
6 Houlihan, Alvarez, FTI. 6 percentage of their time was spent on I	
7 Q. Others, too? 7 Q. And I assume the work weeks	
8 A. Others. 8 the period from April 22nd to July 18	were not
9 Q. Beyond that? 9 40-hour work weeks?	- 1
10 A. Yes. 10 A. Generally, no.	- 1
Q. And sorry if I just asked this and 11 Q. Generally, how many hours a	week did
12 misstated. 12 you and members of your team work?	- 1
Can you estimate the number of hours 13 A. I don't know.	- 1
14 you spent in meetings? 14 Q. Long hours?	
15 A. I can't. 15 A. Generally, yes.	
Q. More than a hundred? 16 Q. Weekends?	- 1
17 A. Yes. 17 A. Yes.	- 1
Q. Now, members of your team also had 18 Q. Now, do you plan to testify at	t trial?
19 meetings, did they not? 19 A. I believe the Judge is going to	
20 A. Yes. 20 us about that next Wednesday at a stat	
Q. Did they try to keep you informed of 21 Q. Okay. Do you intend to do an	
the meetings they were having? 22 work between now and the time you to	
23 A. Generally, yes. 23 trial?	
24 Q. Do you know how many meetings 24 A. I do.	
25 individuals on your team had? 25 Q. What do you intend to do?	
	Da 212 20
Page 26	Page 28
1 - MARTI KOPACZ - VOLUME 1- 1 - MARTI KOPACZ - VOLUMI	
2 A. No. 2 A. I intend to read the fifth amend	ded
3 Q. Over a hundred? 3 plan.	
4 A. I don't know. 4 Q. Uh-huh.	
5 Q. Okay. Do you know how many hours 5 A. I want to review the information	
6 they spent? 6 received on the collective bargaining ag	greements.
7 A. I don't know. 7 Q. Uh-huh.	- 1
8 Q. You listed for me the people who 8 A. And, you know, if if there are	re new
9 worked with you on this project. 9 projections from the City, obviously, I	would
During the period from April 22nd to 10 review those before trial.	- 1
11 July 25th, did you or any of them have other 11 Q. Okay. As you sit here today, a	and I'm
projects you were working on besides this project 12 going to get into this in greater depth, ju	ust as a
for the City of Detroit? 13 general question, do you have any miss	givings about
A. Can I July 18th is when issued my 14 the analysis that you've set forth in you	
15 report. Okay? 15 A. Misgivings how?	·
Q. I'm sorry. I misstated it, yes. 16 Q. Of any sort of any sort.	l
17 A. And I did anyone have other 17 A. Could you give me a different	word
18 projects other than the City of Detroit? The 18 please?	- 1
19 answer is yes. 19 Q. Okay. Is from any conclusion	in the
Q. Okay. What percentage of your time 20 report that you're not confident about?	
21 did you spend on the Detroit project? 21 A. That I'm not comfortable with	?
22 A. 99 percent. 22 Q. Confident about.	ı
Q. And, if you can, the members of your 23 A. I have a great deal of confidence	ce in
team, what percentage of their time did they 24 my opinions.	
25 spend? 25 Q. Is there any conclusion or anal	vsis
7 (Pages 2	

Page 29 Page 31 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 in your report you'd like to change? pay, correct? 3 A. No. 3 Yes. A. 4 4 Now, I think I'd shown you the And then you go on to say, "without 5 order -- Court's order, which would be I think our 5 the significant probability of default." 6 6 Exhibit 1. No, it's our Exhibit 2 appointing you Do you see that? 7 as the expert witness. You'd already read into 7 Yes. A. 8 8 the record, Ms. Kopacz, about feasibility. And what does "significant Q. 9 As part of your work, you defined the 9 probability" mean as you used it here? 10 10 standard of feasibility, did you not? It's my thought around, is the plan structured so that there's a likelihood that the 11 A. I did. 11 12 O. And it's on Page 13 of your report. 12 City would default, so --13 Let me ask you just to look at Page 13. 13 Q. And is -- go ahead. 14 Uh-huh. 14 A. A. Yeah. Is that before you? 15 15 Q. So significant probability is the O. 16 It is. 16 flip side of a likelihood, right? A. 17 Okay. And I'm directing your 17 A. Yes. 18 18 Okay. Can you put a percentage attention to the italicized, indented language and Q. 19 19 number on the term "significant probability"? let me just ask you, just so we have it on the 20 record, if you could read it into the record. 20 Α. I cannot. 21 Then I'm going to ask you about it. 21 Now, in your work, I think you've 22 Okay. "Is it likely that the City of 22 written in your report that you looked at 23 Detroit after the confirmation of a plan of 23 quantitative factors, correct? 24 adjustment will be able to sustainably provide 24 Α. Yes. 25 25 basic municipal services to the citizens of And those included the accuracy of --Q. Page 30 Page 32 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Detroit and to meet the obligations contemplated the mathematical accuracy of projections? 3 3 in the plan without the significant probability of A. Yes. a default." 4 4 Q. Correct? 5 5 And this was the definition you And the reasonableness of the City's 6 6 worked with in analyzing the data and reaching the assumptions, both individually and as a group? 7 7 conclusions on your project? A. Yes. 8 8 This is a definition that I developed And finally, whether there was an 9 along with my team against which I then assessed 9 adequate contingency as set forth in the City's projections, correct? 10 10 the City's plan. 11 Q. And it says here "sustainably 11 Yes. A. 12 provide." 12 O. I meant to ask you, by the way, in a 13 What did you mean when you said 13 footnote you point out that the term "forecasts" 14 "sustainably provided"? 14 and the term "projections" are not necessarily 15 That the City would be able to 15 synonymous although you will treat them as such 16 deliver basic municipal services indefinitely into 16 for your report. 17 17 For the record, what is the the future. 18 When you say "basic municipal 18 difference? 19 services," what services are you referring to? 19 It's -- the difference exists in 20 Fire, police services, road 20 accounting terminology. 21 maintenance, the like. 21 Uh-huh. Q. 22 22 And you go on to say, "to meet the Whereas a -- generally, the thinking A. obligations contemplated in the plan." 23 23 is that a forecast is kind of the best estimate. 24 That means what the plan provides for 24 whereas projections can include any set of 25 in terms of what the city must in future years 25 variables and any sort of assumptions, sensitivity

Page 33 Page 35 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 analysis or projections, what-ifs, that sort of you've used it here? 3 thing, whereas a forecast is something that's a 3 Material is a term that indicates 4 4 little more rigorous, a best -- the best guess, if whatever the value or the variable is could have 5 you will. 5 an impact, positive or negative. It is not --6 So would it be fair to say, and I'm 6 it's not de minimis. 7 not going to spend a lot of time on this, this 7 O. Okay. Do you associate any 8 morning, that the base case scenario from EY is a 8 percentage level with the term "material"? 9 forecast, but the restructuring analysis is a 9 I do not. 10 10 projection? Q. Have you heard, for example in the accounting world, they sometimes speak of 11 A. I don't know that I would say that. 11 12 12 materiality as being 1 percent of assets or Q. Okay. And I'll use the terms 13 interchangeably myself. 13 5 percent of income? 14 A. Thank you. 14 I think it depends on the context. A. 15 You raise the -- use the phrase 15 O. But it's not how you've used it, one O. 16 "mathematically accurate." 16 way or another? 17 I assume that means whether the 17 A. Not how I've used it, no. 18 calculations that were done produced the results 18 Now, I'm going to ask you about Q. 19 that mathematics requires? 19 forecasting now. 20 20 A. Yes. A. Sure. 21 0. In other words, no errors in 21 Let me go back to Exhibit 1 of your 22 calculation? 22 report. This is your -- for want of -- I'll call 23 23 it your CV although --A. Correct. 24 24 O. Okay. You used the phrase Α. It's not really. 25 "reasonableness" when you speak about assumptions. 25 -- it's not really a CV. What would Q. Page 34 Page 36 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 What do you mean when you use the you call it? Just a back -- description of your phrase "reasonableness"? 3 3 background? 4 A. That the assumption is neither too 4 A. Yes. 5 5 conservative or too aggressive. Q. Okay. Why don't we just call it 6 Okay. Is reasonableness a synonym in 6 Exhibit 1? 7 7 this context for reliable? A. Exhibit 1 is good. 8 8 Under "General Experience," you've A. No. 9 Okay. In other words, that a 9 written about your -- about your experience with Q. 10 reasonable assumption is one that is in the middle 10 financial projections and I'm going to read parts 11 of the continuum of possible assumed facts? 11 of this, and I'm going to ask you questions about 12 A. I think I can agree with that, yes. 12 it. 13 Okay. Did you try to place it a 13 First sentence you've written -- by 14 particular place on the continuum? 14 the way, did you write this part of your report or 15 15 was it written for you by others? A. No. 16 You also listed qualitative factors 16 No. This is the -- this is the same Q. 17 as well, and I'll come back to those. 17 document that was attached to my proposal. It's 18 18 just in a different format, but the --A. 19 Q. And they're part of your feasibility 19 O. Sure. 20 20 analysis too? -- the -- the information is 21 A. They are. 21 generally the same and I think there's some 22 22 Sometimes you've used the term added -- there may be some added verbiage around 23 "material" in your report? 23 speaking engagements, publications and the like. Sure. Is it accurate however? 24 Yes. 24 A. Q. 25 What does the term "material" mean as 25 Yes, it is.

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- MARTI KOPACZ - VOLUME 1-

So the first sentence says, "Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more prepared by others."

This has been in connection with your work at Phoenix and elsewhere?

Yes Α.

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- 9 And by "projections," you mean O. 10 forecasts as well as projections as we just 11 discussed?
 - Α. Yes.
 - Q. And just as a general matter, when you, yourself, have prepared projections, what kind of assignment did you have that asked you to prepare projections?
 - A. Generally, it would be in the context of representing a client that was financially or operationally troubled, potentially involved in a formal or informal restructuring or Bankruptcy Court proceeding.
 - Okay. And then you write you "critiqued dozens more prepared by others."

Would that be in a comparable -comparable setting?

- MARTI KOPACZ - VOLUME 1reasonableness of the projections that were made then.

And this leads me to ask you a question.

I take it that a good deal of your work in your career has involved entities that are one way or the other involved in bankruptcy or insolvency matters?

A. Yes.

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- Have you, as a practice, represented one side more than the other side; in other words, creditors more than debtors or debtors more than creditors in this work?
- I don't think -- I think it's very balanced for the most part.
- And you've also been involved in municipal insolvencies?
- I have been involved in municipal -troubled municipal situations.
- Okay. And what are some examples of Q. those?
- The one that I was involved in most significantly and for the longest period of time was Nassau County here in New York.

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Page 40

- MARTI KOPACZ VOLUME 1-Okay. But you've had others too?
- Yes. A.
- Okay. Back to Exhibit 1, further Q. down it's written, "Ms. Kopacz understands the nuanced area" -- "area of municipal budgeting." Do you see that -- budgeting.

Yes. A.

- Q. Okay? What -- what do you mean when you say "nuanced area"?
- Municipal budgeting and government accounting are significantly different than what most of us become familiar with in the private sector. It involves fund accounting. It involves appropriations and encumbrances and concepts that we don't have in the private sector.
- When you say "incumbrances," what do Q. you mean?
- Encumbrances is a manner by which government on paper sets aside funding for particular projects or services or goods.
- Okay. And the next sentence says, "Because municipal entities lack a 'standard' in budgeting, forecasting and accounting, great variations occur in the manner in which public

- MARTI KOPACZ VOLUME 1-
- A. Yes.
- Q. Okay. And then you write -- or this exhibit says, "She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast."

Okay. And what engagements asked you to do that work?

That -- the first time I ever testified on forecasting and assumptions was in a matter called HealthCo -- HealthCo. It was a case that -- and I believe it's in, we go back to my proposal to the Court, it's listed and it will tell you, but it was a bankruptcy case that involved a failed leverage buyout transaction that the trustee believed was a fraudulent conveyance.

O. Okav.

And my engagement, I represented the Lazard Freres who had been the investment banker and Coopers & Lybrand, at the time the accountants, who were being sued and my job was to put myself back in the position at the time that that transaction was done and evaluate the

10 (Pages 37 to 40)

Page 41 Page 43 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 entities report financial results and develop 2 we call the RRIs and looked at the operational 3 forecasts." 3 aspects of the City. 4 4 So, when you're looking at financial When you say they "lack a standard," 5 what do you mean by that? 5 forecasts, for the most part, you were looking at 6 6 the work of Ernst & Young? They -- private entities are for the 7 most part required to adhere to generally accepted 7 No. I looked at all of them 8 8 accounting principles. There are the government together. 9 9 version of accounting principles allow for a great Q. Okay. 10 10 deal of variety and individual variation in terms Right. A. 11 of how municipal entities report revenues, 11 Q. The baseline forecast was just Ernst 12 12 expenses, capital expenditures, and the like. & Young? 13 Do municipalities typically approach 13 A. Yes, my -- that's my recollection, 14 these issues in the same manner? 14 yes. It was just Ernst & Young at the time. 15 15 Okay. And then when the RRIs and A. No. 16 So how does one go about 16 other things were involved, that's when Conway O. 17 understanding how any particular municipality has 17 MacKenzie input became part of the forecast? 18 handled its accounting? 18 Part of the 40-year forecast, yes. A. 19 19 You have to do a detailed analysis of Now, let me just break this down so O. 20 whatever the revenue, the expense and the 20 that as we go down the road we can go more 21 21 quickly. And I apologize for the elementary accounting for that is. 22 You did that here in the case of the 22 approach here. O. 23 City of Detroit? 23 Could you just describe for me as a 24 24 A. In -- in some cases, yes. series of steps how one goes about preparing a 25 25 forecast in your experience? Okay. You certainly got to the point Q. Page 42 Page 44 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 where you felt you understood how Detroit did its A. To prepare -- in preparing a 3 3 forecasting and budgeting, correct? forecast? 4 A. Is that -- are you talking before the 4 Q. Correct. 5 5 bankruptcy or during the bankruptcy? A. Okay. Generally, the -- the first 6 б thing you do is estimate revenues. No, during -- during your -- your Q. 7 7 Uh-huh. work. Q. 8 8 A. Right. In terms of those forecasts A. Then you estimate expenses. 9 and budgets --9 Q. Uh-huh. 10 10 And in order to get those estimates, Q. Yes. A. you have to make assumptions and you have to have 11 -- as they relate to the plan? 11 A. 12 Q. Yes. 12 a base -- a baseline. You have to decide when 13 Yes, I do. 13 you're going to start it and when you're going to A. 14 14 Okay. Now, you mentioned that you end it. 15 15 met with financial advisors, including Ernst & And then when you project -- and you 16 Young and Conway MacKenzie? 16 start with known numbers, correct? 17 17 You generally will look at actual A. Yes. A. 18 18 results for prior periods. As between the two, how have they 19 divided up the work of being advisors to the City? 19 And is there some mathematical means 20 It's my understanding that Ernst & 20 then of taking the actual results and, from the 21 Young was responsible for the ten-year baseline 21 actuals, extrapolating the numbers in the years to 22 22 plan, the 40-year plan and, at a functional level, come? 23 23 is responsible for the cash management for the A. Sometimes that makes sense. 24 24 City. And that Conway MacKenzie developed the Sometimes that doesn't make sense. 25 restructuring and reinvestment initiatives, what 25 And is it -- is it possible to --

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- MARTI KOPACZ - VOLUME 1would it be possible for you to tell me when it does make senses and when it does not make senses?

- I can give you an example.
- Q. Sure.

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If you had an ongoing operation, and A. you were selling widgets to someone, right, and that customer bought, you know, a hundred dollars worth of widgets every year for the past ten years, unless something suggested a contrary behavior, you would probably project that they're going to buy a hundred dollars worth of widgets. Okay?

On the expense side, if you're manufacturing those widgets in a production plant and it costs you 80 cents to make a widget, right, but then you're building a new plant and all of a sudden your costs are going to go down to 65, you wouldn't be using the continuation of the historical cost to make a going-forward projection.

Q. Now, is it sometimes the case as you extrapolate forward, instead of having a constant value, you're dealing with a value that is expected to increase in some manner or decrease in

- MARTI KOPACZ - VOLUME 1-

Ongoing interest expense. Obviously, A. as the City worked through its bankruptcy and its plan, it became clear that those weren't going to get paid, so those numbers changed in line with what the settlements were. So I didn't really have to make -- it was a number that was in the ten-year that didn't need to be there, so it just came out.

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Q. So that came out.

Let me take the example though of a revenue item. I don't -- we'll just make it income tax.

As you looked at the forecasts of income tax revenue in the years to come, it was not a constant number, correct?

- Α. Correct.
- Q. And it went up or down as the years went on, correct?
- Α. Yes.
- 21 And it went up or down for various O. 22 reasons, such as incomes and other factors such as 23 that, correct?
 - Α. Yes.
 - How did you determine whether a Q.

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- MARTI KOPACZ - VOLUME 1some manner year to year to year; in other words, either in the linear or nonlinear function?

- A. Yes, it is.
- Q. Okay. And what do you do when you're faced with that type of a forecast?
- You have to look at the basis for why the change is going to occur and evaluate it with the information you have as to, you know, does that new assumption make sense.
- Now, when you dealt with looking at the forecasts for the City of Detroit, did you find that those extrapolations required forecasting that was not a constant value for either revenue or expense year to year in the years that were coming?
 - In some cases, yes. A.
- So how did you determine what the appropriate coefficient was year to year to increase or decrease the projected amount?
- The -- the example that I can give you is the baseline is -- for example, the baseline projections include ongoing pension expense.
 - Q. Okay.

- MARTI KOPACZ - VOLUME 1-

2 forecast of income in future years -- income tax revenues in future years was or was not a reasonable forecast?

I looked at historical information. I looked at the outside -- the statewide information from various parties, and I and my team interviewed the team at Ernst & Young who did the analysis and the development of these projections.

- Fair to say you didn't simply accept the credibility of the Ernst & Young assumptions?
 - I did not. A.
 - Or the Ernst & Young calculations? O.
- Α. I did not.
 - You did your own checking of them? 0.
- A.
 - And then used your own knowledge base to reach a conclusion about the quality of Ernst & Young's work?
 - A. I -- I didn't reach a conclusion about the quality of Ernst & Young's work. I reached a conclusion on the reasonableness of those assumptions.
 - Okay. And -- and by the way, the

12 (Pages 45 to 48)

Page 51 Page 49 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 phrase "mathematically correct." process you just described for me, we used the 3 example of income tax. 3 Uh-huh. Α. 4 4 A. Yes. What do you mean when you say 5 5 "materially reasonable"? Q. Would it -- would you give the same 6 6 answer if I asked about other types of taxes of I believe the projections taken as a 7 7 revenue items in terms of your general approach? whole are reasonable. 8 8 And then the next paragraph says, "It A. Yes. Q. 9 9 And in terms of various items of is my opinion that, except where otherwise noted O. 10 10 expense in terms of your general approach? in my report, the individual assumptions used to 11 A. 11 build the projections fall into a reasonable range 12 12 O. Okay. Now, let me, if I could, just and that, when taken as a group, these assumptions 13 13 ask you about some of the opinions that you are also reasonable." 14 reached. 14 Can you tell me why you were able to 15 15 Uh-huh. reach that conclusion? A. 16 And on Page 200 of your report you 16 Because we reviewed and looked at O. 17 speak of some of the qualitative issues. 17 every line item, every cell of every model. 18 A. Yes. I have quantitative issues on 18 And how big was this model? Q. 19 19 The -- the E&Y model is, my 200. A. 20 20 Q. I'm sorry. Quantitative, sorry. recollection. I think about a -- over a hundred 21 Advancing age and failing eyesight has -- has 21 sheets -- over a hundred Excel spreadsheets. 22 undermined me. Yeah, on quantitative issues. 22 Q. Okay. 23 23 A. Yes. The Conway model is actually about 24 The first paragraph you write, "It is 24 30 models together and each of those models is O. 25 25 my opinion that except for otherwise noted in my multiple Excel spreadsheets. Clearly, Kevin Barr Page 50 Page 52 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 on my team probably knows exactly how many pages report the projections are generally 3 3 there are, but it's hundreds. mathematically correct and materially reasonably 4 and, therefore, fall within the feasibility 4 O. And you looked at every one of those 5 5 standard I have defined." worksheets --6 6 Do you see the language I read? A. He did -- he did. I didn't. 7 7 A. Yes. O. And every -- every cell of every 8 8 Q. I notice there's a typo. Did you worksheet? 9 mean to write "materially reasonable" instead of 9 A. He did. 10 10 "materially reasonably"? On Page 37 of your report, you refer 11 Yes. Thank you. 11 to -- you state at the bottom, there's a carryover A. 12 O. It's all right. It's basically what 12 sentence having to do with the fact that the City 13 lawyers are trained to do is look for typos. I 13 does not have an aggregated forecast to use. 14 14 Can you tell me what you meant by an went to law school imagining myself in front of 15 15 the U.S. Supreme Court; instead I've become a "aggregated forecast"? 16 glorified proofreader. 16 Can you show me the sentence? Α. 17 17 It's the carryover. It says, "while All right. Now, when you say the Q. the respective -- " 18 generally mathematically -- the projections you're 18 19 19 speaking about are the City's 10 and 40-year Α. Ten-year 40-year. 20 2.0 Yes. And then it carries over and projections? 21 A. 21 the language I was referring to is the top of the That's correct. 22 22 And we already -- go ahead. I'm next page. Q. 23 23 It says, "The City does not have an sorry. 24 24 And the -- and the RRI projections. aggregated forecast to use as a fiscal road map A. 25 25 And I've already asked you about the going forward."

Page 53 Page 55 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 2 What do you mean by "an aggregated"? your attention to the last two sentences on that 3 3 The City does not have a forecast at page. You wrote, "As the time horizon expands, so 4 4 too does the magnitude required for an issue to the department level which includes all of the 5 baseline projections and the RRIs incorporated 5 impact feasibility. For example, a potential 6 6 \$50 million shortfall in Year 1 will have a much into a single set of projections like you would 7 7 typically see for an entity. more significant impact on the assessment of 8 8 Q. Okay. And so the City needs to feasibility than the same shortfall in Year 20." 9 9 create such a document in order to go forward? Now, can you tell me what you meant 10 10 I think it would be highly advisable. when you wrote that? 11 A. I mean, I don't know how to say it 11 The beginning of the sentence says, 12 any better. I'm sorry. I really don't. I think 12 pardon me, "While the respective 10-year, 40-year 13 13 and RRI forecasts have been expertly researched, that's really clear. 14 constructed and amended." 14 Q. Okay. 15 15 What do you mean when you say A. Okay? I -- obviously -- the time 16 horizon to my -- to the way we've defined the 16 "expertly researched, constructed"? 17 The, the 10-year, the 40-year and the 17 standard and the way I evaluated it is if there's 18 RRIs, okay, are appropriately correct to the 18 going to be an impact near-term, that is clearly 19 19 more significant than if it's going to occur 10 or extent of the purpose for which they were 20 intended. Okay? They are fit for that purpose. 20 20 years down the road because 10 or 20 years down 21 Uh-huh. Okay. Now, excuse me -- you 21 the road, people have an opportunity to respond 22 22 mentioned that the City forecast cover a period of and change their behavior and do different things 23 23 ten years and there's also a 40-year forecast too. to overcome whatever that risk might be. If it's 24 24 Α. Yes. a risk in the early part of a forecast, you don't 25 25 have that time to respond. Is that the customary period for Q. Page 54 Page 56 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 forecast, at least in the municipal world? So you testified that one feature of 3 3 I'm not sure there is a customary a long forecast is the greater chance for A. 4 period. 4 variability as the years go on, correct? 5 5 Q. Have you seen forecasts before of I would agree with that statement, 6 6 such length? yes. 7 7 Have I in a general context, yes. In Are you also saying that in the O. 8 future years that, although there may be such 8 typically municipalities don't budget for that 9 long a time. 9 variation, it becomes less material as we sit here 10 10 Do you know why it is that forecasts today because the variations happen so far into 11 11 were prepared for periods so long as those we see the future? 12 here? 12 A. The material word, I don't agree with 13 13

- A. I don't know why those projections -- those periods were chosen, no.
- Q. What's the relationship, if there is one at all, between the length of a forecast and its reliability?
- A. Generally, the longer a forecast -the longer period of time a forecast covers, the
 more variability you would expect as time goes on.
- Q. Would there also -- let me ask you to look actually at Page 17 of your report. At the very bottom of that page --
- A. Uh-huh.

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Q. -- you've written -- I'm directing

- A. The material word, I don't agree with that in the sense that if it is a large risk component in the out years, that could affect my assessment of feasibility even though it was far out into the future. The other part, and I don't mean to quibble, but the near-term forecasts are going to be wrong too. It's just will there be enough variation in the forecast both plus and minus that on average things will be okay.
- Q. Okay. And there are such things as -- as offsetting entries or offsetting variations, correct?
 - A. Correct. Yes.
 - Q. Is there any mathematical or

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Page 57 Page 59 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 forecasting rule about that? 2 done a poor job of collecting the monies that are 3 A. Not to my knowledge. 3 due it. 4 O. Let me ask about the RRIs if I could. 4 And what would the RRIs do, if 5 A. Okay. 5 anything, to address that issue? 6 6 You've mentioned. That's short for In a -- in a couple of areas, the 7 restructuring and reinvestment initiatives? 7 RRIs are targeted towards better information 8 8 systems, better technology, more people to focus A. Yes 9 9 Okay. And fair to say that you on collection activities, the ATMs that are being generally are complimentary of the RRIs that the 10 10 added to the District Court to collect the fees City has planned? 11 11 and fines right then and there before people leave Complimentary? 12 12 A. the building. You know, those sorts of things 13 O. Let me look -- let's look at 207 of 13 are -- are advantageous to helping the City 14 your report. 14 collect the monies that are already due it. 15 15 Fair to say some of these RRIs will Okay. A. 16 At the very top, you've written, "The 16 end up cutting city costs? 17 RRIs are one of the positive outcomes of the 17 A. In the long-term, yes. 18 bankruptcy process. The RRIs provide the backbone 18 And some of the RRIs will result in 19 of the improved services to the City of Detroit." 19 increasing city revenues? 20 That's -- that's what I was asking 20 Α. Yes. 21 21 Did you perform any kind of vou about. 22 A. Yes. Yes. 22 cost-benefit analysis to see if the expense of 23 Q. So you -- you believe that on balance 23 those particular RRIs was offset by any benefits 24 the RRIs are a good not a bad thing? 24 that they yielded to the City? 25 25 I don't think so. Yes. Page 58 Page 60 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 Q. Okay. Why did you reach that O. But has anyone attempted to quantify 3 3 the revenue enhancement and cost reduction conclusion? 4 A. The RRIs, many of them, are planned 4 benefits to the City of the RRIs? 5 5 Not that I know of. to return Detroit to a safer, better functioning A. 6 place in which people can live and work and -- and 6 Q. Who came up with the RRIs? 7 7 go about their business. So --The -- the Conway MacKenzie has been 8 8 Well -- go ahead. at the forefront in developing the RRIs as they're 9 presented as part of the bankruptcy, working with 9 -- you know, a lot of the RRIs 10 people in the city government. 10 involved restoring public safety and Were there any RRIs that you looked 11 transportation to more acceptable levels than they 11 12 at that you -- in your opinion were not necessary? 12 have been in the recent past. 13 Do some of the RRIs also -- let me 13 I'd have to go back and look at all O. 14 of them to say -- to answer that question. 14 withdraw that. 15 Q. Okay. Any RRIs that you would have 15 Do some of the RRIs also have the 16 objective of improving quality of city management? 16 liked to have seen that were not among the list of 17 17 restructuring and reinvestment initiatives? A. 18 I didn't evaluate that either. I 18 And, for example, tax collection by Q. 19 19 the City? just looked at what was there. 20 20 Who came up with the dollar amounts A. 21 And do you also believe those are 21 associated with the RRIs? Q. 22 22 A. I believe for the most part that has positive? 23 been the work of Conway MacKenzie in collaboration 23 I do. A. 24 with the city employees by department. 24 Q. And why? 25 25 Because the City historically has Okay. And who came up with the plan

	Page 61		Page 63
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	by which the RRIs were to be implemented?	2	investment and do little to reverse the spread of
3	A. I'm not sure anyone has yet.	3	blight through Detroit."
4	Q. Okay. Or the timetable for	4	A. My concern around blight spending all
5	implementation for implementation?	5	along has been the availability of a steady stream
6	A. I'm not sure I'm not sure that	6	of funding to keep the blight removal machine
7	that has been completely defined at this point.	7	going.
8	Q. In the course of your work, did you	8	Q. Uh-huh.
9	look at the dollar amount of the RRIs to see if	9	A. And the the concern I have that
10	those were reasonable assumptions for the each	10	the City has made an effort to bring contractors
11	RRI?	11	into the blight removal program and it will be
12	A. Yes.	12	important to be able to pay them timely to keep
13	Q. And what did you determine?	13	them engaged in that process.
14	A. We concluded that they were	14	Q. Let me move to something else.
15	reasonable estimates for what these initiatives	15	Your report has observations about
16	would cost.	16	shortcomings in the City's finance, treasury and
17	Q. Now, one of the things you looked at	17	budgeting functions, correct?
18	I think you said was blight?	18	A. Yes.
19	A. Yes.	19	Q. Fair to say that historically they've
20	Q. And specifically, I guess the removal	20	been very poor?
21	of blight?	21	A. Awful.
22	A. Yes.	22	Q. Really awful? I'm kidding.
23	Q. How significant in your opinion is	23	You're aware the City has a new CFO?
24	the City's program for the removal of blight?	24	A. Yes.
25	A. Blight removal is very important to	25	Q. John Hill?
	Page 62		Page 64
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	me.	2	A. Yes.
3	Q. And why is it important?	3	Q. And you've met with Mr. Hill?
4	A. Because I believe that eliminating	4	A. I have.
5	blight will stabilize the City and allow a the	5	Q. Have you determined from Mr. Hill
6	revitalization for Detroit to really grab hold.	6	what he plans to do or is doing to reform matters
7	Q. Do you believe the amount of money	7	within that part of the city's government?
8	budgeted for blight removal is sufficient?	8	A. I'm generally aware of Mr. Hill's
9	A. I don't know.	9	plans, yes.
10	Q. What, in your opinion, if you have	10	Q. And you understand that Mr. Hill has
11	one, will happen to the City if it is not	11	a program to deal with these historical issues?
12	successful in removing blight?	12	A. Yes.
13	A. I don't know.	13	Q. Do you have any what is your
14	Q. You mentioned that a stop	14	opinion, let me ask you this, of the approach
15	start-and-stop approach will not work and that's,	15	Mr. Hill is taking?
16	if you'd like, direct you to your report is on	16	A. I I concur with Mr. Hill's
17	Page 173.	17	approach in terms of what he has prioritized in
18	A. Yes.	18	terms of needing to get fixed and how he's going
19 20	Q. My question was simply going to be	19 20	to go about that. O. Do you believe Mr. Hill will be able
21	why did you conclude that. But if you'd like to look at your report, that's so much better.	21	Q. Do you believe Mr. Hill will be able to fix these problems?
22	A. Thank you.	22	A. I have confidence that Mr. Hill has a
23	Q. And I was it's towards the bottom.	23	good plan to fix the problems. I have confidence
24	You've written, "Conversely a start-and-stop	24	that he and the mayor will be able to hire people
25	approach will likely result in ineffective	25	to do that.
			16 (Pages 61 to 64)

	Page 65		Page 67
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1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Q. Are you finished with your answer?	2	to have the all of that spending under the IT
3	A. Yes. And as recently as the last	3	department. Some of that is disbursed into
4	week or so, he's they've added some more	4	individual departments.
5	talents to that group and I think that's	5	Q. Uh-huh.
6	encouraging.	6	A. So, I don't know. Again, I would
7	Q. To the extent your report contains	7	like to see it controlled and I've written about
8	criticism of the finance function, is any of that	8	that in my report. I'd like to see it centrally
9	intended to be a criticism of Mr. Hill or his	9	controlled as opposed to disbursed.
10	staff?	10	But yes, it should be a sufficient
11	A. Mr. Hill, no. There's there's	11	amount of money to upgrade and fix. It's not
12	I still would have significant criticism of some	12	really fixed the systems that are in place. It's
13	of the the processes and procedures that the	13	installed new systems.
14	City uses.	14	Q. Well, the existing systems are
15	Q. Okay.	15	antiquated are they not?
16	A. In that area.	16	A. They are.
17	Q. You understand that Mr. Hill's	17	Q. They don't inter inter-operate
18	attempt to go address those as well?	18	with one another?
19	A. I do.	19	A. They do not.
20	Q. Your report mentions shortcomings in	20	Q. There's no modern ERP system,
21	the City's information technology area.	21	correct?
22	A. Yes.	22	A. Correct.
23	Q. You would agree that that isn't	23	Q. The budgeting software is antiquated
24	what it could be?	24	if it exists at all, correct?
25	A. That's awful too.	25	A. It's yes.
	Page 66		Page 68
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Q. They've hired a woman named Beth	2	Q. Manual entry is required for a number
3	Niblock to address that?	3	of financial inputs?
4	A. Yes.	4	A. The general ledger is largely done on
5	Q. She comes to the Detroit from the	5	a manual basis, yes.
6	city of Louisville, Kentucky.	6	Q. All right.
7	Did you met with Ms. Niblock?	7	MR. STEWART: We've been on the
8	A. I did.	8	record for an hour. We can take a break or
9	Q. Did you form an opinion as of	9	keep going, whatever you'd like to do. It's
10	Ms. Niblock's abilities?	10	up to you.
11	A. Yes.	11	THE WITNESS: I'm ready for a break.
12	Q. What is your opinion?	12	MR. STEWART: We'll go for a break.
13	A. My opinion is Ms. Niblock knows what	13	THE VIDEOGRAPHER: Thank you. The
14	she's doing and is developing a good plan for	14	time now is 10:18 a.m. We're going off the
15	fixing the City's IT systems.	15	record. This is the end of Disk Number 1.
16		16	
			(Whereupon, there was a brief recess
17	for IT initiatives, do they not? And those total	17	in the proceedings.) THE VIDEOGRAPHER: Time now is
18	between 150 or \$200 million, or somewhere in that	18	
19	range?	19	approximately 10:32 a.m. We're back on the
20	A. It's a little north of 150 million	20	record. This is the beginning of Disk
21	citywide.	21	Number 2.
22	Q. Okay. And in your opinion, is that a	22	BY MR. STEWART:
23	sufficient amount of money to spend to implement	23	Q. Ms. Kopacz, before the break, I'd
24	IT improvements?	24	asked you a question about the language at
25	A. It's a lot of money. I would prefer	25	Pages 37, 38 of your report in Exhibit 1. In
			17 (Pages 65 to 68)

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Page 71 Page 69 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 particular that sentence that begins at the very contingency. It's like why do -- you know, why do 3 bottom of 37 and goes on to the top of 38. 3 we keep a savings account? 4 4 And do you have that sentence in Right. Okay. And the contingency in 5 front of you? 5 the forecast here is about 1 percent? 6 6 A. I do. The line item contingency -- the line 7 7 O. I ask you what was the -- I think that is defined as contingency is 1 percent. 8 8 you -- I'd asked you about the -- the forecasts Is there or are there contingencies 9 and I believe you said they were appropriate for 9 above and beyond that one line item in the 10 the purpose for which they were intended. I think 10 forecast? 11 I believe there are. 11 that was your answer. A. 12 12 Where would those be found? A. Yes. O. 13 13 Q. What was the purpose for which they A. In some of the labor estimates. 14 14 Q. Okay. Any others? were intended? Some of the other expense items. 15 15 To support the plan of adjustment. A. 16 16 And the confirmation of the plan of Okay. Are you aware of any O. 17 adjustment? 17 calculation that adds all of the contingencies 18 18 together to come up with a single contingency A. And the confirmation of the plan of 19 19 adjustment, ves. number for any given year in the forecast? 20 20 Not to my knowledge. Okay. Let's go if we could to A. Page 14 of your report. I'm going to ask you now 21 21 Did you reach any conclusion yourself 22 about the area of contingencies. And under the 22 about what that percentage or number would be for 23 quantitative points, you mention in the third 23 any given year if you added all these cushions 24 24 bullet point at the top, you raise the question, together? 25 25 "Is there an adequate contingency included in the I have not. A. Page 70 Page 72 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 projections?" Now, what did you think, if you had 3 3 an opinion, the level of the contingency ought to Do you see where I've directed your 4 attention to? 4 5 5 A. Yes. I did not come to a conclusion as to 6 What do you mean by "contingency"? 6 Q. what I thought the contingency should be. I 7 7 Contingency is another -- another simply assessed whether I thought there was 8 8 word might be cushion. adequate contingency in the plans that I was 9 Q. Okay. 9 presented. 10 10 For -- for changes down the road. At Pages 177 and 178 of your report, A. 11 And is a contingency or a cushion 11 you refer to Public Act -- "Public Acts 181 and Q. 12 something that you would expect to see in 12 182 which require a general reserve of not less 13 13 than 5 percent of projected expenditures." forecasts? 14 14 Most fore -- many forecasts have Do you see the language there? contingencies in them. Some forecasts have no 15 15 I'm sorry. Page number again, A. 16 contingencies. 16 please. 17 17 What's the purpose of having a 177 and 178. O. Q. 18 contingency? 18 A. Yes, I do. 19 Because a forecast or projection by 19 O. Okay. And that's a 5 percent cushion 20 its nature is future looking --20 or 5 percent contingency? 21 Uh-huh. 21 It's a little different than the Q. 22 22 -- you cannot be assured of what is contingency that's in the City's plan of A. going to happen. 23 23 adjustment projections. This is a contingency --24 Uh-huh. 24 a calculated contingency of 5 percent of expenses. Q. 25 So, you keep some cushion, some 25 The City's plan of adjustment is 1 percent of

Page 75 Page 73 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 revenue. In the City's -- the City's contingency that that's going to be, correct? 3 3 is cumulative over the years, assuming you don't Yes. Α. 4 4 use it, and this is a annual contingency. On the carryover page, though, you've 5 Do the City's forecasts to your 5 written that the first six months of 2014 the 6 revenues decreased 3.6 percent, correct? 6 knowledge contain any method by which the City 7 will come into compliance with this 5 percent 7 A. Yes. 8 8 requirement of Public Acts 181 and 182? Q. And that's a decrease greater than 9 I don't have any knowledge of that. 9 that that's contained in the forecast; is that 10 10 Okay. Now, in -- I'm going to direct right? Q. you to various parts of your report now. 11 11 A. That's correct. 12 Have you identified in your report 12 O. Do you have any reason to believe 13 various risks to the plan? 13 that this, I don't know what that was, that the 14 Yes. 14 casino revenues will change to a rate of decline A. 15 Okay. Let's start with Page 53. 15 more consistent with what EY has projected as Q. 16 16 opposed to the 3.6 percent in the first six months A. 17 Yes. And you see towards the bottom 17 of 2014? 18 of 53 there's a reference to wagering taxes? 18 I think the -- this is one of the 19 19 assumptions that change between the May A. 20 20 projections and the July 2nd projections, whereby Q. And actually, this continues on to 54. 21 Did you find that the projections' 21 the wagering taxes -- the projections for the 22 estimate of future wagering attacks -- wagering 22 wagering taxes were decreased over the ten-year 23 taxes appeared higher than the actuals would 23 period, and I am satisfied that the wagering tax 24 24 suggest? projections in the plan are -- are reasonable for 25 25 the -- for that ten-year period. When you say actuals, are you talking Page 74 Page 76 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 about the -- the long-term trend on wagering or Q. Because they've been changed in the 3 the first -- I refer to the first six months where 3 most recent set of projections? The/the conversations that I and my 4 there has been a decrease in wagering tax. 4 5 5 Q. Right. team had with E&Y with regard to this were looking 6 A. б at the long-term trends, they have studied it. It Yes. 7 7 We'll -- let me -- let's break this would be -- you don't want to overreact to any O. 8 8 down. very short-term change. So, I think the -- the 9 You've written that the wagering tax 9 decrease in the wagering tax assumption here 10 10 rate and so on being -- are held constant, was -- was reasonable in light of the long-term 11 11 nature of the projection. correct? 12 12 A. The wagering tax --Q. Okay. Just to summarize, because 13 You say, "As a result of the wagering 13 your answer touched a few things. tax rate, 10.9 percent, and the additional 2006 14 14 There has been a set of projections 15 15 tax rate, 1 percent, being held constant, the key from the City and the fourth amended plan of 16 assumption of the ten-year forecast is the annual 16 adjustment which was filed in May, correct? 17 percentage change in casino gross receipts," 17 A. Yes. 18 correct? 18 And then EY came up with a revised 19 19 Α. Yes. and updated set of projections on July 2nd?

19 (Pages 73 to 76)

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A.

Q.

A.

EY and Conway.

tax revenue that was forecast, correct?

And as to wagering taxes, the

July 2nd projections lowered the level of wagering

And Conway.

Uh-huh.

Okay. And then you write that

there's increasing competition from casinos in

Okay. And that the ten-year

projections assume a decline and you describe what

Cleveland and Toledo; is that right?

That's correct.

20

21

22

23

24

25

Α.

Q.

Page 79 Page 77 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 A. Yes. Transportation. And that is the bus service in 3 Q. And you looked at that and were 3 Detroit, among other things? 4 4 comfortable with it as changed; is that right? It is. 5 A. I was. 5 Okay. And the City subsidizes -- I'm Q. б 6 going to call it DDOT, in which --Q. Now, let's, if we could, go to Page 89. 7 At the top you've written that "The 7 DDOT. City is projecting that it will be able to collect 8 8 O. Okay. 9 9 an additional \$74 million as a result of better -- the City subsidizes DDOT, correct? 10 10 It traditionally has subsidized DDOT, collections of civil fines and infractions." 11 11 Have I quoted that correctly? yes. 12 And the/the forecasts project that 12 That's correct. Q. A. 13 13 the amount of the subsidy is/is projected to fall And this is because the City projects 14 it's going to increase its collection rate from 14 in the coming years? 15 15 At the operating level, yes, but -the 36 percent in 2013 to 56.8 percent in 2023, A. 16 Okay. Now, on Page 95, there's a 16 correct? 17 A. Yes. 17 reference to overtime at DDOT. And you've written 18 Now, if the City fails to improve its 18 in the middle of the page, "The decrease in Q. 19 19 overtime at DDOT is a key assumption over the next collection rate, what's the effect in terms of the 20 20 ten years as the City provides a subsidy to DDOT." revenue it can expect from fines? 21 A. I would have to calculate that. 21 Why is it a key assumption? 22 Okay. It would -- it would fall in 22 Because it is a -- overtime at DDOT O. 23 direct proportion to the -- to the collection 23 is a significant operational and economic issue. 24 24 rate; is that correct? Q. Uh-huh. 25 25 Only if you assume the same rate of They spend a lot of money on A. Page 78 Page 80 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 fines imposed. overtime. 3 3 Uh-huh. Have there been projections Q. Is that an issue the City has about increasing the level of fines as well? 4 4 attempted to remedy over the years? 5 5 A. Yes, there has been discussion. I don't know if it's attempted to 6 So it would be a combination of 6 remedy it over the years. 7 7 implementing increases and also collecting more? What do you recall? O. 8 8 A. I do know that it is a focus of the 9 Q. I mean collecting a higher 9 mayor and of Mr. Dirks who is the DDOT head. 10 10 percentage? Okay. The bottom of 95 you write, 11 11 But this -- this is collecting --"If the City is unsuccessful in decreasing 12 this is about collecting more of the fines that 12 overtime and overtime remains at 40 percent of 13 13 payroll, the subsidy would be \$61 million higher are imposed. 14 14 Now, if it turns out the City just than currently projected over the ten years," 15 doesn't deliver on that --15 correct? 16 16 Yes. Α. Yes. Α. 17 17 -- there would be a revenue shortfall So, realizing that savings is O. 18 18 contingent upon the City successfully decreasing to that extent, correct? 19 A. I would assume so, all other things 19 overtime in DDOT in the years to come, correct? 20 20 A. Correct. equal. 21 Okay. And is that one of the reasons 21 Is that a reason to have a Q. 22 22 forecasts usually has a cushion or a contingency? contingency or a cushion, to allow for the risk 23 Could be. 23 that may not occur? 24 Q. Okay. The -- let's go to -- let me 24 It's an example of a risk that you 25 ask you about the Detroit Department of 25 would want to factor in.

Page 81 Page 83 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Q. But when you say "factor in," you "Impact on Feasibility," you've written, "The 3 3 mean the projections have some allowance for the risks associated with the IT initiatives alone 4 4 chance this opportunity may not be realized? warrant additional financial contingency beyond 5 I don't know if the contingency was 5 the general 1 percent assumption in the POA б б created to address this specifically, but clearly, projections." 7 this is a risk and you put a contingency in so 7 Do you see that? 8 that you can balance off the positive and the 8 A. I do. 9 9 negative variances. And is that because of the risk you 10 10 Okay. Now, at Page -- I've asked you just told -- you talked to me about, about time before about improvement of the City's IT systems 11 and money, that could result from a slippage? 11 12 12 and we talked about the amount of the spend the A. Yes. 13 City is thinking about for IT improvements. Some 13 O. Do you know if there's any other 14 of those would be implementation of new IT systems 14 contingency in the forecast or IT shortcomings 15 15 all together? above and beyond the 1 percent contingency? 16 16 The -- what I am aware of is that A. Yes. 17 Are you familiar with the failure 17 some of the IT investments in terms of the cost 18 rate of implement -- implementation of new IT 18 that the City has estimated those to be are --19 19 appear to be, you know, have some cushion in them. systems? 20 20 A. We did. I am. O. Uh-huh. 21 21 Α. The one I'm familiar with or the Okay. And what -- what is -- what 22 are the risks of a failure of implementation of a 22 couple that I'm familiar with are -- are what --23 new IT system? 23 what my team and Mr. Childree in specifically 24 24 Time and money. looked at the ERP, having done that in his career A. 25 Okay. How -- and what would the 25 at the State of Alabama and what it should cost, O. Page 82 Page 84 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 effect be of the time delay? and his assessment was that they should be able to 3 3 It would take longer to implement the do it for the money that's in there. A. system. 4 4 Q. Okay. 5 5 Q. And would that impede implementation A. I know that Ms. Niblock is in the 6 of the RRIs? 6 process of replacing all of the laptop PCs for the 7 7 If the RRI is about the IT or if City and that the price they're assuming on a per 8 8 there is some component of an RRI that's unit basis is reasonable with a little bit of 9 predicated on an IT solution. 9 cushion in it, so I believe in that 150 is a 10 10 And to the extent that the City was little bit of cushion. I don't know what it is 11 11 expecting more revenue or lower costs from a new specifically and I don't know what it totals to. 12 IT system, would a delay in implementation affect 12 But I know they've made an attempt to be 13 that revenue or that cost savings? 13 reasonably conservative on what those costs are. 14 14 A. It could. Right. Going back to Page 122, is it 15 Okay. You said it would be time and 15 your opinion that the City should have -- should O. 16 16 increase its 1 percent contingency to allow for money. 17 17 What would the money element be if a the risks associated with the IT initiatives? 18 failure to implement an IT system --18 MR. KANE: Before you answer, Geoff, 19 Α. It would simply cost more. 19 I just want to make a minor clarifying point. 20 Cost overrun? 20 O. MR. STEWART: Sure. 21 A. Yes. 21 MR. KANE: I haven't quibbled with 22 22 Okay. And how common are such cost the term "opinion" as a proxy for "view" --O. 23 overruns in the IT world? 23 MR. STEWART: Yeah. 24 Fairly common. 24 MR. KANE: -- or "conclusion." I A.

21 (Pages 81 to 84)

just want to make sure we're talking small

Okay. Now, on Page 122, under

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25

Page 85 Page 87 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 "o" opinion. substantially? 3 MR. STEWART: Why don't I say --3 Yes. Α. 4 4 con -- why I don't just change the question, Employment has fallen substantially? O. 5 say conclusion just to make it clear. 5 A. 6 MR. KANE: Thank you. 6 Q. Revenues have fallen substantially? 7 7 BY MR. STEWART: Α. 8 8 Q. Let me ask the question again. Let O. Industrial base has continued to 9 me -- let's go back to Page 122. 9 erode? 10 10 Uh-huh. A. Yes. Okay. Do you have any reason to 11 Is it your conclusion that the risk 11 O. associated with the IT initiatives alone should 12 believe as we look at the next 40 years that 12 13 13 require an increase in the contingency above the Detroit will not experience another economic 14 1 percent that's in the forecast? 14 reversal? 15 15 My preference would be if -- that I A. In terms of continuing decline or 16 would like to see more contingency. I've said 16 reversal to continuing uptick? 17 that kind of throughout my report, and this is one 17 Do you believe Detroit right now, 18 of the areas where I think it would be good to 18 today, is experiencing normalized economic 19 19 have more contingency. conditions? 20 As a general matter, why is it good 20 A. For Detroit, yes. 21 to have a bigger contingency? 21 What does it mean when you say Q. 22 Because these are -- these are big 22 normalized economic conditions for Detroit? 23 projects happening in the future, things will 23 I think Detroit is stabilizing and is 24 24 change. at -- as I said before, is at a tipping point and 25 25 Okay. Now, on Page 193 of your has prospects of stabilizing and growing again. O. Page 86 Page 88 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Okay. And if it does tip, what report, you point out that -- and this is at the O. 3 top, under "Macroeconomic Issues," you write that 3 happens. 4 "I believe the City's economic forecast that 4 A. If it does tip? Tip up or tip down? 5 5 informed the projections considered normalized Q. Tip down. 6 economic conditions. I do not believe the City's 6 A. I don't think any of this would work. 7 7 projections accounted for any significant economic Okay. Now, as you look forward to 8 8 disruptions similar to those experienced recently the next 10 or 40 years, what assurance is there 9 during the Great Recession." 9 that Detroit is not going to encounter another 10 10 Let me start by asking you, just so fiscal collapse? 11 11 we have it, what do you mean by "normalized I don't think there are any A. 12 economic conditions"? 12 assurances. 13 Something that isn't predicated on a 13 What are the odds that the nation O. 14 recession or, alternatively, a boom. 14 will have another recession? 15 Uh-huh. And when we look at Detroit, 15 I have no idea. Α. 16 we saw a fiscal collapse from about 2000 to about 16 How often have recessions typically Q. 17 17 2007? occurred in recent years? 18 I haven't looked back to 2000. 18 I haven't thought about that. A. A. 19 Right? 19 Q. Okav. 20 20 Uh-huh. And then there were the Don't have an opinion. Don't have a A. 21 effects of the Great Recession on Detroit as well, 21 thought. 22 22 correct? Okay. Are you aware of any reason to O. 23 23 Α. Right. The obvious. believe Detroit is on the verge of a -- of a 24 Fair to say in the past 14 or 24 radical economic boom? 15 years the population of Detroit has fallen 25 25 Radical economic boom?

Page 89 Page 91 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Q. Uh-huh. in some analytical way in terms of what level of 3 No. 3 risk that poses to the City's ability or City's A. 4 ability to implement its plan? 4 Now, one of the things your report O. 5 dealt with at great length was pension issues, 5 I don't think I understand the 6 6 correct? question. 7 7 Α. Yes. Have you been able to quantify what O. 8 that risk would be to the City? 8 Q. Okay. And without getting into each 9 of the pension issues, as a general matter, what 9 We -- we have asked the City to do a 10 10 sensitivity analysis of various investment concern, if any, did you express -- pardon me -about the City's potential future pension returns. 11 11 12 liabilities? 12 O. Right. 13 13 I expressed concern that the City A. And that is part of the open request 14 needs to -- the City would be advised to monitor 14 that's still outstanding. We did get information 15 annually and actively its future unfunded 15 from Milliman on the sensitivity analysis we requested for the PFRS system, but not for the 16 liabilities. 16 17 O. Okay. And, pardon me -- in those 17 GRS. 18 future unfunded liabilities -- well. let me back 18 Q. And Milliman is, for the record, is 19 19 the City's actuary? 20 20 Why do you think the City should A. Yes. actively monitor its -- its future unfunded 21 21 Okay. Now, if turns out that the 22 liabilities? 22 pension funds underperform in terms of their 23 23 investments at 6.75 percent what, if anything, Because the City, as part of the 24 24 plan, has fixed its contribution, okay, over the would the City be required to do? 25 25 The City would eventually be required next ten years, which for purposes of my Page 90 Page 92 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 feasibility assessment is a positive thing, right? 2 to put together a plan to fund that. 3 It gives the City certainty around what it needs 3 Is that risk something that should be 4 to spend on its old pension program. 4 provided for in the plan as part of the 5 5 Okay. Now, if it turns out -- well, contingency? 6 let me ask about a few things. 6 A. I -- I don't -- as part of the 7 7 First of all, are you aware that the contingency today? 8 8 Uh-huh. City settlement with the retirement systems O. 9 includes, among other things, an assumed rate of 9 A. No. 10 investment return of 6.75 percent? 10 Why not? Q. 11 11 Because it is a far in the future I am aware of that. Α. A. 12 O. Is there a risk associated with that? 12 obligation. 13 13 A. Yes. O. Uh-huh. 14 14 What is the risk? And many, many things can change by Q. 15 The risk is that the investment 15 the time that the City is obligated to -- to 16 return over the -- the course of the time frame 16 address that issue. 17 17 would not equal 6.75 percent. Okay. Your report speaks of other 18 And if that occurs, what would the 18 issues involving the pensions as well, including, 19 for example, pension restoration. 19 effect be upon the City? 20 If the investment return is less than 20 A. Yes. 21 that, the effect on the City would be that it 21 Remember the sections on that? And 22 22 would have a larger unfunded liability. the operation of the pension restoration mechanism 23 Have --23 also could affect how much the City might have to Q. 24 A. In the future. 24 some day pay the retirement systems, correct? 25 Q. -- have you been able to reduce that 25 Yes.

Page 93 Page 95 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Would your answer be the same if I conservative assumption would be something that 3 ask you whether that had to be provided for in 3 would either cause a reduction in the value of the 4 4 revenue or an increase of the value of the today's contingency? expenses. 5 A. Yes. 5 6 6 Q. And just so we don't spend all day on Q. Have you attempted to quantify the 7 pensions, there were other issues identified as 7 conservative assumptions in the City's 8 well in your report having to do with pensions, 8 projections? 9 9 correct, besides --A. I have not. 10 10 A. Yes. You then go on the say, "While I do 11 not believe a 1 percent contingency is adequate, I 11 And your answer would be the same 12 that, although that is a potential cost to the believe that the POA projections taken as a whole 12 13 13 fall within the range of reasonableness and within City in future years, it is not something that 14 would have to be reflected in the contingency 14 my definition of the feasibility standard." 15 Do you see that? 15 today? 16 16 That's correct. A. Correct. A. 17 Okay. Let's look, if we could, then 17 And are you saying that, although the 18 18 1 percent contingency is not enough, the other I'll move on and almost be done, on Page 200 and 19 19 conservative assumptions offset any shortcomings? 20 200 and 201. 20 I'm saying taken as a whole -- the Α. 21 The bottom --21 projections with all of the conservative and Q. 22 (Whereupon, a brief discussion was 22 aggressive assumptions taken as -- as a whole are 23 held off record.) 23 reasonable. 24 24 BY MR. STEWART: Q. Okay. Let me ask you about 25 Anyhow, 200 to 201, you've written in 25 sensitivity analyses now. Page 94 Page 96 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 the carryover sentence, and I'm going to start in Okav. A. 3 the middle of it, "I believe that there are enough 3 And you have about a half dozen of 4 conservative assumptions in the projections to 4 them in your report, correct? 5 5 offset what I view as an aggressive assumption A. I haven't counted them. б concerning the level of contingencies particularly 6 Okay. Well, nor are we going to 7 7 in the early years." itemize them all here, but they seem to be about 8 And fair to say that the aggressive 8 that many. And let me just go to the first one, 9 assumption on contingencies is the 1 percent? 9 which is on Page 48, 49. And this is the 10 10 Yes. sensitivity analysis about income taxes. A. 11 11 0. And the conservative assumptions A. Okav. 12 would be what? 12 Q. And the analysis is described on 13 I think the -- I think there are 13 Page 48 and the table is on 49. 14 reasonably conservative assumptions on the revenue 14 Uh-huh. 15 15 side. Is it fair to say that this is the 16 O. Uh-huh. 16 mathematical exercise of the simply showing what a 17 17 1 percent change results in if no other constants A. I think there are -- there are some 18 reasonably conservative assumptions relative to 18 change? 19 the total head count in the early years in terms 19 Α. That's correct. 20 of the people employed by the City. 20 In fact, a change in taxable income 21 Q. Anything else? 21 could affect other constants, right? 22 22 Not off the top of my head. A. A. It could. And when you use the phrase 23 23 And if so, the sensitivity analysis "conservative assumptions," what do you mean? 24 24 would have to be altered to take into account 25 Conservative would mean -- a 25 those other changes; is that right?

24 (Pages 93 to 96)

Page 97 Page 99 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Generally, a sensitivity analysis is without RRIs. I mean the forecast with RRIs. I 3 done around a single variable. 3 mean the 40-year forecast. So when I refer to the 4 4 forecasts at large, I'll call them the EY Okay. O. 5 A. Right? 5 forecasts. Does that work for you? 6 6 And all of the sensitivity A. And that includes the Conway 7 analyses -- analyses you have done have been done 7 position? 8 around a single variable, right? 8 Q. It does. 9 9 A. Yes. Okay. A. 10 10 And when it predicts a -- the effects Because you have to -- to have a name Q. Q. 11 for them and ultimately EY assembled them. 11 of a 1 percent change, it would be that absolute 12 number whether the 1 percent is up or whether the 12 Α. Right. 13 13 1 percent is down, correct? Q. And so -- I mean, I can call them 14 A. Yes. Yes. 14 whatever you want, put it another way --15 MR. STEWART: That is all I have. 15 A. Okav. 16 MR. HACKNEY: This might be a good 16 -- but if there's a time where you 17 time for a break. I'm going to move all my 17 want to say well, Steve, I need to talk about this 18 instead of this, let me know. Okay? 18 stuff over there. 19 19 MR. STEWART: Sure. And, as a general rule, if I ask you THE VIDEOGRAPHER: Okay. The time 20 a question that doesn't make sense, as I am wont 20 21 to do, will you please let me know so that I can 21 now is 11:04 a.m. We're going off the 22 record. 22 rephrase it? 23 (Whereupon, there was a brief recess 23 A. Yes. 24 24 in the proceedings.) O. If you -- do you understand that if 25 25 you answer my question, I'm going to assume that THE VIDEOGRAPHER: Time now is Page 98 Page 100 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 you understood my question? 11:12 a.m., and we're back on the record. 3 **EXAMINATION BY MR. HACKNEY:** 3 A. Yes. 4 Q. Ms. Kopacz, we've met before but --4 Q. So going back to it, what are the 5 5 limitations of the EY forecasts that are included A. We have. 6 6 in the plan in your view? -- I'll introduce myself again. My 7 7 name is Steve Hackney and I represent Syncora in The limitations? I'm struggling with 8 the City of Detroit bankruptcy case. It's ice to 8 the word "limitations." 9 see you again. 9 Q. Okay. 10 A. Nice to see you again. 10 As I said in an answer to A. 11 Let me ask you some open-ended 11 Mr. Stewart's question, the projections in the 12 questions at the start here. 12 City's plan are -- were created for specific 13 I first want to confirm that you're 13 purpose and they are not what we would typically 14 14 not intending to offer opinions other than the expect to see as a set of projections for a plan 15 ones that are contained in your report, correct? 15 of reorganization in a Chapter 11 case. So, 16 That is my intention, yes. 16 they're just -- they're -- it takes more effort to A. 17 17 Okay. And you have disclosed the understand what they are and what they aren't. 18 bases for your opinions as well as the facts and 18 Going back to that, I wanted to make 19 data that you considered in your report, correct? 19 clear that you are specifically disclaiming any 20 20 opinions on whether the -- whether the plan is in A. Yes. 21 What are the limitations of the EY 21 the best interests of creditors, correct? Q. 22 22 forecasts in your view? And I'm going to get some That was not in my scope. A. 23 terminology down here, which is to say when I 23 And you don't have any opinions on O. 24 refer to the EY forecast at large, I mean all of 24 that? 25 them. So I mean the -- the baseline forecast 25 I do not have an opinion.

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- MARTI KOPACZ - VOLUME 1-

- Q. And you did not attempt to -- to determine whether the -- the City might do better than the -- the forecasts such that there would be more to distribute to creditors, correct?
- A. Yes. And I -- I think at some point in my report I said there are -- there are things that I didn't -- that I very clearly didn't do, and I didn't -- I didn't look at best interest of creditors. It was outside of my scope, and I didn't look to see if there was a way in which the City could generate more cash, and I didn't look at any of the alternative plans.
- Q. And just to be clear, to the extent the City is purporting to use the projections to satisfy the best interests of creditors test, you do not have an opinion that the projections are appropriate for that purpose, correct?
- A. I don't have any opinion around best interest at any level.
- Q. Okay. But I have to tie it to the forecasts as well, correct? You're not saying these forecasts satisfy the City's burden in connection with the best interests of creditors?
 - A. I -- no. I don't have any -- I don't

- MARTI KOPACZ - VOLUME 1stuff, right? And at that point in time, when KPMG signs off and it files its CAFR, then --CAFR, C-A-F-R, comprehensive annual financial report, those are numbers that have been vetted, if you will.

- Q. The negative implication of your question is that in between CAFRs, the City does not have reliable financial records, correct?
 - A. They have ad hoc records.
- Q. They are definitely ad hoc.
 - A. Yes.

- Q. Are they reliable?
 - A. Some may be and some may not be.
 - Q. Okay. You did not have sufficient time to audit the records of the City, correct?
 - A. No, and it wasn't in my scope.
 - Q. Okay. So you have not made a determination as to whether the financial information upon which the projections are built, to the extent that they're not derived from a CAFR, are based on reliable financial records, correct? You haven't made that determination.
 - A. Can you repeat the question, please? MR. KANE: I was distracting her with

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- MARTI KOPACZ - VOLUME 1- have anything to say about that.

Q. Okay. I guess -- let me go back to the subject of limitations and give you an example to help inform my question a little bit.

So you're aware that the City has what I'll describe as troubled data systems with respect to the collection of financial records?

- A. Yes.
- Q. You're also aware that the forecast is, in some respects, based on historical financial records?
 - A. Yes.
- Q. So, an example of a limitation would be that if the City has historical financial records that are of questionable validity, that that could be a limitation on the accuracy of the forecast. So I'm using this as an example of something that could be a limitation. I'm not saying that it is or it isn't, but I'm trying to inform my question to you more to help put some meat on the bones so to speak.
- A. The City has accurate financial information once a year when it completes its -- its annual audit and gets its annual financial

- MARTI KOPACZ - VOLUME 1-the microphone.

MR. HACKNEY: That's okay. It's a long one, but I think it was the best way to ask it, so it may be better to have it read back.

(The question requested was read back by the reporter.

THE WITNESS: That didn't help me. Can we try again?

BY MR. HACKNEY:

Q. Yeah. So, I think -- let me try and summarize what you've said.

I believe that you have testified that you believe the CAFRs are reliable financial information sets, correct?

A. Right. I -- the CAFRs are based on financial information that has been tested and vetted and upon which KPMG has opined. Okay?

I may quibble with some of the accounting that's in there just because I have a view of certain things. Okay? But at least at that point in time, if we're looking at, for example, the CAFR in June of '12, which was the basis for the original baseline by E&Y, if they

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Page 105 Page 107 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 said they had 10,002 employees and they paid them A. Yes. 3 \$386 million, I think those are probably very good 3 O. Okay. Now, with respect to the 4 4 forecasts that are included in the plan, what is numbers. 5 Q. Okay. So, I think we're on common 5 the base year for those forecasts? 6 6 ground when we say to one another the CAFRs are in The base year for the original 7 your view reliable financial information sets. 7 ten-year was 2012 and then it was updated for 8 8 information that was known in 2013 and it has been correct? 9 9 A. Right. subsequently updated for information that is known 10 We then talked about the -- in the 10 in 2014, which is the year we just finished. O. 11 interim between --11 So let's get terminology straight, 12 because I would get this turned around. 12 Α. Right. 13 -- between the CAFRs, I think your 13 But isn't it true that fiscal year O. 14 testimony was to the effect of some information 14 2013 ended on June 30th, 2013? 15 15 may be reliable and some may not be reliable, A. Correct. 16 correct? 16 Okav. Ο. 17 Α. Yes. 17 A. And that's the first baseline. 18 That's part of the problem that 18 And you understand that when the 19 Detroit is facing now, right, it's difficulty with 19 first baseline forecast was being built it was 20 its an assembly of financial information? 20 prior to the end of fiscal year 2013? 21 Yes. 21 Yes. A. 22 Q. So my question is that to the extent 22 And so, in that forecast, the base O. 23 that the forecasts in the plan are based on 23 year was clearly fiscal year 2012, correct? 24 24 information that was developed after the 2012 Up to -- yes, and updated for what 25 fiscal year CAFR, you have not made an assessment 25 was discernable and knowable before that Page 106 Page 108 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 of whether that financial information is reliable. 2 projection was made. 3 3 correct? So I understand that the projection O. A. Individually that is correct. Yes. involves updating --4 4 5 5 Okay. And isn't it true that the A. Yes. б fiscal year 2013 CAFR just came out last week? 6 O. -- things, but when I talk about the 7 7 That is correct. base year, that's not something that you update, Α. 8 So that wasn't available to the 8 correct? 9 forecasters at EY in connection with their 9 A. Correct. 10 10 forecast, correct? The base year is the historical base, Q. 11 11 Parts of that -- information that is correct? 12 contained in the CAFR is available throughout the 12 A. Correct. Yes. 13 year. So, for example, the City has a good handle 13 So, when we get to the forecasts that 14 on cash, so it can tell you how much cash it has 14 are included in the instant plan, the most recent 15 and how much cash it has to pay, right? 15 set of those was dated July 2nd, correct? 16 What its future obligations may be 16 Correct. Α. 17 for some construction project that's going on, it 17 And that's of 2014? Q. 18 probably can't tell you. 18 A. Correct. 19 Q. Okay. So there were parts of the 19 O. What was the historical base year for 20 2013 CAFR that may have been available to E&Y --20 the forecasts that are in the plan? 21 21 It's -- it's still the baseline plan, A. Yes. 22 22 Q. -- and parts that were not? the ten-year plan, updated for the updated RRIs, 23 Α. Correct. 23 updated for the new 40-year. 24 And they -- the same parts were 24 But based off of fiscal year 2012? Ο. Q. available to you and not, correct? 25 25 The baseline was 2012.

Page 109 Page 111 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 2 Q. had to be. Right. 3 A. Right. 3 O. Yeah. It had to be. But what about the ten-year 4 4 By definition, had to be. A. 5 restructuring forecast? Is that base year 2012? 5 Are there problems with the forecasts б 6 that are in the plan in your view? Base year 2013? 7 The ten-year restructuring forecast, 7 Problems? I -- I don't -- there's 8 8 I think of that as the 40-year plan. The ten-year not problems with them in the sense of where they 9 9 that's within the 40-year? end up, right? I, again, have been really 10 10 Yes. critical of how confusing they are. Q. I think that has been largely up 11 I was going to say that it seems to 11 A. 12 me that when a forecast is confusing, and I'm one 12 dated for '13. 13 13 of the people that shares your view that they're Okay. So is the base year for the 14 40-year that includes the 10-year --14 confusing, that strikes me as a problem with the 15 15 forecast. I think a forecast should not be A. Yes. 16 16 O. -- fiscal year 2013? confusing, but that's me and I wanted to ask 17 A. It's '12 adjusted for what they knew 17 whether or not the confusing nature of the 18 18 forecasts was a problem from your point of view? about '13. 19 19 It -- it caused my team to spend an O. Okay. So it's --20 enormous amount of time in understanding and 20 A. It's a hybrid. -- it's a bit of a hybrid? 21 checking the model, right? It -- it -- I think 21 Q. 22 22 the -- the word I'd use in here or a word I used A. 23 Okay. And is that typical in 23 at one point in time was it was tedious. Q. 24 24 Isn't it fair to say that it -- it forecasting? 25 Is it typical in forecasting? It is 25 took an enormous amount of time just to understand Page 110 Page 112 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 typical if forecasting goes on for a long period the model? 3 of time as this has. And think about it. They've 3 We -- yes. I -- I believe that I 4 been -- they've been doing these forecasts for a 4 have a good understanding of all the models. You 5 5 long, long time, and so they keep updating them. know, members of my team have a -- an incredibly 6 But originally, it started with the baseline which 6 intimate understanding of those models. But that 7 7 was predicated on '12 -- of 2012. required a significant effort on our part, but we 8 8 Okay. And so to the extent the understand them now. 9 9 forecast for 2013 was superseded by actual How long would you say it took you 10 10 results, your testimony is that the forecast was and your team to reach the point where you could 11 11 updated to take account of the actual results that say, okay, I now have an understanding of the 12 had already happened? 12 model? 13 To the -- to the extent that -- yes, 13 About the -- by the time we got the July 2nd numbers, we had a really good 14 14 there are -- there are updates. Because there 15 understanding of the May 5th numbers. 15 are -- I'm trying to think, I think there are six 16 sets of projections, right? We only focused on 16 Okay. So, you were retained on or 17 17 the May 5th and the July 2nd, but there were other about April 22? 18 sets of projections before that that existed, you 18 April 22nd. We got the working models on the E&Y stuff Memorial Day. 19 know, from that. So, all of those have changed 19 20 20 and incorporated both new actual results and new Which was April 30 or something like O. 21 assumptions. 21 that? 22 22 And the new actual results May something or other, right? Q. A. 23 23 post-fiscal year 2012 are ones that were derived O. Okay. 2.4 24 from something other than the CAFR, correct? A. And, you know, within a couple of

weeks of actually getting the working models, we

A. As the CAFR was filed last week, yes,

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Page 113 Page 115 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 were in -- in pretty good stead with understanding 2 sure, right? 3 3 the May 5th, and then we got the July 2nd and went And my question was, you haven't done 4 4 through a similar process with that; albeit, you a comprehensive review to test whether Conway is 5 know, we already knew how they worked so it was 5 correct in either the assessment of operational 6 6 needs or its conclusion regarding whether the RRIs easier to do those. 7 7 So would you say by the end of May will solve the operational needs, correct? that you believe your team had achieved a good 8 8 That's correct. A. 9 working understanding? 9 O. What -- what revenue streams are not 10 10 No. By the end of -- by the end of included in the plan forecasts? 11 11 The Grand Bargain revenue streams. June. A. 12 12 Oh, by the end of June? Okay. Those are not included in the O. O. 13 13 A. By the end of June. forecasts? 14 Q. And you --14 Well, they're in the forecasts, but A. 15 We didn't get the working models 15 they're not in the -- they're in the plan A. 16 16 forecast, but they're not in the City's budget until the end of May. 17 Q. Okay. You had less than --17 because those monies don't -- they don't flow 18 May something or other. 18 through the city when they come in. A. 19 You had less than 90 days to do your 19 Understood. Okay. So the Grand Q. 20 20 Bargain forecasts are not -- not -work in this case, correct? 21 Yeah, whatever it's been. 21 So the --A. 22 So May, June, July -- April 22 to 22 -- in -- the Grand Bargain proceeds O. O. 23 May -- July 18 I think. 23 are not in the City's forecasts, correct? 24 A. Yes. 24 They're in the plan, but they're not 25 25 in -- I -- I may have confused myself. Did you have sufficient time to do O. Page 114 Page 116 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 vour work? They're not in -- they're not what we 3 3 would consider to be part of the City's budget. A. I feel like I did. I mean there's 4 still a couple of things that, as I said in to 4 Q. Understood. 5 5 Right. But they're in the plan as a response to Mr. Stewart, questions that I intend A. б to do going forward. But for the most part, I am б sources of funds. 7 7 satisfied with our ability to evaluate what all Okay. So, let me -- let me put --8 the information that was available and meet with 8 let me turn the question around, which is what 9 the people that were available and do what we 9 revenue streams did you not study? 10 10 I don't think that there was any needed to do. 11 revenue stream of a recurring nature that we 11 O. With respect to the forecasts? 12 A. With respect to the forecasts. 12 didn't study. 13 Now, with respect to the 13 Well, what about something like DWSD? 14 restructuring and reinvestment initiatives, you're 14 Did you undertake an analysis to determine whether 15 15 in the future the City's general fund might obtain not offering the opinion that they will achieve 16 the goals that they're held out to achieve, 16 revenue from what is currently known as DWSD? 17 correct? 17 A. We did not do that. 18 18 Okay. So you have no opinions on A. No. No. Q. that one way or the other? 19 And you haven't conducted a 19 I do not. 20 comprehensive review of the City's department from 20 21 an operational standpoint to understand how the 21 You are generally aware that there is 22 restructuring and reinvestment initiatives map on 22 this concept that the DWSD may change the 23 to needs of each department, correct? 23 structuring in which it's housed in a way that 24 24 I have not redone -- I have not yields an additional revenue stream to the general

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fund?

redone the work that Conway has done. That's for

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Page 117 Page 119 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 MR. KANE: Objection. You can United States could impact the City over the next 3 3 ten years, correct? answer. 4 4 BY MR. HACKNEY: A. It could. 5 Q. Just -- are you aware of the concept? 5 Did you conduct a separate analysis 6 6 I'm aware that there's discussion of that question? 7 around that, yes, and that DWSD is an enterprise 7 No. Α. 8 8 fund. Q. What kinds of information were you 9 9 Other than that, DWSD was outside unable to examine regarding the forecasts? Q. 10 10 I -- the -- the exhibit here of what your scope? 11 the open requests I was not able, I obviously 11 A. DW -- other than the pension funding 12 transfer from DWSD to the general fund, I did not 12 haven't -- they're still open requests, so I 13 13 look at DWSD. haven't looked at that. 14 What about, did you study the 14 Anything else other than that that 15 15 likelihood and magnitude of potential asset sales? was something that you would have liked to have 16 I met with people in the City and 16 had but you didn't? Not that I'm recalling. 17 with the City's advisors to talk about potential 17 A. 18 18 What about information regarding asset sales, yes. 19 19 grants? Did you undertake an assessment of what Are potential asset sales included in 20 the plan forecasts as a potential source of 20 grants the City is or is not likely to get in the 21 revenue? 21 future? 22 A. No. 22 Only as it relates to the A. 23 23 departmental reviews, not a broad review of grants Okay. So, is it fair to say that, 24 24 because they're not in the forecasts, you don't that are available that it doesn't apply for, no. 25 have an opinion on the likelihood of revenue that 25 What are the assumptions that area in Page 118 Page 120 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 the forecasts regarding what grants the City will will arise from asset sales in the future? 3 3 That's correct. A. get? 4 Q. Okay. What are the uncertainties 4 A. It -- again, there's an exhibit in 5 5 that exist over the next ten years that could here that identifies the grants and the totality 6 impact the forecasts? 6 of the grants, but they -- they're fire and 7 7 A. I think we went through them, right, safety, public safety and transportation 8 8 in the report? The risk and opportunity. primarily. 9 So, yeah -- to the -- to the extent 9 And did you undertake any assessment 10 10 there are uncertainties, if I want to know what of the likelihood that they would get those 11 your view on that is, I should read your report? 11 grants? 12 A. You should. And it's the section on 12 A. No, I mean in terms of -- no. I mean 13 13 there -- I assumed -- I looked at the grants that risk and opportunity. 14 Do you agree that changes to the law 14 they're assuming they're going to get and I agreed 15 is an uncertainty that could impact the forecast? 15 that it looks like they're going to get those 16 Changes to what law? 16 grants. A. 17 17 Q. Any law. O. On what basis? 18 That impacts the City? It could. 18 On the fact that they've applied for A. A. 19 Q. Changes to the tax law could 19 those, like the SAFER grants for the fire 20 certainly impact the forecast? 20 department, those sort of things. 21 Yes. 21 So the extent of your confirmation A. 22 22 was to confirm that they had, in fact, applied for Did you study the likelihood of Q. 23 changes to tax law? 23 the grants? 24 Generally, no. 24 A. No. My -- my analysis of that was to A. 25 The macroeconomic condition of the 25 get comfortable that the grants that were in the 30 (Pages 117 to 120)

Page 121 Page 123 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 forecasts were likely and reasonable, not --Q. Now, when you were retained, it was 3 again, my job was not to look for more grants, 3 about a week after there had been a lot of 4 4 announcements about agreements that the City had right? That's not what I'm doing. I'm not 5 5 looking for more. struck with certain retiree associations. I'll 6 6 represent to you that, I remember well, came about I'm just looking to see that the 7 7 grant funding that's in the plan appears in mid-April okay. reasonable based on where they are today and the 8 8 I don't -- do you generally remember 9 9 kinds of programs that they're engaged in. That when you were being appointed that you were coming 10 10 in at a time when the City had just announced a was it. How did you do that? 11 less steep cut to pensions and seemed to have some 11 Q. 12 By talking to the people involved in level of consensus from some of the retiree 12 A. 13 13 grants. parties. Do you remember as a general concept? 14 Okay. So let's say that the City has 14 A. I really don't --15 15 applied for a grant from the federal government Okay. Q. for fire equipment. Hypothetical, okay? So 16 -- because I was not -- I had very 16 Α. 17 \$10 million grant. 17 little knowledge of what was going on in the 18 A. Uh-huh. 18 bankruptcy before April 15th or whatever that was. 19 19 No, I understand that. I meant more Okay. What work did you do to test O. 20 whether they'll get that grant or not? 20 as you're appointed and you start to get up to 21 Really only discussions with fire 21 speed do you remember having a recognition that 22 22 department. the City had just struck certain agreements with 23 23 So if the fire department said we'll the retiree associations? 24 24 probably get it, that was sufficient for you to A. I remember that they had -- that 25 25 those settlements were -- were being reached, yes. conclude this is a reasonable assumption? Page 122 Page 124 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 O. And you know that the plan that you MR. KANE: Wait for him to stop 3 3 were studying was one that called for asking the question before you start 4 4 answering. 4 1/2 percent cuts to base pensions on the GRS 5 5 side and zero percent cuts to pensions on the PFRS THE WITNESS: Right. Yeah. Right. 6 6 side, putting COLA to one side? BY MR. HACKNEY: 7 7 Q. Okay. And you didn't assess the MR. KANE: At what point? 8 8 likelihood that the City could get incremental THE WITNESS: I don't/I don't 9 9 grants, correct? specifically remember that. 10 10 BY MR. HACKNEY: A. Correct. 11 11 Do you know whether all the grants O. Okay. So --O. 12 that the City gets are in the forecasts in the 12 A. Okay? 13 13 -- you don't remember -- well, you plan? 14 14 agree that those are the cuts in the current plan? A. I do not know that. 15 15 And have you taken any efforts to The cuts in the current plan are 16 study the City charter? 16 4 1/2 percent on the base to GRS, NO cut on the 17 17 base to PFRS. COLA cuts on the PFRS side and Cola No. A. 18 18 Ever -- okay. I take it you haven't cuts ON the GRS side. undertaken an assessment of the extent to which 19 19 Right. That's the plan that --20 the current structure of the city charter will 2.0 that's the current plan. 21 impact the feasibility of the City? 21 That's the frozen old plan generally. 22 Do you -- do you remember studying a 22 A. Generally, no. 23 plan that ever had different cuts? 23 I'm generally correct when I say O. 24 24 that? I don't. Α. 25 25 That's correct. Are you aware that the plan that was

Page 125 Page 127 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 initially filed in February, two months before any of the settlements would, would reduce the 3 your appointment, called for steeper cuts than are 3 amount of cash the City has to pay to somebody, 4 4 I'm going to think that improves the feasibility. in the current plan? 5 A. I -- I have no recollection of that. 5 Understood. I wasn't trying to trap 6 6 So, just as you sit here today you're you into a notion where, you know, if you cut 7 not generally aware of the fact that the City 7 pensions more, but then you give the savings and 8 8 reduced the pension cuts significantly between the more to someone else? 9 9 first -- reduced the pension cuts between the Right. A. 10 10 first plan and the plan that's on file? I was saying all things being equal, No. I -- when I got appointed, 11 the steeper the cuts to the pensions, the more 11 right, the -- was the day before I went I think 12 feasible the City would become from a financial 12 13 for my interview with the Judge, the fourth plan 13 standpoint? 14 got filed and, at that point, I didn't look at 14 A. And again, I just have conceptually a 15 15 anything other than the fourth plan going forward. hard time isolating a single action around, you 16 So I just -- I don't have any --16 know, what you're trying -- to get. It sounds to 17 Q. I see. 17 me like you're trying to get me into the best 18 18 interest of creditors and I'm just not going A. I don't have any recollection. 19 So -- okay. Let me ask it then as a 19 O. there. 20 20 hypothetical. Okay? Q. No. I'm trying to assess your own 21 21 A. definitions of feasibility. 22 If the prior plans included steeper 22 A. Yes. O. 23 cuts to pensions than the current plan --23 Which you admit is on a continuum, Q. 24 24 Α. Okay. correct? 25 25 -- from your standpoint, that would Q. It is on A continuum. Page 128 Page 126 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 increase the likelihood that the prior plans, all O. So feasibility isn't just a magical 3 3 things being equal, were feasible, correct? point on the spectrum, right? 4 Because it would make the City's ability to comply 4 A. Right. It's a hurtle. 5 5 with the plan a lower bar? Q. It's a --6 6 MR. ALBERTS: Objection. A. You got to get over the hurdle of 7 7 THE WITNESS: More cash available feasibility and then it's a continuum. 8 8 improves feasibility. And the hurdle is the obligations 9 BY MR. HACKNEY: 9 imposed on the City under the plan, right? 10 10 If steeper cuts to pensions increases A. Yes. 11 11 the amount of cash that's available, steeper cuts The lower those obligations, the 12 to pensions makes the plan more feasible. Do you 12 lower the hurdle. Do you agree with that? 13 agree? 13 All other things equal, yes. A. 14 14 I'm not sure if it's -- that's it's Have you ever seen another Q. 15 if P then Q, and you're saying Q therefore P. I'm 15 municipality do a ten-year forecast? 16 not sure that -- that you can do that, right? 16 I have, but, again, not -- generally, 17 17 O. Why not? it's around long-term financing in terms of -- it 18 Well, because again, it's -- it's the 18 tends not to be a full-blown revenues and A.

32 (Pages 125 to 128)

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sources, yes.

totality of the cash that's available. So would I

like to have -- again, I have been very clear in

in this plan to provide cushion for variabilities

that are necessarily going to happen. So if -- if

I would like to see more cash that's

not committed to somebody or something available

my report. I'm being very clear today.

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expenses. It tends to look at certain kinds of

Have you ever seen another

municipality do a comprehensive general fund

long-term obligations or long-term revenue

forecast over a ten-year period?

A. I have not.

Page 129 Page 131 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 example would be valuation. Have you been Q. Have you ever seen another 3 municipality do a comprehensive general fund 3 qualified as an expert in valuation? 4 forecast over a 40-year period -- a gen --4 I don't think so. I don't think so. 5 comprehensive general fund forecast over a 40-year 5 You talked about solvency. Q. 6 6 period? A. 7 7 Have you ever been qualified as an A. Forty years. O. Yeah. 8 expert in whether an entity is or is not solvent? 8 Q. 9 9 A. No. A. 10 10 O. So, the two that are in the plan, the Q. Have you ever offered expert 11 10-year and the 40-year, are the first you've ever testimony as to whether or not a plan was 11 12 seen a municipality do, correct? 12 feasible? That I've ever seen? Yes. 13 13 A. A. I don't think so in terms of that 14 Q. Have you ever seen a municipality do 14 narrow definition of feasibility. 15 a forecast when it was undergoing this level of 15 Q. Okav. 16 change? 16 Right? A. 17 A. Personally? No. 17 Q. Have you ever offered expert 18 Ma'am, have you ever been qualified 18 testimony in a Chapter 9 case? 19 in a court of law as an expert before? 19 No. No. 20 20 MR. KANE: Other than this one? A. I have. 21 Okay. And tell me how many times 21 BY MR. HACKNEY: 22 that's happened to you? 22 Other than this one -- other than 23 We should go back and look at my 23 today? 24 testimony list, right? Probably -- I don't think 24 Α. Yeah. 25 it's in there. I think it's in my proposal. I 25 Have you ever offered expert Q. Page 130 Page 132 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 testimony on whether a plan satisfies the best referenced it. 3 3 interests of creditors test? MR. KANE: I've got some copies of it 4 if you want it. 4 Α. 5 5 BY MR. HACKNEY: O. Other than expert testimony on 6 6 insolvency, do you remember any -- any other areas Q. Okay. I missed that. 7 7 Yeah. More than two, probably less where you testified as an expert? A. 8 than five, ten. Something like that. 8 Yes. And I have testified -- I have 9 9 Q. Okay. So that means that's where a testified on behalf of clients in a variety of 10 Court has said Ms. Kopacz is an expert and I'm 10 bankruptcy hearings and confirmation hearings and 11 going to allow her to testify on Subject X? 11 I -- to be honest with you, I don't really know if 12 A. Right. 12 that's expert or fact or some sort of mix of the 13 And it's somewhere between two and 13 two. All right? I -- very few times in my career Q. 14 14 five? have I been hired exclusively as an expert. I've 15 15 generally been the financial advisor, the chief A. That's what I'm thinking. 16 What were the subjects of your 16 restructuring officer or had some other role Q. 17 17 before I got to the witness stand. testimony? 18 Generally, it's all been insolvency 18 Q. And it does create some complexity 19 and restructuring oriented. So whether or not, 19 because sometimes an FA will be a witness to facts 20 you know, an entity was solvent or insolvent. 20 that happen in the bankruptcy. 21 Whether or not -- it's all -- I mean, my career 21 A. Yes. 22 22 has been spent in restructuring, so it's all in And then they will also have the 23 23 that context. expertise to render opinions, as we lawyers think 24 of them, in connection with their testimony. So I 24 A very typical restructuring expert Q. 25 testimonies that I come across in my practice, an 25 under -- understand what I think you're alluding 33 (Pages 129 to 132)

Page 133 Page 135 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 to, which is it can sometimes be hard to 2 THE WITNESS: Yes. 3 distinguish. Is that what you're saying? 3 BY MR. HACKNEY: 4 4 A. It is. And -- and I've -- like I Q. So, Ms. Kopacz, you have an 5 said, I've testified on projections and 5 impressive record in the restructuring industry. б 6 reasonableness and solvency and ordinary course I've spent a lot time on the Internet reading it. 7 and -- all that. 7 I won't go into all of your different 8 Q. Have you ever worked in connection 8 experiences just other than to say I was impressed 9 9 with a Chapter 9 bankruptcy other than this one? by them; But I do want to sort of clarify the 10 10 boundaries of your expertise so that we know where A. Just to tie it up, have you testified 11 you are holding yourself out as an expert and 11 as an expert in a deposition or at trial in the 12 where you're not. Okay? 12 13 13 You are not an actuary, correct? last four years? 14 Live testimony? 14 I am not. A. A. 15 15 And you don't hold yourself out as an Q. Yup. 16 expert in actuarial science, correct? 16 Yup, the answer to that --A. 17 I don't want to dead ones. 17 Α. Correct. 18 18 You are not offering opinions as to A. -- the answer is no. Okay? There 19 19 what the appropriate discount rate is or assets or are --20 20 liabilities of a pension system, correct? Well, I guess you could do 21 depositions on written questions I guess, if 21 That's correct. 22 that's what you meant. 22 Q. Now, you are not an economist, 23 MR. KANE: Are you done answering? 23 correct? 24 24 THE WITNESS: I am done answering. A. That is correct. 25 25 BY MR. HACKNEY: And you are not holding yourself out Q. Page 134 Page 136 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 So you've not testified, to the best as an expert in economics, correct? 3 3 of your recollection, as an expert in a deposition That's correct. A. 4 or at trial in the last four years, correct? 4 Q. And you are not opining on the 5 5 Α. That's correct -- I -- that's macroeconomic factors that are or are not likely 6 correct. I'm thinking hard. 6 to impact the City of Detroit in future years, 7 7 Okay. Maybe I'll just ask to confirm correct? 8 8 that the report doesn't identify any and so I A. That's correct. 9 assumed that there weren't any, but maybe just to 9 Q. You are not a statistician, correct? 10 10 That's correct. confirm to be safe. A. 11 11 MR. KANE: I've got the application I think when you ask someone if 12 that's of record in the -- the court case 12 they're a statistician that every single person is 13 already that includes expert testimony 13 happy to say that they're not, other than experience, so I can get that at a break statisticians. 14 14 15 either now or later. But it was already of 15 MR. KANE: Other than baseball. 16 16 MR. HACKNEY: Well, and we won't get record. 17 17 MR. HACKNEY: It's not urgent. If -started on that. Maybe now she's going to 18 I don't know if you remembered whether there 18 say that she is. You might be an expert on 19 was one in the last four, but it --19 baseball statistics. 20 20 MR. KANE: To be honest, I don't BY MR. HACKNEY: 21 21 You don't hold yourself out as an remember. 22 22 MR. HACKNEY: -- you're saying it expert in statistics, correct? 23 23 would be there. Yeah. Α. I do not. 24 MR. KANE: It would be there. 24 Q. You have not conducted statistical 25 MR. HACKNEY: That's fine. 25 analysis of the forecasts to determine, for

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Page 137 Page 139 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 example, whether they fall outside the standard of 2 A. It is. 3 deviation for mean analysis, correct? 3 So it's just a horrible thing all O. 4 I have not attempted to calculate a 4 around. But the -- the assessed value is 5 standard deviation for the forecasts; that is 5 important to forecast of property tax revenue 6 6 because it represents the base against which the correct. 7 7 millage rate is applied against which the Q. And you have not applied statistical 8 collection rate is applied from which you get an 8 science to the forecasts? 9 9 That's correct. understanding of what property tax revenues may Α. 10 10 Q. Now, you are not a real property be. That is correct. I agree with that. 11 appraiser, correct? 11 A. 12 12 Okay. Now, you interviewed Α. That's correct. O. 13 13 Mr. Evanko the City's assessor; isn't that right? And you don't hold yourself out as an 14 expert in property appraisal, correct? 14 I did not. One of the members of my 15 That's correct. 15 A. team did. 16 You have not conducted any studies to 16 Q. So you have not had a chance to speak 17 determine the reasonableness of the City's 17 with him? 18 property tax appraisals, correct? 18 I did not. A. 19 A. Correct. 19 Who did? O. 20 20 Q. Do you agree that the assessed value Α. We'd have to go back on the contact 21 of the City's property tax base is an important 21 log. 22 consideration to any analysis of property tax 22 Q. Okay. 23 23 To know who all was present in that revenues? A. 24 24 Α. Repeat -- say that again. meeting. 25 You bet. 25 And by "speak with," I meant even on Q. Q. Page 138 Page 140 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 the phone. Do you agree that the assessed value 3 3 of the City's property tax base is a key A. I have not spoken with him, no. consideration to any analysis of property tax Did you e-mail with him? 4 4 Q. 5 5 I did not. revenue? A. 6 6 What did your team tell you about A. I -- yes, in the sense that you need 0. 7 7 to know what the assessed value is. what Mr. Evanko thought? 8 8 MR. KANE: About what? And also, what it's likely to be in 9 9 the future, right? THE WITNESS: About what? 10 10 A. You have to make an assumption around BY MR. HACKNEY: 11 11 Q. Anything. I will make a loose it, yes. 12 12 Yeah. Because the assessed -- do you prediction that it related to property tax 13 understand the nomenclature difference between 13 assessments, but I don't mean to limit my 14 "assessed value" and "taxable value" in Michigan? 14 question. I'm looking for my team -- my guys 15 talked to Evanko and they came back and told me X. 15 A little bit. A. 16 Okay. There are differences between 16 They thought he was very capable. Q. 17 17 Yeah. Okay. Did they tell you what the two terms. Q. 18 18 he thought about future property tax valuation --A. property -- future assessed property values in the 19 O. I'd like to find a way to not get 19 20 caught up in them, so maybe I'll --20 City? 21 A. Why don't we just say property 21 I'm not real -- I'm not recalling a 22 22 conversation that I had with my team on that values? 23 Yeah. Yeah. At a general level, the 23 specifically. 24 Do you understand that property tax 24 property value's actually itself is a different 25 term from assessed value. 25 assessed values are equalized within a

Page 141 Page 143 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 jurisdiction? Q. And you're not holding yourself out 3 Yes. 3 as an urban planning expert, correct? A. 4 4 That's correct. And then do you understand that that 5 jurisdiction's property tax values are then 5 Q. You're not opining on whether or not 6 6 equalized with other jurisdictions? the restructuring and reinvestment initiatives 7 When you mean "other jurisdictions"? 7 involve the an application of urban planning 8 Meaning other jurisdictions outside 8 disciplines to the City of Detroit, correct? 9 9 that city -- that municipality. Do you understand A. Correct. 10 10 that there are multiple levels of equalization as O. What are the key variables when it you go up towards the state level? 11 comes to assessing future income tax revenue for 11 12 12 I'm not sure I'm aware of that the City of Detroit? 13 13 For the City of Detroit? It occur -process outside of Detroit. 14 Okay. 14 it occurs at three levels. There's a rate for Q. residents, a rate for nonresidents and a rate for 15 15 Okay? A. 16 16 Are you aware of that process to the businesses. 17 extent it relates to Detroit? Meaning -- let me 17 O. And so within those levels, what are 18 18 the key variables that you have to study? ask it another way. 19 19 We have to look at for -- for the Do you know that the tax roll in the 20 City ultimately goes through an entity at Wayne 20 people, for the residents and the nonresidents, we 21 County that then looks at the City's tax roll and 21 have to look at the number of people employed and 22 looks at other municipalities and then determines 22 what the wage rates are. Okay? For the 23 an equalization factor to determine whether the 23 corporations, it's -- it's corporate income. 24 24 City of Detroit is over or under-assessed compared So you look at the number of people 25 to other municipalities? 25 that are working, average wage or income levels? Page 142 Page 144 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 A. Generally, yes. Specifically, no. 2 Correct. Α. 3 Okay. Meaning you have a general 3 And then the tax rate, correct? Q. 4 sense that that happens, but you don't have a 4 Α. Correct. 5 5 specific understanding? O. And then you also have to assess the 6 A. I don't know how it does it. 6 rate of collection, correct? 7 7 MR. KANE: Wait for him -- wait for A. Yes him to stop asking a question before you 8 Any other variables that you can 8 9 start answering. 9 think of that go into forecasting future income 10 10 MR. HACKNEY: That's okay. It's tax revenues other than those? 11 11 mainly for her benefit, so that she can go No. That just they're slightly 12 one and one. 12 different for the corporations. 13 MR. KANE: And your benefit to make 13 Understood. Understood. 14 sure you know what the question fully is. 14 Now, let's take something like 15 BY MR. HACKNEY: 15 average income data, which I think is -- is 16 Q. And do you know what an equalization 16 presented as a -- as a different concept from wage 17 factor of 1.0 means? 17 data in the forecasts, correct? 18 18 We're going to need to --A. I do not. A. 19 O. Do you know what Detroit's 19 Q. Take a look? 20 equalization factor was over the prior 15 years? 20 Yeah. A. 21 A. I do not. 2.1 Okay. Let me -- let's take a step 22 22 Okay. You are also not trained in back and look -- think of the concept of income in 23 the social science of urban planning; is that 23 a broad way that includes salaries or wages. Okay? I might be mistaken. 24 correct? 24 25 That's correct. 25 You haven't independently assessed A.

36 (Pages 141 to 144)

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1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	the average income data for the City of Detroit,	2	if he wants you to look for the specific
3	correct?	3	page.
4	A. That's correct.	4	MR. HACKNEY: Yeah, that's okay.
5	Q. Okay. You relied on data that was	5	THE WITNESS: Yeah. No.
6	given to you by Ernst & Young?	6	BY MR. HACKNEY:
7	A. That's correct.	7	Q. I am correct when I say that, right?
8	Q. Okay. And you haven't taken steps to	8	A. Correct.
9	assess the accuracy of that data, correct?	9	Q. And you also did not conduct any
10	A. That's correct.	10	sensitivity analysis around casino gaming revenue,
11	Q. And with respect to the level of	11	correct?
12	unemployment in the City, you also relied on data	12	A. Whatever's in here is what we did.
13	that was given to you by Ernst & Young, correct?	13	Q. Okay. So if you did sensitivity
14	A. Yes.	14	analysis, it's in your report, correct?
15	Q. But you did not attempt to	15	A. That's correct.
16	independently verify that data	16	Q. If it's not in your report, it's
17	A. I'm not	17	because you didn't do it?
18	Q correct?	18	A. That's correct.
19	A sure. I'm not sure what	19	Q. What is the utility user's tax?
20	independent information we had on employment on	20	A. It is a tax that the City of Detroit
21	unemployment.	21	assesses on telephone, cable, utility charges to
22	Q. Okay. You may have. You may not	22	residents in Detroit.
23	have. You just don't know?	23	
24	A. Yes.	24	Q. Now, when it came to historical data
25		25	about utility user tax revenues, you relied on
23		25	what was given to you by Ernst & Young; is that
	Page 146		Page 148
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	City of Detroit bottomed out in 2010?	2	correct?
3	A. I don't know that.	3	A. That's correct.
4	Q. Isn't it true that year over year	4	Q. You did not attempt to independently
5	since 2010 unemployment has decreased?	5	assess that data, correct?
6	A. I don't know that.	6	A. Correct.
7	Q. Do you know how the City's current	7	Q. And to the extent you conducted
8	unemployment rates compare to last year's	8	sensitivity analysis around the utility user's
9	unemployment rates?	9	tax, it will be in your report?
10	A. I don't.	10	A. We did not.
11	Q. Let me ask you some questions about	11	Q. You did not? I
12	the wagering revenues.	12	A. Did not.
13	What is the tax rate that's applied	13	Q. It's not a memory test, but it's
14	to the wagering revenues?	14	fine.
15	A. It's in my report. It's 10.95? We	15	Let's talk a little bit about your
16	can look it up.	16	experience your personal experience forecasting
17	Q. Did you conduct any independent	17	municipal revenues or I'm sorry, doing
18	analysis of the gaming market in the City of	18	municipal forecasts of both revenues and expenses.
19	Detroit?	19	Okay?
20	A. I did not.	20	Å. Okay.
21	Q. Okay. So you didn't do an	21	Q. So tell me about the times that
22	independent study to understand, for example, the	22	you've had the opportunity to do it personally.
23	impact that the Toledo casinos will have on the	23	A. I have not directly worked for a
24	casinos in the City of Detroit; is that correct?	24	municipality in projecting revenues or expenses.
25	MR. KANE: He'll direct you to this	25	Q. Okay. What do you mean by

Page 149 Page 151 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 "directly"? A. It could be -- you could generally 3 A. Well, I've -- I worked extensively 3 say that, but yes. for the Nassau County Interim Finance Authority, 4 4 Okay. Is it fair to say that in --5 which is the state control board that oversees the 5 in that retention you weren't studying the 6 6 finances in Nassau County here in New York. So, accuracy of the forecasts. You were trying to 7 7 the -- that -- that is -- again, it's not the help the transit authorities improve? 8 county itself. It's the control board that 8 No. In that situation we were 9 9 oversees the county. dealing explicitly with the revenue side of 10 10 Q. Understood. Okay. transit businesses and advertising income and, you 11 Right. 11 know, pricing that. A. Q. Now -- so let's try and -- let's try 12 12 Okay. So you were trying to 13 13 understand the accuracy of the forecasts of the and break it down a bit. 14 You personally have never done a 14 transit revenue? 15 municipal forecast, correct? 15 A. And the -- and the potential to 16 Α. That's correct. 16 transit revenue. 17 You have worked with municipal 17 I see. Okay. So it was kind of a 18 forecasts in connection with your work for Nassau 18 mixture of trying to understand, first, whether 19 County, correct? 19 you agreed with forecast and then, second, trying 20 A. Correct, and other entities in 20 to understand whether doing things like 21 municipalities. 21 advertising might improve --22 Okay. That was my next question, 22 No. It had to do with long-term 23 which is other than Nassau County, what 23 contracts for advertising revenue to those transit 24 engagements have you had where you worked with a 24 authorities relative to the person who -- the 25 municipal forecast understanding that you're not 25 entities that had contracted with them for the Page 150 Page 152 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 the one who created it? advertising revenue. 3 3 A. In -- I had an engagement where I've Okay. So, we have NIFA, right, which 4 been retained by seven transit authorities. 4 is the Nassau County --5 5 O. One engage meant? A. Yes. 6 Yes, it was interesting. New York, 6 I learned all about NIFA. And then O. 7 7 Chicago, Boston, San Francisco, Minneapolis. I'm we've got transit authority retention? 8 8 trying to think. Oh, Dallas was part of that We've got the transit authority. 9 group, right. So I worked with their forecasts 9 Any other municipal retentions where 10 10 and their budgeting and planning system. you've worked with a municipal forecast? 11 11 In the -- in the Legal Aid Society Oh. I see. Q. 12 A. Right. 12 case, because the vast majority of the Society's 13 And that was limited to just their 13 revenue comes from New York City or New York O. 14 14 state, okay, in terms of we worked with those enterprise funds? 15 A. I -- I -- to be honest with you, I 15 municipal entities relative to our own budgets. 16 don't know if they were just enterprise funds or 16 I see. So because they get money 17 general funds, but it would have been departmental 17 from the state --18 level budgeting and projecting. 18 A. Right. 19 Can I describe your work for those --19 O. -- you worked with --20 those transit authorities as looking at their 20 And the City and has to be 21 operations and at the forecasts that related to 21 appropriate and legislated, yes. 22 22 them and trying to understand how they could And does that mean that you worked 23 improve operations in order to improve the 23 with the state and city forecasts because had you 24 forecast? Is that a generally accurate 24 to understand them in order to prepare a forecast 25 description? 25 for the Legal Aid Society?

Page 153 Page 155 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 We had to understand what the like the Government Finance Officers Association. 3 3 possibility of funding was from state and the There are trade associations. There are 4 City, okay, and how the City's budget process 4 quasi-oversight committees that -- panels and 5 worked and how we got appropriated our monies. 5 groups that are trying to promulgate a set of 6 6 But in that context, you were not standards for municipalities in these areas, but 7 7 assessing the accuracy of either the state or city there's nothing that is as uniform and 8 acknowledged as we have with generally accepted 8 forecasts? 9 9 That's correct. accounting principles and the way that the SEC Α. 10 10 Okay. And in the Nassau County oversees that. Okay. So have you reviewed the 11 retention, were you assessing the accuracy of the 11 12 12 publications of the Government Finance Officers Nassau County forecast? 13 13 A. Yes. Association? 14 Q. Okay. So you were -- part of your 14 A. I saw them. 15 job was to evaluate the Nassau County forecast to 15 Okay. It's fair to say that you didn't review them in connection with this case, 16 determine whether you agreed with it? 16 17 A. Yes. 17 correct? 18 Okay. That's helpful. 18 Q. A. No. that's correct. 19 19 What is the methodology that a Okay. So, have you ever reviewed An O. 20 municipality typically employs when preparing a 20 Elected Officials Guide to Revenue Forecasting, 21 forecast for its general fund? 21 which is a publication by the GFOA? I may have. 22 A. I'm not sure there's a typical. 22 A. 23 Okay. So, I noticed in your CV that 23 I'll show you what it looks like. It Q. 24 24 you said one aspect of municipal -- I think you looks like this. 25 25 said, we can get it out, but it was something like I would probably have looked at it Page 154 Page 156 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 municipal accounting and budgeting is that there 2 online. I would probably not have looked at it in 3 is no standard. 3 a hard copy like that. It's fair to say you didn't rely on 4 Α. Correct. 4 Q. 5 5 Q. Do you remember saying that in your it though, correct? б CV? 6 I did not. A. Α. 7 7 Have you ever seen this book? Yes. O. 8 What did you mean by that? 8 Q. Revenue Analysis and Forecasting. It's by Barry 9 Well, there's no -- government 9 Blom and Salomon -- Barry Blom and Salomon 10 accounting -- there's something called the 10 Guajardo? 11 11 Government Accounting Standards Board, okay, that A. No. That I know I have not seen. 12 would like to believe that it creates standards 12 O. Okay. Do you know what the different 13 analogous to generally accepted accounting 13 types of qualitative forecasting methods are that 14 principles. But there is a great deal of 14 are specified by the GFOA? 15 variability in what the GASB prescribes in terms 15 Not off the top of my head, no. A. 16 of municipal accounting procedures, right? And 16 And do you know what the quantitative Q. 17 there is no standard for budgets. Okay? There is 17 methodologies are that the GFOA specifies? 18 no accounting standard that covers budgets. 18 Not off the top of my head, no. A. 19 Accounting covers historical recording of revenues 19 Q. So, for example, do you know what 20 and expenses. 20 naive forecasting is? I didn't make that up? 21 Q. So, you're not aware, as you sit here 21 You didn't make that up? A. 22 22 today, of any either government agencies or -- or No. Q. 23 associations that have promulgated methodologies 23 No. A. 24 for forecasting municipal revenues? 24 Okay. Do you know what Delphi Q. 25 There are. Okay? Either it's things 25 forecasting is?

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1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	A. No.	2	Q. To when you say I'm not aware of
3	Q. What about judgmental forecasting?	3	someone doing it, your expectation is that it
4	A. No.	4	wasn't done?
5	Q. Consensus forecasting, do you know	5	A. That's correct.
6	what that is?	6	Q. Okay. And similarly, have you ever
7	A. Consensus generally means that	7	heard of regression analysis?
8	everybody agrees on It. It's it's the way that	8	A. Yes.
9	Michigan does its revenue forecasting and Detroit	9	Q. You didn't perform any regression
10	does it.	10	analysis with respect to the City forecasts?
11	Q. That's using multiple people to check	11	A. That's correct.
12	one another, correct?	12	Q. And to the best of your knowledge,
13	A. Yes.	13	neither did the City, correct?
14	Q. And then do you know what expert	14	A. Not that I'm aware of.
15	forecasting is in the qualitative context?	15	Q. Okay. Are you aware of of what's
16	A. No.	16	called a time series forecast?
17	Q. Fair to say that you have never	17	A. Yes.
18	consciously applied these methodologies in your	18	Q. You didn't perform any time series
19	own forecasting work?	19	analysis of the City's forecast, correct?
20	A. That's correct.	20	A. That's correct.
21	Q. And you did not in connection with	21	Q. And to the best of your knowledge,
22	the City's forecasting?	22	neither did the City?
23	A. That's correct.	23	A. Not that I'm aware of.
24	Q. Now, let me ask you some questions	24	Q. Okay. And then you're aware of a
25	about the the quantitative types.	25	concept of trend analysis, correct?
	Page 158		Page 160
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Have you ever heard of econometric	2	A. Yes.
3	forecasting?	3	Q. You didn't perform trend analysis
4	A. Yes.	4	with respect to the City's forecasts?
5	Q. Okay. You did not perform any	5	A. That I would say we did.
6	econometric forecasting, correct?	6	Q. Okay. That is something you would
7	A. That's right.	7	say that you did do?
8	Q. Neither did the City, right?	8	A. Yes.
9	A. I'm not going to answer for the City.	9	Q. And did the City do that?
10	Q. Oh, you don't know whether they did	10	A. I believe the City did that.
11	or they didn't?	11	Q. Okay. Now, have you reviewed the
12	A. I'm not again, I didn't do any,	12	National Advisory Council on State and Local
13	but I didn't I haven't seen any, so	13	Budgeting and their publications?
14	Q. Sorry. Maybe I'm not asking my	14	A. I have not.
15	question the right way.	15	Q. Do you agree that forecasting is a
16	In connection with the City's	16	highly subjective area?
17	forecasts, you're unaware of anyone associated	17	A. Yes.
18	with the City performing an econometric forecast?	18	Q. And, as such, it's subject to the
19 20	A. Like I said, I'm not aware of it, but I don't know.	19 20	biases of the person doing the forecast, correct?
20 21		20 21	A. Yes. And and but I would
22	Q. Okay. So I'm not trying to I'm not trying to sharp shoot you, but one of your	22	qualify biases as neither good nor bad. Q. Understood. It's not a it's not
23	jobs here was to understand everything about the	23	meant to be a negative word like like racial
24	forecasts, so	24	bias.
25	A. Yes.	25	A. Right.
			40 (Pages 157 to 160)

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Page 161 Page 163 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 record. This is the beginning of Disk Q. It's meant to be a word that says 3 your own personal viewpoint can have an impact on 3 Number 3. 4 4 vour forecast? BY MR. HACKNEY: 5 A. That's correct. I agree with that. 5 Q. Ms. Kopacz, welcome back. б б And do you -- as a restructuring Thank you. 7 professional, do you understand the idea that the 7 THE VIDEOGRAPHER: Do you have your City here has an incentive to have a very 8 8 microphone on? conservative forecast? 9 9 MR. HACKNEY: I don't. Neither of us 10 10 MR. KANE: Objection. You can do. 11 MR. KANE: Let the record reflect I 11 answer. 12 12 THE WITNESS: I -have mine on. 13 13 BY MR. HACKNEY: MR. HACKNEY: Teacher's pet. (Whereupon, a brief discussion was 14 Q. Thinking about it from the stand --14 15 just as a restructuring professional and drawing 15 held off record.) 16 on your experience, do you understand the general 16 BY MR. HACKNEY: 17 concept that the City has an incentive to have a 17 Q. Okay. Ms. Kopacz, so do you agree 18 conservative forecast because then it can say to 18 that in order to minimize the impacts of 19 creditors, I have nothing more to give you, but if 19 subjectivity, it is important for a forecaster to 20 it does better than the forecast, it will have 20 utilize a reliable methodology? 21 21 Never thought about it. more cushion later. 22 MR. STEWART: Objection. 22 Q. Okay. Having thought about it for 23 THE WITNESS: I'm struggling --23 the first time, do you agree? 24 24 I don't know. I don't know. MR. STEWART: Did you get my 25 25 How about put it this way: Do you objection to the question? O. Page 162 Page 164 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 THE WITNESS: I'm not under -- I'm -agree that it's important for a forecaster to use 3 I'm struggling with incentive. 3 a reliable methodology? 4 BY MR. HACKNEY: 4 A. Yes. 5 5 Okay. Let's turn it around then. Q. What methodology did the City use? 6 6 I'm not understanding the question. You didn't consider or analyze what A. 7 the biases of the City forecasters were, correct? 7 Okay. Methodology is one of those 8 8 A. Correct. words that's kind of hard. It -- the more you try 9 Okay. 9 define it, the more you can roll around in it. Q. 10 10 MR. HACKNEY: Ma'am, there is just Do you have a general understanding 11 11 five minutes left on tape, and one of the of the concept of a methodology? 12 things I like to tell people is that a 12 Let's try and get on common ground in 13 deposition is not akin to being stretched out 13 terms of what the word means and then we can try 14 14 on the rack. So, if you would like to take a and ask the questions. 15 lunch break, this could be a good time. 15 A. Okay. 16 THE WITNESS: I would like to take a 16 So, when I talk about forecasting Q. 17 17 methodology, what does that mean to you? break. 18 MR. HACKNEY: Okay. Absolutely. 18 Approach. A. 19 THE VIDEOGRAPHER: Thank you. The 19 Q. Okay. Okay. And so what approach time is now 12:17 p.m. We're off the record. 20 did the City utilize in compiling its forecasts? 20 21 This is the end of Disk Number 2. 21 There's not -- I'm struggling because 22 22 (Whereupon, a lunch break was taken I think the way you're using it is as if there's a 23 23 from 12:17 p.m. to 1:20 p.m.) professional standard for methodology. There are THE VIDEOGRAPHER: The time now is 2.4 24 like -- like we were talking about generally 25 approximately 1:20 p.m. We're back on the 25 accepted accounting principles. There aren't --

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Page 165 Page 167 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 forecasts? there's no -- there are no standards like that for 3 forecasting. There are approaches that people 3 A. No. 4 4 use, but I don't think there's any -- there's no O. Could you have done that? 5 check-the-box sort of standard for forecasting. 5 A. I think we've got to go back and 6 6 decide -- define again what we're talking about. Okay. So you're not able to point to 7 7 a forecasting methodology that exists and say I'm talking about the projections in 8 8 the plan of adjustment. Okay? There are no whether the City employed that forecasting 9 9 methodology or not, correct? standards that govern projections in a plan. 10 10 Whether that's a plan of adjustment, a plan of A. That's correct. 11 reorganization or anything like that. Okay? 11 And that's because to the best of 12 The -- the quote, standards, and I --12 your knowledge, you're not aware of a standard 13 forecasting methodology for municipal forecasts 13 and I put that in the finger quotes because I 14 like these, correct? 14 think what you're trying to talk about is the City 15 15 budget or something -- again, like I said, I A. Or -- yes, that's correct. 16 don't -- there aren't standards that you would go 16 And you took a lot of time to learn 17 what the City did, right? 17 to to say how do you prepare these projections for 18 18 the plan of adjustment. A. Yes. 19 19 Okay. And there's not literature What you're not able to say is how O. O. 20 what the City did compares to what people 20 either? 21 typically do when compiling a municipal forecast, 21 In the sense of? A. 22 correct? 22 Scholarly literature on the subject O. 23 23 of municipal forecasts of revenues and costs? A. Yes. 24 24 O. Because to the best of your I believe that there are -- there are 25 25 people that write on what would be good municipal knowledge, there is no typical? Page 166 Page 168 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Every municipal forecast I've seen is finance practices; what would be good pension 3 3 forecasting practices; what would be good different. actuarial -- I mean, there's lots of professional 4 Q. Okay. So, following on this line, 4 5 5 it's fair to say that you can't subject the City's literature on any topic that you want to find, but 6 analysis to peer review, correct? 6 that's not what we're talking about here. 7 7 I'm not sure I would say that. Let's give an example. There's Α. 8 8 You might be able to, you might not literature from the GF0A of which you are aware, 9 be able to; you just don't know? 9 correct? 10 10 A. I don't know who the peer would be. And with all due respect none of it A. 11 11 Okay. You can't compare it to covers a situation like a Chapter 9. O. 12 industry standards, correct? 12 Q. No, it covers municipalities, right? 13 A. In -- "industry standards" being? 13 It covers municipality. A. Municipal forecasting industry. 14 14 And for example, you didn't attempt Q. 15 Promulgated by whom? 15 to take the City's forecasts and compare them to A. 16 Anyone. 16 the methodologies identified by the GFOA? Q. 17 17 Again, I don't -- I guess the answer No. no. A. A. 18 18 I'm correct when I say that? would be no. Q. 19 'Cause your view is that there aren't 19 Α. You are correct. 20 any industry standards? 20 THE VIDEOGRAPHER: Counsel, excuse 21 That's correct. 21 me. You're rubbing against your mike. I'm A. 22 22 So of course you can't, right? sorry for the interruption. Q. 23 Yes. Yes. 23 BY MR. HACKNEY: A. 24 Did you attempt to compare the City's 24 Are the City's forecasts amenable to Q. 25 approach to literature on the subject of municipal 25 statistical testing?

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1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	A. I don't know.	2	Q. And then Gaurav Malhotra?
3	Q. Okay. Now, I think we talked about	3	A. No.
4	earlier the fact that you haven't done any?	4	THE REPORTER: I'm sorry.
5	A. That's correct.	5	MR. HACKNEY: Gaurav Malhotra.
6	Q. Any statistical testing, correct?	6	And general spellings I can
7	A. Correct.	7	definitely give them you at a break.
8	Q. Is it fair to say that the City's	8	Q. You remember Gauray?
9	forecasts are and I'm talking about the ones in	9	A. Absolutely I remember Gaurav.
10	the plan of adjustment, you understand that,	10	Q. I didn't hear your answer, I'm sorry.
11	right?	11	A. I said Bob Kline and his team,
12	A. Okay.	12	okay
13	Q. The City's forecasts are principally	13	(Cell phone interruption.)
14	the product of the judgment of the City	14	THE VIDEOGRAPHER: I'm sorry that
15	forecasters?	15	shouldn't happen.
16	A. I don't know who that is.	16	MR. HACKNEY: That's okay. That's a
17	Q. You don't know	17	good ringer.
18	A. What are tell me who those people	18	A. Bob Kline and his team, who are a
19	are.	19	division of Ernst & Young in some way, shape or
20	Q. Well, I was talking about the	20	form, were the professionals that worked on the
21	forecasters that are the subject of your expert	21	revenue projections.
22	opinion.	22	Q. On the revenue projections?
23	A. Right.	23	A. Correct.
24	Q. So those forecasts are principally	24	Q. I see what you're saying.
25	the product of the judgments of the forecasters.	25	Okay. So, are you distinguishing
	Page 170		Page 172
1	-	1	
1 2	- MARTI KOPACZ - VOLUME 1-	1 2	- MARTI KOPACZ - VOLUME 1-
2	- MARTI KOPACZ - VOLUME 1- Do you agree with that?	2	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team
2	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who	2 3	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob
2 3 4	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They	2 3 4	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline?
2 3 4 5	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions	2 3 4 5	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so.
2 3 4	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes.	2 3 4 5 6	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline.
2 3 4 5 6 7	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that	2 3 4 5 6 7	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline.
2 3 4 5 6 7 8	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct?	2 3 4 5 6 7 8	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on
2 3 4 5 6 7 8 9	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes.	2 3 4 5 6 7 8 9	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that
2 3 4 5 6 7 8 9	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes. Q. Who are the forecasters on the	2 3 4 5 6 7 8	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team.
2 3 4 5 6 7 8 9	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes. Q. Who are the forecasters on the revenue side for the City?	2 3 4 5 6 7 8 9	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team. A. Gaurav is the Ernst & Young partner
2 3 4 5 6 7 8 9 10 11 12	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes. Q. Who are the forecasters on the revenue side for the City? A. Ernst & Young.	2 3 4 5 6 7 8 9 10 11 12	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team. A. Gaurav is the Ernst & Young partner responsible for the Detroit engagement.
2 3 4 5 6 7 8 9 10	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes. Q. Who are the forecasters on the revenue side for the City? A. Ernst & Young. Q. Yeah, I meant the people.	2 3 4 5 6 7 8 9 10	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team. A. Gaurav is the Ernst & Young partner responsible for the Detroit engagement. Q. Got it.
2 3 4 5 6 7 8 9 10 11 12 13	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes. Q. Who are the forecasters on the revenue side for the City? A. Ernst & Young. Q. Yeah, I meant the people. A. Bob Kline and his team.	2 3 4 5 6 7 8 9 10 11 12 13	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team. A. Gaurav is the Ernst & Young partner responsible for the Detroit engagement. Q. Got it. A. Okay? Gaurav has work groups, right,
2 3 4 5 6 7 8 9 10 11 12 13 14	- MARTI KOPACZ - VOLUME 1- Do you agree with that? A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes. Q. But the assumptions are ones that they use their judgment to determine, correct? A. I believe that's correct, yes. Q. Who are the forecasters on the revenue side for the City? A. Ernst & Young. Q. Yeah, I meant the people.	2 3 4 5 6 7 8 9 10 11 12 13	- MARTI KOPACZ - VOLUME 1- Gaurav from Bob Kline's team A. Bob Q. Is it Bob Kline or Ron Kline? A. Bob. Bob. I think so. Q. Mr. Kline. A. Mr. Kline. Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team. A. Gaurav is the Ernst & Young partner responsible for the Detroit engagement. Q. Got it. A. Okay? Gaurav has work groups, right, from various parts of Ernst & Young working for
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Page 173 Page 175 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 The historical call cost expense came Q. You hadn't thought about it one way Q. 3 from whom? 3 or the other? 4 4 The historical costs came from the No, I did not make a determination 5 City. The cost projections came primarily from 5 one way or the other. 6 6 Ernst & Young, a group of people that worked for Okay. Did you ever meet them in O. 7 7 Gauray. person? 8 8 Q. I see. Okay. A. I did not. 9 9 So if I was thinking broadly about Q. You spoke to them on the phone? 10 10 the forecasts in the go-forward years, if I was A. I did. thinking about revenue forecasts, I'm thinking 11 O. And what was the experience of Mr. 11 12 12 about Mr. Kline's team? Malhotra's team when it came to forecasting 13 13 municipal expenses? A. That's how I think of it, yes. 14 If I'm thinking about cost 14 A. I don't know. 15 15 projections that don't entail RRIs. I'm thinking And what was the experience of the 16 Conway MacKenzie team when it came to projecting 16 about Mr. Malhotra's team? 17 Right. And he has specific people 17 the costs or revenues associated with a municipal 18 that are responsible for specific parts of the 18 restructuring? 19 cost projections that work for him. 19 I don't know. A. 20 Understood. 20 Now, when you were assessing the O. O. 21 Then if I'm thinking about RRIs and 21 reliability of the assumptions that are in the 22 22 their impacts on either costs or revenues, I'm forecasts, did you independently seek to develop 23 23 thinking about the Conway MacKenzie team? your own assumptions first and then compare so 24 24 that you could then compare them to the City's A. Generally that's correct. 25 And is this, by the way, part of the 25 assumption and see how they compared? Q. Page 174 Page 176 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 reason that you found the forecasts confusing is A. No. 3 because they were the product of actually three 3 Okay. Ο. different groups of forecasters? Generally not. 4 4 A. 5 5 It's not that there are different O. So what you did, instead, was you 6 6 first understood what the City's assumption was people involved. It is that they were never 7 7 harmonized and concatenated in a way that they're and then you tested the reasonableness of that 8 8 all in one kind of place. assumption, correct? 9 9 Q. What is the experience of Mr. Kline A. Generally that's correct, yes. 10 10 and his team when it comes to forecasting Okay. Why didn't you, for example, 11 11 kind of in order to avoid just, you know, the municipal revenues? 12 A. I don't know. 12 impact that even seeing their assumption can have 13 Okay. Did you make any effort to 13 on you, why didn't you say, What do I think wages Q. will be year over year for the next ten years, and 14 14 assess that? 15 15 do the work independently and then see how it A. I did not. 16 Was that important to you? 16 mapped? Q. 17 I looked at -- I used all the 17 Generally two reasons, time. When I A. 18 information that was available to me and all the 18 was appointed I had, I think, 62 days originally 19 19 people that were available to me and -- got between when I was appointed and when my report 20 satisfied with the projections in the plan as 20 was due. 21 being reasonable revenue projections. 21 Q. Yeah. 22 22 Okay. Secondly, I learned very Were you working under the assumption 23 quickly the condition of the historical records of 23 that Mr. Kline and his team had substantial experience forecasting municipal revenues? 24 the City, and realized that in order to get done 24 25 A. I did not make that assumption, no. 25 with my assignment, I was going to have to rely on

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Page 177 Page 179 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 the assimilation of data that the other 2 A. Right. 3 professionals had acquired. And that included the 3 Let's put that to one side, now let's O. 4 creditors' professionals, as well. 4 go backwards in time. 5 Being the last person at the dance, 5 Did you review any CAFRs other than 6 6 so to speak, I needed to rely on not only on the 2012 CAFR? 7 Ernst & Young and Conway, but Alvarez and FDI --7 I did not. Α. 8 8 And whether your team did or not, you Q. Yeah. Q. A. 9 9 -- and Houlihan, to help get us to don't know? 10 10 the best data that was out there. A. I don't know. 11 Do you -- is it your opinion that 11 So let me see if I can summarize, the 12 time that you were allotted which we discussed and 12 none of the prior year CAFRs prior to 2012 have 13 which I've told you I'm of the view wasn't very 13 any relevance to the City's financial projections? 14 much, but it was what it was, but the time that 14 Like I said, I didn't look at it. 15 you were allotted did not allow you to either 15 Don't know if my team did or not. 16 independently verify the data or independently 16 So, do you think they are relevant or Q. 17 generate your own assumptions? 17 not? 18 A. I -- I wouldn't go so far as to say 18 A. I don't know. 19 we didn't independently verify because we did, 19 You don't know. They might be, they O. 20 specifically on the revenue projections and things 20 may not be? 21 surrounding those, we did seek other third-party 21 They weren't part -- they weren't 22 sources of data. So --22 part of the basis for my opinion. 23 There were instances where you sought 23 Okay. But I'm asking about the Q. 24 24 relevance of them? some form of corroboration? 25 Separate and apart from the City. 25 I don't know. Page 178 Page 180 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 But in general, you'd agree with my O. You don't know what the relevance is? 3 statement that you didn't have sufficient time to 3 A. Yes. independently verify all of the data on which the 4 4 O. Would you agree -- let's go back to 5 5 forecasts are built in order to develop your own our word methodology which you've used to describe б 6 assumptions? as approach. 7 7 MR. KANE: Objection. Go ahead and Methodologies is an important word in 8 8 the legal setting, that's why lawyers are always answer. 9 9 A. Yes. asking about methodology. Q. You agree with me? 10 But would you agree that the City did 10 not employ a uniform approach in constructing the A. Yes. 11 11 12 Q. Your reliance materials only list the 12 forecasts? 13 City's CAFR for 2012 specifically by name? 13 A. 14 14 A. Uh-huh. O. Would you also agree that the City Q. Is that the only CAFR that you 15 didn't apply a uniform methodology in constructing 15 16 reviewed? 16 the forecasts? 17 We did not get the CAFR, the '13 CAFR 17 A. I don't like the word methodology. until after my report was filed. Okay. You're more comfortable with 18 18 Q. O. Understood. 19 19 approach? 20 So we've had a conversation about the 2.0 A. I'm more comfortable with approach. 21 '13 CAFR and how some of the information in it may 21 But can you describe what the 22 22 have been known to you -approach was? 23 23 A. Right. It depends on -- it depends on which -- and other parts of the information 24 model we're talking about. The original baseline 2.4 Q. 25 25 may not have been? E & Y model, the Conway models, or the E & Y

Page 181 Page 183 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 10-year, 40-year model. It depends on what the that? 3 line item that is being projected is, okay? 3 Yes. Α. 4 4 And there are different approaches O. Income tax revenue is a different 5 used for estimating both revenues and expenses 5 type of revenue from wagering revenue, right? 6 6 depending on which one you're talking about and A. 7 who did it. 7 Do you understand the idea that there O. 8 8 And then are there different are -- there are -- that revenue is often divided Q. 9 approaches even within categories like did they 9 into two board categories of whether it's 10 10 employ a different approach to estimating deterministic on the one hand or volatile on the different types of revenue? 11 11 other? 12 A. Yes. Well, revenue -- revenue in 12 I would agree there are different Α. 13 terms of the E & Y models, no. Okay. There are 13 types of revenue that have the different bases for 14 differences in approaches, for example, to 14 -- around which you would estimate. But I would 15 15 salaries and wages, depending on whether it's a want you to define those words before I would 16 Conway model or whether it's an E & Y model. 16 agree or disagree with them. Deterministic I use in the sense that 17 Q. Did you say in your expert report 17 18 that you found the City's model to be convoluted? 18 it means predictable and volatile means 19 19 unpredictable. And confusing. A. 20 Yeah. Did you also say convoluted? 20 Q. A. Yes. 21 21 Have you ever -- do you understand A. O. 22 Okay. I will put my hand up and 22 the idea that you can classify revenue streams as O. 23 agree with you on that. 23 being either predictable or unpredictable? 24 24 MR. KANE: Objection. I would think that is the analyst's 25 MR. HACKNEY: For now? 25 choice of how they want to describe them, Page 182 Page 184 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-MR. KANE: What? 2 2 generally. 3 3 BY MR. HACKNEY: Yes. Right. And did you undertake a revenue portfolio analysis in this case? 4 So we've talked a lot about -- we've 4 5 5 talked about industry standards and -- but have A revenue portfolio analysis? Don't 6 you ever seen another city employ the approach for 6 know what a revenue portfolio analysis is. 7 7 its forecasts that was employed here? We looked at all the revenues that 8 A. No, because as we've established, 8 were presented in the plan of adjustment 9 I've never seen another city like this doing 9 projections. 10 10 forecasts for a plan of adjustment. So I guess can I say that to the 11 True, but you have seen other cities 11 extent you undertook a revenue portfolio analysis, 12 doing forecasts, right? 12 you didn't do so consciously? 13 Budgetary forecasts, yes. 13 I wouldn't -- I don't think -- that A. 14 Yeah. Have you ever seen any of 14 sounds like a term of art, it doesn't sound like 15 those cities employ a methodology or an approach, 15 something that you would think about. 16 sorry, like this one? 16 That's -- that sounds like a term of 17 17 No. art from the world of revenue forecasting? A. 18 When it comes to forecasting revenue, 18 It's somebody's -- it's somebody's 19 do you believe that the forecasting technique that 19 term of art, but it's not my term of art. 20 you employed depends on the nature of the revenue 20 Okay. Did you make an independent 21 source that's being forecasted? 21 assessment for yourself as to whether or not the Can you explain that? 22 22 A. City's revenue streams could be classified as 23 23 Sure. So do you understand that either predictable or unpredictable? there are -- certainly understand that there are I looked at each revenue stream and 24 24 25 different types of revenue, right? You understand 25 assessed whether I thought the City's forecast or

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Page 185 Page 187 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 heard the term methodology before, right? projection of that revenue was reasonable. 3 3 Q. You did not otherwise attempt to Α. Uh-huh. Yes. 4 4 classify a revenue stream, correct? And you understand that that 5 No. It wouldn't serve my purpose. 5 different methodologies can all employ A. б 6 Okay. Do you agree as a general assumptions, right? 7 matter that qualitative methods are useful for 7 A. I would agree, yes. 8 And so do you understand the 8 forecasting new or volatile revenues sources? O. difference between testing the assumptions that go 9 9 What qualitative method? 10 10 into a methodology from the idea of testing the Q. Qualitative methods like the naive 11 propriety of the methodology itself? 11 method, expert, judgmental, trend. Any of those. 12 12 Do you understand that distinction, Again, that's not the way that I 13 13 think about the analysis that we did of the City's right? 14 projections. 14 A. I understand the distinction you're 15 15 making right now, yes. Okay. Is it fair to say you never O. 16 You did not attempt to determine or 16 took a step back from the City's approach and 17 tried to determine whether the approach should be 17 critique the methodology the City employed, 18 different for different revenue streams? 18 instead, you focused on the assumptions that the 19 19 City adopted, correct? No, that's not fair to say. A. 20 20 Yes and no. Q. That's not fair? Α. 21 21 A. No. Ο. Okav. 22 Did the City employ different 22 Okay. Methodology in terms of what O. 23 approaches for different revenue streams or did it 23 we evaluated was the approach used by E & Y and 24 24 Conway. Okay? Methodology is a term, to me, that employ the same approach? 25 25 is lower case, there's not a capital methodology, When you say "approach," right, we're Page 186 Page 188 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 it's not a proper noun. Okay? It is a word that talking about, they -- each revenue stream is 3 3 describes how something is done. Okay? Depending forecasted on its own set of assumptions and then 4 4 they're aggregated to come up with a total revenue on what -- particularly on the cost side, what 5 5 projection. So income tax and the various types costs were being estimated for the projections, 6 6 there were multiple methodologies used. Okay? of income tax are estimated differently than 7 7 What was important to me was to wagering tax. 8 8 assess the outcome of that estimate and whether or Q. How are they estimated differently? 9 9 Well, income tax looks at the change not that was reasonable. So, looking at the 10 10 in wages, it looks at the change in employment. assumptions, looking at the input, looking at how 11 11 Whereas, wagering taxes looks at the change in those were mathematically manipulated and what the 12 12 casino revenue. output was and assessing whether or not that was 13 From my standpoint, I think of those 13 reasonable, is the approach that I used to fulfill 14 14 my responsibilities as part of this -- this as being different data inputs but not necessarily 15 appointment. 15 different approaches. But in your analysis, is it 16 a different approach? 16 Q. So let me give you an example, see if

judgment to the different components of it in order to forecast property revenue into the

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revenue collections and then apply just individual

Okay. Do you understand that you can

we can kind of refine our conversation a little

look at historical evidence of property tax

bit. Take a single revenue stream like property

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2.0

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tax revenue.

A.

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They're -- they are definitely

different inputs and a different type of

different inputs.

assumption. I don't know whether that's a

different approach or different methodology,

whatever -- right -- whatever you say is they have

and very experienced, I mean -- let me -- let me

quibble with you a little bit and say you have

I guess, you are an educated woman

Page 189 Page 191 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 future? Q. Well, so let me -- I didn't ask that 3 I agree with that, yes. 3 very well. A. 4 4 That's a possible approach? O. So, do you understand that there was 5 A. 5 a -- that there was a ten-year forecast in the Yes. Correct? 6 6 Q. June 2013 proposal to creditors? 7 Uh-huh. 7 Yes. Α. Α. 8 8 But separately, you can use a Q. And do you understand that that Q. 9 statistical method like a time series forecast in 9 proposal to creditors included a forecast both 10 with and without the RRIs? order to forecast future property revenues, 10 11 correct? 11 I don't recall. 12 12 Α. You could, yes. Okay. Let me put it more generally. O. 13 13 Q. Let's describe those for purposes of Do you remember that there was a 14 my question as two different methodologies, okay? 14 forecast for what happens if there's no bankruptcy 15 15 Okav. and then there was a forecast for what happens if A. 16 You never attempted to look at the 16 there is a bankruptcy, or if there are 17 City's approach to any of the revenue streams and 17 restructuring initiatives? 18 say, they are using the wrong methodology, 18 My recollection of the June '13 19 19 correct? projections that were provided to creditors was --20 20 was this is the projection of what will happen. Α. That's correct. 21 Now, within their methodology, what 21 Okay? What is going to happen to this city in Q. 22 you did do is you looked at the assumptions that 22 terms of its obligations in the future. 23 went into the methodology the City adopted and 23 So this was -- right -- and again, I 24 24 determined the reasonableness of those don't know about --25 25 assumptions, correct? You don't remember --O. Page 190 Page 192 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 -- multiple -- I don't remember Α. That's correct. 3 3 Okay. And I take it as a corollary multiple versions. of that, you don't have an opinion as to whether 4 4 Q. Okay. So, I'll tell you my 5 5 the City utilized the correct methodology, not recollection of it was there was a so-called 6 assumptions, in forecasting the revenue that it 6 steady state five-year forecast, but there was 7 7 forecasted, correct? also a ten-year forecast where they also presented 8 I accepted the methodology, whatever 8 in an aggregate level the RRIs and then the delta 9 that may be, that the City used and evaluated the 9 was amounts available for distribution of 10 10 result of that methodology, plus the inputs and creditors. 11 11 the assumptions. But if that doesn't ring a bell --12 Okay. You did not attempt to 12 My recollection of that projection 13 critique whether they employed the correct 13 was that this is what's going to happen to this 14 14 methodology, correct? city if nothing else changes. 15 A. I don't know that there is a correct 15 Let's go up a level and I'll try to 16 methodology, so --16 not get bogged down in some of the specifics, but 17 Okay. 17 let's do it this way: Q. 18 18 You -- you agree that when the A. -- the answer is I don't know. 19 So, you don't know if there is one so 19 forecasts -- that the forecasting process had 20 you couldn't have critiqued it, right? 20 already begun prior to the bankruptcy, correct? 21 A. I think that's correct. 21 A. Yes. 22 22 Okay. Now, have you -- you know that And the forecasting process that has Q. 23 23 the City's forecasts in one form or another, they resulted in the forecasts that are in the plan has 24 go back to the prefiling period 2013, correct? 24 continued throughout the bankruptcy, correct? 25 A. In terms of their preparation? 25 Yes. A.

Page 193 Page 195 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 decreased. And so as a result of the passage of 3 3 time, as we sit here today, there are now actually Do you know how much it decreased? Q. 4 historical results that we have that are 4 I don't. A. 5 historical as of today, that can be compared to 5 I take it you don't know what the Q. 6 6 what was once a forecast, correct? City's assessed property values are as you sit 7 7 here today? That's possible, yes. I take it you have not done that? 8 8 Q. A. I do not. 9 9 I have not done that. O. And you haven't engaged in an A. 10 10 So you haven't attempted to validate independent effort to determine what the assessed what the prior forecasts against subsequent 11 11 value should be, correct? historical information that's come in? 12 12 That's correct. 13 13 A. No. I have not. Q. Now, is it reasonable to assume that 14 Q. Okay. You have not -- I want to talk 14 the assessed value per parcel in the City of 15 15 briefly about taxes, okay? Detroit will fall by an additional 50 percent 16 You did not include -- you did not 16 between -- over the next seven years? 17 conduct analysis of whether the City can increase 17 A. I am not --18 18 taxes, correct? MR. STEWART: Objection. 19 19 That's correct. I have no way to know that. A. 20 20 Both from the standpoint -- you Q. You have no way to test that 21 didn't analyze whether it legally can increase 21 assumption? 22 taxes, correct? 22 Let's start -- you did not test that assumption, correct? 23 23 A. Correct. 24 24 O. You also didn't analyze whether A. That's correct. 25 25 economically if it did increase taxes, what would Okay. There is a way to test the Q. Page 196 Page 194 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 happen to the City, correct? 2 assumption, though, correct? 3 3 Correct. I don't know. A. A. Okay. Do you understand that the 4 Q. And you're offering opinions on tax 4 Q. 5 5 policy in this case, correct? City's forecasts include assumptions about future 6 6 assessed value per parcel? I am not. A. 7 7 I don't know -- I know that the O. Now, is it correct -- I want to talk 8 8 City's projections include estimates for property about property value, okay? 9 Is it correct that the average 9 taxes going forward, right. 10 10 assessed value per parcel in the City of Detroit Q. Yes. 11 decreased by 37 percent between 2008 and 2013? 11 I don't know what their per parcel A. 12 A. I'm not familiar with that data 12 estimates have been. 13 13 Okay. I take it you made no effort point. 14 14 Do you know -- do you agree that to validate any assumptions regarding assessed 15 there was a substantial decrease in the assessed 15 value per property? 16 value per parcel in the City of Detroit between 16 That's correct. A. 17 2008 and 2013? 17 Or in the aggregate, correct? Q. 18 A. I don't know what "substantial" means 18 Or in the aggregate? A. 19 but I can say, yes, I am aware that property value 19 O. Meaning to the extent the City 20 -- assessed property values decreased. 20 aggregated assessed values across the City and 21 What would you define "substantial" 21 made assumptions about that, you did not test 22 22 as? those assumptions, correct? 23 23 Correct. A. I don't know. A. 24 I mean, you can do whatever you want. 24 Now, do you know what Mr. -- do you Q. Q. 25 Property -- assessed property value 25 know that the City reassessed its properties in

Page 197 Page 199 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Decem -- December of 2013? Q. Is it fair to assume that he is the 3 A. I believe it's in the process of 3 most knowledgeable person in the City of Detroit? 4 4 assessing a lot of properties, right. I don't know. 5 Q. So I want to distinguish between 5 That's not a question you've Q. 6 6 these two concepts, so I'm going to ask you about considered? 7 them separately, though, because you're right, 7 Α. It is not. 8 8 there is a citywide appraisal, and you're right, Q. Do you believe that Mr. Evanko's 9 9 it is ongoing. Put that here for a second, opinions regarding the effect of the citywide 10 10 mentally, okay? reappraisal will have on property values are 11 relevant to determining future property values? 11 A. Okav. 12 12 Could you repeat that question? O. Now, are you aware there was a 13 reassessment in December of 2013? 13 Yeah. So do you believe Mr. Evanko, 14 Vaguely, yes. 14 who is the City's only Level 4 assessor, right? A. 15 So "vaguely" means? 15 Q. A. Uh-huh. I was aware of it --Yes? 16 16 Q. A. 17 O. You are --17 A. Yes. 18 18 Sorry. That's okay. I do that all A. Anecdotally I am aware of it, yes. Q. 19 Okay. You did not -- do you know the 19 the time. O. 20 impact of that assessment on taxable value in the 20 Do you agree that Mr. Evanko's coast 21 City of Detroit? 21 views about the impact of citywide reappraisal 22 I don't. 22 that we were just talking about, that the impact A. 23 Do you know the approximate impact of 23 that that will have on taxable value in the City Q. 24 it? 24 of Detroit is an important data point to consider? 25 25 I don't. A. Yes. Page 198 Page 200 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 Do you know what impact it had on the 2 O. If Mr. Evanko told you that he has no 3 3 idea whether that citywide reappraisal will cause forecasts? I know that property tax forecast --4 A. 4 taxable values to be lower or higher, would you 5 5 property tax revenue forecasts declined between consider that an important data point? 6 the May 5th and the July 2nd projections. 6 I -- I'm -- I would consider what he 7 7 Q. Do you know why it declined? said to be relevant. Okay? So I don't know what 8 8 It declined as a result of -he said so I can't really say whether I think I 9 Ernst & Young's view that the assessed value was 9 agree or don't agree. I would think that the 10 10 City's assessor would be an important person to going down. 11 11 Was going to go down or had gone consider as somebody who is looking at this. Q. 12 down? 12 Understood. So do you understand 13 I don't -- I don't have a precise 13 that the Ernst & Young forecasts project the 14 14 time recollection on that. taxable value will decrease by 9 percent as a 15 Do you know whether the citywide 15 result of the citywide reappraisal? 16 reappraisal has begun? 16 I understand that as part of their A. 17 17 I don't know. assumption, yes. A. 18 Do you know when it will -- it is 18 What is the basis for their Q. estimated to conclude? 19 19 assumption? 20 20 I don't. MR. DiPOMPEO: Objection. Α. 21 2.1 Their assessment in consultation with Do you know anyone in the City of A. 22 22 the City. Detroit who is more knowledgeable about the 23 assessed values of property in the City of Detroit 23 Okay. But like what -- they talk to than Mr. Evanko, the chief assessor? people that told them that? 24 24 25 A. I don't know. 25 That is my assumption, yes.

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Page 201 Page 203 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 That's your assumption about their three to four percent drop in fiscal year 2016, Q. 3 assumption? 3 right? 4 4 Yes. A. That is --A. 5 Okay. Have you independently 5 What it should say? Q. 6 verified the reasonableness of that particular 6 A. -- the -- yes, it should say '16. 7 assumption? 7 That's what you meant it to say? O. 8 8 That is what I meant it to say. A. I have not. A. 9 Do you believe -- this get -- so do 9 Now, if the available evidence shows O. 10 10 you believe it's reasonable to assume that taxable that -- and Ms. Kopacz, this is kind of a -- this value in the City of Detroit will decrease over almost goes to your own methodology, so consider 11 11 12 this for a second. 12 the next -- by 9 percent, as a result of the 13 13 citywide reappraisal where the City's senior If the available evidence shows that 14 assessor says that he doesn't know whether taxable 14 there's unlikely to be any drop in taxable value 15 15 in either 2015 or 2016, would you still consider value will go up or down. 16 MR. STEWART: Objection. this a reasonable assumption because it's 16 17 A. I don't know. 17 conservative? 18 You don't know if that's reasonable 18 You see the point of my question? Q. 19 19 Which is I'm trying to tease out a little bit what or not? 20 20 you were thinking about when you were testing A. Yes. I do not know if that's 21 21 assumptions. reasonable or not. 22 It's not something you've considered 22 Consider a situation where the 23 before today? 23 available evidence actually suggests that there 24 24 That's correct. Α. will not be any drop in real property assessments, 25 One of the interesting things about 25 okay? But the City employs a methodology that Q. Page 202 Page 204 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 when you are feasibility expert is we were talking 2 says that there will be a nine percent drop in 3 earlier about the notion of there being a hurdle 3 2015 and a three to four percent drop in 2016, and your job being to assess whether the City will 4 4 okav? 5 5 get over that hurdle, right? Isn't it true that based on your task 6 A. Correct. 6 as the feasibility expert, you could still find 7 7 Do you remember that testimony? that assumption to be reasonable. Correct? Q. 8 8 A. Uh-huh. MR. KANE: Hold on a second. So 9 Isn't it true that if the City adopts 9 there's a lot in there so, one, I will object 10 10 an assumption about taxable value which is that in on vagueness. But I'm not trying to 11 the future it's going to go down by 9 percent, as 11 interfere, I just want to clarify. 12 it did, right? Correct? 12 Are you asking her to assume that the 13 We can look at it. 13 available evidence shows that? A. 14 If you want to double-check it, 14 MR. HACKNEY: Yes. 15 that's totally fine. 15 MR. KANE: Okay. So he's asking you 16 Do you want to? 16 to assume --17 Take a look at Page 59. 17 MR. HACKNEY: It's a hypothetical? A. About Page 59, there is a typo on 18 18 MR. KANE: That's all I want --Page 59 about two-thirds of the way down, there 19 19 It's an assuming there's evidence to 20 are two numbers, FY 215, 2015, followed by another 20 say that property values won't decline. 21 FY 2015. The second FY 2015 should be 2016. 21 That's right. Q. 22 Okay. So what this is saying is that 22 And that this forecast says they will A. 23 because of the citywide reappraisal, there's going 23 decline, right? to be a 9 percent drop in real property 24 24 Right. Q. 25 assessments in fiscal year 2015 and then another 25 That is a positive contributor to my

Page 205 Page 207 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Q. Okay. So -assessment of feasibility. 3 Q. Okay. So do you understand how 3 Go ahead. Α. 4 4 whether or not the -- in that hypothetical, where Okay. So I'm not going to sharp 5 the available evidence shows -- predicts that 5 shoot you, so don't take this wrong way. 6 6 there won't be a drop in real property A. That's okay. 7 assessments, but the forecasters project a drop, 7 I'm going to read from your report. O. 8 do you understand that the reasonableness of that 8 Let's take a step back, okay? 9 assumption depends very much on how you are 9 Okay. 10 10 looking at the question? MR. KANE: What page are you on? MR. STEWART: Objection. MR. HACKNEY: This is Page 18. 11 11 12 You're talking about reasonableness 12 And the question is? A. O. 13 13 Do you understand that the here, okay? 14 reasonableness of the assumption depends on what 14 A. Reasonableness. And we're in -- I 15 vou're evaluating the forecast for? 15 know where we are. We're in the definition of MR. STEWART: Objection. 16 16 feasibility. 17 I only evaluate it for purposes of 17 Q. That's right. 18 feasibility, okay. And therefore, if the 18 A. Yes. 19 19 projection relative to property tax revenue is So, of course, I'm looking here at --O. 20 conservative, right, then I consider that to be a 20 it's like the -- sort of second, third of the big 21 good thing relative to my feasibility assessment. 21 paragraph. 22 Okay? 22 'Of course at the outer edges of 23 23 'reasonable,' values become unreasonable either You said exactly what I was driving 24 24 at. Isn't it true the more conservative the City because they are exceptionally conservative or 25 25 wildly aggressive," right? gets, the happier you become about the Page 206 Page 208 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 reasonableness of their assumption, in terms of 2 A. 3 3 evaluating feasibility? Those are the terms you used in your Q. 4 MR. STEWART: Objection. 4 report? 5 5 A. Consistent with the standard that I A. I did. 6 6 laid out, okay, the reasonableness of the What I want to establish is when we O. 7 7 projections, okay, are going to be influenced by think of Marti Kopacz's definition of 8 8 both assumptions that I find to be aggressive and reasonableness, we should see a continuum, right? 9 assumptions I find to be conservative. Okay? 9 A. Correct. 10 There are instances of both of that, those -- in 10 And on one of end of the continuum we O. 11 11 these projections. should see exceptionally conservative, correct? 12 If the assumptions were all 12 A. Yes. 13 conservative, it would be more likely that you'd 13 And on the other end of the 14 14 continuum, we should see wildly aggressive? find feasibility than if some were conservative 15 and some were aggressive. Do you agree? 15 Correct. A. 16 I think in totality the answer is 16 And as long as the assumption falls Q. 17 between those two points, it fits your definition 17 yes. 18 18 of reasonable? MR. STEWART: Objection. 19 Okay. In fact, your test for 19 Yes, as long as it's not 20 reasonableness means as long as an assumption is 20 exceptionally conservative or wildly aggressive, 21 not exceptionally conservative, it is reasonable, 21 right. In other words, it's not in -- it's in 22 22 correct? that middle of those ranges, right, then I'm -- I 23 23 MR. STEWART: Objection. am going to accept that it's reasonable. 24 A. I'm not sure -- I'm not sure I know 24 But wouldn't an exceptionally 25 what exceptionally conservative is. 25 conservative plan be highly feasible?

Page 211 Page 209 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 An exceptionally conservative plan, Q. Okay. So, what my question, though, 3 if everything was conceptually -- if everything 3 is from the standpoint of gauging feasibility, 4 isn't it true as a plan becomes closer to this 4 was exceptionally conservative, then it would be 5 highly feasible to the point of being a slam dunk 5 level of being guaranteed, it becomes more and 6 6 or a guarantee. more and more feasible, right? 7 7 O. What's wrong with that? A. Yes. 8 8 A. Hmm? Okay. So, I'm trying to understand Q. 9 9 What's wrong with being a guarantee, why would it trouble you as, let's say, you pass O. 10 10 from your standpoint? exceptionally conservative, you're looking at it Well. I don't think it's realistic. 11 A. 11 in the rearview mirror, that was like 10 12 12 O. Because? adjectives ago, okay? As a feasibility expert, 13 13 A. No forecast or projection is the ever why would you not be able to say that those are 14 going to be met the way it's laid out to be. 14 reasonable assumptions that led us to this point? 15 15 Well, will the City earn a hundred You see what I'm saving? 16 dollars of revenue next year? 16 No. I didn't -- I didn't --17 A. Yes. 17 Why have a bound dry on the 18 18 conservatism side where you'll stop saying that an Q. Okay. So we can guarantee, if the 19 budget -- let's go to the absurd, right? 19 assumption is reasonable? Why would you say I 20 20 A. Right. object to that assumption, City, it's 21 I mean, we know the City will have a 21 exceptionally conservative, when you're a 22 hundred dollars of revenue? 22 feasibility expert? 23 23 I lost you. Okay. I've --A. Yes. A. 24 24 O. Then we can actually say, I guarantee Q. Okay. 25 25 that the City will have a hundred dollars in A. I've absolutely lost you. In the Page 210 Page 212 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 revenue next year, correct? 2 sense of --3 3 A. Yes. Q. Let's me ask it a better way. 4 Q. I mean, I guess you get to the point 4 MR. KANE: Were you done answering. 5 5 and you say, well, maybe there's a neutron bomb or THE WITNESS: Yes. 6 6 something and none us exist anymore. But within MR. KANE: I'm saying, were you done 7 7 the way people use the word guarantee, we can answering? 8 guarantee that the City will have a hundred 8 THE WITNESS: I'm done answering. I 9 dollars of revenue, correct? 9 lost him. 10 10 MR. HACKNEY: I didn't mean to A. Yes. 11 11 Now as you -- then you play the old interrupt. Let's try again. 12 game, right, as you go forward from that, at some 12 THE WITNESS: Try again. 13 point you kind of say goodbye to the point where 13 BY MR. HACKNEY: 14 you could guarantee? 14 Let's say all the assumptions were 15 Yes. 15 exceptionally conservative, would you agree that A. 16 Right? 16 you could find that plan feasible? Q. 17 17 A. Yes. A. Arguably, yes. 18 Okay. So, I want to quibble a little 18 Would you also agree that under your 19 bit with you about this idea that -- that there 19 methodology you would find those assumptions 20 20 aren't any guarantees because if -- if the City unreasonable? 21 set a budget that was a hundred dollars of revenue 21 What I said relative to my definition 22 22 next year, and had obligations of \$20, you could of my standard, okay, is that feasibility is a 23 23 guarantee that the City would achieve that budget, range, okay. And I said at the point in time, when 24 right? 24 25 On that hypothetical, yes. 25 the plan is so conservative that it's a guarantee,

Page 213 Page 215 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 right, I think that feasibility tips over to best aggressive assumptions in it. 3 3 interest of creditors and clearly I'm not going I understand that's your opinion. I 4 4 there, okay? do. 5 5 A. Okay. On the other hand, when -- as 6 6 But I'm trying to get a basic feasibility -- as assumptions individually and Q. 7 collectively, okay, move more to the middle or 7 understanding of your methodology in approaching 8 8 the question of feasibility? more down to the, you know, less conservative, 9 9 more aggressive, right, the projections can be A. 10 10 feasible, right, and that I believe that the O. Do you know anyone who is more test -- the definition, the standard that I've set 11 knowledgeable about the likely impact of the 11 12 12 citywide reappraisal than Mr. Evanko? out, establishes the -- the bar over which we need 13 13 I don't know if there's someone more to get. Okay? And not how high up. 14 And I've said that, quite frankly, I 14 knowledgeable. 15 don't -- I didn't evaluate if there is more money 15 And do you know what his view is of O. 16 16 available or if there's an alternative plan. I the likely impact? 17 simply looked at this plan, assessed it 17 A. I do not know. 18 individually, in totality and got comfortable that 18 And I take it you haven't read his Q. 19 this is a feasible plan. 19 deposition? 20 20 Okay. Going back to your continuum Α. I have not. 21 for assumptions, don't you agree that as a 21 Whatever his view is, you don't have O. 22 feasibility expert --22 a basis to disagree with it, correct? Or agree 23 Uh-huh. 23 A. with it? 24 24 O. -- you're much more concerned with Α. Yes, I don't have any basis. 25 25 MR. STEWART: Objection. aggressive assumptions than you are with Page 214 Page 216 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 conservative assumptions? 2 By the way, do you know whether the 3 3 I'm much more concerned with citywide reappraisal will even be completed by aggressive assumptions than I am with conservative 4 4 fiscal year 2015? 5 5 assumptions? That isn't how I approached it. A. I'm not sure when it will be 6 6 Q. Okav. completed. 7 7 A. Okav? Is it reasonable for the forecast to Do you remember we talked moments ago 8 8 assume that the citywide appraisal, citywide 9 about if how all the assumptions were 9 reappraisal will have an impact on assessed 10 10 exceptionally conservative you could find the plan property values if it hasn't been completed? feasible? 11 11 Say that again. 12 A. You could find the plan feasible. 12 O. Is it reasonable for the City's 13 If all the assumptions were wildly 13 forecasts of assessed property values to be 14 aggressive, could you find the plan feasible? 14 impacted by a citywide reappraisal program that 15 I don't think so. 15 hasn't completed? A. 16 Okay. So do you see the difference 16 A. I -- I'm not understanding. Okay. 17 between the nature of assumption from the 17 Okay. So if the citywide reappraisal 18 standpoint of feasibility? 18 program won't finish until 2016 --19 MR. KANE: Objection. You can 19 Α. Right. 20 20 -- is it reasonable to assume it will answer. 21 21 have an impact on property values in 2015? Aggressive assumptions threaten 22 feasibility, conservative ones don't. 22 There could -- there would -- the appraisal, the reappraisal wouldn't have an impact 23 Conservative ones don't, correct. 23 Α. 24 Q. 24 before it was completed or implemented, other Okav. 25 But this plan has conservative and 25 things might have an impact.

54 (Pages 213 to 216)

Page 217 Page 219 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 Q. On assessed values? 2 Because there would never have been A. 3 Could be. 3 enough time and the availability of information to Α. 4 do that, okay, would -- again, there wouldn't have 4 Okay. But you would agree that to 5 the extent you're basing your assumption, a person 5 been the time, the money, the anything to do that 6 6 is basing their assumption that the reappraisal so... 7 will have an impact on assessed values, do you 7 If you had had enough time -- have O. 8 agree that the reappraisal has to conclude before 8 you ever heard of like in a scientific realm when 9 9 it can have the impact? they do double blind --10 10 I would agree with that. Yes. A. And do you know when the reappraisal 11 11 Q. -- studies? Have you ever heard of 12 will conclude? 12 that? 13 13 A. I don't. A. I have. 14 Q. Would you agree -- let's talk about 14 Q. You know that double blind study is 15 tax collection for a second, if we could, shift 15 where there's the drug that is being tested and then there's a placebo and the double blind is 16 gears here. 16 17 A. Okay. 17 that the people don't even know what they're 18 18 taking and then the researchers don't know who's Q. Do you agree that the -- Detroit's 19 tax collection enforcement mechanism has been 19 taking what, right? 20 broken for a number of years? 20 A. Right. 21 The percentage of tax that the City 21 Do you understand that the concept of 22 collects relative to the amount of tax that's due 22 using a double blind methodology is to protect 23 23 against the types of biases that can actually even is poor. 24 24 O. And I want to focus on the creep into things like pharmaceutical statistics? 25 25 enforcement mechanism which is the tax collection Yes. Page 218 Page 220 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 efforts that's go into either property or income Do you agree if you'd had enough 3 taxes, okay? 3 time, it would have been preferable for you to be able to construct your own forecast first and then 4 Would you agree that that enforcement 4 mechanism has been dysfunctional for a number of 5 5 compare it to the City's? 6 6 Oh. I think that's idealistic. vears --A. 7 7 It has been --It's -- it's idealistic? A. O. 8 8 O. -- in Detroit? A. A. It has been ineffective, yes. 9 9 Q. Given my idealism, would you agree 10 Do you agree that fixing the 10 that would have been preferable? enforcement mechanism alone will have an 11 I'm not sure it's preferable or not. 11 12 improvement on the level of tax delinquencies in 12 I mean, it would have been interesting. It would 13 the City? 13 have been very interesting. 14 14 You didn't have enough time to do A. I believe it would, yes. Q. 15 In fact, you've expressed that 15 that? 16 opinion, haven't you? 16 I wasn't asked to do that. Α. 17 17 I have expressed that opinion. Well And how much time would you have O. 18 that point of view, right. 18 needed to construct a forecast? 19 Q. Yes. 19 Α. I don't know. 20 20 Little O. How much time did Ernst & Young and A. 21 Now, I hope I didn't ask this before 21 Conway MacKenzie need? 22 22 and if I did I apologize. But you did not attempt I don't know. Α. 23 23 to construct your own forecasts, correct? Did they have adequate time? Q. 24 A. Correct. 24 A. I don't know. 25 Why didn't you? 25 Would you -- do you -- is it your

55 (Pages 217 to 220)

Page 221 - MARTI KOPACZ - VOLUME 1opinion that there is a material risk that the City will not achieve the forecasts set forth in

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MR. STEWART: Objection.

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the plan?

- A material risk that the City will not achieve the -- I don't -- again, I don't know what "material" means.
- Q. I want to use your definition of material that you discussed earlier with Mr. Stewart.
- If I -- yes, if I thought there was a Α. material risk that they wouldn't meet these projections, I would not have an opinion that the plan is feasible.
- Okay. So to turn that around on you, it is your opinion that there is not a material risk that the City will fail to achieve its projections, correct?
- I believe that the City has a reasonable likelihood of meeting the commitments it's laid out in the plan and delivering essential services.
- O. Okay. And using your definition of materiality, though, I want to confirm, you do not

- MARTI KOPACZ - VOLUME 1am assessing --

There isn't any such thing, I think, but I know what you mean.

MR. KANE: Sounded to me like you were in the middle of a sentence. So if you were finished, if not, wait for him to --

- That's all right. I didn't mean to be rude and interrupt. I didn't mean to be, I apologize.
 - I didn't take it as that. A.
- Let me put it this way; that is, in O. order to get your seal of approval, you needed to find that in your opinion the City's likely results will not be materially worse than the forecasted results?
- In the aggregate -- and I don't know how say it any differently than I've said it before or in my report, okay, I think the projections are reasonable. I think the City can meet its commitments in the plan. I think it can deliver services in the future.
- You do not perceive a material risk of the City failing any of those; else you would not have opined it's feasible?

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- MARTI KOPACZ VOLUME 1see a material risk that the City will fail to live up to the plan's forecasts, correct?
- Again, I don't -- the City can meet its obligation -- I believe the City can meet its obligations in the plan of arrangement and deliver services, okay, within the confines of the projections.

I don't believe for a minute that the projections will come in exactly as they've been forecast.

- Q. I understand. But in the aggregate, you would not have rendered your opinion if you believed a material risk of failure existed, correct?
 - That is correct. A.
- When it comes to evaluating the O. City's obligations, the ability to meet its obligation, Ms. Kopacz, in order to get your seal of approval, would you agree that you needed really to confirm that the actual results would not turn out to be materially worse than the forecasted results; that's what you're assessing, right?

I'm not assessing future actuals. I

- MARTI KOPACZ VOLUME 1-
- If I thought the City couldn't pay its commitments, couldn't meet its commitments or it couldn't deliver services, I would have said --I would have found -- I would have had the opinion that the plan was not feasible.
- Now, let me ask you another hypothetical question which is pretend that you conducted -- constructed your own forecasts.
 - A. Okay.
- Okay? Same time period, same subject matter as the forecasts that are in the plan. If you found that the City's forecasts were 50 percent more conservative than yours, would you have still found the City's forecast to be reasonable, using your definition of reasonableness?
 - I don't know. A.
- Are you able to give me a percentage deviation from the hypothetical forecast that you constructed at which point you would say that the City's forecasts were unreasonable?
 - Α. I don't think I could.
- Q. All right. Let me direct you to your report in Section F.

56 (Pages 221 to 224)

1 - MARTI KOPACZ - VOLUME 1- 2 A. Section F. 3 MR. LERNER: Section what? 4 Page 40 where you begin your dispussion	E 1-
2 A. Section F. 2 A. Yes. 3 MR. LERNER: Section what? 3 Q. I'd like to direct your attention	
3 MR. LERNER: Section what? 3 Q. I'd like to direct your attention	
	to
4 MR. HACKNEY: F. 4 Page 40 where you begin your discussion	
5 A. What page? 5 municipal income tax revenues.	
6 Q. Let me see 6 Do you see that?	
7 A. I think it's the expenses. 7 A. I do.	
8 Q. No, these are revenues. 8 Q. And then, generally, this is bro	ken
9 A. These are revenues. 9 down into an analysis of the ten-year fo	
10 Q. So take a look at Page 39. 10 without RRI and then with RRI, correct	
11 A. Page 39? 11 A. Correct.	
12 Oh, yeah, revenues. Uh-huh. 12 Q. And then within each section a	re vour
13 Q. Okay. 13 opinions regarding the assumptions that	
14 A. Can we take a break? 14 the ten-year forecast, correct?	.,,
15 Q. Of course, absolutely. 15 A. I'm not sure "opinion" is right.	
16 A. Thank you. 16 It's it is this is an analysis and a	
Q. We can always take a break when you 17 summarization of what is in the projection	ons.
18 want to. 18 Q. Okay. So that's a good way to	
19 A. I need a beverage. I need Diet Coke. 19 describe it.	
THE VIDEOGRAPHER: The time now is 20 If you when you're reading Sect	ion F.
21 approximately 2:30 and we're going off the 21 what you generally see are two things, i	
record. This is the end of Disk Number 3. 22 either see your narrative description of	
23 (Whereupon, there was a brief recess 23 City did?	vviide tiio
24 in the proceedings.) 24 A. Uh-huh.	
THE VIDEOGRAPHER: The time now is 25 Q. Or your assessment of what the	: City
	Page 228
1 - MARTI KOPACZ - VOLUME 1- 1 - MARTI KOPACZ - VOLUMI	
2 approximately 2:44 p.m. We're back on the 2 did, correct?	-1 د
3 record. This is the beginning of Disk Number 3 A. Yes.	
4 4. Q. Okay. So, turn your attention,	if
5 BY MR. HACKNEY: 5 you would, ma'am, to well, let's actual	
	my look
6 Q. Ms. Kopacz, welcome back. 6 at Page 41, okay? 7 A. Thank you. 7 A. Okay.	
8 Q. To the extent that you relied on 8 Q. Now, with respect to the ten-year	vor
9 historical data in assessing the assumptions of 9 plan without RRIs, you first found that	
the City in compiling its forecasts, is that 10 year-over-year taxable income growth very search of the City in compiling its forecasts, is that	•
historical data disclosed in the body of your 11 percent for city residents, 1.18 percent for city	
12 report? 12 percent for city residents, 1.16 percent for corp.	
13 A. In the body of my report? I don't 13 Do you see that?	oranons.
14 believe so. 14 A. I do.	
15 Q. You don't believe so? 15 Q. And that's the part where you're	<u> </u>
16 A. Right. 16 narratively describing what the City's as	
17 Q. Okay. So there could be historical 17 are, right?	sampuons
	what
18 data that you considered that's listed at 18 A. Right. What the projections 19 Exhibit 2 that informed your assessment of 19 the projections are.	wiiai
20 reasonableness? 20 Q. Okay. Now, take .85 percent a	c an
21 A. Yes. 21 example of the year-over-year income g	
21 A. 1 es. 21 example of the year-over-year income g 22 Q. Okay. So, if you could turn to Page 22 city residents.	,10wui 10i
23 39, this is the section of the report where you 23 Do you see where I'm indicating	,
23 39, this is the section of the report where you 23 Do you see where I in indicating 24 talk about the macro assumptions that go into the 24 there?	,
25 City's revenue forecasts; is that correct? 25 A. Uh-huh.	
25 City's Teveniue Torceasts, is that correct: 25 A. Ull-Hull.	

57 (Pages 225 to 228)

Page 229 Page 231 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Q. Is that .85 percent in real or dollars is the inclusion of an adjustment either 3 current dollars? 3 for the time value of money or for inflation as 4 4 A. It's in nominal dollars. the case may be, correct? 5 So nominal dollars means current 5 A. Some adjustment, correct. O. 6 6 So if I say that there's a two dollars, right? 7 Well, I don't -- nominal dollars 7 percent adjustment in real dollars or in inflation Α. 8 8 means dollars that have not been adjusted for the adjusted dollars, you understand that that number 9 9 time value of money. comes embedded with an adjustment that's already 10 10 Or -- or inflation? been made for inflation, correct? Q. 11 11 A. Or inflation. It's two percent over and above the 12 12 O. Okay. So, if I use the phrase "real inflation? 13 dollars" to refer to inflation adjusted and I use 13 A. There are a series of -- there are 14 "nominal dollars" to refer to percentages that are 14 more than one assumption going into that number. 15 not inflation adjusted, will you understand what 15 Q. Uh-huh. Exactly. 16 I'm talking about? 16 A. Okav? 17 A. We can -- we can set up that 17 O. And if I present it as 2 percent, 18 18 that is the amount of noninflationary increase, definition, yes. 19 19 correct? Or is it cumulative of inflation? You understand the distinction, O. 20 right? 20 MR. STEWART: Can I have that reread? 21 Yes. 21 A. Do you want to just rephrase it? 22 Because if I say wages are going to 22 BY MR. HACKNEY: O. 23 increase two percent from this year every year for 23 Sure. So, the -- let's put it this Q. 24 24 the next five, in nominal dollars, you understand way. 25 that you would calculate that by looking at wages 25 If there is -- let's say that I give Page 230 Page 232 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 you an inflation adjusted year-over-year increase today and then simply applying two percent to the 3 base number for year one, two percent to the base 3 in income of 2 percent, and a nominal dollar 4 4 number for year two and so on and so forth, increase of 2 percent year over year, which one 5 5 represents higher incomes? Which one will produce correct? 6 6 higher incomes? A. It builds from year to year. 7 7 Oh, so it's two percent of the prior The -- they could -- they could --O. 8 8 they could end up mathematically with the same year? 9 Right. If Page 42 shows the 9 number. Okay? There's not an inflation A. 10 assumption to my knowledge in here. 10 year-by-year growth assumptions. 11 Okay. So in the nominal dollar 11 O. I know there's not in here. I'm 12 12 calculation, if a forecast is two percent nominal trying to get our terminology straight as we begin 13 dollars year over year, year one would be 13 to ask questions later. 14 14 determined by taking the arithmetical calculation Okay. A. 15 15 of two percent over the base year, correct? Q. So --16 A. Yes. 16 Can we just use inflation adjusted or Α. 17 17 not inflation adjusted? Year two would be done by taking a Q. 18 18 Sure. That's fine. And nominal two percent increase over --19 dollars are not inflation adjusted. 19 Α. Year one. 20 -- year one? 2.0 Nominal dollars are not inflation O. 21 Yes. 21 adjusted in this, right. A. 22 22 And so forth, correct? With respect to inflation adjustments Q. 23 Uh-uh. 23 though, do you understand that it's not presented A. Now, you understand that the in the percentage increase typically, that the 24 24 Q. 25 distinction between nominal dollars and real 25 inflation adjustment is applied to the base first? 58 (Pages 229 to 232)

Page 233 Page 235 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 Yes, it can be, right. 2 Q. A. Uh-huh. 3 Okay. I'm talking about the typical 3 Okay? And the average are, in fact, Q. A. presentment by government agencies and so forth. the numbers that you recited in the beginning of 4 4 5 A. I -- I'm not going to say what's 5 this section --6 typical. Okay? 6 Q. Right. 7 Well, do you understand that if you 7 O. A. -- 0.85, but it shows, if you will, wanted to relate inflation adjusted dollars to 8 8 a -- for each of the types of income tax, 9 noninflation adjusted dollars that you -- you have 9 resident, nonresident and corporation, it makes 10 to add in the amount of the inflation adjustment 10 individual assumptions for each year. in order to get an apples to apples comparison of 11 11 Correct. Q. Okay? So there's -- there's a lot 12 total increase? 12 A. 13 13 If you want to compare non -that goes into that. 14 noninflation adjustment estimates to inflation 14 Okay. Q. 15 15 adjustment estimates, yes, you must add in the Okay? To get to that average. A. 16 inflation percentage assumption. But in terms of historical data that 16 O. 17 Right. To -- yes. So if you want to 17 you used to judge reasonableness --18 18 take inflation adjusted percentages and compare A. Right. 19 them to nominal percentages on an absolute basis, 19 -- did you rely on any historical O. 20 you have to add in the inflation adjustment to the 20 data of taxable income other than fiscal years 21 inflation adjusted dollars so that you can see the 21 2011 to '13? 22 nominal dollar comparison. 22 A. Did we -- I'm -- I'm pretty confident 23 I think you just did that backwards. 23 that we looked at a much longer time frame on 24 24 O. Okay. I think I may have, but I taxable income revenues. 25 thought that I didn't. Because I --25 Historical? Q. Page 234 Page 236 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 You thought that you didn't. 2 A. A. Historical. 3 -- well, I'll show you some later. 3 You believe that you did? Q. Q. 4 A. Okay. 4 A. Because if there was a down and 5 5 Q. We'll try to use specifics. there's then beginning to tick up now. 6 6 Okay. So do you know what the A. Okay. Q. 7 7 But it's absolutely possible that I ten-year historical taxable income was in the Q. 8 8 could be getting it wrong, so we'll see. City? 9 A. Okay. 9 A. Not off the top of my head. 10 Now, do you see here that you say 10 Now, what you present here is that O. 11 that "the taxable income growth assumptions appear 11 residents' taxable income growth averaged 12 to be reasonably conservative." 12 3.4 percent for that three-year period, correct? 13 Do you see that? 13 Right, right. A. Uh-huh. 14 14 And that is -- that's more than A. Q. 15 15 quadruple the assumed average, right? And this is your opinion with respect 16 to the assump -- assumed year-over-year taxable 16 It is the estimate for fiscal '14/'15 17 income growth I just identified, correct? 17 is about half of that rate. Okay? 18 A. 18 Right. So --Q. 19 O. Okay. Now, is that opinion based on 19 Α. But mathematically, the ten-year 20 20 anything other than the recent uptick in taxable average, right, is, what, a third of what it's 21 income in 2011 and 2013? 21 been the last couple of years or more? 22 22 The -- I can answer this more easily Does it make sense to you that the 23 if we look at 42 -- Page 42 where you see the 23 City's residents' taxable income growth tails off 24 year-over-year projections for each of these 24 substantially after the first two years? 25 categories. 25 It does in the sense that I think

Page 237 Page 239 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 the -- the assumption is based on the recovery in Q. So let's break it down. 3 income from the recession in '08 and '09, and even 3 As to how Ernst & Young got .46 4 4 before that, the -- the deterioration in the percent, you don't know, correct? 5 economy in Southeast Michigan as a result of the 5 I -- I don't know specifically, 6 б automotive thing. So there's a period now where correct. 7 incomes are coming back up and -- but to assume 7 O. But in evaluating whether, 8 8 irrespective of how they got it, whether that that that trajectory continues for ten years would 9 9 be an aggressive assumption. number was reasonable, you came to the conclusion 10 So, is it that 2011, 2012 and 2013, 10 that it was? 11 because they come on the heels of the recession, 11 A. I did. 12 12 What's the basis for that conclusion? are not representative --O. 13 13 A. As a percentage. A. The basis for that conclusion is that 14 -- years when it comes to projecting 14 the City has been increasing income tax over the 15 future income growth? 15 last few years. 16 That would be -- I believe that's the 16 Increasing income tax? Q. 17 assumptions that Ernst & Young made in this, and I 17 A. Municipal income taxes have been 18 would conclude that it was -- that's a reasonable 18 growing. 19 19 assumption to make, that you're not going to The revenues? Q. 20 continue that high rate of increases ad infinitum. 20 The revenues have been growing. A. 21 Take -- sorry. Take a look at fiscal 21 Q. Not the rate? 22 year 2016 for residents. The projected taxable 22 Not the rate. The rate stayed the A. 23 income growth is .46 percent, right? 23 same. 24 24 A. Correct. Q. Got it. Sorry to interrupt. 25 That's about one-ninth of the 25 Okay? They have been growing --O. A. Page 240 Page 238 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 three-year trailing average, correct? O. Okav. 3 3 -- right? And I would expect that A. I don't know what the -- the -- I'd have to do that math, but it's a half percent 4 4 they would continue to grow, but probably not as 5 5 versus 3 1/2, right? quickly as they have in the recent past giving --6 6 given that the City is coming off of a recession Q. Right. What's the basis for your 7 7 conclusion that that's a reasonable assumption for and a prior significant decline in its major 8 8 fiscal year 2016? industry. 9 9 A. As -- as I said, I think it is --Q. Why not? 10 10 it's appropriate, it's reasonable. It's Because I think this is a prudent 11 11 reasonably conservative to make the assumption assumption that doesn't -- that it -- I mean, 12 that at some point the percentage of growth will 12 again, you could say it could grow by 10 percent, 13 begin to flatten out in terms of income growth. 13 right? You could get really bullish and say it 14 14 could grow at 10 percent, but is that going to be Understood that that's your general 15 opinion, but how do you specifically arrive at 15 reasonable? You don't want to -- I wouldn't want 16 .46 percent? 16 to have to make a commitment to pay people based 17 17 A. I did not. on an aggressive assumption. 18 18 Q. What is the typical income recovery Q. I understand. This is -- right. This is what -- I 19 19 period after a recession? 20 20 looked at this and said, you know, does that look A. I don't know. 21 reasonable in the context of everything we know, 21 What was the income recovery profile 22 22 after the Great Depression? and -- and I concluded that I am not -- that that 23 23 assumption is reasonable in the context of trying A. I don't know. 2.4 24 to project income tax over the next ten years for Q. Do you agree that the Great -- that

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the recession we just went through is often called

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25

the City.

Page 241 Page 243 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 the Great Recession? 2 Q. Nonresident -- or I should say 3 A. The Great Recession, right. Yes. 3 resident taxable income growth over the prior 4 4 Yes? And that's sort of an homage to three years was about --5 the fact that it was -- it was so serious, right? 5 Has been a little bit less. A. 6 6 -- 97 percent of nonresident growth, It was almost like the Great Depression, right? Q. 7 A. I don't know where -- I don't know 7 right? where it comes from, but yes, it's been long. 8 8 Well, I think you're -- I think you 9 9 So how -- how -- how can we know that are trying to be very precise with a number that 10 taxable incomes as an economic matter shouldn't be 10 is an average of a lot of other -- of a variety of 11 numbers. So, but yes, if you want to take 3.4 expected to grow at the 3.4 percent rate for a 11 12 decade? 12 over 3.5 it will be --13 13 A. We don't. Q. About 97 percent, right? 14 Q. Okay. So how do we test your finding 14 A. If that's the math, yes. 15 that .46 percent is reasonable? 15 And then -- but when you look at 16 A. It's not unreasonable. .85 percent for City residents in the forecast on 16 17 O. How do we test that? 17 average over the next ten years, and you compare 18 I don't know that we do. 18 it to 1.18 percent, do you see that that's more on A. 19 19 Do you know of a way that we could the order of three-quarters? O. 20 test that opinion? 20 But that doesn't -- I mean, again, 21 I don't know that we can. 21 that doesn't concern me. I'm looking at '14, '15, A. 22 Do you see that taxable income growth 22 '16, I'm looking at that nonresidents, working in O. 23 for nonresidents is 3.5 percent, correct? 23 the City of Detroit, okay, versus City residents 3.5 -- yes, 3.4 versus -- yes, 3.5. 24 24 in the City of Detroit, I would expect 25 Is it true that the -- the taxable 25 nonresidents' income to grow faster than O. Page 242 Page 244 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 income growth is fairly consistent between residents ---3 3 Why? residents and nonresidents in the City in your Q. experience? -- based on this general economic --4 4 5 5 you've got so many more residents at the poverty A. It has been. Uh-huh. 6 It has been? б level in the City versus the suburbs. O. 7 7 It has been. Why didn't it do that in the prior Α. O. 8 8 And yet, in the presentation, three years? 9 wouldn't you agree that the forecast for City 9 A. Could be as a result of number of 10 10 residents year-over-year income growth is more people working. conservative than the historical evidence suggests 11 11 How would the number of people 12 12 in terms of disparity from nonresidents? working impact the average growth of the income of 13 Let me put it to you another way. 13 people that were working? 14 14 No, no, no. The -- the --Yes, please. 15 15 Do you see that in the three prior Let me -- let me ask it again. 16 years taxable income growth for residents versus 16 So, you would agree that in the prior 17 nonresidents was something like 97 percent of what 17 three years, 2011, 2012, 2013, there was not a 18 nonresidents saw? 18 significant differential between the 19 19 Α. Can you tell me where you're getting year-over-year income growth of residents versus 20 2.0 the data -nonresidents? 21 Whatever 3.4 is over 3.5? 21 I would agree with that, yes. Q. A. 22 22 In the projections, however, there is -- where are you getting the data? A. So if you put 3.4 over 3.5, and think 23 23 a material difference that's presented. 2.4 24 of 135th, okay, being about 3 percent? I'm not sure I would agree with you 25 Uh-huh. 25 that there's a material difference. There is a

Page 245 Page 247 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 difference, but I'm not sure I would say it's assumptions. 3 material. 3 You have to have wage and employees 4 4 Q. Okay. What is the basis for the to make income. 5 distinction between resident and nonresident 5 Understood. We're talking about the 6 6 percentage year-over-year taxable income growth? residents' income, right? 7 What is the distinction. 7 You want -- okay, residents. 8 O. The basis for the distinction. 8 Right. I'm talking about resident Q. 9 versus nonresident income growth on Page 41. 9 A. It has -- the difference is around 10 10 wage growth versus employment growth. Okay? And A. Right. 11 there are each of those estimates Ernst & Young 11 Just so we're communicating, I'm 12 12 made independently. Okay? And so there is a -talking about .85 percent versus 1.18 percent. 13 we have to look at each of the categories, and 13 A. Right. 14 there's some more charts back here. 14 Q. What's the basis for the distinction? 15 15 The basis for the distinction is for But I mean on wage growth, I'm saying A. 16 this is an assumption that you said is reasonable. 16 each of those, whether you're looking at residents 17 Nonresidents' year-over-year taxable income growth 17 or nonresidents, okay, there are different 18 will grow on average 1.18 percent from fiscal year 18 assumptions for wage growth and employment growth 19 19 2014 to '23, but resident growth will only be in each of those categories of taxpayers, and it 20 20 .85 percent. is an aggregate of, in essence, four separate 21 21 You've said that's a reasonable assumptions that are blended together and compared 22 22 assumption, correct? so that the math is different. 23 23 A. In totality, I believe all these Right. But with respect to the 24 24 assumptions are reasonable. different assumptions that underlie resident 25 Understood. What's the basis for 25 versus nonresident income growth, what is the Page 246 Page 248 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 this one? basis for them? 3 3 A. The --Mr. Hackney, I am sorry, but I can't 4 Q. This differential. 4 answer it any differently than what I've answered. 5 5 A. I feel like we're going in circles. So, let me first say that employment 6 The basis for the assumptions? 6 growth is a separate assumption that's addressed 7 7 I under -- so let me -- let me -on Page 43 and that I'm holding constant. I'm 8 just trying to understand --8 Different assumptions that underlie 9 9 wage growth and employment growth --A. No. 10 10 Understood. -- what the basis for the --O. O. 11 11 -- For each of these distinct group You can't do that. A. A. 12 of taxpayers. 12 Q. Why not? 13 Q. Understood. 13 Because to get to income growth, 14 Right. 14 right, you have to use both employment growth and A. 15 What is the basis for the distinction 15 wage growth. 16 between resident and nonresident income growth in 16 Q. Why? 17 17 the forecast? Why? Let me try to -- let me try to A. construct a model for you -- for you and I. Okay? 18 Okay. Different assumptions of how 18 wages grow for residents versus nonresidents and 19 I'm trying to think -- there are, to get to income 19 20 differences in assumptions between income growth 20 tax you have two components. 21 for residents -- I mean employment growth for 21 I totally agree to get to income Q. 22 residents and employment growth for nonresidents. 22 tax --23 23 Okay. So put employment growth to That's what we just talked about. A. the one side. I'm just talking about income 2.4 24 Q. No. We were talking about income 25 growth. I understand there are different 25 growth.

Page 251 Page 249 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 A. This is tax -- this is municipal for fiscal year 2014 through fiscal year 2023? 3 income tax. Okay? 3 Α. Yes. 4 4 MR. KANE: Go ahead. Finish your As far as I can tell, in your report, 5 answer. 5 you do not present a comparable historical number 6 6 BY MR. HACKNEY: for that. 7 Q. Okay. I understand -- okay. Let me 7 Α. I don't. 8 8 take a step back. Q. Are you aware of one? Are you saying that the .85 percent 9 9 Am I aware of one? No. A. 10 versus the 1.18 percent are findings of two 10 Q. Okav. 11 different sets of assumptions that impact taxable 11 A. Not that I recall. 12 income growth; one of those assumptions being wage Do you know what the basis for this 12 O. 13 growth and the other assumption being employment 13 1.25 percent assumption is? 14 growth? 14 A. No. 15 Yes. 15 A. Q. Okay. So let's get back to kind of 16 O. Okay. In order to discuss this 16 our two step. 17 differential then, are you saying that you have to 17 Somebody at Ernst & Young decided to 18 drop down to the level of wage growth --18 use 1.25 percent, correct? 19 19 Correct. Yes. A. A. You don't know why they decided that, 20 Q. -- and employment growth --20 Q. 21 Yes. 21 A. right? 22 Q. -- and talk about those things? 22 Not as I sit here today, no. A. 23 23 Okay. Now, you do know that you have A. Yes. 24 24 found that this estimate appears reasonable, O. Okay. Okay. Understood. That's 25 helpful to me. One last question though. 25 correct? Page 250 Page 252 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 The historical taxable income growth A. Correct. 3 3 And let me -- let me quibble were you of 3 -- 3.4 percent, are those inflation adjusted Q. a little bit. 4 numbers or are they nominal dollars? 4 5 5 I would say they are nominal dollars. What's the difference between when 6 I mean, they're -- they're not -- they're not 6 something is reasonable and when something appears 7 7 adjusted -- they're -- they're actuals. reasonable? Is there a difference in your 8 8 O. Do you know where that number comes opinion? 9 9 from? A. I would say is reasonable you can 10 only make after the -- after event, right? It 10 Do I know as I sit here today? No. A. 11 11 appears reasonable. Okay. Do you know whether the 12 12 Michigan State Department of Treasury presents Q. Okay. 13 income growth numbers in inflation adjusted or 13 A. Looking at it prospectively. nominal dollars? 14 14 So what was your basis for -- your 15 conclusion that 1.25 percent average wage growth 15 A. I don't recall. 16 Okay. Let's drop down, like you 16 between fiscal year 2014 and 2023 appears to be a Q. 17 17 reasonable assumption? said, and talk about wage growth then. 18 18 The 1.25 over a ten-year period, A. 19 where you had historically both a decrease in 19 O. Okay? Do you see that average wage taxable income and an increase in taxable income 20 growth on Page 42 in the ten-year plan without 20 21 RRIs. Do you see that section? 21 appears to me to be a reasonable, long-term 22 22 Uh-huh. Yes. projection of the overall average increase. A. 23 23 Do you see that the ten-year plan Are you aware of any way to test that 24 24 estimates that for both City residents and conclusion? 25 25 nonresidents average wage growth of 1.25 percent To test that conclusion?

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Page 253 Page 255 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 2 A. I know we looked at some federal Q. To test the reasonableness of your 3 assumption? 3 estimates, right? 4 4 I don't know how you would test the So what was the prior experience with 5 assumption until after it happens. 5 income with average wage growth? 6 6 Okay. But if the -- if the Court I would have to go back and look at 7 wants to test your finding that this is a 7 the historical information that we looked at at 8 reasonable assumption, you're not aware of a way 8 the time to be able to answer that today because I 9 it can test it, correct? 9 don't recall. 10 10 A. No, I am not. Q. But do you have like workpapers that 11 Okay. So what is your basis, though, 11 show that? 12 for finding that 1.25 percent is a good average? 12 A. There would be documents that we 13 I looked at all of the information 13 looked at that showed that. I'm sure. 14 that was available, okay, about all of these 14 Okay. And they'll be -- they'll be 15 topics, all of these assumptions, both the revenue 15 somewhere on Exhibit 2? 16 side and the expense side. I looked at the recent 16 Tell be somewhere on Exhibit 2 or 17 tax history. I talked to the people who made the 17 they'll be somewhere in the -- in the data room. 18 assumptions, asked them questions about how they 18 Okay. And what did they show? You can't remember the specifics, but what time period 19 19 came up with this assumption or that assumption or 20 what they did and, you know, how much if you 20 did they show? 21 changed this, how much would that change. Okay? 21 I can't remember. I remember that 22 And concluded that, in totality, the estimates 22 income taxes went down and income taxes have 23 contained in the projections provide a reasonable 23 started to grow back. 24 24 basis for forecasting what the City is going to do Okay. Was it aggregate income tax 25 from an economic perspective during the life of 25 data that you reviewed? Page 254 Page 256 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 this -- these projections. 2 I don't recall. A. Q. Understood. 3 3 Do you remember when we were looking 4 A. And I didn't -- you know, again --4 at taxable income growth you had some historical 5 5 You didn't -- did you not consider comparisons that you showed here in your text, 6 whether any individual assumption was reasonable 6 right? 7 7 standing by itself? You only considered them in That's correct. A. 8 8 the aggregate? But here you didn't present any, 9 A. I looked at all of the individual 9 correct, in the body of your report? assumptions. 10 10 There are other data points shown on A. 11 You did? 11 Q. Page 47. 12 A. I did. Okay? 12 Q. Aren't those forecasted data points? 13 Okay. So let's talk about this one. 13 They are forecasted data points. Q. A. 14 14 Okay. Did you rely on any A. 15 What's your basis for your opinion 15 historical -- so is -- are these the data points 16 that 1.25 percent appears reasonable? 16 that you relied upon these forecasts? 17 17 These are forecasts made by other This -- it is reasonable because it 18 is not either too low or too high when you look at 18 forecasting entities that we looked at to analyze and assess the forecasts for wage growth and on 19 all the surrounding data points. 19 20 What are those data points? 20 Page 48 for employment growth that the City used. 21 It is the prior experience in terms 21 Okay. So, for example, in the 22 22 ten-year without reinvestment scenario, do you see of what's been collected over time, all that, 23 right? It's looking at information that comes 23 that box on Page 47? 24 from the state. 24 Yes. A. 25 Q. Okay. 25 First of all, was your basis for

Page 257 Page 259 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 analyzing this assumption -- and by "this real or nominal -- are inflation adjusted or 3 3 assumption," I mean the 1.25 percent assumption. nominal dollars? 4 4 Right. Without reinvestment. I don't. 5 5 Was it the -- was it these forecasted If they're inflation adjusted, what Q. 6 6 is the relevance for them as a comparable? data points from other entities? 7 I'm sorry. Repeat that question, 7 A. I don't know without knowing what the 8 inflation adjustment is. 8 please. 9 9 Q. Let me turn it around. Okay. So you would have to change 10 10 these numbers some way. Would you change them up Yes. A. 11 11 Did you rely on any historical or down? 12 information relating to wage growth in reaching 12 MR. KANE: What numbers? 13 your opinion that 1.25 percent was reasonable? 13 THE WITNESS: What numbers? 14 I consider -- I am sure that we 14 BY MR. HACKNEY: 15 15 considered historical information in looking at Q. The -- to the extent anything -- let 16 16 the totality of these assumptions, okay? me reask that. 17 Q. So it's part of the basis for your 17 If any of these numbers from the 18 opinion that it's reasonable is the historical 18 Michigan Department of Treasury, the Michigan 19 data relating to wage growth for residents and 19 Senate Fiscal Agency or the CBO are --20 nonresidents, correct? 20 Have inflation in them? 21 21 There is -- there is some relevance -- are inflation adjusted, what would 2.2 22 to historical data relative to these current you have to do to them to make an apple to apples 23 23 comparison to the nominal dollars? estimates, okay? 24 24 A. I'd have to look -- I'd have to look The -- without reinvestment 25 25 at what the inflation adjustment is. assumptions, okay, are not particularly meaningful Page 258 Page 260 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 to me because I believe the City is going to make 2 Okay. And did you do that? 3 reinvestment decisions, okay? 3 I did not. I -- I don't think I did. 4 So, I mean we -- we analyzed this or 4 I mean I don't think my team did. I don't have 5 5 we laid out in our report the way the City had any recollection of it as I sit here today. 6 laid it out, okay? As a practical matter, the --6 Remember when we were talking about 7 7 what I think is relevant is the ten-year plan with whether you'd have to add inflation or subtract 8 the reinvestment. 8 it? 9 Q. Okay. So is it fair to say that you 9 A. Uh-huh. 10 10 not focus as hard on the ten-year plan without I could be wrong, but my 11 reinvestment as you did the ten-year plan with 11 understanding of CBO real wage growth -- do you 12 reinvestment? 12 see that? 13 That is correct. 13 A. Uh-huh. 14 Okay. Do you know what? Let's talk 14 -- means that 2.47 percent is after about -- well, let's just first note that the --15 15 taking into account inflation. Do you disagree 16 do you -- I'm sorry if I reasked this. I don't 16 with statement? 17 mean to. 17 A. So it would be higher than the 18 The -- do you see that on Page 47 you 18 nominal rate, right? 19 produced comparable metrics from the Michigan That's right. That was -- my 19 20 Department of Treasury, the Michigan Senate Fiscal 20 understanding was if you wanted to know what the 21 Agency and the CBO, which means the Congressional 21 CBO's nominal dollar wage growth estimate was. 22 **Budget Office?** 22 You would have to remove inflation. A. 23 23 A. The Congressional Budget Office, O. No, you'd have to add it. 24 You'd have to add it. right. 2.4 A. 25 Do you know whether their metrics are 25 That's my understanding, but don't

Page 261 Page 263 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 let me -- I could really be wrong. I talked to my 2 THE WITNESS: No. It's 2.65. 3 economist about this, but I'm also an idiot so I 3 BY MR. HACKNEY: 4 4 could have gotten it wrong. You do see that it's 2.65? O. 5 MR. STEWART: Objection. 5 A. I do. MR. HACKNEY: What's that? 6 6 Okay. Do you see that the forecast Q. 7 MR. STEWART: I don't think -- I 7 assumptions for corporation -- corporation wage 8 growth, you know, whatever you want to call it. 8 don't think you're an idiot. Yeah. Income growth, yeah. 9 MR. HACKNEY: Mr. Stewart's looking 9 10 10 out for me. Q. It's equivalent to the Michigan Senate Fiscal Agency's projection, correct? 11 BY MR. HACKNEY: 11 12 12 So my understanding is that if you Α. Well --13 13 want to know actual dollars -- if you want to know Q. That's what you say. The wage growth forecast for corporations is 2.65 percent or 14 what the CBO thinks about actual dollars, my 14 15 15 understanding, tell me if you disagree, is that equivalent to the Michigan Senate Fiscal Agency 16 you have to take their real wage growth percentage assumption, correct? 16 17 and add to it inflation assumptions so that you --17 A. That's without -- before -- where are 18 18 A. Yes. we? 19 19 Ο. -- can get an actual to actual; is MR. KANE: It's okay if I tell her 20 20 that correct? what page you're on? 21 21 BY MR. HACKNEY: A. 22 If inflation were 2 percent in the 22 Absolutely. I don't mean to turn you O. O. 23 CBO hypothetical, do you agree that the CBO's 23 around, 46. 24 actual wage growth in nominal dollars would be 24 Α. What page are you on? 25 25 MR. KANE: You're on 46? 4.47 percent? Page 262 Page 264 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 A. Yes. BY MR. HACKNEY: 3 3 Q. Okay. But I think we've established Q. Yeah. 4 you don't know whether these numbers from the 4 A. You're on 46? Okay. Thank you. 5 5 state and the Feds are inflation adjusted or not? Q. That's okay. 6 6 I was on the wrong page. A. 7 7 Okay. Would you -- if the CBO number A million numbers in here? O. O. 8 8 actual wage growth number was 4.47 percent, would Right. The wage growth forecast for 9 you still consider the 2.16 percent ten-year plan 9 corporations is 2.65 or equivalent to the Michigan 10 with reinvestment assumption to be reasonable? 10 State Fiscal Agency assumption. 11 I don't know. I'd really have to 11 Right. So you agree that the 12 look at -- I'd really have to look at the CBO 12 forecast -- the City forecasters' assumption is 13 estimate in detail. 13 identical to the Michigan Senate Fiscal Agency's 14 14 assumption about corporation wage growth, right? Okay. I'll stay focused on the parts 15 of this that relate to ten-year plan with RRIs. 15 A. Yes. 16 Okay? 16 But the City forecasters' assumptions Q. 17 17 Uh-huh. regarding average wage growth for residents and A. 18 Take a look at Page 45 and 46. Do 18 nonresidents is substantially below the Michigan Q. 19 you see that the assumption for City resident and 19 Senate Fiscal Agency's assumption; isn't that 20 nonresident wage growth on an average basis over 20 correct? 21 the time period presented is 2.16 percent? 21 A. I am not seeing -- 2.16 is less than 22 22 A. I do. 2.65. 23 O. But do you see that for corporations 23 That's for corporations. Do you know 24 it's 2.65 percent? 24 what the Michigan Senate Fiscal Agency's 25 MR. STEWART: You mean 3.65? 25 assumptions for residents in the City of Detroit

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Page 265 Page 267 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 were? said what if they're off by a percentage point one 3 I am not seeing that here. 3 way or another, what does that do? Okay? And in A. 4 4 Do you know separate and apart from totality of looking at all of that stuff, I O. 5 the presentation here? 5 concluded that this is a reasonable assumption 6 6 for, in this case, municipal income tax. A. I don't. 7 7 Let's go down to employ -- sorry. Well, wait. I would rephrase that O. Let's go down to Employment Growth. Do you see 8 and see if you agree with how I rephrase it. 8 9 that the number of city residents that are 9 You included that in the aggregate 10 employed is forecasted to increase .15 percent? 10 all of the assumptions were reasonable, correct? 11 Can you tell me where we are? 11 A. Correct. 12 12 Yes. It's on Page 46 right down O. O. You did not make a specific finding below "Employment Growth with RRIs. It's in the 13 13 or conclusion about whether this assumption on 14 prose section, the number of city residents 14 Page 46 regarding employment growth was 15 15 employees forecasted to increase .15 percent. Do reasonable, correct? 16 That is correct. I looked at a vou see that? 16 17 A. Over a ten-year period, yeah. 17 what-if scenario, the -- the estimate was off. 18 Yes. For the fiscal year period. 18 Now, how -- if -- if that estimate is off, right, 19 While the nonresidents' average 19 by some amount, does that have a -- what kind of 20 annual employment is anticipated to increase 20 an impact does that have on the overall projection 21 .21 percent. Do you see that? 21 for income tax? 22 A. Yes. 22 Okay. So speaking to your expertise 23 23 in terms of what your training and experience Now, in -- this is one of those 24 24 sections in your report where you are just renders you capable of doing, you are capable of 25 narrating what the assumptions are, correct? 25 assessing whether or not a forecasted increase of Page 266 Page 268 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 .15 percent in City resident employment is a A. That is correct. 3 3 reasonable assumption, correct? You did not make a finding in your report that these two assumptions were reasonable Could I do that? Absolutely. 4 4 A. 5 5 Yeah. You could have done it, but specifically, correct? Q. 6 Correct. б you did not do it. A. 7 7 I did not. O. Do you -- did you make a specific Α. 8 finding that these two assumptions were Okay. Is that a reasonable 8 O. 9 reasonable? 9 assumption? 10 10 I did not. I believe that that assumption is Α. reasonable in light of the -- the totality of what 11 Is it -- am I correct in reading your 11 12 report that if there is a section that 12 the income tax and revenue assumptions are. 13 describes -- like this one, that describes what 13 What is the basis for EY's .15 percent assumption in City resident employment 14 the City's assumptions are, but does not include 14 15 15 your specific seal of approval as to finding that increase? 16 the specific assumption being discussed, that I 16 You'd have to ask them. Α. 17 should infer that you did not make a specific 17 What is the basis for your conclusion Q. 18 finding about that assumption? 18 that this assumption --19 A. A. I did not make a specific finding 19 Right. 20 about 2.16 or any of that sort of thing. What I 2.0 -- is reasonable? O. 21 did is, as I said before, I looked at all the 21 Again, as I said, I did not -- in 22 22 information that was available to us, historical, this case, I looked at this assumption. It did 23 projections, talked with people who did this, 23 not appear unreasonable to me. Okay? And when I looked at other people who make projections about 24 24 factored in the result of all of these estimates 25 these things. I did the sensitivity analysis that 25 in terms of coming up with the revenue

Page 269 Page 271 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 assumptions, and I did the sensitivity analysis, analyses and say, Now I'm going to link them all 3 the result of what the city is projecting in terms 3 together and I'm going to assume that taxable 4 income growth is down a percent, property tax is 4 of municipal taxable income and all the other 5 individual revenue items is reasonable. 5 down a percent, gaming revenue is down a percent, 6 6 Do you agree that you're not able to and utility users' tax revenue is down a percent 7 give me an opinion regarding the reasonableness of 7 and then step back and look to see what impact it this assumption on a stand-alone basis? 8 had on whether the City can achieve the forecasts? 8 9 9 A. That is correct. I did not do that analysis. 10 10 O. Okay. Take a look at Page 48 where O. Okay. So do you agree that this 11 you have another one of your comparable metrics. 11 sensitivity analysis tells you what a 1 percent 12 12 change is worth when it comes to municipal income A. Uh-huh. 13 13 Q. Do you see that? tax revenue? 14 A. I do. 14 A. Yes. 15 15 It doesn't tell you how likely a O. Do you see that the -- so there are O. 16 comparable metrics here from the Michigan 16 1 percent deviation is. 17 Department of Treasury and the Michigan Senate 17 A. Correct. 18 18 And you did not conduct that Fiscal Agency. Do you see that? O. 19 19 analysis, correct? I do. A. 20 20 Q. And do you know whether those metrics Α. I did not. 21 are statewide metrics or City of Detroit metrics? 21 Take a look at -- I'm going to move 22 My recollection and I -- I was trying 22 into the state revenue sharing if I could. Take a 23 to find it in the report, my recollection is that 23 look at Page 50. You give a general introduction 24 24 into state revenue sharing on Page 49. these are statewide estimates. 25 I see. So these are -- are 25 Right. Page 270 Page 272 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 respective entities estimations of employment 2 And you talk about the constitutional 3 3 growth statewide for the fiscal years denoted, revenue sharing function and then the 4 right? That's your belief? 4 discretionary EVIP portion -- E-V-I-P portion. Do 5 5 you remember that? That's my recollection. It is not 6 the clearest recollection I have. 6 A. I do. 7 7 Okay. Now, do you see that you did O. And then you start with the 8 8 the sensitivity analysis on Page 49? constitutional portion on Page 50. Do you see 9 A. Yes. 9 that? 10 Do you remember when you were 10 A. I do. 11 testifying with Mr. Stewart that you described 11 Do you understand that constitutional 12 this as an arithmetical exercise that tells you 12 state revenue sharing in Michigan is driven by a 13 what every 1 percent change in annual taxable 13 municipality's percentage of the state's total 14 14 population? income growth amounts to in terms of dollars? 15 Yes 15 A. A. I do. 16 You did not do an assessment of the 16 Q. Q. So you understand that forecasting 17 likelihood that taxable income would be 1 percent 17 the constitutional portion of state revenue 18 lower or higher though, correct? 18 sharing requires you to forecast the population of 19 19 A. That's correct. the municipality, correct? 20 Okay. Did you ever -- I know that 20 It -- it does. Α. 21 you presented multiple sensitivity analyses for 21 Now, isn't it true that in every 22 22 different types of revenue and cost in this instance in your -- in the City's forecasts, the 23 opinion; isn't that right? 23 City made a determination that the presence of the 24 Yes. 24 RRIs would have an impact on the forecasts, A. 25 Did you ever take the sensitivity 25 correct? So, for example, wage growth without

Page 273 Page 275 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 RRIs was lower than with RRIs, correct? state population are moving in the same direction, 3 That's correct. 3 it wouldn't necessarily change the percentage of Α. 4 4 revenue sharing that Detroit gets. If they're Okay. With respect to the population 5 assumptions in the forecasts, is it correct that 5 changing in opposite directions, it would have --6 6 the ten-year projections assume that there will be it could have an effect. 7 a 12.3 percent decline in Detroit's population 7 Right. Right. Because the ratio 8 8 over the next ten years? wouldn't change in the former instance. 9 9 That is the SEMCOG estimate and Correct. 10 10 that's what the City used. But if putting a bunch of money into Q. So the City relied on SEMCOG, 11 11 Detroit pulled population from the surrounding Q. 12 12 correct? municipalities into Detroit without otherwise 13 13 A. Correct. changing the larger state's population, that could 14 Do you -- you did not make a specific 14 have an impact on Detroit's population as a Q. 15 15 finding in this section as to whether that percentage of state population? 16 population assumption was a reasonable one. Do 16 That could, yes. A. 17 you agree? 17 Q. This is not something you thought 18 18 A. I accepted that as a given. about? 19 19 Okay. You accepted it as a given. A. No. I mean it's not something I O. 20 You did not otherwise test its reasonableness, 20 attempted to quantify. 21 21 Okay. You didn't study or evaluate correct? 22 A. I did not. 22 the assumptions regarding population? 23 Okay. Do you know -- have you read 23 Q. A. Correct. 24 SEMCOG's report? 24 O. Now, take a look at Page 51. Now 25 25 I did not personally read it. you're going into statutory payments. Okay? Page 276 Page 274 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Someone on my team did. A. 3 3 Q. Okay. Somebody looked at it. Do you These are the -- this is the EVIP remember if they told you when it was done? 4 4 portion of state revenue sharing, right? 5 5 A. I don't recall. A. Yes. 6 6 Do you know whether the SEMCOG Now, do you see here that the ten O. 7 7 authors were considering the idea that there might year -- you say, "the ten-year projections assume 8 that the City continues to receive 100 percent of 8 be in excess of a billion dollars pumped into the 9 City of Detroit during the very ten-year period 9 its possible state allocation or approximately 10 10 140 million annually for the entire 2014 to 2023 they were studying? 11 11 I don't know one way or another. time period," correct? A. 12 O. Would you expect that if a city like 12 A. Yes. 13 Detroit puts a billion dollars into itself in the 13 Now, you did this make a specific 14 14 form of restructuring reinvestment that it would finding as to the reasonableness of this 15 have an impact on its population level? 15 assumption, correct? 16 That's what everyone is hoping. 16 No. I relied on the fact that the A. 17 17 Okay. Do you know whether the City City has received a hundred percent of its Q. adjusted its population estimates with respect to 18 18 possible EVIP allocation over the recent past 19 constitutional revenue sharing to take account of 19 vears. 20 20 the impact the RRIs might have on its population Has it? O. 21 estimate? 21 A. It has. 22 22 A. The answer is I don't know, and they Q. Over what time period? 23 23 would also have to estimate the change in I'd have to -- I'd have to look at 24 population in the state because Detroit gets --24 that, but it's been overlooked -- over the years

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that that EVIP has existed.

it's -- if both the Detroit population and the

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Page 277 Page 279 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Okay. Because that didn't come in sharing. 3 until Governor Snyder? 3 But the statutory revenue sharing is Q. 4 4 A. It was a governor Snyder thing. the EVIP payments, right? 5 Okay. 5 Yes. Q. A. 6 6 And those are independent of A. Yes. Q. 7 But did you independently assess 7 population? O. 8 8 whether on a go-forward basis it's likely that the It is, but it is -- statutory is an 9 9 City will continue to receive a hundred percent? independent of population and the constitutional 10 10 will change in 2021. My assumption is that if the state 11 believed that Detroit had met the requirements to 11 Let's break it down. 12 12 You did two different things in this receive EVIP previously, given the change in the 13 administration and all of the RRIs around 13 sensitivity analysis, right? 14 accounting and systems, that it is highly likely 14 Yes. A. 15 15 that it's going to get its EVIP going forward. O. The first thing you did is you said 16 Well, for example, like in 16 what's the -- what's the impact of a 5 percent 17 Category 3, Unfunded Actual Liability Plan relates 17 change downward in population on the 18 to the level of your unfunded liabilities and 18 constitutional portion? 19 19 whether you're doing a good job to reduce them, A. Yes. 20 right? That's a component of whether you get 20 Q. You separately said what's the impact 21 EVIP? 21 of just a 5 percent reduction in the statutory 22 It is -- you are to produce a plan. 22 portion? A. 23 Okay. Is it -- let's see if we can 23 A. 24 24 summarize your testimony on this in a way Q. And you presented it here in this 25 that's -- that's accurate. 25 box, right? Page 278 Page 280 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 Is it fair to say that you basically 2 A. That's correct. 3 made a single assumption that whatever went into 3 Okay. Now, you did not take 4 getting EVIP payments that Detroit would be better 4 undertake an assessment of the likelihood that 5 5 at it going forward? there would be a 5 percent reduction in the 6 Yes. 6 population in the City, correct? A. 7 7 And it's on the basis of that A. Correct. 8 assumption that you concluded that Detroit is 8 And you did not undertake an 9 likely to receive 100 percent of its EVIP payments 9 assumption of whether or not there would be a 10 going forward? 10 5 percent reduction in statutory payments, 11 11 Correct. correct? A. 12 But you did this test the assumption 12 A. Correct. 13 beyond that level? 13 So you're not presenting the 14 14 A. Correct. likelihood that this will occur; you're presenting 15 Now, there's another sensitivity 15 the impact if it does occur? 16 analysis on Page 52. Do you see that? 16 A. Correct. 17 17 A. Yes. And you have not considered the O. 18 And do you agree that this is an 18 likelihood that this will occur, correct? 19 arithmetical analysis of the impact of a 5 percent 19 That is correct. 20 change in the E -- no, in -- in -- yes, it's the 20 But isn't it true that the forecast, 21 impact of a 5 percent change in the state revenue 21 when you talk about a 5 percent reduction are you 22 22 sharing numbers on the general fund, right? talking about -- oh, that's based on the 2010 23 23 It's a sensitivity analysis of a census figure, correct? 24 5 percent change in the -- in the -- of fact of a 24 A. Yes. 25 population change on the statutory revenue 25 So you're saying I'm going to

Page 283 Page 281 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 evaluate what will happen if there's a 5 percent that doesn't follow, does it? 3 3 reduction in the population compared to the 2010 Α. No. 4 census in 2022 as a result of 2020 census? 4 O. What -- what percentage as a ratio of 5 Okay. If the population declines --5 Michigan's population does a 12 percent decrease б 6 in Detroit's population represent if the rest of how do I say this very precisely? 7 If the -- if Detroit's population 7 Michigan's population stays constant? percentage of constitutional payments declines as 8 8 I don't know. Α. 9 9 a result of its share of statewide population by 5 O. Okay. Let's talk about the wagering 10 10 taxes if we could. percent, then the constitutional payments will decrease by the amount shown here. 11 11 A. Sure. 12 12 And by the way, you nailed that Oh, I see. So, when it says on the O. 13 13 percentage right on the nail head there. It was top of Page 52, "the analysis below estimates the 14 impact of a 5 percent change in the 2020 census 14 10.9 percent. Remember, you said that earlier? 15 15 forecasted population: That's not quite right. A. Plus one. 16 16 It means --Okay. And then you see here that --17 Α. Yes. 17 yeah, so when you were -- when you were analyzing 18 18 wagering receipts, you assume that the tax rate Q. -- if it -- if there's a change that 19 19 would be constant, correct? has the net impact of being 5 percent less as a 20 percentage of the state as a whole? 20 A. That's correct. 21 Yes. 21 And so you're -- the focus then was O. 22 O. Okay. Am I right in the way I've 22 on what are the casino gross receipts against 23 reformulated what you meant? 23 which the rate is applied, right? 24 24 Yes. A. I think you are. The measurement A. 25 won't occur until 2021. 25 Q. Now, you see that the ten-year Page 282 Page 284 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 O. Okay. projections assume two-and-a-half percent 3 3 And then there will be a new year-over-year declines in fiscal year 2014, a one 4 percentage allocated to Detroit for state 4 percent decline in 2015, a half a percent increase 5 5 constitutional revenue sharing for the next ten in fiscal year 2016 and '17, and a one percent 6 6 increase thereafter through 2023, correct? years. 7 7 Q. Okay. A. Yes. 8 8 Okay? And that is an assumption that You did not make an independent 9 has been made and this sensitivity says what if 9 finding as to that assumption, as to its 10 that's off. 10 reasonableness, correct? 11 11 Α. Correct. Q. 12 A. What if that -- what if that changes 12 O. Similarly, with the sensitivity 13 by 5 percent? That's what this says. 13 analysis on Page 54, do you agree that that is an 14 14 So if do you know what's supposed arithmetical exercise that's designed as to 15 to -- what is projected by SEMCOG or others to 15 present what the impact of a one percentage point 16 happen to the state's population around Detroit, 16 change in the gross receipts assumption is? 17 17 meaning excluding Detroit? A. Yes. 18 18 A. I don't recall. Q. And what it is is it's about 19 Q. Now, you remember SEMCOG says that 19 \$16.3 million over the ten-year period, right? 20 20 Detroit's will go down by 12.3 percent --That's correct. Α. 21 2.1 But you didn't undertake an A. Right. Q. 22 22 -- correct? assumption of the likelihood that that would Q. 23 23 Correct. happen, correct? A. 24 Do you agree that if the rest of the 24 That's right. A. 25 state's population goes up at all -- well, I guess 25 And just to save time, that's true

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Page 285 Page 287 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 for all the sensitivity analyses that you did, with the RRIs and the investment and the 3 correct? 3 reconfiguring of that, you will see revenue 4 4 enhancements in the fire department but they sit A. Yes. 5 You presented the arithmetical 5 over in the RRI model. Q. 6 6 equation, but you did not undertake an assessment I see. So what you're saying is, 7 of the likelihood of the event, correct? 7 separate and apart from the benefits that the RRIs 8 8 That's correct. drive on the sales and charges for services front, Α. 9 9 O. Now, did you see -- on Page 55, do which is presented separately with them, it is 10 10 you see that there is discussion around sales and reasonable to assume that sales and charges for services will not otherwise increase. 11 charges for services? 11 12 Do you see that? 12 So you're effectively --13 I do. 13 A. A. Yes. 14 O. You note in the pros that's below the 14 Q. -- saying, I'm going to take the table some changes that will happen around the --15 15 preliminary forecast which keeps them constant --16 16 the public lighting authority replacing the public Right. 17 lighting department. 17 O. -- but I'm comfortable with that 18 Do you see that? 18 because I know in the presentation of RRIs, there 19 I do. 19 are revenue enhancements that include sales and A. 20 20 charges for services; is that right? That's presented in the fairly 21 dramatic decrease in revenue that the PLD line 21 It is. And the one --A. 22 item observes during that ten-year period, right? 22 O. Okay. 23 23 A. Yes. -- thing that fundamentally changes 24 24 O. So that, you're describing why that's in the baseline is the transfer of the lighting. 25 25 happening there, right? okay, to the -- to the authority. Page 286 Page 288 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 A. O. Which we talked about. 3 3 Why that is forecast to happen, Q. A. Right. 4 right? 4 Q. Absolutely. Sorry. I meant with 5 5 But with respect to the other that caveat, I apologize. 6 6 numbers, the other revenue categories other than A. Yes. 7 7 PLD, your narrative says that the balance of these O. Okay. So, the -- if we wanted to 8 8 revenue categories are assumed to remain test the reasonableness of the City's assumptions 9 relatively constant over the time period, correct? 9 regarding increases in sales and charges for 10 10 services, what we really have to do is get under A. That's correct. 11 11 And you did not make an independent the hood of the RRIs and their likely impact on 12 assessment of whether that assumption was a 12 sales and charges for services? 13 reasonable one, correct? 13 You really have to combine them on a 14 14 departmental level basis and then look at them. Let's -- the -- the reason I think 15 that this is reasonable is this is the baseline. 15 Right. We could build off these 16 Okay? There are a variety of changes, if you 16 things if we added them all together --17 17 will, that will occur pursuant to the RRIs in some Correct. A. 18 of these departments that you see in the revenue 18 -- and then looked at them? Q. 19 assumptions with the RRI. And this, you know, 19 Α. Correct. 20 20 this goes to my desire to have a single set of Now, you didn't make that 21 projections built by department for the City. 21 presentation, correct? In your report? 22 22 So, you know, an easy example is In our report I did not, no. A. 23 And the City hasn't made that 23 fire. Right. These are these are ambulances 24 charges and false alarm things. Okay? Because of 24 presentation either, correct? 25 changes in that department that are envisioned 25 That's correct.

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Page 289 Page 291 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 So it's interesting. So in every page, didn't we? 3 other instance, though, where -- where the EY 3 On the collection rates, do you 4 4 forecasters were forecasting revenue, they notice that the City has assumptions regarding 5 considered the impact of the RRIs, right, to the 5 different collection rates that bleed from Page 59 б 6 best of your knowledge? to 60? 7 Clearly with income tax and property 7 A. Α. I do. 8 8 tax. Q. And it's also fair to say that you 9 9 Q. Oh, right. Good point. Good point. didn't make independent findings regarding whether 10 10 They do it both ways. their property tax collection assumptions were A. Yes. Fair -- fair correction. 11 11 reasonable, correct? 12 12 But is it your understanding that Α. That's correct. 13 13 when -- when they were forecasting --O. Then, similarly, on the utility users 14 Not wagering taxes. 14 tax on Page 62, do you see that? A. 15 15 Q. Right. A. I do. 16 16 Not wagering taxes and not sales and The forecast -- the forecasted amount A. 17 services tax. Income, not taxes income. 17 is forecast to be approximately two percent of 18 Yes. But is it your understanding 18 general fund revenue, correct? 19 19 Yes. that the EY forecasters did not consider the A. 20 impact of restructuring reinvestment initiatives 20 O. Fair to say you did not test the 21 on sales and charges for services? 21 assumptions around the specific utility user tax 22 The Bob Kline group didn't do 22 revenue assumptions by the City forecasters, 23 sales -- didn't do the categories we're talking 23 correct? 24 24 about right now; sales and charges for services. A. Correct. 25 25 So, let me ask you a question about Q. Okay. O. Page 290 Page 292 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 the feasibility of the POA, if there's no exit That was done by somebody in on 3 3 Gaurav 's direct team. financing. Okay. So, take a look at Page 59. 4 4 In your opinion, you assumed that 5 5 there would be. Do you remember that? We're going to move on to property values here, 6 6 okav? A. I did. 7 7 Yes. We did this. Let's engage the hypothetical where A. O. 8 Mr. Buckfire fails to obtain exit financing. How 8 So, yeah, we definitely touched on 9 these. But I guess I want to confirm that you 9 does that impact your finding of feasibility? 10 10 didn't make any independent findings regarding If there is no replacement source of A. 11 11 whether a one percent, 1.7 percent decline in real funding? 12 property values during the period was a reasonable 12 Q. Yes. 13 assumption, correct? 13 Then I would conclude that the plan A. 14 14 A. Correct. is not feasible. 15 15 And you didn't make any findings with O. Why is that? 16 respect to whether the personal property increased 16 Because the -- going back to my Α. 17 17 by .9 percent was a reasonable assumption during definition of feasibility, it is both a 18 that period, correct? 18 quantitative and a qualitative assessment. I 19 Α. That's correct. 19 think the reinvestment initiatives, the RRIs, are 20 20 important to the City's ability to deliver And it's also correct that you didn't 21 test the assumption of a 4.8 percent renaissance 21 municipal services, to pay the commitments in the 22 22 zone increase during that period, correct? plan and the City does not have the surplus, the 23 23 That's correct. structural surplus in the next couple of years to Α. 24 Q. We did talk about the nine percent, 24 execute on the RRIs without the exit financing. 25 I'm sorry, we actually skipped forward to this 25 What is the basis for your assumption

Page 293 Page 295 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 that there will be exit financing? 2 communications with City of Detroit personnel, 3 A. Based on my discussions with 3 financial advisors, creditors and so forth. 4 4 Mr. Buckfire. correct? 5 What did he tell you? 5 Q. A. Correct. 6 6 He was highly confident that he was MR. HACKNEY: I was wondering if I 7 going to complete the exit financing at, you know, 7 could make a request of counsel to get access reasonable pricing which he's estimated to be six 8 8 to the e-mail communications that are listed 9 9 on Exhibit 3. They are ostensibly things percent. 10 10 that she reviewed and it seems to have Is that his estimate of the Q. indicated they considered at some level or 11 percentage? 11 12 12 someone did. And I was thinking it wouldn't That's -- that was his estimate at 13 the point in time when I talked to him which was a 13 be too burdensome because it's a relatively 14 couple of weeks ago. 14 defined time period and it's mainly what she 15 If the City places exit financing at 15 was doing and they're all logged here so... a high interest rate, like a junk level interest MR. KANE: Let us consider that and 16 16 17 rate, but it gets the exit financing, okay, so it 17 get back to you promptly. I think the 18 gets the money but it's got to pay eight percent, 18 Court's Order was pretty clear about what she 19 then what happens to your feasibility opinion? 19 was supposed to produce. So I'm not saying 20 The interest rate probably does not 20 no, but we'll -- we'll talk it over outside 21 affect feasibility simply because interest rates 21 the deposition and get back to you. 22 are generally low. And -- I have to look at it. 22 MR. HACKNEY: Yeah. So the Court 23 I'd have to analyze it. 23 said that -- that she should produce copies 24 24 But -- but my concern about exit of any documents cited in the report or 25 financing is much more binary; either you get it 25 otherwise considered by the witness, Page 294 Page 296 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 excluding documents previously produced in or you don't. 3 Q. You want to get -- if you can get the 3 discovery and publicly available in cash to fund the restructuring and reinvestment 4 4 professional literature? 5 5 initiatives, you're comfortable that it's MR. LERNER: Which order are you 6 feasible? 6 referring to? 7 7 MR. HACKNEY: That's the Order A. I am. 8 8 O. Unless it's a ridiculous interest appointing Ms. Kopacz. 9 rate? 9 MR. LERNER: There's a subsequent 10 If it's 15 percent, it might be a 10 A. Order that changes that. 11 problem --11 MR. HACKNEY: That changes what she 12 Q. Credit card --12 has to produce? 13 13 MR. LERNER: Yes. A. Yes. MR. HACKNEY: But does it take this 14 14 Yeah. Let me ask you to turn to 15 Exhibit 3 to your report which details a lot of 15 out? 16 your communications. 16 MR. LERNER: It's confined to what 17 Okay. 17 she relied on, not what she considered. A. 18 And I note that I believe in your 18 BY MR. HACKNEY: 19 reliance material -- your -- in Exhibit 2, I don't 19 Okay. Did you rely on these 20 20 communications in Exhibit 3 in reaching your want to characterize this, I think you talked 21 about Exhibit 2 being all the sources of 21 opinions? 22 22 information that you or someone on your team I would really have to go through A. 23 reviewed in connection with your opinion, correct? 23 each one of them. 24 A. Correct. 24 Okay. Q. 25 And I think you listed on there 25 MR. HACKNEY: Well, I guess we would

Page 297 Page 299 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 request that that occur. Your counsel can objection: Only that I don't know how this 3 decide for themselves. 3 effects testimony with the mediation order. 4 4 It's really your call. I just want to make I guess my personal view is that the 5 quickest course would be to produce them all 5 sure you --6 6 and I can suss out which are the substantive MR. HACKNEY: I just can't imagine 7 7 that the independent expert who doesn't have once and which are the ones that say, I'll 8 8 talk to you at 3:00. But I leave that for a stake in the case is part of the mediation, 9 you all to decide. 9 10 10 I will represent to you most e-mail MR. STEWART: I didn't take a 11 11 is about -position. I just want to make sure that we 12 12 BY MR. HACKNEY: didn't back into a problem. 13 13 Q. Scheduling? BY MR. HACKNEY: 14 Scheduling. 14 Well, let's -- I mean, you never A. 15 15 O. Yea? considered yourself to be part of the mediation, 16 correct? 16 There's very little, if any, A. 17 substantive dialogue. 17 A. Correct. 18 That's understood. I guess my 18 You're not a party to the case? Q. 19 19 expectation would be that you probably didn't rely I am not. A. 20 on e-mails that say, I'll talk to you at 3:00. 20 Q. So -- so, you didn't understand 21 21 yourself to be having communications incidental to No. 22 0. But to the extent there is a 22 the mediation when you talked with Mr. Rosen, 23 23 substantive e-mail in which someone says, Here's correct? 24 24 some analysis or here's this, that's the type of A. Correct. 25 25 e-mail you might have been more likely to rely on MR. KANE: Let me just make a Page 298 Page 300 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 and that's the type of e-mail I would want to see. statement. 3 3 Could you take a look at -- I'm She doesn't know. She -- counsel has 4 sorry, these aren't numbered so we're going to 4 never evaluated that on her behalf, so to the 5 5 have to work together with the dates a little bit. extent she asks questions, you ask questions 6 Take a look on April 23rd, your first 6 and she answers them that are subject to some 7 7 entry for April 23rd. That was the day after your restriction or confidentiality, we're relying 8 8 on all of you to say that's appropriate. appointment; is that right? 9 A. Yes. 9 MR. STEWART: My concern would only 10 And do you see that you met with 10 be if Judge Rosen told her something that O. 11 Judge Rosen there? 11 unbeknownst to me, you or her was from the Do you see that? 12 12 mediation session; so I don't know. It's --13 I did. 13 you'll have to question skillfully to avoid A. 14 14 He's the Chief Judge of the Eastern it is all. 15 District of Michigan. He's also the chief 15 MR. HACKNEY: I just think if Judge 16 mediator in this case; is that right? 16 Rosen did, we'd better know. 17 17 MR. KANE: Here's what I'm saying, A. That's correct. 18 Was that an in-person meeting? 18 just so the record's clear. I'm not saying Q. 19 Α. It was. 19 you can't ask her about it. I'm saying I 20 20 don't want anyone saying she shouldn't have O. Where was it? 21 In his chambers. 21 testified about that for some other reason or A. 22 22 Tell me what you discussed with Judge order that neither she nor her counsel knows Q. 23 23 Rosen? about 'cause it's not within her or our 24 That meeting --24 A. scope. 25 MR. STEWART: I want to pose this one 25 MR. HACKNEY: Understood.

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Page 301 Page 303 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 2 about the case background? And let me just respond to that, 3 3 counsel, by saying, I am familiar with the A. I -- you know, I really don't -- he 4 gave me, you know, kind of a background on who all 4 mediation order and it is my personal 5 expectation that we're going to have a whole 5 the players were, who the lawyers were, who the 6 6 separate set of problems if you were exposed parties were, who the mediators were. 7 7 to a bunch of communications that we can't Q. Do you remember any specific people 8 that he identified? Like do you remember him 8 examine you on, and I don't think you were, 9 9 by definition, because I don't think you're talking about Syncora? 10 10 part of the mediation. A. No. 11 Do you remember him talking about 11 I've asked you questions that 12 indicate that you don't think you were Mr. Stewart? 12 either, and I don't know what more I could do 13 13 A. No. 14 to establish that it's not. 14 Q. Any specific names you can remember, 15 specific creditors? 15 So, okay. I just want to let you A. I remember it was Eugene Driker, 16 16 know I'm not trying to trap you into telling 17 me a bunch of things you ought not to. I 17 D-R-I-K-E-R. Mr. Driker is a mediator in this 18 gave this some thought and I don't see how 18 case, but I also worked with him many, many years 19 ago on a matter and so we had a conversation about 19 you're part of the mediation. THE WITNESS: My directions and my 20 how Gene and Elaine were. 20 instruction from Judge Rosen, which we 21 Okay. And that was kind of how are 21 22 22 subsequently clarified after I was allowed to they doing personally? 23 hire counsel, was that I don't really have 23 Yes. And, you know, it was just --24 24 any protection in terms of confidentiality or it was a common -- it was something we had in 25 my discussions or any of that sort of thing. 25 common. Page 302 Page 304 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 MR. HACKNEY: Fair enough. 2 Did you talk about the grand -- it's 3 3 BY MR. HACKNEY: kind of hard to talk about the Detroit case without talking about the grand bargain. 4 So with that helpful colloquy, can 4 5 5 you tell me what you discussed with Judge Rosen in Did you discuss the grand bargain in 6 this first meeting? 6 this meeting? 7 7 That was the first time I think I had This meeting was at Judge Rosen's 8 request and he -- we had lunch in his chambers and 8 heard the term "grand bargain." 9 he welcomed me to Detroit. 9 What did he tell but the grand 10 10 He welcomed me to the case and he bargain? 11 11 gave me background information on where the case The grand bargain was -- I remember 12 was. He asked questions of me as to what I 12 him telling me I didn't name it the grand bargain. 13 thought feasibility meant and what I intended to 13 But it was a -- in essence it was a public/private 14 do. He offered to arrange a tour of the City for 14 partnership, if you will, between the City and 15 my team. That's what I recall. 15 other private parties that would facilitate 16 How long did you meet with him did 16 getting monies to retirees. O. 17 you meet with him? 17 Do you remember anything else he told 18 18 you about the grand bargain? A. Probably an hour. 19 Q. Do you remember what specifically --19 Α. I don't. 20 Did he tell you that it was his idea? 20 Lunch. O. A. 21 Oh, it was over lunch? 21 I don't think he did. Q. A. 22 It was lunch, he had sandwiches. 22 Did he tell that you Gene Driker was A. 23 O. It was lunch in his office? 23 involved in the creation of the grand bargain? 2.4 A. It was lunch in his office. 24 I don't recall.

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Did he tell you about his efforts --

25

What do you remember he told you

25

A.

Page 305 Page 307 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 whether he had engaged in of efforts to obtain So, were you just -- I guess I'm Q. 3 funds from the foundations? 3 trying to understand when you were thinking, I 4 4 need to talk to the DIA, why were you thinking A. I don't recall. 5 Did he tell you about how the amount 5 that you need to talk to the DIA to assess O. 6 6 of the grand bargain came about? feasibility? 7 A. I don't recall. 7 A. I needed to -- I wanted to talk with 8 8 everybody that could give me information that And then do you see that the very 9 9 same day you get a call from Eugene, I think it would help me understand the status of the case, 10 means to say Driker on here? 10 what the plan was about, and anything that might 11 It should say Driker, it's a typo. impact on my assessment of feasibility. 11 12 Was that a short call, just 12 Okay. I guess -- so let me take a Q. 13 scheduling the tour? 13 step back. 14 A. Yes. 14 Here's a fair point which is, I guess Q. 15 What did you talk about with Mr. 15 if the funding for the DIA is not going to come 16 Driker on that call? Do you remember? in, that could have an impact on feasibility; is 16 17 We talked about how long it had been 17 that fair? 18 since we had seen each other. Right? And that he 18 A. Yes. 19 wanted to arrange a tour for me and my team. And 19 O. And was that one of your concerns? 20 we talked about when I would have my team in place 20 Α. Yes. in Detroit so that we could do that. 21 21 And did you have communications with 22 Okay. And was there anything else 22 Mr. O'Reilly or others that were aimed at 23 that you can recall about that call? 23 understanding the likelihood of the foundations to 24 A. I don't. 24 make their contributions? 25 25 Now, do you see that on April 25th Yes. O. Page 306 Page 308 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 you had a call with Arthur O'Reilly of Honigman --2 Who did you -- and the general 3 you had an e-mail from him? 3 background of why the foundations contributed and 4 4 A. Yes. the whole nine yards? 5 5 O. You had an e-mail with him? I -- I met with the executive team 6 I had an -- I don't know if --6 from the DIA. Right? I met with chairman of the A. 7 7 Is that you to him or him to you? board. I met with foundations -- I mean, I think 8 Most of these e-mails were outbound 8 they're all detailed in here. 9 9 from me to these people. So, like when it came to the 10 10 Why did you want to schedule a executives -- let's start with the foundations. 11 meeting with the DIA? 11 What foundations did you speak to 12 I was -- I was on my listening tour 12 specifically about the grand bargain? 13 during those early weeks and I was trying to 13 MR. KANE: Can I interject for a 14 14 schedule meetings with everybody that could give minute. Did you view this as going to her 15 me information and all of the various stakeholders 15 opinion on feasibility or reasonableness of 16 in the matter. 16 assumptions? 17 17 How does the DIA figure into the And the only reason I'm asking that, and I will, again, defer to parties who know 18 City's feasibility, if at all, though? 18 19 more about the issues and dynamics of the Α. At this point it does not. But --19 20 Okay. Why is that? 20 case, is because the Order appointing her O. 21 -- at that point -- because the grand 21 also limits what she's supposed to testify 22 bargain has -- has transferred those assets out of 22 about to those two issues. 23 23 the -- they're not in the plan, so... So, again, in my interest, limited to Sorry. Were they ever in the plan? 2.4 24 protecting Ms. Kopacz's interest, I don't Q. 25 No, they were never in the plan. 25 want her to go outside the bounds of that

	Page 309		Page 311
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Order as reflected in Exhibit 2.	2	deposition and trial testimony."
3	MR. HACKNEY: Well, I guess these are	3	So, if it's something she relied on,
4	all communications that the Court ordered her	4	clearly it's within this paragraph. But if
5	to log and I'm trying to make sure I	5	it's not something she relied on, I'm
6	understand all of the content associated with	6	assuming it's beyond the scope of what she
7	them so I can evaluate whether it did.	7	can be examined about.
8	So it's a little bit unknowable	8	Maybe I'm wrong
9	because I can imagine situations where people	9	MR. HACKNEY: No, no, no. Because
10	told her fact X about why a foundation	10	the standards for discovery are reasonably
11	contributed or whether it was good for the	11	calculated to lead to discovery of admissible
12	money and that has an impact on	12	evidence.
13	MR. KANE: Hold on	13	
14		14	MR. STEWART: I'm just wondering
	MR. HACKNEY: feasibility in terms	15	whether his order doesn't trump that.
15	of City contributions.		MR. LERNER: By the way, this is the
16	MR. KANE: And I don't object to that	16	order to which I was referring, amends the
17	and to the extent you're assessing whether it	17	original order that limits disclosure
18	relates to that, I wouldn't object to it.	18	MR. HACKNEY: I mean, guys, this is a
19	All I'm saying is I'm making you aware of her	19	discovery deposition. I mean, I'm asking
20	limits on her testimony here so	20	questions about communications the witness
21	MR. HACKNEY: Yes.	21	had. You know, it's they're logged in a
22	MR. KANE: Okay.	22	report.
23	MR. HACKNEY: I mean, I understand	23	MR. KANE: And I haven't stopped
24	people may have told her things like their	24	you
25	favorite flavor of ice cream, but not to	25	MR. HACKNEY: I know.
	Page 310		Page 312
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	be disrespectful, I'm not being	2	MR. KANE: But once we establish what
3	MR. KANE: No, I	3	it was about and I'm not even trying to
4	MR. HACKNEY: But I'm saying to pick	4	stop you now.
5	something that is clearly unrelated to her	5	MR. HACKNEY: I understand. I just
6	opinion, I am still trying to exhaust her	6	note the second sentence here says that she
7	knowledge on all of these subjects, even if	7	may not accept any information on the with
8	somebody told you something is mundane, just	8	the promise or representation of
9	because we tend not to decide today what is	9	confidentiality. So it's sort of like don't
10	and is not something that could have impacted	10	don't mislead people into thinking they
11	you, we just try to understand it all.	11	can tell you things on the sly and then you
12	MR. KANE: Fair enough.	12	won't have to testify.
13	MR. HACKNEY: I appreciate the	13	So my personal view it's been
14	interjection, but	14	transparency across the board for Ms. Kopacz,
15	MR. STEWART: Do you want to mark	15	and I don't what want to have to get the
16	this? I don't want to get in the middle.	16	Judge on the phone and spend more time. I
17	I'm just raising the same question.	17	just want to go through these things and
18	Paragraph this is the Judge's	18	understand what she was told.
19	order of May 14th. Maybe there are other	19	MR. STEWART: Let me suggest this.
20	orders, you all are closer to it than me.	20	You could ask questions for foundational
21	When he talks about what is disclosed,	21	
22	·	22	purposes, see if it's something she relied on
23	Paragraph 3 of this Order says, "All		and then we'll
43	information that the expert witness relies	23	MR. HACKNEY: I actually, I don't
	upon would be subject to disclosure in	')/	account that limitation
24 25	upon would be subject to disclosure in connection with the expert witness' report,	24 25	accept that limitation. MR. STEWART: Then I was going to say

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Page 313 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 you can give me a standing objection and I'm that or Ms. Trudeau? 3 not going to interrupt. 3 Rapson, R-A-P-S-O-N. 4 That he was very encouraged. He was 4 MR. HACKNEY: Absolutely. This doesn't preclude you from objecting to that 5 5 pleased with the earlier responses. He was -- at 6 that point in time he believed that they were 6 on trial. Absolutely. 7 MR. KANE: Steve, I'm going to say 7 going to be able to raise more than the 300- or one more thing and then just to kind of tie a 8 \$350 million that was originally projected for the 8 9 bow around what I'm saying. 9 foundation's contribution. 10 10 Exhibit 2 that we have marked, the Did he tell you why the Kresge earlier Order, Paragraph 3 limits the things Foundation decided to contribute? 11 11 she is, to quote, testify about. 12 12 I don't think so. So now that I've raised that, my view 13 13 Q. Did he tell you about any of the 14 is Ms. Kopacz's interests are addressed and 14 communications that he had with the other where that line is drawn is for the rest of 15 foundations about what people said in terms of 15 their enthusiasm or whatnot? 16 you with objections or otherwise to address, 16 not for me or her. 17 17 A. Yes 18 What did he say? 18 MR. HACKNEY: I appreciate that. And Q. 19 19 I acknowledge all admissibility objections I remember him telling -- we talked A. are reserved. So maybe we can make that 20 specifically about the Ford Foundation and the 20 clear and get through the rest of this. 21 fact that the Ford Foundation many years ago had 21 22 'Cause I -- I think that if we work together 22 moved to New York, but was really interested in 23 I can get through today and not carryover for 23 contributing again to directly into Detroit. 24 24 tomorrow, and I know someone sitting across We talked about the Carnegie Mellon 25 from me who will be glad to see the back of 25 -- one of the Carnegie Mellon type of foundations Page 314 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 because of their commitment to art. me. But when we lose time a little bit. I'm 3 3 not complaining. But I do want to get So it was, it was a broader outreach through this. 4 4 both in terms of endowments and -- and foundations 5 5 BY MR. HACKNEY: that were really committed to the preservation of 6 б art and those that were committed to the City of Q. You were saying that had you met with 7 7 the foundations -- certain of the foundations Detroit. 8 8 Did he tell you how it came to pass themselves. 9 A. I met with the Kresge Foundation. 9 that the money was directed to the retirees 10 10 That's Mr. Rapson? instead of to the City? O. 11 11 That's Rapson. Yes. And Laura A. A. 12 Trudeau. 12 Q. Anything else that you can recall 13 What did you talk about with them? 13 discussing with Mr. Rapson? Q. 14 We talked -- we had an extensive 14 Lots of things. 15 15 And I know that you can also discuss conversation about future cities and we talked 16 Detroit future city with Kresge because they're 16 about the level of private funding that Detroit 17 17 experiences, separate and apart from the things involved in Detroit future city. Let's separate grand bargain from Detroit future city. 18 18 that were particular to the bankruptcy. 19 19 What did you talk about on the And private funding is germane to 20 subject of the grand bargain? 20 feasibility because it impacts things that happen 21 On the grand bargain we talked about 21 in the City in terms of its health, correct? 22 22 the fund raising for the grand bargain from the It's -- it was it was factor that I 23 23 foundations and the various private funding considered positively in that there's a lot of 24 24 private funding that has gone in and Mr. Rapson sources.

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believes will continue to come into the City that

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Q. What did Mr. Rapson tell you about

Page 317 Page 319 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 kind of supplements what -- what the City spends. looked at blight. We looked at the waterfront. 3 3 So a perfect example of that is when We looked at the old Packard building. We looked 4 4 Roger Penske and Dan Gilbert bought police at the Michigan train station. 5 cruisers. That's unheard of. The private 5 Anything else you can recall from 6 6 citizens write checks to governments to do things that tour? 7 that governments should do. 7 No, not really. Α. 8 8 MR. HACKNEY: We're about near the So, let me -- with these first two, 9 you get an e-mail that -- you have an e-mail 9 end of this tape so it might be a good time 10 10 exchange with Mr. O'Reilly. to take an afternoon restroom break and we Was it merely to schedule your 11 can try and push through the rest of this 11 meeting with the DIA folks? 12 12 here. 13 13 A. It was. THE WITNESS: Okay. 14 Q. We can talk about that later when we 14 THE VIDEOGRAPHER: Thank you. The 15 15 time now is approximately 4:27 p.m. We're hit it on this log. I take it you didn't have any other interaction with Mr. O'Reilly? 16 going off the record. This is the end of 16 17 A. I don't know Mr. O'Reilly, no. 17 Disk Number 4. 18 What did Mr. Levin write to you about 18 (Whereupon, there was a brief recess Q. 19 19 the -in the proceedings.) 20 20 THE VIDEOGRAPHER: The time now is I actually think that I reached out 21 to Mr. Levin first. I mean, they're all the same 21 4:39 p.m. We're back on the record. This is 22 date, so it's kind of hard. 22 the beginning of Disk Number 5. 23 These are you e-mailing people? 23 BY MR. HACKNEY: Q. 24 24 Yes. And I think, because I know Ms. Kopacz, welcome back. O. 25 Mr. Levin, I reached out to him and he said really 25 Thank you. A. Page 318 Page 320 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 the person you need to talk to is Mr. O'Reilly. Ma'am. I'd like to save some time 3 Q. Got it. Take a look down on April 3 because I questioned you fairly extensively about 4 4 30th. Do you see that you do a bus tour of the the revenue assumptions and with respect to the 5 5 cost assumptions, I'm happy to go through each one City with Mr. Driker and Jerry Stroop? 6 6 of them like we did before. But I was wondering A. Yes. 7 7 Q. How long did that bus tour go on for? if I could establish something that I thought 8 8 About three hours, three and a half emerged fairly consistently on the revenue Α. 9 9 hours. assumption which was, to the extent a description 10 10 And do you remember what Mr. Driker regarding a particular cost assumption doesn't 11 include a specific finding by you regarding the 11 described during that bus tour, if anything to you? 12 12 reasonableness of that cost assumption, is it fair 13 We -- on that bus tour was my team as 13 for the Court to infer that you did not make a 14 specific finding about that cost assumption and 14 out there, there was Mr. Driker and his wife, and 15 15 Jerry Stroop from Wayne State and the bus we were that you treated it merely as part of your 16 on was courtesy of the president of Wayne State. 16 aggregate opinion? 17 And we did Mr. Driker's the good, the 17 A. Generally, I think that is a correct 18 bad, and the ugly in Detroit. 18 statement. O. Can you remember what was discussed 19 19 THE VIDEOGRAPHER: Can you please put 20 2.0 your mike on and then maybe repeat your on that bus tour? 21 A. I mean, we -- we went to Bell Isle --21 answer. Thank you. 22 22 Mainly pointing out areas saying this THE WITNESS: I said generally I is Bell Isle, this is the art institute? 23 23 believe that is a correct statement. 24 2.4 We went to Bell Isle. We went to the BY MR. HACKNEY: 25 art institute. We did the midtown stuff. We 25 Okay. Ma'am, are you aware that --

Page 321 Page 323 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 you know what the COPs are, the certificates of Q. And I think my question was did you 3 participation? 3 consider whether the City's plan was feasible in 4 4 that circumstance? Generally, yes. A. 5 Do you know that the COPs -- that the 5 Α. No б 6 City soon to invalidate the COPs? Q. Okay. As you sit here today, do you 7 I'm aware of that, yes. 7 believe the City's plan would be feasible if that 8 8 Do you know that the COPs assert that were to come to pass; that the City had to -- that 9 9 if the COPs are invalidated, that the pension the pension systems had to disgorge a 10 10 billion-four? funds have to give back the approximately 11 11 billion-four that was raised? A. I don't know. 12 12 Okay. Do you believe that that's a A. I've heard you say that before. 13 13 And do you know -- I know you and I sufficiently material issue as it relates to the 14 have talked about this and I've tried to describe 14 City's potential pension obligations, that it 15 15 could impact your opinion? sort of the general lay of the land, we've had a 16 A. It is -- it is an issue. I've 16 conversation on that subject, right? 17 A. We have. 17 identified it in my report, along with a lot of 18 18 other issues that are unresolved, that, depending I mean, separate and part from me Q. 19 19 on how they ultimately resolve themselves and what like -- do you know the fact that there have 20 20 position, condition the City's in, could -actually been claims filed or that the COPs have 21 indicated that they would file these types of 21 Q. Oh, I see. I didn't take your -- I 22 claims in the litigation or is it just based on 22 saw the disclosure on that, but I actually read 23 23 the disclosure to say that if the COPs were what I told you? 24 24 A. It's based on what you told me. I determined to be valid, it might impose higher 25 25 obligations on the city, not addressing the didn't do any independent research. Page 322 Page 324 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 situation where they're determined to be invalid So your kind of understanding of the 3 3 but they get disgorgement back. COPs invalidity case is based on the conversation 4 that you had and I had about that subject? 4 A. We can read it. 5 5 A. Yes. O. That's okay. It says what it says. 6 6 Let me try to -- let me put it this Let me just ask you a freestanding 7 7 question, then, which is assume hypothetically way, though: If you knew today that there was a 8 8 high probability that the pension systems would that at some point in the future, it could be a 9 9 year after the bankruptcy plan is confirmed or disgorge \$1.4 billion and that the City would have 10 10 three years, something in the order of one to five the obligation to make up the difference, would 11 11 years, assume that the pension systems are ordered you find the plan feasible? 12 to disgorge a billion-four back to the COPs. 12 I would have to talk with the City 13 13 about how they intended to make up that deficiency Okay? 14 14 Have you made a determination as to or modify the plan.

Have you made a determination as to whether the City would be feasible in that instance?

A. I have not.

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- Q. In your opinion, you are assuming that that has not come to pass; is that correct?
 - A. Correct.

MR. LERNER: Let me interrupt. Your question is the City's feasible.

MR. HACKNEY: Is the City's plan feasible. Fair amendment. Is the City's plan feasible.

- Q. Certainly if you modified the plan to take account of it, that could be a way it could become feasible. But under this plan's forecast, would the City be feasible if it had an additional \$1.4 billion obligation thrust upon it?
 - A. I don't know, but probably not.
- Q. Okay. And it's not something you've evaluated?
 - A. It is not.
- Q. Okay. Going back to this the chart here. If you look down at May 7th.

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Page 325 Page 327 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Court and --A. Uh-huh. 3 Do you have that in front of you, 3 Q. Let me -- sorry. Let me catch up to Q. 4 4 you before you go ahead of me. I'm sorry, I ma'am? 5 5 didn't mean to interrupt you. I didn't mean to be A. I do. 6 6 rude. I'm just trying to keep it organized Q. Do you see that you had a call with 7 7 Judge Rosen? Do you see that? chronologically. 8 8 A. I did. Did Judge Rosen say that he had 9 9 And what did you and Judge Rosen talked to Judge Rhodes and that Judge Rhodes said O. 10 10 discuss on that call? it was okay or was Judge Rosen just saying that 11 unbidden, as far as you could tell? 11 A. I called Judge Rosen because I was 12 12 Judge Rosen said, you -- again, I having difficulty accessing some information and 13 13 think you need to touch base with Judge Rhodes on that the City's counsel had requested to 14 participate in all meetings and interviews that I 14 this. 15 had and I was honoring the order that the Judge 15 O. Okay. 16 16 had entered in April appointing me not to have any And even though you're not supposed 17 ex parte communication. 17 to have ex parte communication, you need to call 18 And I didn't know where to turn and I 18 his office, explain the situation, and get 19 19 called Judge Rosen and I said, this is what I'm direction on how he wants you to handle that. 20 20 Okay. And so, then did you just say, faced with and he said, you have my permission to 21 call Judge Rhodes. 21 okay, I will do that? 22 I see. So Judge Rosen gave you 22 A. Yes. 23 permission to call Judge Rhodes? 23 Okay. Did you say how do you know, 24 24 He said it's okay. He said, for Judge Rosen, what Judge Rhodes wants me to do? 25 something like this, you can call him. And that's 25 He --A. Page 326 Page 328 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 what I did. O. You're in a tough spot, I'm just 3 3 Q. Okay. So did you talk about anything curious -else other than that? Judge Rosen said, If he gets mad at 4 4 A. 5 5 A. No. you, tell him I said it was okay. 6 Okay. So -- so that went in an 6 Okay. Well, that's fair enough. I'm O. 7 7 unexpected direction for me. not making fun of you, you were in a -- what was 8 8 So were you -- were you saying, I the problem you were having that militated the 9 want to talk to Judge Rhodes about it or did he 9 call? 10 10 There are really two things, we were say --A. 11 11 having trouble getting the working models. Okay. A. 12 Q. -- you've got to talk to Judge 12 And counsel had requested to participate in all of 13 Rhodes? 13 my interviews. 14 14 I said I -- I've got these issues, I Was that bogging you down a bit in 15 don't know how to handle them. Right. And he 15 terms of setting them up? 16 said -- and I said, I know I'm not supposed to 16 It was just -- it was raising the 17 17 talk to the Judge. And he said, in this instance whole issue of, you know, what sort of openness I 18 you need to call the Judge and ask him what he 18 would have. And again, it wasn't going to affect 19 wants you to do about it. 19 the questions I asked. Right. But it might 20 20 And at that point -- I never, ever affect what people were telling me. 21 did talk to him at that juncture, but he said 21 Interesting. Okay. 22 22 "send me a letter." Now, so then you -- okay, so I'm 23 Judge Rhodes did? 23 assuming you got off the phone with Judge Rosen O. 24 A. Judge Rhodes said "send me a letter." 24 and you called Judge Rhodes? 25 So that was my first letter that I sent to the 25 A. I called Judge Rhodes.

	Page 329		Page 331
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1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Q. You called his chambers?	2	some point after I had been appointed. I actually
3	A. I did.	3	reached out to all of the other candidates that
4	Q. You did not speak with the man	4	had been part of the the short list of people
5	himself, though?	5	interviewed and I knew that obviously the Judge
6	A. I did not.	6	had had appointed Mr. Ravitch as a
7	Q. Who did you speak with?	7	nontestifying expert and so this was I believe
8	A. I spoke to Christine.	8	Mr. Ravitch's first visit to Detroit and
9	Q. Christine Secula?	9	Mr. Gleason and I met with him to give him some
10	A. Secula.	10	background on what we were doing.
11	Q. Where you relayed to her and said	11	Q. So this was and so where did you
12	Judge Rosen told me to call Judge Rhodes about the		meet with him?
13	problems I'm having or words to that effect.	13	A. In the the work space we had at
14	A. Yes.	14	the City building.
15	Q. And what did she say?	15	Q. Was that the Coleman A. Young
16	A. She said let me she said I will	16	administrative center that you worked in?
17	make the Judge aware of it.	17	A. Yes.
18	Q. Okay. So then then what happened	18	Q. Okay. I think
19	on this front? Did she call you back?	19	A. City Hall.
20	A. And she called me back and said "send	20	Q City Hall for lack of a better
21	Judge Rhodes a letter."	21	term?
22	Q. I see.	22	A. Yes.
23	A. "And he will schedule it promptly for	23	Q. And how long did your meeting with
24	hearing."	24	Mr. Ravitch go for?
25	Q. And not to sharp shoot you, I take it	25	A. I don't know. We could look at my
	Page 330		Page 332
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	her calling you back is kind of subsumed in this	2	time records.
3	entry here of your call to Judge Rhodes?	3	Q. Okay. So you have time records.
4	A. Yes.	4	Okay.
5	Q. That was one where it kind of went	5	Was it more than like, Hey, how are
6	bang-bang and so in your mind it was all one?	6	you doing? Was it an hour?
7	A. Yes.	7	A. Like I said, I don't know. I mean
8	Q. Okay.	8	it I'm I think it was more than an hour.
9	A. I I would, yes. I would not have	9	Q. Yeah. It was a substantive meeting?
10	entered two	10	A. Yes.
11	Q. Yeah.	11	Q. And what did you tell him about what
12	A call reply.	12	you all were doing?
13	Q. Okay.	13	A. I think we shared I'm I'm my
14	A. No, all I'd be doing was logging	14	recollection is we talked about what we were
15	stuff.	15	doing, what the approach was, how our team was
16	Q. Yeah, it gets tiresome too.	16	structured. Who we had met with, who we were
17	So, on May 7th okay, then this is	17	meeting with. Shared with him what we knew of
18	all the same day. Okay? This is a big big	18	kind of the professionals and what people were
19	day. Then Mr. Ravitch called you or you the	19	doing, what E&Y was doing, what Conway was doing,
20	call him or you meet with him. I'm sorry. Do	20	the other professionals involved.
21	you see that?	21	Q. And then what did he tell about what
22	A. I do.	22	he was doing, if anything?
23	Q. Now, where did you first of all,	23	MR. KANE: Wait a minute. Isn't he
24	who initiated the meeting?	24	the Court's nontestifying expert?
25	A. I had reached out to Mr. Ravitch at	25	MR. HACKNEY: Yeah.

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Page 333 Page 335 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 MR. KANE: Then why would you be Judge Rhodes' nontestifying expert. 3 entitled to discover what he said about what 3 MR. HACKNEY: I don't -- I can't 4 4 he was doing or thinking? imagine that I'm not entitled to ask her 5 MR. HACKNEY: Because it was 5 about these questions where the Judge's order 6 6 communications that he had with the person forbids this witness from communicating with 7 who is doing the testifying. I want to know 7 him. So to the extent that he's the party, 8 8 what she was told. 26(b)(4) wouldn't apply in this circumstance. 9 9 MR. KANE: Well, what he was doing This is not your normal circumstance. And if 10 we have to get the Court on the phone, let's 10 would not be discoverable and under 26(b)(4), get him on the phone. 11 just because there's a communication with an 11 MR. KANE: Well, look, as I told you 12 expert doesn't mean it's discoverable at 12 13 before, I guess I have both the burden and 13 least since 2010. 14 MR. HACKNEY: Well, it's not 14 luxury of being in a position of ignorance 15 about most of the issues about what's going 15 privileged. 16 MR. KANE: You're trying to discover 16 on in the case. So, I guess if you guys are 17 communications of a nontestifying expert, 17 going to sort it out and you're telling her 18 you want her to disclose to you what the 18 right? 19 19 MR. HACKNEY: I'm trying to discover Judge's nontestifying expert said, which I have no idea what it is -communications with a testifying expert. If 20 20 he says, I'm working on this and I think it's MR. HACKNEY: I don't either. 21 21 22 really important that whatever happens in 22 MR. KANE: -- then I'm going to leave 23 this City includes a ton of blight 23 that to you and the rest of the parties. 24 24 remediation, I have to understand what he MR. HACKNEY: I appreciate that. I'm 25 25 said because of the impact it may have had on not aware of any privilege that applies to Page 334 Page 336 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 it. I don't know whether he said anything. this witness. 3 3 MR. KANE: Because it's communication He may have said I love Snickers bars, or he 4 to her? 4 might have sat silently or whatever. 5 5 MR. HACKNEY: Yes. It's -- it's a BY MR. HACKNEY: 6 б clearly potentially discoverable Q. I just want to know what he told you. 7 7 communication. Until I know what he told you, I can't know what impact it may or may not have had on you. 8 8 MR. KANE: On what basis? 9 MR. HACKNEY: I want to know what 9 MR. KANE: Or at least right now, 10 10 before, again, from my position of ignorance, Mr. Ravitch said to her. we should seek further guidance, go ahead and 11 MR. KANE: I know. That's my 11 12 concern. 12 answer for know now. 13 MR. HACKNEY: You're not -- you're 13 THE WITNESS: Mr. Ravitch told me 14 that he really had no clue as to what 14 not limited to asking someone about what they 15 15 relied on. You're -- you're entitled to ask Judge Rhodes want him to do. 16 questions that are reasonably calculated to 16 BY MR. HACKNEY: 17 17 lead to the discovery of admissible evidence. Okay. Anything other than that that 18 MR. KANE: Within the limites of 18 you remember? 19 19 26(b)(4), which would tell you that A. No. communications with a party -- between a 2.0 So the information transfer in this 20 21 party and the expert are protected by work 21 instance was mainly going from you to him. He was 22 22 mainly listening and you were mainly talking? product --23 23 MR. HACKNEY: Well, not --A. 24 MR. KANE: -- and specific 2.4 Q. Okay. Now, did you tell him that communications you're asking her about are 25 25 there was anything that he could or could not do

Page 337 Page 339 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 with the information that commune -- you the case and what you were thinking about? 3 communicated to him? 3 Generally, yes. Α. 4 4 And was it for the purpose of I don't think so, no. 5 Okay. And what was your expectation 5 obtaining his feedback about what he thought based 6 6 about what he would do with the information that on his experience? 7 you gave to him? 7 There -- there were --Α. 8 8 A. I don't think I had any expectation. Q. He's a pretty valuable resource, 9 9 Or just, I guess, help me understand so... 10 why you were meeting with him. 10 He's a very valuable resource and --A. Mr. Ravitch, the Judge had retained 11 and Mr. Ravitch knows a lot about municipal 11 12 12 him to be his nontestifying expert. Mr. Ravitch budgeting. He's got some very definite views on 13 has had enormous amount history and experience in 13 that. He knows a lot about public pensions and, 14 difficult municipal situations and I think that, 14 again, he is one of many resources that, you know, 15 15 again, with -- my desire throughout this entire I think I -- I have reached out to. I reached out 16 situation has been to absorb every bit of 16 to Peter Hammer who was also part of the short list of people interviewed. 17 information that I can, to -- to get as much 17 18 information as I can, to be a sponge, if you will. 18 Now, sorry to interrupt. Q. 19 And Mr. Ravitch is very knowledgeable about 19 Yeah. A. 20 municipal finance and a lot of things having from 20 I was going to say, now, Mr. Ravitch, O. 21 his days of turning around the MTA here in New 21 I don't have his order appointment in front of me, 22 York and being involved with the insolvency of New 22 but he was somebody who was also I think 23 York City and various and sundry -- being 23 interviewed for the position of feasibility 24 24 lieutenant governor of the state. So... expert, correct? 25 So were you mainly conveying what you 25 A. Correct. Page 338 Page 340 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 were doing to him because you wanted to get his 2 And is it your understanding that the 3 responses as to whether he thought you were doing 3 advice he was rendering to the Court was on a the right types of stuff? subject of feasibility? 4 4 5 5 A. I wasn't so -- I wasn't concerned A. I don't know. 6 about whether Mr. Ravitch thought my approach 6 Okay. 'Cause in the first meeting he O. 7 7 or -- to it was right or wrong, right? I was -- I told you that he had no idea what the Judge wanted 8 was comfortable in knowing what we needed to do. 8 him to do? I was interested in picking -- you know, listening 9 9 A. Right. 10 to what he had to say and what the lessons learned 10 Did he subsequently convey to you 11 that he had from all of his prior experiences. 11 that he now understood what he was doing and tell 12 Okay. Did he relay any of those to 12 you what he was doing? 13 you in this meeting? 13 My recollection and I -- and I 14 A. I don't know if it was in that 14 believe his order is the next one on the docket 15 meeting or -- or a subsequent meeting, but we --15 after my order, and I think that his order was to 16 you know, we have talked extensively about the New 16 advise the Court on viability, maybe municipal 17 York situation and why they were successful in 17 finance or something like that. It was not -- it saving the City from bankruptcy and turning it 18 18 was not like my order. around. Those kinds of things. 19 19 Was it -- my recollection is that 20 And, in fact, you have had a number 20 it -- that one of the things that was on it was 21 of communications with Mr. Ravitch either in 21 post-confirmation governance. 22 person or on the phone; isn't that correct? 22 A. Maybe. That's correct. 23 A. 23 O. Does that ring a bell? Maybe. It could be. 2.4 O. Okay. And over time, did you 2.4 A.

Now, post-confirmation governance is

continue to convey to him what you were doing on

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Page 341 Page 343 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 definitely something that factors in to 2 MR. STEWART: What day? 3 feasibility, right? 3 THE WITNESS: What day are we talking 4 4 A. Yes. about? 5 Q. That was an important part of your 5 BY MR. HACKNEY: 6 opinion? 6 Oh, sure. I'm happy to look at the Q. 7 7 date. It's May 19, 2014. A. Yes. 8 Did you ever discuss 8 O. Pension. Okay? A. 9 post-confirmation governance with Mr. Ravitch? 9 Yes. Do you remember what you talked O. 10 A. 10 about on that subject? 11 Q. Are you able to separate in your mind 11 Not specifically. A. 12 your meetings with Mr. Ravitch? 12 Generally? O. 13 A. Not really. 13 A. Generally, we talked -- I talked to 14 So if -- I'm going to -- I can go 14 Mr. Ravitch a lot about pensions. 15 through them one by one. People tend to remember, 15 Okay. What have you talked about? O. 16 you know, substance of communications with people We've talked about the rate of 16 17 as opposed to like the dates and so on and so 17 return, the investment rate of return. We've 18 forth. I am happy to do it either way. If it's 18 talked about the appropriateness of using the rate 19 helpful to go, oh, yeah, May 30th, I remember, we 19 of return as a discount for future liability. 20 can do it that way. 20 Q. Anything else? 21 A. I can, you know, for example, if we 21 That's probably it. A. 22 could determine when the original house bills 2.2 Now, did he convey to you what his Q. 23 related to the Grand Bargain were drafted and 23 thoughts were on the subject? 24 those came out with the post-oversight --24 Α. Yes. 25 post-confirmation oversight provisions in them, it 25 And what did he tell you? Q. Page 342 Page 344 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 would have been around that time when I would have 2 MR. KANE: Don't answer that without 3 talked to Mr. Ravitch about post-confirmation 3 further guidance from the Court. 4 oversight. 4 THE WITNESS: Okay. 5 5 Q. Okay. Like, let me -- let me do it MR. HACKNEY: Okay. This witness has 6 this way. 6 said that she was specifically talking to 7 My recollection -- my perusal here, 7 Mr. Ravitch because he was effectively a wise 8 8 to me it looks like you had -- it looks like you person and a resource on the subject of 9 had six or seven communications with Mr. Ravitch 9 things that relate to feasibility. That's 10 10 either on the phone or in person. Does that sound why she's talking to him. 11 11 about correct? And he's telling her things about 12 A. If that's what they add up to. 12 what he thinks and he's an acknowledged 13 I'm going to go back to -- and I --13 person that applied for the same position. 14 at no time did you tell Mr. Ravitch that he could 14 And we're talking about pensions and what 15 not disclose what you were telling him, correct? 15 this person thought on the subject of 16 You never limited who he could talk to, right? 16 pensions and pensions are in her report. 17 A. I -- I don't think any discussion 17 MR. KANE: Okay. 18 like that ever came up. 18 MR. HACKNEY: I mean, what is the 19 Okay. Now, there are some notes here 19 possible basis to instruct someone not to 20 about what you talked about him with. I'm going 20 answer the question? 21 to use those as kind of a prime to see if it helps 21 MR. KANE: Well, two bases. You're 22 you remember like what you were talking about. 22 trying to discover opinions, as I understand 23 One of the next notes on Mr. Ravitch 23 it, and I'm not telling you you can't ask 24 relates to pensions. 2.4 about this. I just think you mentioned a 25 A. Can you --25 number -- a number of times getting

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	Page 345		Page 347
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	instruction from the Court. I think that	2	MR. HACKNEY: Let's get the Judge on
3	might be a good idea in this case given	3	the phone. That's what I say.
4	Mr. Ravitch's role and his, as I understand	4	MR. STEWART: Let's get the Judge
5	it, and perhaps you all understand it better	5	whenever you can get him and circle back to
6	than me, role as a nontestifying expert for	6	this later.
7	the Court.	7	MR. HACKNEY: Well, I want to do it
8	Further, you keep saying that you are	8	, in the second
9	entitled to discover all communications with	9	NOW.
10		10	MR. PEREZ: Let's stop it and do it
11	an expert. That's not accurate. 26(b)(4)	11	now.
	specifically limits your ability to discover		MR. HACKNEY: Let's get him on the
12	communications with even a testifying expert.	12	phone.
13	MR. HACKNEY: Well, actually, that	13	THE VIDEOGRAPHER: Off the record.
14	that's interesting. I'll put it to you.	14	MR. PEREZ: Keep it on.
15	Are you asserting the privilege over	15	(Whereupon, a brief discussion was
16	communications between Ms Ms. Kopacz and	16	held off record.)
17	Mr. Ravitch?	17	MR. HACKNEY: Does anyone have the
18	MR. KANE: What I'm asserting, Steve,	18	chamber's number or should I look it up?
19	is that there is an order specifically	19	MR. LERNER: I have it.
20	limiting the subjects that Ms. Kopacz is	20	MR. HACKNEY: Can you guys dial it
21	supposed to testify about and that you're	21	over there? I can't reach it.
22	asking her to discover opinions about	22	MR. KANE: We can't dial it from that
23	something you've acknowledge to do me when I	23	phone. We're keeping the
24	asked is a nontestifying expert when I	24	MR. STEWART: I'm asking
25	MR. HACKNEY: I cannot discover his	25	MR. LERNER: 234-0020.
	Page 346		Page 348
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	opinions. I can't discover his opinions	2	MR. HACKNEY: Here, let's do this.
3	except by deposing him. I can discover what	3	Let's do this. Since we're coming let's
4	he told her. That's all I'm asking.	4	do let's do non-Ravitch questions.
5	MR. KANE: Why?	5	MR. STEWART: Right.
6	MR. HACKNEY: I don't care what he	6	MR. HACKNEY: and see what we can
7	actually thought. She doesn't know what he	7	get done and then let's engage the Court when
8	actually thought. She only knows what he	8	we can and pick it up again.
9	told her. That's all I'm asking about on a	9	MS. QUADROZZI: Can I make a
10	subject that relates to her opinion.	10	suggestion? Maybe you can call the Court's
11	MR. KANE: Well	11	chamber, let him know we have an issue since
12	MR. HACKNEY: I just	12	it's 5:00.
13	MR. KANE: If	13	MR. HACKNEY: Yeah. It's
14	MR. STEWART: I don't want to slow	14	4:00 Eastern yeah, you're right. It's
15	anyone down. It's been's long day.	15	5:00. So I just want to
16	I actually do concur. This is	16	MS. QUADROZZI: I mean, you can keep
17	probably a point that would not be a bad idea	17	on asking questions, but just say is there a
18	to get the judge's guidance.	18	time that we can call in and then we're not
19	MR. HACKNEY: Let's do it then.	19	waiting around for it.
20		20	MR. HACKNEY: Yeah. I mean it I
21	Let's get the Judge on the phone. I'm	20 21	
	surprised at the level of obstruction that	22	don't mean to impose, but if if there's
22	I'm achieving. I mean, we've had a lot of		somebody who doesn't mind stepping out in the
23	colloquies. Now we're getting the Judge on	23	lobby and calling, I'd be obliged and maybe
24			
24 25	the phone. MR. STEWART: Steve	24 25	we can keep going. MS. QUADROZZI: I'm happy to call.

87 (Pages 345 to 348)

Page 349 Page 351 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 2 MR. HACKNEY: Okay. So --20 years. 3 MS. QUADROZZI: I'm sorry. Can 3 O. Why were you surprised by that? 4 It was -- I just -- you know, I 4 somebody repeat the number for me? 5 MR. LERNER: It's 313-234-0020. 5 expected -- I don't know why, but I expected that б at some point I'd go to into the City budget and 6 MS. QUADROZZI: 0020. Okay. 7 BY MR. HACKNEY: 7 I'd find, you know, hundreds of thousands of 8 8 Q. Okay. So, ma'am, we're going to go million dollars going to support the DIA, and the 9 9 around the Ravitch questions --City never did that, right? Because it couldn't, 10 10 A. Okay. right? It never had the ability to -- to, you 11 11 -- because of the -- the extreme know, fund, if you will, the art and so I thought 12 12 controversy around those -- those questions. that was -- I thought that was interesting. 13 13 So go back to the chart and take a And then we really focused on the 14 look at May 7th, 2014, where you speak to Gene 14 hundred million that the DIA was committing to the 15 15 Gargaro, Graham Beal, Annemarie -- Annemarie Grand Bargain and where that was going to come 16 16 Erickson of the DIA. Do you see that? from and why they thought they could raise it. We 17 A. Yes. 17 talked a little bit about what they thought about 18 18 the foundation's ability to raise money. We And was this the meeting that you had 19 19 talked about the -- the last time they had done a attempted to schedule a couple weeks earlier with 20 Mr. O'Reilly and Mr. Levin? 20 capital raise to -- to do the renovation and that 21 Yes. 21 was -- and that was sum total of that. A. Where was this meeting? 22 O. 22 And this -- the subject matter is 23 "Art Disposition and Grand Bargain Feasibility." 23 At the DIA. A. 24 24 Do you see that? O. What do you remember them telling you 25 25 about the DIA's ability to raise money? Yes. A. Page 350 Page 352 - MARTI KOPACZ - VOLUME 1-1 1 - MARTI KOPACZ - VOLUME 1-2 2 So on the subject of the art That -- that they believed that 3 3 Mr. Gargaro believed and Mr. Beal believed that disposition, what do you recall being discussed? the current benefactors of the DIA would be 4 My area of inquiry to the DIA 4 5 5 executives and Gene, who is the board of trustees, responsive and that they would be able to raise 6 was really whether or not the art was salable. 6 the \$100 million that was proposed. 7 7 And why did you want to know that? Anything else you can recall in that? Q. 8 8 Because I knew that there were --A. 9 that it was an asset, if you will, arguably of the 9 Q. And what did they say about the 10 estate. And that it may or may not factor in in 10 foundation's ability to make their commitments? 11 11 some way down the road into the reorganization That they had -- again, they referred 12 plan. 12 me to Rip Rapson at Kresge and that really they --13 13 there was some small overlap between some of the Q. Okay. And what did they tell you? 14 14 Couple of different things that were foundation money and the DIA money in the sense 15 important. One was the fact that the City really 15 that there were individuals who were supportive of 16 had not funded the DIA for more than 20 years. 16 the DIA that might be on the foundation side as 17 17 And they explained to me the history and how the well. 18 City came to own the Institute of Art and 18 Anything else that you can recall on Q. 19 explained to me all of the various requests and 19 that subject? 20 20 bequeaths of how much of the art came to the DIA A. 21 over time and history and, you know, that sort of 21 Do you remember how long this meeting Q. 22 22 thing. So I got a good history lesson in how the lasted? 23 23 Institute came to be and really I was surprised A. I don't. It would probably be in my 24 because the City had not -- the City had not 24 time records.

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Now, the same day, on May 7th, you --

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funded or supported the DIA in at least about

1 - MARTI KOPACZ - VOLUME 1- 2 you have a dinner party; is that right? 3 A. I was a guest at a dinner party, yes. 4 Q. Yeah. You attend a dinner party. 5 You didn't throw it. 6 A. Yes. 7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 10 A. They are mutual friends of you have a mutual friends of the refurement systems. 11 Judge Rosen and Mr. Ravitch and Mr. Rapson and the properties of the refurement systems. 12 Mr. Lewand and Mr. Driker. 13 Mr. Gewand and Mr. Driker. 14 Mr. Ackand Driker. 15 Mr. HACKNEY: Okay. So we're going to the the Judge, he 's going to be on this phone. 16 to do if here? Let's do it on the record. 17 MS. QUADROZZI: Hello? 18 (Whercupon, a brief discussion was held off record.) 19 MS. QUADROZZI: Hello? 20 MS. QUADROZZI: Hello? 21 JUDGE RHODES: Hell. 22 MR. HACKNEY: Okay on hear us okay? 23 Can you - Page 354 24 JUDGE RHODES: Hell. 25 MR. HACKNEY: Judge Rhodes. 26 JUDGE RHODES: Yes. Who is on the line, please? 27 MR. HACKNEY: Judge Rhodes, can you hear me okay? 28 JUDGE RHODES: Yes. Who is on the line, please? 29 MR. HACKNEY: Judge Rhodes, can you hear me okay? 30 MR. HACKNEY: Judge Rhodes, can you hear me heave? 31 MR. HACKNEY: Judge Rhodes, can you hear me okay? 32 MR. HACKNEY: Judge Rhodes, this is seven Hackney of Kirkland & Ellis on behalf of of Syncorn, and there are a bunch of people in this room. 31 MR. PEREZ: Your Honor, Alfiredo Perez on behalf of the City: 32 MR. LERNER: Pass the phone around. 33 MR. HACKNEY: Judge Rhodes, this is seven Hackney of Kirkland & Ellis on behalf of Syncorn, and there are a bunch of people in this room. 4 MR. HACKNEY: Lexpect that only me and hear me okay? 4 JUDGE RHODES: Yes. 4 JUDGE RHODES: Yes. 5 MR. HACKNEY: Okay. Im sorry, Go ahead. 4 MR. HACKNEY: Okay. Im sorry, Go ahead. 5 MR. HACKNEY: Okay. Im sorry, Go ahead. 6 MR. LERNER: Pass the phone around. 6 MR. LERNER: Pass the phone around. 6 MR. LERNER: Pass the phone around. 6 MR. LERNER: Pass the phone around. 6 MR. LERNER: Pass the phone around. 7 MR. LERNER: Pass th		Page 353		Page 355
2 you have a dinner party, is that right? 3 A. I was a guest at a dinner party. yes. 4 Q. Yeah. You attend a dinner party. 5 You didn't throw it. 6 A. Yes. 7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 10 A. They are mutual friends of Judge Rosen and Mr. Ravich and Mr. Rapson and It. 11 Judge Rosen and Mr. Ravich and Mr. Rapson and It. 12 Mr. Lewand and Mr. Driker. 13 MS. QUADROZZI: When they transfer the Judge, he 's going to be on this phone. 14 Ms. QUADROZZI: When they transfer the Judge, he 's going to be on this phone. 15 MR. HACKNEY: Okay. So we're going to do it here? Let's do it on the record. 16 MS. QUADROZZI: Hello? 17 MS. QUADROZZI: Hello? 18 held off record. 19 held off record. 20 MS. QUADROZZI: Hello? 21 JUDGE RHODES: Hello. 22 MR. HACKNEY: Hello, Judge Rhodes. 23 Can you - 24 JUDGE RHODES: Hi. 25 MR. HACKNEY: Judge Rhodes. 26 MR. HACKNEY: Judge Rhodes, charmed the me okay? 27 MR. HACKNEY: Judge Rhodes, charmed the me okay? 28 MR. HACKNEY: Judge Rhodes, charmed the me okay? 39 MR. HACKNEY: Judge Rhodes, charmed the me okay? 40 hear me okay? 41 MR. HACKNEY: Judge Rhodes, charmed the me okay? 42 MR. HACKNEY: or owhat it's worth. 43 JUDGE RHODES: Yes. Who is on the link room. 44 hear me okay? 55 MR. HACKNEY: Judge Rhodes, this is Steve Hackney of Kirkland & Ellis on behalf of Syncora, and there are a bunch of people in this room. 51 Would you like us to all identify ourselves? It's also reflected in ths deposition transcript - 52 MR. HACKNEY: refor what it's worth. 53 MR. HACKNEY: refor what it's worth. 54 JUDGE RHODES: Ido. 55 MR. HACKNEY: Pescet that only me andwell, it's up to you, Judge. Do you want and reveryone to say who is here of a war everyone to say who is here. 56 MR. HACKNEY: Okay. I'm sorry. Go ahead. 57 MR. HACKNEY: Pass the phone around. 58 MR. HACKNEY: Pass the phone around. 59 MR. HACKNEY: Pass the phone around. 50 MR. HACKNEY: To with more party. 51 MR. HACKNEY: I developed the reformed the reformed the reformed the reformed the reformed the re	1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
A. I was a guest at a dinner party, yes. 4 Q. Yeah. You attend a dinner party. 5 You didn't throw it. 6 A. Yes. 7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 10 A. They are mutual friends of 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	2		2	Ms. Kopacz's deposition.
4 Q. Yeah. You attend a dinner party. 5 You didn't throw it. 6 A. Yes. 7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 9 Stewart. Chris DiPompeo and Alex Blanchard of Judge Rosen and Mr. Ravich and Mr. Rapson and In Judge Rosen and Mr. Ravich and Mr. Rapson and In Judge Rosen and Mr. Ravich and Mr. Rapson and In Mr. Lewand and Mr. Driker. 13 MS. QUADROZZI: When they transfer the Judge, he 's going to be on this phone. 14 MR. HACKNEY: Okay. So we're going to do it here? Left so it on the record. 15 MR. HACKNEY: Hello, Judge Rhodes. 16 (Whereupon, a brief discussion was held off record.) 17 MS. QUADROZZI: Hello? 18 (Whereupon, a brief discussion was held off record.) 19 MR. HACKNEY: Hello, Judge Rhodes. 20 MS. QUADROZZI: Hello, Judge Rhodes. 21 JUDGE RHODES: Hi. Judge Rhodes. 22 MR. HACKNEY: Judge Rhodes, can you hear me okay? 23 MR. HACKNEY: Judge Rhodes, can you hear me okay? 24 JUDGE RHODES: This is Judge Rhodes. 25 MR. HACKNEY: Judge Rhodes, can you hear me okay? 26 MR. HACKNEY: Judge Rhodes, can you hear me okay? 27 MR. HACKNEY: Judge Rhodes, can you hear me okay? 28 MR. HACKNEY: Judge Rhodes, can you hear me okay? 39 MR. HACKNEY: Judge Rhodes, can you hear me okay? 40 MR. HACKNEY: Judge Rhodes, can you hear me okay? 41 JUDGE RHODES: This is Judge Rhodes. 42 MR. HACKNEY: Judge Rhodes, this is Steve Hackney of Kirkland & Ellis on behalf of Syncora, and there are a bunch of people in this room. 43 MR. HACKNEY: Judge Rhodes, this is Steve Hackney of Kirkland & Ellis on behalf of Syncora, and there are a bunch of people in this room. 44 MR. HACKNEY: Judge Rhodes, this is deposition transcript — 10 JUDGE RHODES: Yes. 45 MR. HACKNEY: Lexpect that only me and — well, it's up to you, Judge. Do you want everyone to say who is here? 46 MR. HACKNEY: Okay. I'm sorry. Go ahead. 47 MR. ERNER: Pass the phone around. 48 MS. DEJERY: Shannon Deeby on behalf of the City. 49 MR. HACKNEY: Okay. I'm sorry. Go ahead. 40 MR. KANE: So, Your Honor, this is well and the retirement systems. 40 MR. HACK	3		3	
5 You didn't throw it. 6 A. Yes. 7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 10 A. They are mutual friends of 10 Judge Rose and Mr. Rayich and Mr. Rapson and Mr. Lewand and Mr. Driker. 11 Judge Rose and Mr. Rayich and Mr. Rapson and Mr. Lewand and Mr. Driker. 12 Mr. Lewand and Mr. Driker. 13 MS. QUADROZZI: When they transfer the Judge, he 's going to be on this phone. 14 the Judge, he 's going to be on this phone. 15 MR. HACKNEY: Okay. So we're going to do it here? Let's do it on the record. 16 to do it here? Let's do it on the record. 17 MS. QUADROZZI: Thank you. 18 (Whereupon, a brief discussion was held off record.) 19 MS. QUADROZZI: Hello? 20 MS. QUADROZZI: Hello? 21 JUDGE RHODES: Hello. 22 Can you 23 Can you 24 JUDGE RHODES: Hello. 24 JUDGE RHODES: Hi. 25 MR. HACKNEY: Out hear us okay? 26 JUDGE RHODES: His is Judge Rhodes. 27 MR. HACKNEY: Judge Rhodes, and you hear me okay? 28 JUDGE RHODES: Yes. Who is on the line, please? 29 MR. HACKNEY: Judge Rhodes, this is Steve Hackney of Kirkland & Ellis on behalf of Syncora, and there are a bunch of people in this room. 10 Would you like us to all identify of Syncora, and there are a bunch of people in this room. 11 Would you like us to all identify of Syncora, and there are a bunch of people in this room. 12 UDGE RHODES: Yes. 13 MR. HACKNEY: I expect that only me and well, if's up to you, Judge. Do you was and was there? 14 JUDGE RHODES: Yes. 15 MR. HACKNEY: I fello St. Say Mo is here? 16 JUDGE RHODES: Yes. 17 MR. HACKNEY: New thore and the was and	4		4	on behalf of FIGC.
6 A. Yes. 7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 10 A. They are mutual friends of 11 Judge Rosen and Mr. Ravitch and Mr. Rapson and 12 Mr. Lewand and Mr. Driker. 13 MS. QUADROZZI: When they transfer 14 the Judge, he 's going to be on this phone. 15 MR. HACKNEY: Okay. So we're going 16 to do it here? Let's do it on the record. 17 MS. QUADROZZI: Hallo? 18 (Whereupon, a brief discussion was held off record.) 19 MR. HACKNEY: Hello, Judge Rhodes. 21 JUDGE RHODES: Hello. 22 MR. HACKNEY: Hello, Judge Rhodes. 23 Can you 24 JUDGE RHODES: Hi. 25 MR. HACKNEY: Judge Rhodes, can you hear me okay? 26 MR. HACKNEY: Judge Rhodes, can you hear me okay? 27 MR. HACKNEY: Judge Rhodes, can you hear me okay? 38 MR. HACKNEY: Judge Rhodes, can you hear me okay? 49 MR. HACKNEY: Judge Rhodes, can you hear me okay? 40 MR. HACKNEY: Judge Rhodes, can you hear me okay? 41 JUDGE RHODES: Yes. Who is on the line, please? 42 Mould you like us to all identify of Syncora, and there are a bunch of people in this room. 43 MR. HACKNEY: Judge Rhodes, this is deposition transcript 44 JUDGE RHODES: Yes. 45 MR. HACKNEY: Letypet that only me and well, it's up to you, Judge. Do you want everyone to say who is here? 46 MR. HACKNEY: Pespet that only me and wevryone to say who is here? 47 MR. HACKNEY: Pespet that only me and wevryone to say who is here? 48 MR. HACKNEY: Pospet that only me and wevryone to say who is here? 49 MR. HACKNEY: Pespet that only me and wevryone to say who is here? 40 JUDGE RHODES: Ido. 41 MR. HACKNEY: Pespet that only me and wevryone to say who is here? 42 MR. HACKNEY: Pespet that only me and wevryone to say who is here? 43 MR. HACKNEY: Okay. I'm sorry. Go ahead. 44 MR. KARIE: So, Your Honor, this is 45 MR. KARIE: So, Your Honor, this is 46 MR. KARIE: So, Your Honor, this is 47 MR. KACKNEY: Okay. I'm sorry. Go ahead. 48 MR. KARIE: So, Your Honor, this is 49 MR. KARIE: So, Your Honor, this is 40 MR. KARIE: So, Your Honor, this is 40 MR. KARIE: So, Your Honor, this is 41 MR. HACKNEY: O	5	` '	5	MS. DEEBY: Shannon Deeby on behalf
7 Q. Okay. Who did throw it? 8 A. Bob and Susie Bluestein. 9 Q. And who are they? 10 A. They are mutual friends of 1 Judge Rosen and Mr. Ravitch and Mr. Rapson and 12 Mr. Lewand and Mr. Driker. 13 MS. QUADROZZI: When they transfer 14 the Judge, he's going to be on this phone. 15 MR. HACKNEY: Okay. So we're going 16 to do it here? Let's do it on the record. 17 MS. QUADROZZI: Thank you. 18 (Whereupon, a brief discussion was 19 held off record.) 19 held off record. 20 MS. QUADROZZI: Hello? 21 JUDGE RHODES: Hello. 22 MR. HACKNEY: Hello, Judge Rhodes. 23 Can you 24 JUDGE RHODES: Hi. 25 MR. HACKNEY: Judge Rhodes, and you hear us okay? 26 JUDGE RHODES: This is Judge Rhodes, and hear me okay? 27 JUDGE RHODES: Yes. Who is on the line, please? 28 MR. HACKNEY: Judge Rhodes, can you hear me okay? 39 MR. HACKNEY: Judge Rhodes, can you hear me okay? 40 MR. HACKNEY: Judge Rhodes, can you hear me okay? 41 Mear me okay? 42 JUDGE RHODES: Yes. Who is on the line, please? 43 MR. HACKNEY: Judge Rhodes, can you hear me okay? 44 hear me okay? 45 JUDGE RHODES: Yes. Who is on the line, please? 46 MR. HACKNEY: Judge Rhodes, can you hear was deposition transcript 10 ourselves? It's also reflected in ths deposition transcript 11 JUDGE RHODES: Yes. 15 MR. HACKNEY: Lexpect that only me and well, it's up to you, Judge, Do you want everyone to say who is here? 10 JUDGE RHODES: Jdo. 17 MR. HACKNEY: Pour Honor, this it's worth. 18 MR. HACKNEY: That was Heather Hubbard from Waller Lansden on behalf of U.S. Bank. 18 MR. HACKNEY: That was Heather Hubbard from Waller Lansden on behalf of Waller Lansden on behalf of Waller Lansden on behalf of Waller Lansden on behalf of MacRACKNEY: Your Honor, if I could set it up and I'll turn it over to MS. Kopacz's deposition and I am taking MS. Kopacz's deposition and I am taking was Kopacz through Exhibitility to he report,	6	A. Yes.	6	· · · · · · · · · · · · · · · · · · ·
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23 Can you 24 JUDGE RHODES: Hi. 25 MR. HACKNEY: Can you hear us okay? Page 354 1 - MARTI KOPACZ - VOLUME 1- 2 JUDGE RHODES: This is Judge Rhodes. 3 MR. HACKNEY: Judge Rhodes, can you 4 hear me okay? 5 JUDGE RHODES: Yes. Who is on the 6 line, please? 6 MR. HACKNEY: Judge Rhodes, this is 8 Steve Hackney of Kirkland & Ellis on behalf of Syncora, and there are a bunch of people 10 in this room. 10 would you like us to all identify 11 Would you like us to all identify 12 ourselves? It's also reflected in ths 13 deposition transcript 14 JUDGE RHODES: Yes. 15 MR. HACKNEY: - for what it's worth. 16 JUDGE RHODES: Okay. 17 MR. HACKNEY: - for what it's worth. 18 and well, it's up to you, Judge. Do you 19 want everyone to say who is here? 20 JUDGE RHODES: I do. 21 MR. LERNER: Pass the phone around. 22 MR. KANE: So, Your Honor, this is 23 Sidley Austin on behalf of National Public Finance Guaranty Corporation. I also add, Your Honor, that this is being recorded by Your Honor, that this is being recorded by Your Honor, that this is being recorded by Your Honor, that this is being recorded by Your Honor, that this is being recorded by Your Honor, that this is being recorded by ARACTI KOPACZ - VOLUME 1- 1 he the court reporter right now. MR. WAGNER: Jonathan Wagner on behalf of the COPs. MS. QUADROZZI: Jaye Quadrozzi, Young & Associates, on behalf of Oakland County. MS. DEEBY: Your Honor, Jennifer Green is on the phone for the retirement systems as well. MR. HACKNEY: Did we get everybody? MS. HUBBARD: Heather Hubbard from Waller Lansden on behalf of U.S. Bank. MR. HACKNEY: That was Heather Hubbard of Waller Lansden on behalf of U.S. Bank, Your Honor, MS. KOGAN: Olga Kogan on behalf of Ms. Kopac2's counsel. We're at the end of day one of Ms. Kopac2's deposition and I am taking Ms. Kopac2's deposition and I am taking Ms. Kopac2's deposition and I am taking Ms. Kopac2's deposition and I be report,	21		21	· · · · · · · · · · · · · · · · · · ·
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Page 357 Page 359 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 anyone, that you'll recall she agreed to keep questions regarding her communications. 3 as a log of all of her communications, and 3 MR. KANE: He said Ms. Kopacz should 4 4 I'm basically trying to exhaust her memory answer any and all questions regarding her 5 about what she discussed in all of these 5 communications with Mr. Ravitch. 6 6 conversations. I'm asking her what she said JUDGE RHODES: Yes, sir. 7 to the person and what the person said to 7 MR. HACKNEY: Good enough. 8 8 MR. KANE: Thank you for your her. 9 The controversy has erupted around 9 guidance, Your Honor. 10 10 her communications with Richard Ravitch who MR. HACKNEY: Sorry to trouble you, 11 is the Court-appointed expert. 11 Your Honor. 12 Ms. Kopacz met with Mr. Ravitch on a 12 MR. LERNER: Thank you, Judge. 13 number of occasions or spoke to him on the 13 JUDGE RHODES: You're welcome. 14 phone and when I've sought to examine her on 14 MR. HACKNEY: Thank you. 15 what she said to him and what he said to her. 15 MR. LERNER: Bye-bye. Thank you. there has been questions interposed by her 16 JUDGE RHODES: Okay. Is that it? 16 17 counsel as to whether that's appropriate, and 17 MR. LERNER: Yeah. That's it. We're 18 18 I really appreciate you getting on the phone going to hang up. We appreciate your time, 19 19 with us because our hope is that we can get Your Honor. 20 MR. HACKNEY: Okay. That was 20 it knocked out and ruled on, one way or the 21 other, and I'll turn it over to counsel to 21 exciting. So, we're going to finish this 22 refine it any. 22 dinner party thing and then we'll go back to 23 MR. KANE: Yes, Your Honor. So this 23 the --24 24 is Scott Kane again. Here's how I would MR. LERNER: As long as we can have 25 frame the issue and I did for Mr. Hackney. 25 cocktails. Page 358 Page 360 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 I guess I have the burden and the MR. PEREZ: What was served at the 3 3 luxury of being ignorant about many other dinner party? things that are going on in this case. 4 4 (Whereupon, a brief discussion was 5 5 I do know that your order appointing held off record.) 6 6 MR. HACKNEY: So, sorry. We got Ms. Kopacz indicated that her testimony was 7 to be limited to her opinion on feasibility 7 interrupted -- by the way, thanks a lot, 8 8 and the reasonableness of projections, and I Jaye, I appreciate it. She went away. 9 understand, generally, without knowing the 9 MS. QUADROZZI: Okay. 10 details, that Mr. Ravitch is a 10 MR. HACKNEY: That was helpful. 11 Court-appointed nontestifying expert. 11 Thank you. 12 So, my concern about letting 12 BY MR. HACKNEY: 13 Ms. Kopacz testify about views held by a 13 So, I think you were saying a lot of 14 these folks knew each other. There were common 14 nontestifying expert without seeking guidance bonds between them? 15 from the Court first is, I don't want her 15 16 inadvertently to waive any protection for 16 Α. Yes. 17 17 Mr. Ravitch's opinions or otherwise stray So you had this dinner party and it Q. was at the Bluesteins' house? 18 beyond what is supposed to be the permissible 18 19 scope of this deposition. 19 At their house. 20 20 MR. HACKNEY: And if I could just And then the attendees were all 21 add, and I'll let --21 listed here in your entry except their spouses 22 22 JUDGE RHODES: Let me just -- let me that also attended for certain of the people that 23 23 just stop you all and -- and tell you that I came, right? 24 think that Ms. Kopacz should have -- answer 24 A. Yes. 25 any -- excuse me -- any and all of your 25 And I take it that everyone that's

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Page 361 - MARTI KOPACZ - VOLUME 1not identified by name on here is a spouse. You didn't leave any sort of principals off, so to speak. A. No, I did not. Okay. And what did you talk about? How long did the dinner party go and what -- what did vou all talk about?

I would say the dinner party was a couple of hours. It was a -- it was really an occasion for Mr. Ravitch and I to meet all of these people because other than Judge Rosen and Mr. Driker and I had just met Mr. Gargaro that day, the rest of those people I had never met and I don't think that, other than Judge Rosen and the Bluesteins, I don't think Mr. Ravitch knew any of these people. So it was just a -- it was a welcoming dinner, if you will.

So, let me ask you a question. Were you concerned at all as an independent expert about the informality, so to speak, of kind of breaking bread with, for example, Kevyn Orr?

A. Not at all.

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No? Why not? Q.

- MARTI KOPACZ - VOLUME 1-

Yes, it was. A.

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And then after it was revolved, O. everybody went out to dinner?

Everyone went to the Bluesteins' country club. They hosted again.

Okay. Do you remember how many people were at that dinner?

Dozen. Maybe. A.

O. So, what do you remember Judge Rosen talking about at the May 7th dinner party back on in 2014? He's a fairly voluble -- I won't characterize him, but he's a dynamic person. I --I haven't met him in person, but I've seen his press conferences --

I'm trying to remember.

-- he's not somebody who I -- I view as a shrinking violet, and I was wondering whether he had conveyed to you his views?

I'm not -- I'm trying to remember how the seating was because there were -- like the May -- at the May 7th, there were two large tables, one in their dining room and one on their -- on their patio or screened-in porch, and I remember the mayor was on my right. Mr. Ravitch

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- MARTI KOPACZ - VOLUME 1-

Why would I be? I mean it's not going to impact my view of the plan whether or not I've had a meal with these people.

Did you have -- did you take meals with any -- anybody else other than this? This is I think one of the only dinner parties I saw.

There were -- there were a couple of different dinner parties. I've had -- I've had breakfast with people. I've had -- I don't generally do lunch.

Q. Who was the other dinner party with?

There was another -- there was another -- there was another dinner party somewhere. It may be listed as a meeting, but it was after that -- it was -- it was June 11th.

Q. The one where it's with Judge Rosen?

Judge Rosen and that whole group of A. people. Steven was on the phone. He wasn't there. But basically this group left and went to dinner.

Q. On June 11th?

On June 11th. A.

Was that a meeting that started in Judge Rosen's chambers?

- MARTI KOPACZ - VOLUME 1-

was on my left and Kevvn was across from me and Tom Lewand was over there. And to be honest with you, I can't remember who was at the rest of my table versus who was at the other table.

But you know -- was Judge Rosen at the other table?

A. I think he may have been at the other table. I don't know.

And so were people basically talking about the case and how it was going and the City and --

Not really. The -- the conversation was a lot more social and informal. I mean, I learned about, you know, where Kevyn Orr went to college and, you know, what Mike Duggan had done with his life and how Tom Lewand got to the City. I mean, that was the discussion, right?

Okay. It was sort of getting to know the people more than it was talking about the substance of your assignment or the case? More polite sort of?

It was -- Yes. Yes. You know, and I think, you know, Dick was -- Dick Ravitch was -was -- we were having all kinds lots -- of

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Page 365 Page 367 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Q. Were you telling him what you were storytelling going on, my recollection. 3 Now, let's go back to the 3 working on because you mainly wanted to make sure 4 4 communications with Mr. Ravitch and kind of run he was just generally kept abreast of what you 5 through those if we could. 5 were doing? Were you like thinking I should 6 6 update Dick on what I'm up to? A. Okay. 7 7 So the -- the next -- the next one A. It's really just, I -- it's O. 8 8 that I saw after the dinner party we were just professional courtesy. It's politeness. He, 9 9 talking about on May 7th -again, you know, is -- is trying to do whatever it 10 10 is that he's doing for the Judge and he doesn't A. Uh-huh. -- was on May 15th. Do you see that? 11 have a staff, right? So, he's not going to be 11 Q. 12 12 looking into things as deeply as we are or that Α. 13 sort of thing. So it was really just probably 13 Q. And what was -- what -- yeah, I'm 14 actually one before, sorry. The engagement 14 whatever I was thinking about at the moment. 15 15 update, do vou see that? And you don't remember him updating Yes. 16 you on what he was doing? 16 A. 17 O. Tell me what you can recall occurring 17 A. I don't -- I don't have knowledge of 18 during that call. 18 what he was doing necessarily, no. I just -- I 19 19 I don't recall that call at all. don't. A. 20 20 Okay. The next entry for Okay. I guess at some point maybe O. 21 you wrote down "engagement update" like did you 21 Judge Ravitch -- Mr. Ravitch is May 19th, which is 22 keep te log contemporaneously or do you know if 22 four days later, and it just says "pensions." 23 you went back and --23 A. 24 24 No. For the most part I kept this Α. Q. Do you -- so we had gotten started on 25 25 that one and -contemporaneously within a day or so, otherwise I Page 366 Page 368 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 don't think I would have been able to do it. A. 3 3 Q. Do you know if engagement update Q. -- you said that you talked about the discount rate for assets and liabilities and then 4 means that you were updating him on your 4 5 5 engagement or he was updating you on his? I said --6 No. Generally -- generally, the --6 A. 7 7 the communication that I had with Mr. Ravitch was -- what did he -- he tell you about O. 8 8 telling him what we were doing. what he thought? What did he tell you and what do you remember about that? 9 Q. Okay. 9 10 10 Okay? Well, I think, he's been --A. A. 11 11 And so, I just want to understand, Mr. Ravitch has -- has -- as part of the Bolger 12 when you're telling him what you're doing, why 12 Commission and those sorts of things, he's been 13 are -- I think I asked you this before. 13 very outspoken on public pensions and so I --14 14 we -- my team and I talked to Mr. Ravitch about Is it -- why are you telling him what 15 you're doing? Is it so that he can give you 15 his views and I can, for the most part, right, in 16 feedback? Which is a fine reason to speak to 16 addition to other people that I talked to about 17 someone with his experience. I just want to 17 pensions, generally, Mr. Ravitch and I are in 18 understand your state of mind --18 agreement on what I've written about in this 19 19 Yes -- I mean, yes and no. In the report as it relates to pensions. 20 sense of if there were -- you know, I -- I can 20 And in this conversation on pensions 21 tell you that, you know, there are points where 21 was he conveying to you some of his thoughts on 22 Mr. Ravitch and I agree. There are points where 22 pensions in terms of how they're reported or --23 23 Mr. Ravitch and I don't agree. And so in those, A. Yes. 24 and we -- and that developed over time and over 2.4 Q. -- you know --25 discussions during this case, so --25 Yes. I mean --

Page 369 Page 371 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 2 2 Q. -- funding levels, et cetera? MR. HACKNEY: Okay. Let's see if we 3 -- Mr. Ravitch and I both 3 can get done then. 4 4 THE WITNESS: With all due respect fundamentally agree that, you know, at some point 5 you should fund a pension plan fully. 5 though, I would like not to get into the 6 6 So let me tell you, ma'am, I'd hoped detailed analysis of pensions until tomorrow. 7 to get through, but I, for a variety of reasons, 7 MR. HACKNEY: That's fine, just 8 8 I'm not going to quite get there and I'm wondering because --9 9 given the length of the day whether it's more fair THE WITNESS: I'm happy to talk about 10 10 to the witness to call it a day. I don't think I conversations and all that sort of thing, but 11 11 have a ton of time, but sometimes you can keep I don't want to do numbers right now. 12 12 stretching people and stretching people and all of MR. HACKNEY: Why don't we keep our 13 13 a sudden you go 45 minutes past when you think. march going here and -- and then there may be 14 And I thought if it's okay with everybody, I 14 some tie-up questions and then we can --15 didn't know if we could break for the day. 15 THE WITNESS: Okay. 16 16 MR. LERNER: How much -- how much MR. HACKNEY: -- call it a day at 17 longer do you think you have? 17 6:00. So that's a great idea. 18 MR. HACKNEY: The problem is I'm not 18 BY MR. HACKNEY: 19 19 sure. It -- it -- there's part of me that So continuing on with respect to 20 Mr. Ravitch, do you see that then now on May 28th 20 just wants to go for it and there's part of me that doesn't want to be sitting here an 21 is the next one that I see? 21 22 hour later and go, I didn't realize this was 22 A. May 28, yup. 23 going to be that long. 23 Now, there it says, "report development discussion." 24 24 MR. LERNER: Those who are content to 25 25 Do you see that? ask other questions, maybe just give an idea Page 370 Page 372 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-1 1 2 2 of how much time you think you'll take A. Yeah. 3 knowing that it's just a guess. 3 Do you remember what that was about? O. 4 MR. WAGNER: I would say probably 4 A. 5 5 45 minutes an hour. Q. This is -- this was a meeting? MR. BRILLIANT: You know, because Guy 6 A. 6 Yes. 7 7 And I note that the one before on Neal is going to go first. O. 8 pensions, that was a meeting too? 8 MS. QUADROZZI: I think that should 9 be one or two hours. 9 A. That was a meeting in Detroit. MR. BRILLIANT: And then I -- I may 10 10 Okay. So the pensions one was a Q. meeting in Detroit? have some, you know, follow-up questions --11 11 12 just -- maybe a half hour. 12 A. Right. 13 Jaye, are you asking questions? 13 Do you remember where it was? O. MS. QUADROZZI: I think by the time 14 I -- I'm pretty sure it would have 14 15 Guy goes, he's got 45 and he's got a half been in the CAYMC in our space. 15 16 hour, I'll--16 What's the CAYMC stand for again? O. 17 17 The Coleman A. Young Municipal MR. HACKNEY: Make no mistake, I'll A. 18 push on. I just want to give fair warning 18 Center. 19 that I thought that I'm not just five minutes 19 0. Okay. So -away and so I thought it is 5:30. 2.0 C-A-Y-M-C. 20 Α. 21 MR. KANE: I appreciate the courtesy. 21 -- they just put that "A" in the Q. 22 22 She said she's okay. middle of "MAC," so they don't say K-muck. Okay. 23 THE WITNESS: I'm okay. 23 A. This was --24 MR. HACKNEY: You're good to go? 24 Q. You're getting your lingo -- you're 25 THE WITNESS: I'm good to go. 25 Detroit lingo down.

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Page 373 Page 375 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 Yeah. This was in New York. Mr. Ravitch on the 28th. A. 3 Okav. 3 But you couldn't remember more than Q. 4 4 And it was the evening before the report development. 5 financial advisors' meeting. 5 A. I don't. 6 6 Q. Okay. Q. And we also talked about whether --7 The next big meeting on the 29th. 7 you told me he told you that he went -- you knew A. And that's where you met with a bunch 8 8 that he was in Lansing? 9 9 of creditor FAs and lawyers? A. I knew at some point in time he was 10 10 A. Yes. Yes. in Lansing. Okay. So does that help you remember Did he tell that you? 11 Q. 11 Q. it better? 12 12 A. He did. 13 13 And he was telling you, here's what A. I -- I don't remember -- I remember Q. 14 the meeting. Okay? 14 I'm up to lately in connection with the Grand 15 Like where did it take place? 15 Bargain or words to that effect? Sometimes these they help spur the substance. 16 16 It was in the context of scheduling. A. 17 It -- we did it over dinner at some 17 Q. 18 club in New York. Don't remember what it's 18 Okay. So in terms of when he was A. coming to Detroit and --19 19 called. I see 20 20 Q. Okay. Q. 21 Mr. Ravitch arranged -- Mr. Ravitch 21 Yeah. A. A. 22 arranged it and --22 So he said, Well, I'm going to O. 23 23 Lansing for X and that could be a good time to Was it a like how are you coming 24 24 meet in Detroit? meeting? It says report development, you're --25 It was -- we were -- at that point in 25 To meet -- yeah. Page 374 Page 376 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 time we had, we were starting to -- we had gotten 2 I mean, at some point I guess what 3 the working models, right? And so we were pretty 3 I'm interested -- maybe I've asked you this, Ms. 4 4 deep in the analysis of the projections, and I'm Kopacz, if I did, I apologize, sometimes you ask 5 5 sure that at this meeting we talked about pension. it a different way. 6 We talked about what he was interested in, in the 6 But we talked about the first time 7 7 post-confirmation. I probably shared with him vou talked to him, he said he didn't know what the 8 8 what I would be interested in in that. Judge wanted him to do. But at some point did he 9 9 To your knowledge, was he -- when you convey to you that now he understood what he was 10 10 talk about post-confirmation, you're talking about doing and tell you this is what I'm up to. 11 11 what the Grand Bargain would provide with respect Like did you have the type of back 12 to legislative oversight of the City? 12 and forth where you say, here's what I'm finding, 13 13 this is what I think, here's where I'm at with my A. 14 14 Was he -- did he tell you that he was work, and he said, this is what I'm up to, this is Q. involved in efforts to -- in efforts around that 15 15 what I'm up to, this is what I'm thinking about? 16 legislation? 16 No. My communication and interaction 17 17 He was -- I know that at some point with him was virtually exclusively about what we 18 in time he was in Lansing to meet with 18 were doing and me asking him for input, thoughts, 19 legislators. 19 sharing with him, what we were thinking, talked to 20 20 him as, again, just as we were developing the THE VIDEOGRAPHER: The time now is 21 5:40 p.m. We're back on the record. 21 standard for feasibility, those kinds of things. 22 22 BY MR. HACKNEY: Q. So --23 O. Okay. I don't remember where we 23 A. But I -- he has never shared with 24 burned out, but --2.4 me --25 A. We were talking about dinner with 25 What he's doing?

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Page 377 Page 379 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 A. What he thinks his assignment is. At some time prior to this, okay, my 3 MR. GLEASON: You need to fix your 3 team's relationships with Ernst & Young and Conway 4 got frayed okay? And there were, this was 4 microphone. 5 THE WITNESS: Thank you. 5 basically all of the parties being called to 6 chambers to be instructed to play nicely in the 6 Q. So we've gone through a bunch of 7 7 communications with him. Was there -- was there sand box. 8 8 ever a meeting or a call where he drove it, he Q. So did Judge Rosen initiate this 9 9 drove the call, he drove the meeting, he said, meeting? 10 10 Marti, I want to meet with you, or Marti I needed Judge Rosen initiated this meeting. 11 So he called you and said I want to 11 to call you? 12 12 clear the air? Or were all the meetings or calls 13 13 ones where you said, Dick, I need to talk to you? A. Yes, you're not playing we will 14 No, if I hadn't talked to Dick in a 14 continue sand box with the other children. 15 15 He said that to you? week or so, I would usually get a call from Rita, Q. his assistant, who would say I have Mr. Ravitch 16 Yes generally that's, that's he 16 17 for you and he'd say, how are you? 17 didn't, he didn't use those words but it was like 18 And he would check in on how you were 18 we need to have a conversation now. By the time Q. 19 19 we get to this meeting of which there was already doing? 20 20 this kind of dinner party plan, that same with Mr. A. Yeah. He would check in. 21 Okay. He would definitely check in 21 Ravitch ---22 with you to see how you were coming along? 2.2 Q. There was already the plan for the 23 23 A. Yes. dinner party? 24 24 O. So some of these meetings or calls This was, actually, that night was to 25 25 be this group and E & Y and Conway didn't were initiated by him and some were initiated by Page 378 Page 380 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 participate in the dinner. But that was to be the you? 3 3 dinner in which I was going to -- and Mr. Ravitch A. Yes. 4 Q. Okay. So, June 3rd, 2014, you have 4 were meeting with Dan Gilbert. All right. He 5 5 one with him where you catch up on case canceled last minute. So we all went anyway. 6 developments. Was that just such a call where he 6 But, yes, it was -- that was -- that 7 7 might have called you -was the way that I got on his calendar was for the 8 8 Blustein's to throw a dinner party. And, again, I don't know if he called 9 9 me or I called him. So what happened at the meeting that 10 Q. Okay. Do you remember what you 10 was called because there was -- whatever, tempers 11 11 talked about? were flaring or whatever? 12 A. I don't. 12 Yes. By the time we got to the 13 Okay. Now, take a look on the next 13 meeting, we had already worked out our issues and 14 14 page, if you could, at June 11, 2014. This is the our differences. 15 -- this is the meeting that then moves into the 15 O. And so everyone was kind of like, 16 dinner party that you talked about. 16 we're good? 17 Remember that? 17 We're good. And we talked -- at that 18 18 point in time we talked a lot about where my A. Yes. 19 What was -- what was the subject --19 thinking was on the feasibility standard. 20 20 what was the occasion for and the subject of the In this meeting with Judge Rosen? Q. 21 meeting in Judge Rosen's chambers? 21 A. 22 22 This is kind of like -- this is a big What did Judge Rosen say during this Q. 23 group of people --23 meeting? 24 It is a big group of people. 24 I'm not sure that Judge Rosen said a A. 25 Q. -- all of a sudden get together. 25 whole lot. It was mostly a dialogue with Jones

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Page 381 Page 383 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 Day and me and the advisors about, you know, how MR. HACKNEY: 3 broad or narrow feas -- my assessment of 3 Q. And you're saying now you know the 4 4 feasibility was and should be. answer to that question --5 O. Was there a dispute about that? 5 A. Now, I know the answer to the 6 6 A. I think there was, yes. question because we have the July 2nd projection. 7 And who was the dispute between and 7 That answered the question. Ο. 8 8 what were the contours of it? A. That got to the point where the 9 9 I think generally the dispute was deferrals are actually -- have been pushed back 10 between the City and me in terms of things like 10 into the 40-year projections. 11 the time frame. Right. And you know, where --11 They have been pushed outside the 12 where I was coming out on my thinking about 12 ten-year period into --13 13 certain topics. No, no. They're in the -- they're --14 Q. Okay. Like what topics -- so let me 14 they're at a more granular level so that you can 15 15 see if I can set it up in a way that is fair and look at how the RRI money is going to be spent. 16 accurate. 16 Okav? 17 Were you in communications with the 17 So those are the kinds of issues that 18 City, communicating to them concerns that you had 18 I was having with E & Y and Conway and the City. 19 about the plan? 19 And did those issues get discussed --20 20 oh, I see. Α. Yes. 21 And was the City, in response, saying 21 So then -- okay. So did the O. 22 that's not your job to have those types of 22 conversation kind of morph in this meeting in 23 concerns, and so we think you're -- you're 23 Judge Rosen's chambers to one that was originally 24 24 straying from what you are supposed to do, you're going to be about are remember getting along 25 just supposed to take this plan and say whether 25 well --Page 382 Page 384 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 this plan is or isn't feasible, you're not 2 A. 3 supposed to change this plan, or words to that 3 -- to one that was about, What is Q. 4 effect. I wasn't there so --4 your role? 5 5 A. Yeah. I don't think it was that cut A. Right. 6 and dry, if you will. Right. 6 And then was there a subsequent O. 7 7 Q. Okay. It was a debate about scope, conversation held on that? 8 8 though, right? I think we worked it out. I mean, we 9 A. There was a debate about scope. 9 ultimately had a -- we agreed to have a -- what we 10 10 There was also debate about -- I mean, at this refer to as the big issues meeting here in New 11 11 point in time I am still very, very troubled by York. We had it in this room with the City, to go 12 the lack of -- this is before the July 2nd 12 through what I consider to be the issues and in 13 projections, there's \$160 million worth of RRI 13 essence it almost looks like the table of contents 14 14 deferrals in the May 5th projections, and nobody's to my report. Right? 15 told me where those go. Okay? 15 In terms of --O. 16 So those are -- I'm having those 16 Feasibility. A. 17 17 kinds of discussions and disagreements, if you Did you go down the list of things 18 will, with the City as to whether or not that is 18 that you thought was a big issue to the findings 19 an important issue for me or not an important 19 of feasibility? Is that what you mean? 20 20 Yes. We talked general -- we talked issue for me. 21 21 about what I thought was important to my MR. KANE: When you just said "at 22 22 this point in time" you're referring to his feasibility assessment. And I listened to the 23 questions about the meeting --23 City as to whether or not they thought those were 24 THE WITNESS: I'm talking about in 24 big issues. 25 this time --25 Q. And so, did -- in this meeting on

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Page 385 Page 387 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 mean, were -- you were just trying to understand June 11th ---3 A. Uh-huh. 3 what -- where they were at for purposes of 4 4 interpreting the model because that ripples -- did Judge Rosen play a role in O. 5 helping immediate, so to speak, the differences 5 through the model in terms of the expenses? б 6 between you and the City? The -- the projections had -- have 7 A. It really wasn't -- I mean, at that 7 always made assumptions about what the collective point in time we were getting along. Right. We 8 bargaining agreements would be. 8 9 9 were getting along. We had a better flow of In fact, at the time you issued your 10 information. We had worked out the -- them 10 report, you had not actually seen the collective 11 attending interviews that I had. And we were --11 bargaining agreements, correct? 12 12 you know, again, the City was very interested in A. I actually had gotten them the 13 trying to understand what it was I was thinking 13 weekend before, but have not looked at them. I'm 14 about the projections. 14 not -- and it has been represented to me and I 15 15 Q. I see. believe what E & Y has told me, that the economics 16 16 And we agreed to have a meeting the of the collective bargaining are appropriately 17 subsequent week here in New York to hash out, you 17 modeled in the July 2nd projections. 18 know, again, I would still like to have the 18 What I haven't looked at is what the 19 pension sensitivity analysis, I don't have them. 19 noneconomic terms might be. 20 20 Yeah. The work rules and so forth? Q. O. 21 A. Right? 21 A. 22 Do you see on June 12th which is the 22 Anything else you can remember that O. 23 day after the dinner, the meeting that went into a 23 about that June 12th meeting? 24 dinner party --24 A. No. 25 Yes. 25 A. O. Now, on June 16th, four days later, Page 386 Page 388 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 You met with the DPOA and its counsel 2 there's another meeting with Mr. Ravitch. 3 3 Uh-huh. and also Dick Ravitch. A. 4 Do you see that? 4 O. And this one says, Work on report 5 5 sections pension -- pensions and post-confirmation Dick was in town those days, yes. 6 Do you remember him being in on that б issues. Q. 7 7 meeting? Α. Yes. 8 8 Now, this is a little more A. O. 9 Q. Why was he in that meeting? 9 substantive, at lease to my eye. 10 10 Dick had specifically requested some A. Yes. meetings with the unions and I was interested in It looks like you are having a 11 11 O. 12 -- at that point in time there weren't settlements 12 working session on report issues. But you tell 13 with these -- with the union and I was interested 13 14 14 Yes, and I'd have to look at my time in finding out where those -- those were going to 15 records to see. I don't remember. I -- I -- I 15 come out. 16 Oh, in terms of their negotiations of 16 think we were in New York I think that week. Q. 17 their collective bargaining agreement? 17 Was --Q. 18 18 A. Yes, because we were here for A. meetings with AFSCME and Miller Buckfire and the 19 O. Did they -- did the people at that 19 20 meeting tell you where the union and the City 2.0 big issues meeting. 21 stood on that subject? 21 And I note -- and do you remember 22 22 They -- they shared with me what they anything else about what you worked on on your report with Mr. Ravitch? 23 thought what it was that they were seeking versus 23 what the City had suggested, yes. 2.4 We -- we -- yes, I do. I remember 24 25 25 Q. Okay. And -- okay. And then, I the working through at that point in time we -- I

Page 389 Page 391 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 believe we had what we thought was going to be the Q. -- with the City? 3 final legislation that may have been signed 3 Yes. Α. 4 4 already on the Grand Bargain. And worked And I take it both they and the City 5 through -- talked through some of the issues 5 told you what the issues were that were keeping б 6 relative to post-confirmation. And we talked the parties apart? 7 through some of the analysis that we were doing on 7 Generally, yes. Α. 8 8 the pensions. Q. So, was Mr. Ravitch playing any role 9 Q. By "we" you mean? 9 here, as almost like trying to get people 10 10 A. Phoenix. together? Was he playing --Q. Phoenix? 11 11 A. No. 12 12 Α. Yes. Q. -- a quasi mediation role? 13 13 O. Okay. So what was his role in that A. 14 meeting? 14 Q. Just as a grand old man saying, look 15 15 We were -- we were sharing with Dick guvs, like ---16 what we knew about the pension settlements and the 16 A. Great old man. 17 new pension plan. Okay? Because, again, Dick has 17 O. He wasn't saying, look -- I mean, was 18 great knowledge about public pensions in general, 18 he trying --19 but he really didn't have a lot of knowledge about 19 A. He -- again, the concern Mr. Ravitch 20 the Detroit circumstance as it was. So we were 20 had and the concern I had about post-confirmation 21 simply talking through this is what the settlement 21 issues was in the legislation that ultimately was 22 looks like, this is what the funding looks like, 22 signed. Okay? There is no oversight committee 23 this is how the restoration works, this is how the 23 direct involvement in negotiations. Okay? 24 24 new hybrid plan works, those sort of things. There's an approval process. 25 Q. I see. And then he actually goes to 25 There's also -- if, in fact, the Page 390 Page 392 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 a meeting the next day with AFSCME and you? unions don't have a negotiation and haven't 3 3 A. Yes. resolved agreement now, there is still going to be Q. Why did he go to that meeting and why 4 4 the right to go to arbitration post-confirmation. 5 5 did you go to that meeting? Some of the early draft legislation 6 Again, that meeting was to talk with 6 did not have the arbitration ability in there and 7 7 the union about both the agreements they had that's, again -- it's -- it is one of those 8 8 reached and the -- there's many -- there are qualitative sort of risk factors, that if you 9 several AFSCME locals in Detroit, some of whom at 9 don't get a deal with your unions pre-confirmation 10 10 that point in time had -- had reached agreement -- right? 11 11 and some who had not. Okay. So again, I'm just Q. 12 doing my diligence around the status of the AFSCME 12 A. Then you may be subject to 13 deals and negotiation. 13 arbitration down the road and that creates more 14 14 In terms of, okay -- I mean, you can unknown. 15 find out the ones that are done, what are the 15 So, was it your understanding that 16 terms. Right? 16 Mr. Ravitch was basically trying to understand 17 17 what the needs of the unions were so he had that A. And the ones that need to be done. 18 Like, for example, the AFSCME for DDOT was not 18 understanding as he was talking to people about 19 done at this time and that was important to me to 19 the Grand Bargain legislation? 20 know where that was going. I had heard from the 20 I don't know. I don't know. A. 21 City side as to what that was going to be about 21 Okay. It just wasn't clear to you, 22 22 and I wanted to hear from the union side. then, what he was doing there; is that fair? 23 So it was kind of like what are the 23 I don't know why he sought to join me 24 issues in your negotiation --24 during that meeting.

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Okay. I'm not saying he's not a

25

Yes.

Page 393 Page 395 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 generally helpful guy. I'm sure he is. He has a 2 Did you request it or did he request it, 3 wealth of experience. 3 Mr. Ravitch? 4 4 But in terms of -- you knew why you A. I don't recall. 5 were there, right? 5 Okay. And this is just for 6 б A. I knew why I was there. I think he reference, Ms. Kopacz, we're talking -- this is 7 had already been to Lansing at that point. 7 about three weeks ago. 8 Okay. But if I walked up to you and 8 This was about three weeks ago. We 9 were in New York. 9 said Marti, what's Dick doing here, you would have 10 10 said, I don't know, he came along? Q. Okay. 11 11 I know we were in New York. We had A. Yes. 12 Okay. I said that we would break at 12 lunch at an Irish pub and Dick had asked Mr. O. 13 13 Kiernan to do research on feasibility and to share 6:00, I'm happy to push on --14 We can push. Let's try to get 14 that with us. 15 15 Oh, his personal lawyer did legal through this. 16 16 research on feasibility? Let's try to do it. Q. 17 MR. STEWART: How much more do you 17 A. Yes. 18 18 Okay. So what did he say? have? O. 19 He told me about Mount Carbon which 19 MR. HACKNEY: I'm getting much A. closer. I'll bet I don't have more than half 20 we already knew about, the Mount Carbon decisions 20 21 an hour and I'll try to keep it shorter than 21 and, you know, the kind of the -- what's the other 22 that. 22 district in Colorado, the other decision that 23 MR. LERNER: The record should 23 references Mount Carbon? But they're all by the 24 same judge. Right. And about the fact that there 24 reflect the air just went off, too. 25 MR. HACKNEY: That's part of my plan. 25 is very little case history on Chapter 9 Page 394 Page 396 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 BY MR. HACKNEY: 2 feasibility, and that was really it. 3 3 Okay. So --Okay. And then -- take a look down O. Mr. Ravitch was trying to be helpful. 4 at July 9, you have a call with -- you have a 4 A. 5 meeting with Mr. Ravitch and Mr. Kiernan of Schiff 5 Okay. So you didn't ask Mr. --6 6 because you have a fine lawyer of your own, I Hardin. 7 7 think the record will reflect --Yes. Α. 8 8 I do. O. Who is Mr. Kiernan? 9 A. Mr. Kiernan is Mr. Ravitch's personal 9 -- and presumably, I don't want to 10 attorney. 10 get into your communications with him. But to the 11 11 extent that you had the need for legal advice, O. 12 A. He is also involved in the Blinken 12 that's one of the reasons you got a lawyer, right? 13 13 I was allowed to retain Mr. Lerner report. 14 14 and Squire Patton Boggs to help with procedural THE VIDEOGRAPHER: I think your 15 microphone is off. 15 matters. Okay? 16 THE WITNESS: It fell off, yes. 16 I -- and they have graciously helped 17 Mr. Kiernan is -- Mr. Ravitch refers me do other things, but as a practical matter, 17 I've had no direct legal input into feasibility. 18 to him as "my personal attorney on this 18 Okay. From Mr. Lerner? 19 matter," and Mr. Kiernan was also involved 19 Q. 20 with Mr. Ravitch and the Blinken report. 20 From Mr. Lerner. 21 Okay. And then -- and then you 21 They have gratuitously done some of talked about revised projections and impact on 22 22 that stuff. But remember, I was deep into this 23 feasibility? 23 before I ever got to hire them. Yeah. Okay. So but did you say to 2.4 A. Yes. 24 25 So how did this meeting come about? 25 Mr. Ravitch, can you get your lawyer to give me

Page 397 Page 399 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-2 2 advice? cared about, that I thought it was advisable, A, 3 A. No. no. no. no. no. 3 to have his input; and if he was going to have a 4 4 different opinion, him also being a judge's O. So this was his idea? 5 Mr. Ravitch independently wanted his 5 expert. б own understanding of feasibility. He's not a 6 Q. Right. bankruptcy guy at all. Right? In terms of really 7 7 A. He should know that we were going to 8 deeply understanding even Chapter 11. Most of us 8 have a difference of opinion. 9 9 here understand Chapter 11, right? Q. Okay. And did you? 10 10 We did. So we at least understand what we A. 11 You did? 11 think we understand about feasibility in O. 12 12 We do. Chapter 11. Α. 13 13 You do? Q. Okay. O. 14 Mr. Ravitch doesn't have any 14 A. Yes. A. 15 15 What was his different view? experience in that world so he has been asking O. Mr. Kiernan to help him research feasibility. 16 16 He very strongly believes that the 17 But do you know -- did he ever tell 17 CFO of the City should report directly to review 18 18 commission. you why? 19 19 I see. I think because he's a curious man. Q. A. 20 20 Q. Okav. A. And he believes that the City should 21 And he, you know, again, wants to 21 be mandated to prepare budgets and plans according A. 22 understand what it is that Judge Rhodes is asking 22 to generally-accepted accounting principles. 23 him. So he said next time you're in New York, 23 That was a -- that was recommendation let's have lunch and we'll bring my attorney and 24 24 he had successfully implemented in New York, if I 25 25 he'll tell you all of the things that he knows recall? Page 398 Page 400 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 about feasibility. 2 A. 3 Okay. And then the last conversation 3 Q. And he wanted the same thing in 4 with Mr. Ravitch is on July 16th, that's just a 4 Detroit? 5 5 couple of days before your report was due? A. Yes. 6 6 A. And was he sort of, you know, Q. 7 7 Q. Okay. And that was also a meeting? encouraging you to adopt his view in the report? 8 8 A. Yes. A. 9 Q. Now, that one --9 Q. Or did he just say --10 10 That was in our office --A. A. 11 -- I take a different view, this is 11 You might remember that one more O. Q. 12 clearly? 12 my view? 13 I do, I do. 13 Because your position was it was A. 14 Okay. So what happened in that one? 14 tolerable that the CFO not report directly, right? 15 Who was there and what did you talk about? 15 That's correct. A. 16 That was a meeting in which 16 I think you say words that it would Q. 17 17 be okay if he did, but it's not a problem if he Mr. Ravitch came to our offices. We were drafting 18 the report and I asked Mr. Ravitch to review the 18 doesn't, paraphrasing. 19 section on pensions and post confirmation. 19 A. That's fair. 20 Okay. And give you feedback? Or 20 It's says whatever it says. O. O. 21 not? 21 A. 22 22 And then you didn't ultimately take a Α. Yes. O. position on GAAP reporting, right? 23 O. If he liked it, right? 23 I didn't. It -- by definition, GAAP 24 Yeah, it was. And again, because 24 25 those are issues that I knew he really, really 25 doesn't apply to governments. Right?

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Page 401 Page 403 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 Q. Yes. 2 Q. Oh, sorry. 3 By definition, GAAP doesn't apply to 3 -- I asked him then, Do I need Α. 4 budgets. All right. I lived through this in 4 counsel. And he said, Of course you don't need 5 Nassau County, okay? Why people think GAAP 5 counsel. 6 applies to budgets is beyond me. GAAP applies to 6 Q. Oh. That's not how I thought of it, 7 historical accounting. 7 but that's okay. 8 Now, using GAAP-type principles to 8 And I -- right. And he said of A. 9 prepare your budgets so that they are easily 9 course --10 10 comparable to your actuals and so that the He's the Judge. Q. categorization of revenues and expenses is -- you don't need counsel. And the 11 11 12 12 next time I talked to him, when I sent my first similar, is very, very good. 13 letter, I said do -- I think I need counsel. No, Okay. So just a few more questions 13 14 here, ma'am. 14 you don't need counsel. 15 15 And then the third time you won? Sure. O. A. 16 Go back to May 13th at the bottom of 16 A. 17 the page, you have a call with Judge -- well, it's 17 Q. So, was the driver on this call, you 18 a call, looks like it's a call with Judge Rhodes. 18 were calling him to basically say I need to 19 19 understand what confidentiality means --But was it a call with Judge Rhodes? 20 20 A. May 13th, I'm sorry. Α. Yes. 21 It's at the very bottom of the page 21 -- and I need a lawyer? O. O. 22 on May 13. It's Re: Supplemental order. 22 Well, I -- people that I wanted to 23 23 talk with, other professionals in this matter, A. Yes. 24 24 O. And this time did you actually have a okay, were -- there's a lot of work that's been 25 call with him or was it just a call with his 25 done in this case by other professional beyond the Page 402 Page 404 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 chambers? City. I wanted to have the benefit of that and 3 3 A. No, this was a call with him. while most people would have trusted my 4 Q. What did you all discuss on this 4 professionalism to take that information and do 5 5 call? something appropriate with it, not inappropriate, 6 6 the concern raised by counsel, appropriately, was, This was when we got the supplemental 7 7 order on -- this -- this I know part of this was oh, my gosh, if we give it to the expert, that 8 the question of whether or not anything I was 8 does that mean it's going to be discoverable to 9 doing was protected or privileged. 9 somebody else? And I'm sitting there going I have 10 O. Okay. So did you call him or did he 10 no clue. call vou? 11 11 Yeah. And it does. Yeah. Q. 12 A. I called him. 12 A. I have no clue. And I said I 13 And you said, I'd like to talk to the 13 can't -- you know. 14 judge because there's a question around 14 So then you said I'm going to call 15 confidentiality? 15 the Judge to get clarity on this? 16 Yes. And this is the point in time 16 Α. A. 17 when I said to him, I need counsel. 17 Okay. Now, did you -- had Q. 18 This is when you said I need counsel? 18 Judge Rosen sort of set a precedent for you a Q. 19 A. I need counsel. I -- I asked him 19 little bit in terms of his admonition to you that 20 20 it's okay to call the Judge if you have a question about counsel when he called me on April 21st and 21 21 or did you think about -he said --22 22 You mean when his chambers called I don't know. At that point in time, Q. 23 vou know, it's hard. He's taken my calls gratis 23 you? 24 When his -- No. When he called me to 24 and I said, what do I do Because you've got to go 25 ask me if I would accept the appointment --25 to the Judge.

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	Page 405		Page 407
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Q. How many times have you talked the	2	make sure that I had gotten the
3	Judge?	3	Q. Oh.
4	A. Three maybe.	4	A information yes.
5	Q. So there's I mean	5	Q. Okay.
6	post-appointment.	6	A. This is the call that followed up
7	A. About I think three.	7	from had I gotten the working models that I
8	Q. So we just discussed the first one,	8	wanted.
9	right?	9	Q. Do you remember Mr. Lerner sent a
10	A. The first one the first one I'm	10	letter
11	not sure I ever talked to him.	11	A. Yes.
12	Q. No, I'm talking about this this	12	Q and Mr. Stewart sent a letter
13	one	13	back?
14	A. I think this yes.	14	A. Yes.
15	Q with the confidentiality and the	15	Q. Mr. Stewart sent a nasty letter, and
16	counsel?	16	then and then there was a hearing on this?
17	A. Yes. Right. That was the first	17	A. Yes.
18	time.	18 19	Q. And then the Judge said we're going
19	Q. That's the first one.	20	to follow up and have a call to see if we got it? A. That's what the call was.
20 21	A. That I actually talked to him and	21	
22	then I talked to him again Q. I'm not talking about his chambers.	22	Q. And was this call basically like we've got what we need, we're okay? Anything else
23	I know you talked talked to his chambers before.	23	substantive on this call?
24	A. Right. This is the first time I	24	A. Not that I recall.
25	talked to him.	25	Q. Okay. Now, take a look down at
	Page 406		Page 408
-	_		
1	- MARTI KOPACZ - VOLUME 1-	1	- MARTI KOPACZ - VOLUME 1-
2	Q. I'm talking about him. Okay. Then	2	June 9. There's two calls with Judge Rhodes. The
3	when's the next time you talked to him? It may be on here but	4	first one is just you and Mr. Lerner. The second
4 5	MR. LERNER: It is?	5	one is you and Mr. Lerner and a bunch of people
6	THE WITNESS: It is. I when I	6	from the City. Do you see those two things? A. Yes.
7	asked for the extension	7	Q. Are those calls did you call with
8	BY MR. HACKNEY:	8	Mr. Lerner and say we need a call?
9	A the extension.	9	A. This is when I believe that I said I
10	Q. June 2nd. I think this is before the	10	don't think I can make the 24th deadline.
11	extension, ma'am.	11	Q. Okay. And did the Judge
12	June 2nd, or maybe you did. Are	12	effectively did you talk the Judge himself?
13	there more more than one extension?	13	A. Yes.
14	A. Uh-huh. I've had two.	14	Q. And then
15	Q. Okay. So okay. So June 2nd you	15	A. Nd then he said, We need to get
16	think this is bankruptcy discovery transmission	16	everybody on the call.
17	issues is the topic.	17	Q. And then then everybody, though,
18	Did you do a call with the Judge and	18	was just the City?
19	Jones Day where you said, words to the effect of	19	A. Yes.
20	I'm not getting what I need or I'm having trouble	20	Q. Okay. Excuse me. There were never
21	or whatever you said? Mr. Lerner's saying no.	21	any of your calls with Judge Rhodes there were
22	A. Uh-huh.	22	never any creditors on the call, correct? It was
23	Q. Do you remember what this was about?	23	always just you or you plus your counsel and the
24	A. This was this may have been the	24	City, right?
25	call that Judge Rhodes scheduled for all of us to	25	A. That's correct.
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Page 409 Page 411 1 1 - MARTI KOPACZ - VOLUME 1-- MARTI KOPACZ - VOLUME 1-Now -- and do you remember, was the 2 2 we -- I told him that I -- you know, I was -- I 3 June 9 call just basically like when do you think 3 was a few weeks behind on getting the information 4 4 you can get it done type of call? that I needed and that I was in all likelihood 5 I think this was -- again, it was all 5 going to be -- even if I got the information 6 6 post haste, I was going to need more time than was part of that follow-up from the hearing where he 7 7 basically said we're going to have a call every originally allotted. And I think this was the 8 8 week to make sure you're getting what you need. call to him that said, yes, I need more time. 9 9 And then on July 14th -- anything Q. 10 10 A. There was -- there was never any else you can recall? 11 11 substantive conversations. A. Nothing. 12 12 Right. And on July 14th, do you see that O. O. 13 13 A. It was more like are you getting what there's another call with you and Mr. Lerner and Mr. Stewart with Judge Rhodes re: scheduling and 14 you need. 14 15 15 Okay. And in general, it was either report due date? 16 yes or I need this thing, and then you would get 16 A. Yes. 17 17 O. And was this the call where you said 18 18 A. Yes. you might need an additional -- I think your 19 19 That's how -- is that a fair report -- your --O. 20 20 characterization, which was it was either things A. Isn't that the one we just talked 21 which are fine or there was an open issue and you 21 about? 22 would raise it and it would get addressed? 22 Well, no. Because the one we talked O. 23 23 about was from much earlier. It was from June 14, A. Yes. 24 24 O. Other than the -- whatever didn't get so it was a month --25 25 June 14th. Oh, and you're saying addressed that you noted in your report? Page 410 Page 412 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 July. 3 Q. Look at June 14th. You see that one? 3 Yeah. Do you see it down there? Q. A. Yeah. Okay. 4 4 A. 5 5 Q. Now, was this a call? This is O. Now you're pressing up against 6 Mr. Lerner and you again just with the Judge. 6 another deadline which is July 15. 7 7 A. Uh-huh. Yes. Yes. Α. And was it with the Judge himself? 8 8 Q. And was this where you communicated 9 A. I think so. 9 the Judge that you might need the extra three days 10 And do you remember what you 10 that I think you ended up taking? discussed? The topic is "status on report Yes. 11 11 A. 12 completion." 12 Q. Is that right, ma'am? 13 This is -- this is -- I -- my 13 That's correct. A. 14 recollection is this is I'm ten days way from my 14 And did you have any other Q. original deadline and I'm pretty confident that 15 conversation with him on this call? 15 16 I'm not making it. 16 Α. 17 17 Okay. And so now you're -- are you Did you ever have a substantive Q. 18 sort of expressing to Judge Rhodes here more, you 18 conversation with Judge Rhodes about your report? 19 know, forcefully that you're not going to be able 19 A. Nothing. 20 to make that deadline? 20 No -- never gave him a sense of where Q. 21 A. I'm not making this deadline. 21 your --22 22 Okay. And what did he say to you? Q. A. No. 23 I think he basically said, Okay, 23 O. -- conclusions were leading you? 24 what -- you know, how much more time do you need, 24 No. And this is where he instruct --A. 25 et cetera. I remember when we were in court, 25 yeah, this is -- this is when he gave me the extra

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Page 413 Page 415 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-1 2 2 couple of days. Q. Okay. So -- so you sent him an 3 The only thing that I -- I didn't see 3 e-mail that had your -- what you considered your 4 4 on here that I wanted to ask you about was I had a final report. It was signed? 5 colloquy with him at one point where he said to us 5 Yes. I sent --A. 6 6 that he wanted to talk to you about, for lack of a Or was it a draft ready to be signed Q. 7 7 better word, what your report was going to say. or --8 8 A. Yes. -- no. No. It was -- he did not 9 9 O. And we had a colloquy in court where want any drafts. He wanted the final report. I 10 10 we said, yeah, okay. It's good to know you're sent it to him at 3:30 on -- 3:31 on Friday and at going to do that, and -- and then he said, yeah, 11 4:49 I got a call from him and his chambers 11 12 you can ask her about what she and I discussed. I 12 saying, You're authorized to distribute it, but I 13 wasn't -- that's about what he said. It was 13 have no idea how you do that. So, get ahold of 14 something like that. 14 your lawyer and get ahold of Jones Day and figure 15 Did you have a -- did you have a out who it needs to go to, and that was it. And 15 conversation with him closer to -- I mean did you 16 16 he said I would -- he was going to send it to 17 have another conversation with him other than was 17 Mr. Ravitch. 18 18 listed here? MR. HACKNEY: Ma'am, thanks for your 19 19 No. He -- the -- the time today. I'm going to pass the mic to A. 20 discussions that I had with Judge Rhodes about our 20 Mr. Levin, but I think -- it's Mr. Wagner I 21 discussions, okay -- and bear with me. I'm going 21 should say from Kramer Levin, but I think 22 to tell you. 22 that it's his expectation that maybe he'll 23 On June 21st -- on April 21st when he 23 pick up with you tomorrow. 24 24 called me to ask me if I was still interested in (Whereupon, a brief discussion was 25 25 held off record.) serving as his expert, right, we had a Page 414 Page 416 1 - MARTI KOPACZ - VOLUME 1-1 - MARTI KOPACZ - VOLUME 1-2 2 conversation and he said we're going to talk about MR. KANE: Why don't we pick up 3 what we need to talk about now. And he said, I 3 tomorrow? MR. HACKNEY: Yeah. We'll call it a 4 don't intend to talk to you about anything until 4 5 5 maybe ever or until much closer to when you're day. Thanks for your time. б going to issue your report. Okay? 6 THE WITNESS: Thank you. 7 7 So he told me up front that we THE VIDEOGRAPHER: Thank you all very 8 weren't going to have any -- any communications, 8 much. The time now is approximately 9 substantive communications. He said I'm going to 9 6:21 p.m. We're going off the record and 10 10 just finished for today to be continued put a procedure in place where if you need help to 11 11 tomorrow. There are five DVDs to today's get information, right, you will -- you will 12 communicate with me you will send me a letter. We 12 deposition. 13 will put it on the docket and we will have a 13 (Whereupon, the deposition adjourned 14 14 hearing and I will do that very, very quickly. at 6:21 p.m.) 15 15 Okay? 16 He never had another conversation 16 17 with me until I believe this 14th where he said, I 17 18 want you to send me your final report and once I 18 19 see your final report, I will tell you how to 19 20 2.0 distribute it. 21 Q. Before you filed it? Oh, I see. 21 22 22 Before you filed -- before you served it? 23 A. 23 24 24 Q. And did you do that? 25 I did. 25

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Page 417
 1
             - MARTI KOPACZ - VOLUME 1-
 2
            ACKNOWLEDGEMENT
 3
 4
      STATE OF NEW YORK
 5
                   ) ss.
 6
      COUNTY OF NEW YORK
 7
 8
         I, MARTI KOPACZ, hereby certify that I have
 9
      read the transcript of my testimony taken under
10
      oath in my deposition of July 31, 2014; that
11
      the transcript is a true, complete and correct
12
      record of my testimony, and that the answers on
13
      the record as given by me are true and correct.
14
15
              MARTI KOPACZ
16
17
      Subscribed and sworn
      to before me on this the
18
             __ day of _______, 2014.
19
20
              Notary Public, State of New York
21
              My commission expires:_
22
23
24
25
                                              Page 418
 1
             - MARTI KOPACZ - VOLUME 1-
 2
              CERTIFICATE
 3
      STATE OF NEW YORK
 4
                    ) ss.
 5
      COUNTY OF NEW YORK
 6
 7
         I, HOPE LYNN MENAKER, a Notary Public within
 8
      and for the State of New York, do hereby certify:
 9
         That MARTI KOPACZ, the witness whose
10
      deposition is hereinbefore set forth, was duly
11
      sworn by me and that such deposition is a true
12
      record of the testimony given by the witness.
13
         I further certify that I am not related to
14
      any of the parties to this action by blood or
15
      marriage, and that I am in no way interested in
16
      the outcome of this matter.
17
              IN WITNESS WHEREOF, I have hereunto
18
      set my hand this August 1, 2014.
19
20
21
               HOPE LYNN MENAKER
22
23
24
25
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105 (Pages 417 to 418)

Page 419 Page 421 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-IN THE UNITED STATES BANKRUPTCY COURT 2 APPEARANCES: (Cont'd) FOR THE EASTERN DISTRICT OF MICHIGAN 3 ALFREDO R. PEREZ, ESQ. Weil, Gotshal & Manges, LLP 4 5 700 Louisiana Street, Suite 1700 6) Chapter 9 Houston, Texas 77002 In Re 7 Appearing on behalf of Financial Guaranty CITY of DETROIT, MICHIGAN.) Case No. 13-53846 8 **Insurance Company** 9 Debtor.) Hon. Steven Rhodes 10 LISA SCHAPIRA, ESQ. Chadbourne & Parke, LLP 11 30 Rockefeller Plaza 12 DATE: August 1, 2014 13 New York, New York 10112 TIME: 9:12 a.m. 14 Appearing on behalf of Assured Guaranty 15 **Municipal Corporation** VOLUME II 16 VIDEOTAPED DEPOSITION OF MARTI 17 SHANNON L. DEEBY, ESQ. KOPACZ, held at the offices of Squire Patton 18 Clark Hill, PLC Boggs, 30 Rockefeller Plaza, New York, New York, 19 151 South Old Woodward Avenue pursuant to Order, before Hope Menaker, a 20 Suite 200 Shorthand Reporter and Notary Public of the State 21 Birmingham, Michigan 48009 of New York. 22 Appearing on behalf of the Retirement Systems 23 for the City of Detroit 24 25 Page 420 Page 422 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 APPEARANCES: 2 APPEARANCES: (Cont'd) 3 GEOFFREY S. STEWART, ESQ. JENNIFER K. GREEN, ESQ. 3 4 CHRISTOPHER DiPOMPEO, ESQ. 4 Clark Hill, PLC 5 5 ALEXANDER BLANCHARD, ESQ. 500 Woodward Avenue, Suite 3500 б 6 Jones Day Detroit, Michigan 48226 7 7 51 Louisiana Avenue, N.W. Appearing on behalf of the Retirement Systems 8 8 Washington, D.C. 20001 for The City of Detroit 9 Appearing on behalf of the Debtor 9 10 10 SAM J. ALBERTS, ESQ. 11 STEPHEN C. HACKNEY, ESO. 11 Dentons US, LLP 12 Kirkland & Ellis, LLP 12 1301 K Street, N.W. 13 300 North LaSalle Street 13 Suite 600, East Tower 14 Chicago, Illinois 60654 14 Washington, D.C. 20005 15 Appearing on behalf of Syncora 15 Appearing on behalf of the Retiree Committee 16 16 17 17 GUY S. NEAL, ESQ. ALLAN S. BRILLIANT, ESQ. 18 Sidley Austin, LLP 18 Dechert LLP 1501 K Street, N.W. 1095 Avenue of the Americas 19 19 20 Washington, D.C. 20005 20 New York, New York 10036 21 Appearing on behalf of National Public Financing 21 Appearing on behalf of Macomb County 22 22 23 23 24 24 25 25

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1 2	A P P E A R A N C E S: (Cont'd)	2	A P P E A R A N C E S: (Cont'd)
3	STEPHEN D. LERNER, ESQ.	3	AFFEARANCES. (Collid)
4	Squire Patton Boggs	4	CAROL NEVILLE, ESQ. (Via telephone)
5	30 Rockefeller Plaza	5	Dentons US LLP
6	New York, New York 10112	6	1221 Avenue of the Americas
7	and	7	New York, New York 10020
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9	Squire Patton Boggs	9	Appearing on benan of the Retiree Committee.
10	221 E. Fourth Street, Suite 2900	10	EVAN MILLER, ESQ. (Via telephone)
11	Cincinnati, Ohio 45202	11	Jones Day
12	Appearing on behalf of the Witness	12	51 Louisiana Avenue, N.W.
13	rippearing on behan of the withess	13	Washington, D.C. 20001
14	JOCHEN SCHMITZ, ESQ.	14	Appearing on behalf of the City of Detroit.
15	Greenhill & Co. LLC	15	Appearing on bench of the City of Denoit.
16	300 Park Avenue	16	
17	New York, New York 10022	17	
18	Appearing on behalf of Retirement Systems	18	
19	represents on bench of rectionion bystems	19	ALSO PRESENT:
20	JONATHAN M. WAGNER, ESQ.	20	Thomas Devine, Videographer
21	Kramer Levin Naftalis & Frankel LLP	21	Brian Gleason
22	1177 Avenue of the Americas	22	Brian Glouson
23	New York, New York 10036	23	
24	Appearing on behalf of the Ad Hoc COPS	24	
25	Holders	25	
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2	APPEARANCES: (Cont'd)	2	INDEX
3		3	
4	JAYE QUADROZZI, ESQ.	4	WITNESS: MARTI KOPACZ
5	Young & Associates	_	EXAMINATION BY PAGE
6	Orchards Corporate Center	5	MR. WAGNER 430
7	27725 Stansbury Blvd. Suite 125	6	MD NEAT
8	Farmington Hills, Michigan 48334	7	MR. NEAL 473
9	Appearing on behalf of Oakland County	8	MR. BRILLIANT 516
10	•		MS. QUADROZZI 528
11	OLGA KOGAN, ESQ. (Via telephone)	9	MS. GREEN 534
12	Davis Polk & Wardwell LLP	10	
13	450 Lexington Avenue	11	MR. ALBERTS 568
14	New York, New York 10017		MR. KANE 571
15	Appearing on behalf of Merrill Lynch	12 13	EXHIBITS FOR IDENTIFICATION
16	•	14	NUMBER DESCRIPTION PAGE
17	HEATHER HUBBARD, ESQ. (Via telephone)	15 16	4 POA00602884 434 5 NASRA Issue Brief 438
18	Waller Lansden Dortch & Davis, LLP	17 18	6 Blinken Report 452
19	Nashville City Center	1 10	7 Release by the National 456 Conference on Public Employee
20	511 Union Street	19 20	Retirement Systems
21	Suite 2700	20	8 Government Accounting Standards 461 Board news release June 25,
22	Nashville, TN 37219	21 22	2012 9 GASB Statement Number 67 463
23	Appearing on behalf of US Bank	23	10 Declaration of Chuck Moore 550
24		24	11 NASRA Publication - public 564 Funds Survey Summary of
25		25	Findings for Fiscal Year 2008

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Page 427 Page 429 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 THE VIDEOGRAPHER: Good morning. Patton Boggs on behalf of Ms. Kopacz. 3 We're now on the record. The date is August 3 MS. OUADROZZI: Jave Quadrozzi, Young 4 1st, 2014, and the time is approximately 4 & Associates, on behalf of Oakland County. 5 9:04 a.m. 5 MR. ALBERTS: Sam J. Alberts of 6 6 We are located at the offices of Dentons on behalf of the 7 Squire Patton Boggs, 30 Rockefeller Center, 7 Official Committee of Retirees. 8 8 New York, New York. THE VIDEOGRAPHER: Thank you. Hope, 9 9 We are taking the deposition of Marti would you please swear -- oh, and the people Kopacz, Volume II, second day, In Re: City of 10 on the phone, excuse me. 10 Detroit Bankruptcy, U.S. Bankruptcy Court, 11 People on the phone. 11 12 MS. HUBBARD: Heather Hubbard at Eastern District of Michigan, Southern 12 Division, Chapter 9, Case Number 13-53846. 13 13 Waller Lansden on behalf of U.S. Bank. 14 My name is Thomas Devine and I'm the 14 MS. KOGAN: Olga Kogan at Davis Polk video specialist with Elisa Dreier Reporting. 15 & Wardwell on behalf of Merrill Lynch. 15 16 MR. MILLER: Evan Miller, Jones Day, 16 The court reporter is Hope Menaker 17 also with Elisa Dreier Reporting. 17 on behalf of the City of Detroit. 18 At this time I would like to ask the 18 MS. NEVILLE: Carol Neville on behalf 19 19 of the Retiree Committee. attorneys to please introduce themselves for 20 THE VIDEOGRAPHER: Thank you. Hope, 20 the video record. Please state your name, the firm with 21 would you please swear in the witness. 21 22 which you are affiliated and who you 2.2 MARTI KOPACZ, recalled as a witness, 23 represent, after which the Court reporter 23 having been duly sworn on August 1st, 2014, 24 24 by a Notary Public, was examined and will swear in the witness and we may proceed. 25 MR. WAGNER: Jonathan Wagner from 25 testified as follows: Page 428 Page 430 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 Kramer Levin representing the Ad Hoc COPs 2 **EXAMINATION BY MR. WAGNER:** 3 3 Holders. Good morning, Ms. Kopacz. Q. 4 MS. SCHAPIRA: Lisa Schapira of 4 A. Good morning. 5 5 Chadbourne & Parke, representing Assured I'm sorry to disturb everyone's 6 Guaranty Municipal Corp. 6 repose this morning, but we have to talk about MR. NEAL: Guy Neal, Sidley Austin, 7 7 pensions for about the next 45 minutes. 8 National Public Finance Guaranty. 8 Did you write the pension portions of 9 MR. HACKNEY: Stephen Hackney, 9 your report? Kirkland & Ellis on behalf of Syncora. 10 10 Did I write them? A. MR. BRILLIANT: Allan Brilliant from 11 11 Yes. O. 12 Dechert LLP on behalf of Macomb County by and 12 A. I drafted them and edited them --13 through the Public Works Commissioner Anthony 13 Q. 14 Morrocco and the Macomb Interceptor Drainage 14 -- but I was assisted by members of A. 15 District. 15 my team. 16 MR. BLANCHARD: Alex Blanchard, Jones 16 So you did write them? Q. 17 Day on behalf of the City. I -- I'm taking responsibility for 17 A. 18 MS. GREEN: Jennifer Green, Clark 18 them, yes. 19 Hill, on behalf of the retirement systems. 19 Q. But did you actually put pen to paper 20 MS. DEEBY: Shannon Deeby, Clark 20 with respect to those sections? 21 Hill, also on behalf of the retirement 21 From an editing and -- somewhere in 22 22 systems. the drafting -- I didn't write the first draft of 23 MR. KANE: Scott Kane of Squire 23 that section, no. 24 Patton Boggs on behalf of the witness. 24 Who wrote the first draft? Q. 25 MR. LERNER: Stephen Lerner of Squire 25 Combination of Mike Gaul and Brian

Page 431 Page 433 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 Gleason and Bob Childree. 2 They are aggressive relative to what 3 Q. I apologize if I repeat some of 3 is agreed to right now in terms of the 6.7 and in 4 4 Mr. Hackney's questions, but am I right you have terms of some of the recent past in terms of rates 5 no experience with actuarial issues? 5 of return from year to year. 6 6 A. That's correct. Did you look at the rates of return 7 7 over the last 25 years for those two systems? O. And you have no prior -- pension is 8 8 not your area of expertise, is it? I'm not sure I looked at 25 years. I 9 I would not consider myself a pension 9 looked at 10. I think, whatever -- a series of 10 10 data on those. expert. 11 Are the pension portions of your 11 Q. What did the 10-year data show? I would have to look at it again. 12 report important to your conclusions? 12 Α. 13 A. Yes. 13 Q. You don't remember? 14 And if the pension portions of your 14 A. I know that there were -- there were 15 report are factually or inaccurate -- factually or 15 vears in which there were losses in excess of 20 16 analytically incorrect, would you agree with me 16 percent. 17 that undermines the conclusions you reached in 17 Q. Would you agree with me that it would 18 18 be more appropriate to look at data over a longer your report? period of time? 19 19 I don't think they're factually A. 20 incorrect or analytically incorrect. 20 A. Not necessarily. 21 Right. But if they are, would you 21 Did you look at any data -- look --22 agree with me that that undermines the conclusions 22 extending over a 25-year period of time? 23 23 in your report? A. I don't know. 24 A. I don't know that it would. It 24 O. Did you -- you go on to say in this 25 depends which -- what would be inaccurate? 25 statement, and I'll read the whole sentence --Page 432 Page 434 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 Well, we'll get to that. well, you say in the first paragraph, 3 3 "Historically, a number of different practices Can you put -- take your report 4 there. It's Exhibit 1. 4 have contributed to a significant funding 5 5 Sure. shortfall in the two pension plans..." And you A. 6 6 Q. Can you turn to Page 127. recite the aggressive rates of return. 7 MR. ALBERTS: I'm sorry, Jonathan, 7 Did you make any efforts to quantify 8 8 repeat the page. what portion of the funding shortfall was 9 MR. WAGNER: 127. 9 attributable to the supposedly aggressive rates of 10 MR. ALBERTS: And if you wouldn't 10 return? 11 mind speaking up, only because this is making 11 A. I did not. 12 a lot of noise. 12 MR. WAGNER: Let's mark this as 13 BY MR. WAGNER: 13 Exhibit 4. 14 14 Do you have it there? (Whereupon, Kopacz Exhibit 4 was 15 15 A. I do. marked at this time.) 16 16 MR. KANE: Do you have a copy for me? Ms. Kopacz, you see the middle 17 paragraph one, two, three, four, five lines in, 17 BY MR. WAGNER: 18 you state, "The retirement systems assumed 18 Ms. Kopacz, have you seen Exhibit 4 Q. 19 aggressive annual rates of return on investment 19 before? 20 20 (PFRS 8.0 and GRS 7.9)." I don't recall seeing Exhibit 4 A. 21 Do you see that? 21 before. 22 I do. 22 Do you know whether you took the A. 23 What was the basis for your statement 23 document into account in drawing the conclusions 24 that the annual rates of return assumed by the 24 in your report? 25 retirement systems have been aggressive? 25 A. I don't know.

Page 435 Page 437 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 Q. Would you be surprised to learn that PFRS and GRS exceeded their targeted rates of 3 in most years the two pension funds exceeded the 3 return? 4 4 rates of return that they -- the target rates of Individually for those years, yes. I 5 return that they set? 5 would want to look at the cumulative effects of 6 б A. What -- you're using the time series this. 7 of data? 7 O. And would it surprise you that the 8 people who have done that calculation have 8 Q. Yes. 9 9 Okay. I've looked at this. Can you concluded that over the 25-year period for GRS and A. 10 over the 15-year period for the PFRS, those two 10 ask me the question again? MR. WAGNER: Can you read back the pension plans have exceeded 7.9 and 8 percent 11 11 12 12 returns? question. 13 13 (The question requested was read back A. If you want me to assume that is 14 by the reporter.) 14 correct, I will. 15 The -- first of all, I don't know who 15 And would that surprise you? O. 16 16 Like I said, this -- this is not a -prepared this. I don't know what the basis is and 17 I don't -- it says, "actuarial assumed rate of 17 this is just one data point, okay, so --18 return" and "calendar year rate of return." Okay. 18 My question is only whether it would 19 And I don't know from whence this comes in terms 19 surprise you, not whether it's one data point. 20 of how this was calculated. 20 Would it surprise you? 21 Okay. I want you to assume that the 21 A. 22 document is accurate because others have testified 22 Would it surprise you to learn that Q. 23 that it is. Would it surprise you to learn that 23 over the last 25 years out of the hundred-odd 24 24 largest pension funds in the country, their over the last 25 years, in most years the GRS and 25 the PFRS have exceeded their targeted rates of 25 average rates of return have exceeded 8 percent? Page 438 Page 436 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 I haven't looked at that, so I don't return? A. 3 3 A. In most years? know. 4 Q. Yes. 4 You haven't? Q. 5 5 A. Should we count them? All right. A. I have not. 6 One, two, three, four, five, six, seven, eight, 6 MR. WAGNER: Let's mark this. 7 7 nine, ten -- in ten of the years on the general (Whereupon, Kopacz Exhibit 5 was 8 8 retirement system, they did not reach the targeted marked at this time.) Q. Have you seen this document before? 9 assumed rates and --9 10 10 A. I have seen this document, I believe, So that means -- let me just ask --11 11 so that means in 15 years they exceeded, correct? before. 12 If there are 15 years here. There 12 Q. As a matter of fact, you cited it in 13 13 your report, correct? are 25 years. 14 14 So, in most years --I did. This is the one that gives Q. 15 In 15 --15 the investment return assumptions for various A. 16 -- the GRS exceeded the targeted 16 Q. plans. 17 17 Can you look at the last sentence on rate, correct? 18 18 Page 1 and read it out loud? A. Yes. Okay. You can do the math for PFRS. 19 Ο. 19 Α. The last sentence? 20 2.0 Okay. One, two -- three, four --Q. On Page 1. 21 five. In five of the PFRS years, they did not 21 "As shown in Figure 1 at 9 percent 22 the median analyzed investment return for the 22 reach the targeted return. 25-year period ended December 31st, 2013, it seeks 23 That's five out of how many? 23 Q. the average assumption of 7.72 percent in Figure 5 24 A. Fifteen. 24 25 So in most years, am I correct, the 25 while the 10-year return is below that." 5 (Pages 435 to 438)

	Page 439		Page 441
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	Q. And can we agree that 9 percent is	2	A. Yes.
3	more than 7.9 and 8 percent?	3	Q. Did you look at any of those
4	A. We can agree to that to that.	4	criticisms?
5	Q. Are you aware of the rates of return	5	A. Not specifically, no.
6	for the PFRS and the GRS in the last fiscal year?	6	Q. What have those criticisms been?
7	A. In the last fiscal year defined as	7	A. The public pension community
8	fiscal year-ended June	8	generally believes that the for example, the
9	Q. June 30th, 2014.	9	investment rate of return is also something that
10	A. I am not.	10	you use for discounting.
11	Q. So would it surprise you to learn	11	Q. And am I right that there is no
12	that the rates of return for both PFRS and GRS	12	public pension fund that uses the riskless or the
13	have been 11 percent and 18 percent respectively?	13	risk-free rate of return to value its pension
14	A. I have heard the 11 percent number.	14	obligations?
15	I had not heard the 14 (sic) percent number.	15	A. No public pension? I don't know that
16	Q. And are you aware that 7.9 and	16	no public pension is generally not I wouldn't
17	8 percent fall within the range of reasonableness	17	say no, because I just don't know that there's
18	for returns for PFRS and GRS calculated by the	18	no
19	City's pension expert?	19	Q. Okay.
20	A. Am I aware of what?	20	A that uses a lower rate of return.
21	MR. WAGNER: Could you read it back.	21	Q. We'll come back to that.
22	(The question requested was read back	22	You mentioned Milliman. Did you have
23	by the reporter.)	23	any discussions with Milliman about the pension
24	A. Could you show me the letters from	24	issues?
25	Milliman on that? I mean, we've looked at a lot	25	A. I did participate in some calls with
	Page 440		Page 442
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	of Milliman documents.	2	Milliman, I believe. My team had more than I did.
3	Q. Well, you read the Perry report,	3	Q. Are you aware that Milliman set a
4	right?	4	rate of return for the pension funds based on the
5	A. The Perry report?	5	asset the current asset allocations; they set a
6	Q. The Perry expert report?	6	rate of return of 7.2?
7	A. I did not.	7	A. I believe that's correct, yes.
8	Q. It's listed on your list of documents	8	Q. Do you have any quarrel with that
9	that you reviewed.	9	number?
10	A. I didn't review it, personally.	10	A. Not really.
11	Someone on my team must have.	11	Q. Did you have any discussions with
12	Q. Did you review any of the underlying	12	Gabriel Roder?
13	pension materials?	13	A. I did not personally.
14	A. I did some of them, yes.	14	Q. Did anyone from your team?
15	Q. Did you review the Rockefeller	15	A. I believe they did.
16	report?	16	Q. If it's not listed on you on the
17	A. I did.	17	log, would you agree that there had been no such
18	Q. Are you aware that the Rockefeller	18	discussion?
19	report has been severely criticized?	19	A. Not specifically. I would would
20	A. I would assume all reports have been	20	go and check the our time records as well. I
21	severely criticized.	21	would hope that the logs for everybody else are
22	Q. That's not my question.	22	accurate, but
23	Are you aware that the Rockefeller	23	Q. Did you have any discussions with
24	report has been severely criticized by the public	24	Cynthia Thomas?
25	pension community?	25	A. No.
			6 (Pages 439 to 442)

	Page 443		Page 445
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	Q. Do you know who she is?	2	Q. Do you have any quarrel with that
3	A. I don't.	3	distribution?
4	Q. Did anyone ever tell you she was the	4	A. I am not an investment manager.
5	executive director of the two pension systems?	5	Q. Is that another way of saying that
6	A. No.	6	you don't have any quarrel?
7	Q. Do you think that's someone you	7	A. No. It just says that I didn't I
8	should have spoken to?	8	accepted it as it was.
9	A. Not necessarily.	9	Q. Well, I'm asking you today: Do you
10	Q. Why not?	10	have any questions
11	A. I spoke with counsel to the pension	11	A. I have not made that evaluation.
12	systems. I spoke with some of the people that are	12	Q. So the answer is no, you are not able
13	on the board of the pension systems.	13	to cite any disagreement you have with the
14	Q. But you didn't speak to the executive	14	distribution of assets, are you?
15	director?	15	A. I like I said, I have not looked
16	A. I did not.	16	at that specifically to arrive at any conclusion.
17	Q. You testified yesterday in response	17	MR. WAGNER: Can you read back the
18	to Mr. Hackney's questions that there is no need	18	question.
19	to change the plan on account of potential the	19	(The question requested was read back
20	potential pension risks that you cite in your	20	by the reporter.)
21 22	report.	21 22	Q. Can you answer the question?
23	Do you recall that testimony? A. Can we read it back?	23	Do you have any quarrel A. I don't know.
24		24	A. I don't know. Q. Would you agree with me that it's
25	Q. WellA. I don't remember specifically.	25	unreasonable to calculate the strike that.
	*		
-	Page 444		Page 446
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	Q. Okay. Would you accept my	2	There's nothing in your report that
3	representation that that's what you said?	3	addresses that purports to calculate the size
4	MR. KANE: Objection.	4	of the pension claim, correct?
5	A. Not really.	5 6	A. Correct.
6 7	Q. Okay. Well, is there any need to	7	Q. Am I right that with respect to the
8	change the pension plan strike that. Is there any need to change the plan	8	risk-free rate, that you advocate that you cite, all you're asking for is that the is that
9	of the plan of adjustment on account of the	9	a calculation be made and be disclosed, correct?
10	potential pension risks that you cite?	10	A. Yes. And it's not it is a rate
11	A. I have no perspective or point of	11	whether it's the risk-free rate of return or some
12	view or opinion on changes to the plan of	12	lower risk adjusted rate is not particularly
13	adjustment. That is not in my scope. It is not	13	critical to me in terms of my recommendation.
14	my task.	14	It is that I believe that it is
15	Q. Do any of the pension risks that you	15	that the using the same rate of return using
16	cite in your report give you any pause with	16	the discount rate that is the same as the rate of
17	respect to the plan?	17	return for the investment asset assumption just
18	A. The long-term risks associated with	18	does not intuitively make sense to me as a finance
19	the City's pension obligations do not negatively	19	person.
20	impact my assessment for feasibility.	20	Q. Let me just understand.
21	Q. Did you look at the asset	21	For you this is a disclosure issue,
22	distribution for the pension funds?	22	correct?
23	A. I have seen a I have seen a	23	A. It is it is a recommendation that
24	schedule that looks at the distribution of assets	24	I have made that it would be helpful to the City
25	in the pension fund.	25	long-term to measure its long-term pension
			7 (Pages 443 to 446)

	Page 447		Page 449
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	liability at a rate other than an assumed rate of	2	Q. Yes or no?
3	return on asset investments.	3	A. I don't think I ever have.
4	MR. WAGNER: Can you read back the	4	Q. Does that mean you don't have a
5	answer.	5	qualification to do so?
6	(The answer requested was read back	6	A. I don't know.
7	by the reporter.)	7	Q. By the way, you're not opining
8	THE WITNESS: It should be invested.	8	whether this plan discriminates unfairly or not,
9	BY MR. WAGNER:	9	are you?
10	Q. Am I right for you, this is a	10	A. Absolutely not.
11	disclosure issue. And I turn you to Page 156 of	11	Q. Okay. You would not be in favor of a
12	your report.	12	plan that unfairly discriminates against any
13	A. When you say "disclosure issue," all	13	class?
14	right	14	A. It is it is not something I looked
15	Q. What I mean is that what you want is	15	at. It is not part of my scope.
16	for that rate to be calculated and disclosed?	16	Q. Now, explain to me why you believe
17	A. I want the yes. I want the risk	17	that the risk-free rate that calculation of
18 19	levels to be to have the benefit of sunshine.	18 19	pension liabilities using the risk-free rate should be disclosed?
20	Q. Okay. Are you aware of any public	20	A. I'm not sure that I the risk-free
21	pension fund that makes that disclosure? A. As I sit here today, no.	21	rate or a rate that is nearer a risk-free rate is
22	Q. Have you ever opined or given any	22	what I suggested. Okay.
23	conclusions on the proper rate of return for a	23	This is a plan some day in the future
24	public pension fund?	24	that needs to be a hundred percent funded. It is
25	A. No.	25	frozen. There will be people, 30, 40, potentially
	Page 448		Page 450
1		1	
1 2	- MARTI KOPACZ - VOLUME II-	1 2	- MARTI KOPACZ - VOLUME II- 50 years from now that will need to be paid from
3	Q. Have you ever served as an actuary for a public pension fund?	3	this plan. There is no mechanism right now that
4	A. No.	4	assures that this plan will ever be a hundred
5	Q. Have you had any experience in	5	percent funded.
6	actuarial science?	6	Q. In your view, is the is there any
7	A. In terms of? Experience in actuarial	7	downside to disclosing pension liabilities based
8	science?	8	on the risk-free rate?
9	Q. Yes.	9	A. Any downside?
10	A. No.	10	Q. Yes.
11	Q. Do you have any qualification to	11	A. No.
12	offer an opinion on the proper rate of return to	12	Q. Have you ever read anything citing
13	use for a public pension fund?	13	downsides to disclosing the risk-free rate?
14	A. I don't think I have offered an	14	A. Have I read anything? Not that I
15	opinion.	15	recall.
16	Q. My question	16	Q. Has anyone ever discussed with you
17	MR. WAGNER: Can you read back the	17	what the downsides are of disclosing calculation
18	question.	18	of pension liabilities based on the risk-free
19	(The question requested was read back	19	rate?
20 21	by the reporter.) A. I don't think I ever have.	20 21	A. Not recently, no.
22	A. I don't think I ever have. MR. WAGNER: Can you read it back one	22	Q. What about not recently?A. Again, the last time I dealt with
23	more time, I'm sorry.	23	pension was a number of years ago with a frozen
24	(The question requested was read back	24	terminated plan with a client, so
25	by the reporter.)	25	Q. But one thing we can agree on is that

- MARTI KOPACZ - VOLUME II nobody does it today, do they, as far as you know? - A. I don't know - O, Okay. You can't cite any public - pension fund that does that, correct? - A. Not not as I sit here today no Q, Okay. So - so it would be out of - B. the mainstream for the City of Detroit to do so, correct? - A. I don't know what you mean by - mainstream. It would be different from others, yes yes yes 13 - Q. And think you cited in your report - that the average rate of return strike that the average rate of return strike that the average rate that the largest pension - funds is 7.72 17 - Do you recall that? - 18 - A. That comes from the NASRA brief Q. Yes. So that's the rate that's - 19 - Q. Yes. So that's the rate that's - 19 - Q. And the plan provides for a rate of - 4 - 6.75, correct? - 2 - A. Yes 2 - Q. And the plan provides for a rate of - 4 - 6.75, correct? - A. I is below the average identified in - 5 - the NASRA recent brief Q. Okay. And dhaf's about a hundred - basis - basis points below the 7.75, right? - A. It is below the average identified in - 5 - the NASRA recent brief Q. Okay. And dhaf's about a hundred - basis - basis points elaculation done at a rate - much lower than 6.75, right? - A. I wan it - I think it would behoove - the City to calculate that obligation at a rate - much lower than 6.75, right? - A. I want it - I think it would behoove - the City to calculate that obligation at a rate - whibit Q. Okay. And dayou read it? - Q. Ms. Kopacz, kins is the Blinken - report Repart 452 - A. Yes, it is Whereupon, Kopacz Exhibit 6 was - marked at this time.) - Q. Ms. Kopacz, this is the Blinken - report Repart 452 - A. Yes, it is Po you see that? - A. I have read I have read a lot of - it Q. Okay. And that's about a hundred - San thank this tays what it says You want a calculation done at a rate - 10 - A. I wan't it I think it would behoove - 10 - A. I wan't it I think it would behoove - 11 - 12 - 2 - 3 - 4 - 4 - 4		Page 451		Page 453
2 cover. 3 A. I don't know. 4 Q. Okay. You can't cite any public pension fund that does that, correct? 5 A. Not - not as I sit here today no. 7 Q. Okay. So - so it would be out of the mainstream for the City of Detroit to do so, correct? 9 Correct? 10 A. I don't know what you mean by mainstream. It would be different from others, yes. 11 yes. 12 yes. 12 Q. And i think you cited in your report that the average rate of return - strike that - the average rate et by the largest pension funds is 7.72. 13 Q. And i think you cited in your report that the average rate test by the largest pension funds is 7.72. 14 The correct of the reverage rate that the flargest public pension funds are using on average, correct? 15 A. Yes. 16 Q. Okay. And the plan provides for a rate of 6.75, correct? 17 D. Okay. And that's about a hundred dashs - basis points below the 7.75, right? 18 A. I ris below the average identified in the NASRA recent brief. 19 Q. Okay. And dagain, you want a rate much, much lower than 6.75 - strike that. 19 Vou want a calculation done at a rate much, much lower than 6.75, right? 10 A. I want it - I think it would behoove the (ty) to calculate that obligation at a rate lower than 6.75, rest. 19 Q. Ms. Kopacz, this is the Blinken report. 20 Q. Ms. WaGNER: Mark this as the next exhibit. 21 Q. Okay. And dagain, you want a rate much, much lower than 6.75, right? 22 A. Yes, it is. 23 Q. Ms. WaGNER: Mark this as the next exhibit. 24 Q. Okay. And dagain, you want a rate much, much marked at this time.) 25 Q. Ms. Kopacz, this is the Blinken report. 26 Q. Okay. And dayou read it? 27 Q. Okay. And dayou read it? 28 Q. Ms. Kopacz, this is the Blinken report. 29 A. Yes, it is. 20 Q. Okay. And dayou read it? 21 Q. Okay. And dayou read it? 22 A. Yes, it is. 23 Q. And the plan provides for a rate of the City to calculate that obligation at a rate much, much make the average identified in the City to calculate that obligation at a rate lower than 6.75, right? 29 A. I share read - I have read a lot of the City to calculate tha	1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
4 Q. Okay. You can't cite any public pension fund that does that, correct? 6 A. Not not as I sit here today no. 7 Q. Okay. So so it would be out of the mainstream for the City of Detroit to do so, correct? 9 A. I don't know what you mean by mainstream. It would be different from others, yes. 10 A. I don't know what you mean by mainstream. It would be different from others, yes. 11 Q. And i think you cited in your report that the average rate for terum strike that the average target set by the largest pension funds is 7.72. 12 Do you recall that? 13 A. That comes from the NASRA brief. 14 Q. Yes. So that's the rate that's the average rate that the largest public pension funds are using on average, correct? 22 A. Yes. 23 Q. And the plan provides for a rate of dosis basis points below the 7.75, right? 4 A. It is below the average identified in the NASRA recent brief. 9 Q. Okay. And dard's about a hundred basis basis points below the 7.75, right? 4 A. It is below the average identified in the NASRA recent brief. 9 Q. Okay. And again, you want a rate much, much lower than 6.75 - strike that. You want a calculation done at a rate much, much lower than 6.75, right? A. I want it I think it would behoove the (fiv) to calculate that obligation at a rate lower than 6.75, rest. 10 Q. Ms. WaGNER: Mark this as the next exhibit. 11 (Whereupon, Kopacz Exhibit 6 was much and governments, should value liabilities and expenses for mancal reporting purposes using a discount rate that reflects the riskiness of the expected benefit payments. 11 Do you see that? 22 A. I also the waverage trage that the largest public pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount rate that reflects the riskiness of expected benefit payments. 12 G. Okay. And again, you want a rate much lower than 6.75, right? 23 A. I also the rest with the rest of the risk proving the form the rest of the risk proving the form the rest of the risk provin	2	nobody does it today, do they, as far as you know?	2	
5 pension fund that does that, correct? 6 A. Not - not as I sit here today no. 7 Q. Okay. So so it would be out of the mainstream for the City of Detroit to do so, correct? 9 correct? 10 A. I don't know what you mean by mainstream. It would be different from others, yes, yes, 22 yes, 23 Q. And i think you cited in your report that the average rate of return strike that the average target set by the largest pension funds is 7.72. 17 Do you recall that? 18 A. That comes from the NASRA brief. 19 Q. Yes. So that's the rate that's the average rate that the largest public pension funds are using on average, correct? 20 A. Yes. 21 Q. And the plan provides for a rate of 6.75, correct? 22 A. Yes. 23 Q. And the plan provides for a rate of 6.75, correct? 24 A. Yes, it does. 25 A. Yes, it does. 26 Q. Okay. And that's about a hundred basis basis points below the 7.75, right? 27 A. It is below the average identified in the NASRA recent brief. 28 Q. Okay. And day any, you want a rate much, much lower than 6.75, right? 29 A. I want it I think it would behoove the feer the olive in your report. 29 MR. WAGNIR: Mark this as the next exhibit. 20 MR. WAGNIR: Mark this as the next exhibit. 31 MR. WAGNIR: Mark this as the next exhibit. 42 (Whereupon, Kopacz Exhibit 6 was marked at this time.) 43 Q. Okay. And didy ou read it? 44 A. Yes, it is. 45 Q. Okay. And didy ou read it? 46 MR. WaGNIR: Mark this as the next exhibit. 47 Pension funds and governments should value liabilities and expenses of the expected benefit payments. 48 Pension funds and governments should value liabilities and expenses of the expected benefit payments. 49 Pension funds and governments should value liabilities and expenses of the expected benefit payments. 40 A. I don't know that it's an outlier. 41 A. I don't know that it's an outlier. 42 C. Did you make any effort to determine whether it was or not? 44 A. Yes, it do not. 45 A. Yes, it do not. 46 C. Onkay. And that's about a hundred and government should value liabilities and expenses for fin	3	A. I don't know.	3	
6 A. Not – not as I sit here today no. 7 Q. Okay. So – so it would be out of 8 the mainstream for the City of Detroit to do so, 9 correct? 9 A. I don't know what you mean by 10 A. I don't know what you mean by 11 mainstream. It would be different from others, 12 yes. 13 Q. And i think you cited in your report 14 that the average rate of return – strike that – 15 the average rate of return – strike that – 16 the average rate of return – strike that – 17 Do you recall that? 18 A. That comes from the NASRA brief. 19 Q. Yes. So that's the rate – that's 19 Q. Yes. So that's the rate – that's 10 the average rate that the largest public pension 11 funds are using on average, correct? 12 A. Yes. 12 A. Yes. 13 Do. And the plan provides for a rate of 14 6.75, correct? 15 A. It is below the average identified in 16 the NASRA recent brief. 17 Q. Okay. And dhat's about a hundred 18 basis – basis points below the 7.75, right? 19 A. It is below than 6.75, right? 10 A. I wantit – I think it would behoove 11 the City to calculate that obligation at a rate 12 lower than 6.75, right? 13 M. Was he the one who directed you to 15 this report? 14 A. I don't know. 20 A. I don't know that it's an outlier. 21 Binken report is an outlier? 22 A. Yes. To that the average rate that — 23 A. I did not. 24 C. Can you turn to Page X-11? 25 A. Yes. it does. 26 Tecommendations. Pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount 27 Page 452 28 A. Trie below the average identified in 29 the complete of the city to calculate that obligation at a rate exhibit. 30 A. I. I wantit – 1 think it would behoove the City to calculate that obligation at a rate exhibit. 41 Chord have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read – I have read a lot of the city to each fire a decidence of a calculation based on a risk-free rate, correct? 42 A. I don't hnow that the check	4	Q. Okay. You can't cite any public	4	Ravitch is very active in the Rockefeller
8 the mainstream for the City of Detroit to do so, 9 correct? 10 A. I don't know what you mean by 11 mainstream. It would be different from others, 12 yes. 13 Q. And i think you cited in your report 14 that the average rate of return—strike that—the average rate of return—strike that—the average rate of return—strike that—the average rate of return—strike that—the average rate of return—strike that—the average rate of return—strike that—the average rate that the largest pension funds is 7.72. 17 Do you recall that? 18 A. That comes from the NASRA brief. 19 Q. Yes. So that's the rate—that's 19 Q. Yes. So that's the rate—that's 19 Q. Yes. So that's the rate—that's 19 Q. Yes. So that's the rate—that's 10 deverage rate that the largest public pension funds are using on average, correct? 10 A. Yes, it does. Page 452 11 —MARTI KOPACZ - VOLUME II—2 Q. Okay. And that's about a hundred basis—basis points below the 7.75, right? 11 A. I wan it —I think it would behoove the City to calculate that obligation at a rate much lower than 6.75, right? 10 A. I wan it —I think it would behoove the City to calculate that obligation at a rate exhibit. 11 Mainsteam. It would behoove the City to calculate that obligation at a rate exhibit. 12 O. Ms. Kopacz, this is the Blinken report. 13 A. Idon't know. 14 A. Idon't know. 15 A. Idon't know that it's an outlier: 14 A. Idon't know that it's an outlier. 14 A. Idon't know that it's an outlier. 14 A. Idon't know that it's an outlier. 15 A. Idon't know that it's an outlier. 16 Indon't now that it's an outlier. 17 A. Idon't know that it's an outlier. 18 A. Idon't know that it's an outlier. 19 Q. Yes. So that's the are—that's the average rate that the learnest propose understance whether it was or not? 19 A. Yes, it do 20 A. Yes, it do 21 A. Yes, it do 22 A. Yes, it do 23 D. Idon't know that it's an outlier. 24 A. Idon't know. 25 A. Idon't know that it's an outlier. 26 A. Idon't know that it's an outlier. 27 A. Idon't know that it's an outlier. 28 A. Idon't know that it's an outlier. 29 A. Y		•	5	
the mainstream for the City of Detroit to do so, correct? A. I don't know what you mean by mainstream. It would be different from others, 2 yes. 3 Q. And i think you cited in your report that the average rate of return – strike that – 15 the average target set by the largest pension funds is 7.72. 16 Even by the largest pension funds is 7.72. 17 Do you recall that? 18 A. That comes from the NASRA brief. 20 Yes. So that's the rate – that's 21 Do you recall that le largest public pension funds are using on average, correct? 22 A. Yes. 23 Q. And the plan provides for a rate of 6.75, correct? 24 6.75, correct? 25 A. Yes, it does. Page 452 1 — MARTI KOPACZ - VOLUME II-Q. O. Okay. And that's about a hundred basis: – basis points below the 7.75, right? 4 A. It is below the average identified in the NASRA recent brief. 6 Q. Okay. And again, you want a rate much lower than 6.75, estrike that. You want a calculation done at a rate much lower than 6.75, right? A. I want it – I think it would behoove the City to calculate that obligation at a rate exhibit. Whereupon, Kopacz Exhibit 6 was marked at this time.) Do you see that? A. I want it – I think it would behoove the City to calculate that obligation at a rate exhibit. Whereupon, Kopacz Exhibit 6 was marked at this time.) Do you see that? A. I want it – I think it would behoove the City to calculate that obligation at a rate exhibit. Whereupon, Kopacz Exhibit 6 was marked at this time.) Do you see that? A. I don't know. Q. And I drik that the Rockefeller the Blinker report is an outlier. A. I did not. Q. Cany ou turn to Page X-11? A. X-11, okay. Q. If you look at the – see "Recommendations"? Do you see that? A. Yes, I do. Q. Okay. It says, "We offer the following recommendations: Pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount rate that reflects it is risk necessary of expected benefit payments. Yen and the plan provides for a rate of 20 oyou see that? A. I don't k	6			
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A. I don't know what you mean by mainstream. It would be different from others, 12 yes. Q. And i think you cited in your report 13 that the average rate of return strike that 14 that the average target set by the largest pension 15 the average target set by the largest pension 16 funds is 7.72. Do you recall that? A. That comes from the NASRA brief. 19 Q. Yes. So that's the rate that's 19 Q. Yes. So that's the rate that's 19 the average rate that the largest public pension 19 funds are using on average, correct? 21 A. Yes. 22 A. Yes. Q. And the plan provides for a rate of 6.75, correct? 24 A. Yes, it does. Page 452 Table 1 MARTI KOPACZ - VOLUME II- 2 Q. Okay. And that's about a hundred basis basis points below the 7.75, right? 4 A. It is below the average identified in the NASRA recent brief. 6 Q. Okay. And again, you want a rate much, much lower than 6.75 strike that. You want a calculation done at a rate much lower than 6.75, right? 9 A. I want it I think it would behoove the City to calculate that obligation at a rate lower than 6.75, ryes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75, yes. 12 lower than 6.75 is the Blinken report. 18 linken report. 18 linken report. 19 Do you see that? 19 Q. Okay. And daid you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you read it? 24 A. Yes, it is. 20 Q. Okay. And did you				
mainstream. It would be different from others, yes. Q. And it think you cited in your report that the average rate of return strike that the average target set by the largest pension funds is 7.72. Do you recall that? A. I don't know that it's an outlier. A. I don't know that it's an outlier. A. I don't know that it's an outlier. A. I don't know that it's an outlier. A. I did not. Q. Can you turn to Page X-11? A. That comes from the NASRA brief. Q. Yes. So that's the rate that's the average rate that the largest public pension funds are using on average, correct? A. Yes. Q. And the plan provides for a rate of 6.75, correct? A. Yes, it does. Page 452 The average rate of a rate of 6.75, correct? A. Yes, it does. Page 452 A. I tis below the average identified in the NASRA recent brief. Q. Okay. And dar's about a hundred basis basis points below the 7.75, right? A. I tis below the average identified in the NASRA recent brief. Q. Okay. And gain, you want a rate much, much lower than 6.75, right? A. I want it I think it would behoove the City to calculate that obligation at a rate lower than 6.75, right? A. I want it I think it would behoove the City to calculate that obligation at a rate lower than 6.75, right? A. I want it I think it would behoove the City to calculate that obligation at a rate lower than 6.75, right? A. I want it I think it would behove the City to calculate that obligation at a rate lower than 6.75, right? A. I want it is me.) Q. Ms. Kopacz, this is the Blinken report. Boy ous see that? A. I don't think that says risk-free rate that the Rockefeller the Blinken report. A. Yes, it dos. A. I did not. A. Yes, I do. Q. Okay. It says, "We offer the following recommendations: Pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount rate that reflects the riskiness of expected benefit payments. Do you see that? A. I do. Q. So all the Rockefeller the Blinken report. A. It is seloue the average deat				
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that the average rate of return — strike that— the average target set by the largest pension funds is 7.72. Do you recall that? A. That comes from the NASRA brief. Q. Yes. So that's the rate — that's the average rate that the largest public pension funds are using on average, correct? A. Yes. Q. And the plan provides for a rate of 6.75, correct? A. Yes, it does. Page 452 - MARTI KOPACZ - VOLUME II— Q. Okay, And that's about a hundred sbasis — basis points below the 7.75, right? A. It is below the average identified in the NASRA recent brief. Q. Okay, And again, you want a rate much, much lower than 6.75, right? A. I want it — I think it would behoove the City to calculate that obligation at a rate exhibit. MR. WAGNER: Mark this as the next exhibit. MR. WAGNER: Mark this as the next exhibit. O. Okay, And did you read it? A. Yes, I is. O. Okay, And did you read it? A. I have read — I have read a lot of it. 120 O. Okay, And did you read it? A. I have read — I have read a lot of it. 121 Do you see that? A. I did not. A. I did not. A. I did not. A. I did not. A. Y-10, kay. A. X-11, okay. Q. Uryou look at the — see "Recommendations."? Do you see that? A. Yes, I do. Q. Okay. It says, "We offer the following recommendations: Pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount at the treflects it is risk necessary of expected benefit payments. Do you see that? A. Yes, I do. A. A. Yes, I do. A. A. Yes, I do. A. Yes, I do. A. Yes, I do. A. A. Yes, I do. A. A. Yes, I do. A. Yes, I do. A. A. Yes, I do. A. A. Yes, I do. A. Yes, I do. A. Yes, I do. A. Yes, I do. A. Yes, I do. A. I dor think it vany what it says. Pension funds and governments should value				
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Do you recall that? A. That comes from the NASRA brief. Q. Yes. So that's the rate that's the average rate that the largest public pension funds are using on average, correct? A. Yes, I do. Q. And the plan provides for a rate of 6.75, correct? A. Yes, it does. Page 452 Page 452 A. Yes, it does. Page 454 Page 454 A. It is below the average identified in the NASRA recent brief. Q. Okay. And again, you want a rate much lower than 6.75, right? A. I want it I think it would behoove the City to calculate that obligation at a rate lower than 6.75, yes. MR. WAGNER: Mark this as the next exhibit. (Whereupon, Kopacz Exhibit 6 was marked at this time.) Do you see that? A. Yes, I do. Q. Okay. It says, "We offer the following recommendations: Pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount agovernments should value liabilities and expenses for financial reporting purposes using a discount agovernments should value liabilities and expenses for financial reporting purposes using a discount at eate least that reflects the riskiness of expected benefit payments. A. It is a below the average identified in the NASRA recent brief. Q. Okay. And again, you want a rate much lower than 6.75, right? A. I don't think that says risk-free rate, correct? A. I don't think that says risk-free rate. It says the riskiness of the expected benefit payment. Q. Ms. Kopacz, this is the Blinken report. Do you see that? A. It is a visual liabilities and expenses for financial reporting purposes using a discount rate that reflects the riskiness of expected benefit payment. Q. Okay. But whatever it's saying, all it's asking for is disclosure, right? A. It's I think it says what it says. "Pension funds and governments should value liabilities and expenses for financial reporting purposes using a discount rate that reflects the riskiness of expected benefit payment. Q. Okay. But whatever it's saying, all it's asking for is disclosure, right? A. It's I think				
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A. I don't know I've read it cover to 25 this issue for the Blinken report is an issue of				
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Page 455 Page 457 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 disclosure? Do you see that? 3 Similar to what I've said, yes. 3 A. I'm reading. Just a moment. A. 4 4 Okay. And you're not aware of any 5 public pension funds that -- public pension fund 5 Are you aware of any other trade Q. 6 associations for public pension funds? 6 that actually calculates the level of 7 contributions that should be made based on a 7 I don't know. 8 8 risk-free rate, are you? Q. Okay. I take it you didn't look at 9 A. I'm sorry. 9 this release before you issued your report? 10 10 Not that I recall, no. MR. WAGNER: Can you read it back? 11 Okay. And do you see in the first 11 A. Please. 12 paragraph that the trade association representing 12 I told you it would be difficult to O. 13 do pensions. 13 the 500 -- over 550 public pension funds called 14 No, it's okay. I can do pensions. 14 the recommendations off the mark and impractical. A. 15 15 Let's go. Do you see that? 16 The title says, "impractical and off 16 (Requested question was read back by A. 17 the reporter.) 17 the mark." 18 I'm not aware of any as I sit here 18 You see in the second paragraph the 19 19 trade association representing 550 public pension today. 20 20 funds states that, "It makes no real world sense Q. And would it surprise you if I told 21 vou that there are none that calculate the level 21 to use a discount rate that is artificially low 22 of contributions that should be made based on a 22 and unrelated to real investment expectations." 23 23 risk-free rate? Do you see that? 24 24 A. I -- like I said, I don't know one A. Do you want me to read the paragraph? 25 25 My question is whether you see that way or another. Page 456 Page 458 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 MR. WAGNER: Mark this as the next 2 statement. 3 3 exhibit. A. I see the statement. (Whereupon, Kopacz Exhibit 7 was Okay. And did you make any effort in 4 4 5 5 marked at this time.) preparing your report to investigate these types 6 MR. ALBERTS: Just as a courtesy, 6 of criticisms of the Rockefeller report? 7 7 when you introduce an exhibit like this that Α. I did not. 8 And I think you testified yesterday 8 we don't have a copy, just advise what it is. 9 MR. WAGNER: That's fine. If you 9 that Mr. Ravitch was a significant influence on 10 want, I'll get you copies after. 10 your thinking with respect to the pension issue? BY MR. WAGNER: 11 11 I said Mr. Ravitch and I and my team 12 Q. Ms. Kopacz, I put before you Exhibit 12 discussed this topic with him. I also discussed 13 8 -- 7, which is a release by the National 13 it extensively with Mr. Childree. 14 Conference on Public Employee Retirement Systems 14 And did anyone present to you the 15 concerning the Rockefeller report that you cite, I 15 opposing point of view with respect to disclosure 16 believe, your report. 16 of the risk-free rate? 17 First of all, have you ever heard of 17 Α. Yes. 18 this organization? 18 And who was that? Q. 19 The National Conference on Public 19 Α. Mr. Childree. 20 Employee Retirement -- not specifically, no. 20 And what did he tell you? O. 21 And if you turn to the last page, it 21 Mr. Childree, as the former 22 states, "The National Conference is the largest 22 comptroller of the State of Alabama, having lived 23 trade association for public sector pension funds, 23 through these issues, adopts what most public 24 representing more than 550 funds throughout the 24 pension government workers have lived with for 25 United States and Canada." 25 years and years and years; and that is, that you

- MARTI KOPACZ - VOLUME II- discount at the same level of rate of return as the assets. 4		Page 459		Page 461
discount at the same level of rate of return as the assets. 4 Q. And Mr. Ravitch presented the opposing point of view? 5 A. He did. 7 Q. Now, you referred yesterday to GASB? 8 A. Yes. 9 Q. What is GASB? 9 Q. What is GASB? 10 A. The general – the Government accounting? 11 A. The city of Detroit, yes. Q. Ward in 2014 today right now, it's a July 2014. The City's fiscal year started July 1st, 2014. MR. WAGNER: Let's mark this as the next exhibit. (Whereupon, Kopacz Exhibit 8 was marked at this time.) BY MR. WAGNER: 12 Q. And is that an authoritative standard in the field of public pension funds? 13 in the field of public pension funds? 14 A. It is. 15 Q. And is it – is it an authoritative standard in the field of public pension funds? 16 A. That I don't know. 17 A. That I don't know. 18 Q. Did anyone ever tell that you GASB considered and rejected the disclosure of a risk-free rate? 19 considered and rejected the disclosure of a risk-free rate? 20 Q. Did you cite that in your report. 21 A. I know that, yes, I do. 22 Q. Did you cite that in your report. 22 Q. But you left this particular piece 23 A. What they considered as getting to their promulgation was not germane to my report. 24 Q. But their promulgation was to use one rate; sint that correct? 25 Q. But you? 26 A. That is what they have said, yes, Q. And you didn't put that in your report, did you? 27 A. That is what they have said, yes. 28 Q. And you didn't put that in your report, did you? 39 Q. You also noted that the GASB standard was effective in fiscal year 2015. 30 Q. You also noted that the GASB standard was effective in fiscal year 2015. 31 Q. You also noted that the GASB standard was effective in fiscal year 2015. 32 Q. You also noted that the GASB standard was effective in fiscal year 2015. 33 Q. You also noted that the GASB standard that was effective in fiscal year 2015. 34 Do you recall that? 35 Q. You also noted that the GASB standard was effective in fiscal year 2015. 36 Q. Well, we're not in fiscal 2015, are we're we're the provision in y	1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
the assets. 4 Q. And Mr. Ravitch presented the 5 opposing point of view? 6 A. He did. 7 Q. Now, you referred yesterday to GASB? 8 A. Yes. 8 Q. What is GASB? 9 Q. What is GASB? 10 A. The general the Government 11 Accounting Standards Board. 12 Q. And is that an authoritative standard in the field of government accounting? 13 in the field of government accounting? 14 A. It is. 15 Q. And is it is it an authoritative standard in the field of public pension funds? 16 standard in the field of public pension funds? 17 A. That I don't know. 18 Q. Did anyone ever tell that you GASB 19 considered and rejected the disclosure of a risk-free rate? 19 A. There rate every 10 Did you cite that in your report. 20 A. I referenced the GASB the new GASB reporting standards. Yes, I did. 21 Q. But you left this particular piece 22 D. But you didn't put that in your report, did you? 23 A. What they considered as getting to their promulgation was not gemane to my report. 4 A. What they considered as getting to their promulgation was to use one rate; isn't that correct? 4 A. What they considered as getting to their promulgation was not gemane to my report. 4 Q. But their promulgation was not gemane to my report. 5 Q. But their promulgation was not gemane to my report. 6 Q. And you didn't put that in your report, did you? 1 A. I didn't recite the I gave the standards. I didn't report what the standards a sid. 1 Q. You also noted that the GASB standard was effective in fiscal year 2015. 1 Do you recall that? 2 Q. You also noted that the GASB standard was effective in fiscal year 2015. 2 Q. You also noted that the GASB standard was effective in fiscal and calendar. 2 Q. You also noted that the GASB standard was effective in fiscal and calendar. 2 Q. You also noted that the GASB standard was effective in fiscal war a mistake in your report, this year. 3 Q. You also noted that the GASB standard was effective in fiscal war a mistake in your report. Were not in fiscal 2015, are we? 3 Q. Well, we're not in fiscal 2015, are we? 3 Q.			2	
4 A. We're in 2014 today right now, it's poposing point of view? 5 A. He did. 7 Q. Now, you referred yesterday to GASB? 8 A. Yes. 9 Q. What is GASB? 9 Q. What is GASB? 11 A. The general – the Government 12 A. The general – the Government 13 in the field of growment accounting? 14 A. It is. 15 Q. And is it – is it an authoritative standard in the field of public pension funds? 16 Standard in the field of public pension funds? 17 A. That I don't know. 18 Q. Did anyone ever tell that you GASB considered and rejected the disclosure of a risk-free rate? 19 A. I know that, yes, I do. Q. Did you cite that in your report? 20 Q. Did you cite that in your report? 21 A. I referenced the GASB – the new GASB 24 reporting standards. Yes, I did. 22 Q. Did you give that in your report; did you not? 3 A. What they considered as getting to their promulgation was not germane to my report. Q. But their promulgation was to use one rate; isn't that correct? A. That is Mat they have said, yes. Q. And you didn't put that in your report, did you? 10 A. I didn't recite the – I gave the standards. I referenced the standards. I didn't report what the standards said. Q. You also noted that the GASB standard was effective in fiscal year 2015. Do you recall that? A. It is effective now, as we – for this year. Q. So that was a mistake in your report, two years and the pension plan assets are expected to be invested using a strategy to achieve that return 10 A. It is effective now, as we – for this year. Q. So that was a mistake in your report, this year. Q. Well, we're not in fiscal 2015, are we'? Q. Well, we're not in fiscal 2015, are we're we're the standards. I didn't report, we're the the report, was into, as to when it is effective? A. A. Yes. 4 A. We're in 2014. The City's fiscal year 2015. 5 Do you recall that? 5 July 2014. The City's fiscal year started ylub list, 2014. MR. WAGNER: Q. Have you seen the streat kinds: WAGNER: Q. Okay, At the bottom, fire free the fere? Q. Okay, My only question is wetter the report, was into, as			3	
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6 N. A. He did. 7 Q. Now, you referred yesterday to GASB? 8 A. Yes. 9 Q. What is GASB? 10 A. The general the Government 10 Accounting Standards Board. 11 A. The government accounting? 12 Q. And is that an authoritative standard 11 G. A. It is. 13 in the field of government accounting? 14 A. It is. 15 Q. And is it is it an authoritative standard 11 government accounting? 16 standard in the field of public pension funds? 17 A. That I don't know. 18 Q. Did anyone ever tell that you GASB 18 considered and rejected the disclosure of a 19 considered and rejected the disclosure of a				
Q. Now, you referred yesterday to GASB? A. Yes. 8 Q. What is GASB? A. The general the Government 10 Accounting Standards Board. 11 Accounting Standards Board. 11 A A. It is. Q. And is that an authoritative standard 12 Q. And is it is it is it an authoritative 14 A. It is. Q. And is it is it is it an authoritative 15 A. That I don't know. 17 A. That I don't know. 17 A. That I don't know. 18 Q. Did anyone ever tell that you GASB 18 O. Did anyone ever tell that you GASB 18 O. Did you cite that in your report? A. I know that, yes, I do. Q. Did you cite that in your report, 21 Q. But you left this particular piece 25 Q. But their promulgation was not germane to my report. Q. But their promulgation was not use one rate; isn't that correct? A. That is what they have said, yes. Q. And you didn't put that in your report, idd you? A. I tis is that correct? A. That is what they considered as getting to their promulgation was not use one rate; isn't that correct? A. That is what they have said, yes. Q. And you didn't put that in your report, idd you? A. I didn't recite the —-I gave the standards. I referenced the GASB standard was effective in liscal year 2015. Do you recall that? Q. You also noted that the GASB standard was effective in liscal year 2015. A. It is effective now, as we — for this year. Q. So that was a mistake in your report, was it not, as to when it is effective? A. It				
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A. The general — the Government Accounting Standards Board. Q. And is that an authoritative standard in the field of government accounting? A. It is. Q. And is it — is it an authoritative standard in the field of public pension funds? A. That I don't know. The standard in the field of public pension funds? A. That I don't know. Q. Did anyone ever tell that you GASB considered and rejected the disclosure of a risk-free rate? Q. Did you cite that in your report, and the reporting standards. Yes, I did. Q. Did you cite that in your report, did you not? A. What they considered as getting to their promulgation was not germane to my report. Q. But their promulgation was to use one rate; isn't that correct? A. That is what they have said, yes. Q. And you didn't put that in your report, did you? A. I tis effective now, as we — for this year. Q. So that was a mistake in your report, was it not, as to when it is effective? A. It - you know what, it may be an errobetween fiscal and calendar. Q. Well, we're not in fiscal 2015, are wee? A. Yes. Marti Koor that is man authoritative standard in the field of government accounting? A. It is effective now, as we — for this year. Q. So assuming those conditions for use of the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay the pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return" I'll skip the B. But do you see this? A. A link the B is important. Q. Okay. My only question is whether you see this release before? A. I have. I – I probably saw it about the time that it was released. Q. Ox ox At the bottom, the government chounting Standards Board news release, June 25, 2012, states at the bottom, the five considered and rejected the disclosure of a single rate and the the bottom, the form is a single rate the text. A, the long-term time that it was released. Q. Ox A that the state at the standa				
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22 Q. Did you cite that in your report? 23 A. I referenced the GASB the new GASB reporting standards. Yes, I did. 24 Page 460 1 - MARTI KOPACZ - VOLUME II- 2 out of your report; did you not? 3 A. What they considered as getting to their promulgation was not germane to my report. 5 Q. But their promulgation was to use one rate; isn't that correct? 6 A. That is what they have said, yes. 7 A. That is what they have said, yes. 8 Q. And you didn't put that in your report, did you? 9 report, did you? 9 report, did you? 10 A. I didn't recite the I gave the standards. I referenced the standards said. 11 Q. You also noted that the GASB standard was effective in fiscal year 2015. 12 Do you recall that? 13 Q. So that was a mistake in your report, this year. 14 Was it not, as to when it is effective? 15 Q. Well, we're not in fiscal 2015, are we? 24 A. Yes. 25 Single rate that reflects, A, the long-term expected rate of return on plan investments as expected to return on plan investments as expected to page the specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return" I'll skip the B. 8 Q. And you didn't put that in your sport, did you? 9 report, did you? 10 A. I didn't recite the I gave the standards. I didn't repeat what the standards said. 11 Q. Okay. My only question is whether you see this provision. 12 A. Is es this provision. 13 A. So long as the plan net position is projected under specific conditions conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a single rate? 13 A. I tink the B is important. Q. Okay. My only question is whether you see this provision. Q. And am I right that under these conditions GASB recommends using a single rate? A. As long as the plan net position is projected under specific conditions conditions to be sufficient to pay pensions of current to achiev				
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11 (Pages 459 to 462)		Z. WOLO III IISCAI 2013 :		

	Page 463		Page 465
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	A. Correct.	2	Did anyone ever tell you that one of
3	Q. And that is	3	the downsides to disclosing the risk-free rate is
4	A. I don't believe those provisions are	4	it could lead to liability-driven investing?
5	met in the forecast of the Detroit pension plan.	5	A. I don't understand that phrase.
6	Q. Well, we'll leave that to the pension	6	Q. So that was not something you came
7	experts, because you are not a pension expert.	7	across in your work on this case?
8	A. I am not a pension expert.	8	A. No.
9	Q. Okay. So we'll leave that to the	9	Q. Did anyone ever tell you that
10	experts.	10	disclosing the risk-free rate could lead to
11	But the standard is under those	11	improperly could lead to over burdening current
12	conditions use of a single rate, correct?	12	taxpayers?
13	A. Or, B, a yield or index rate on tax	13	A. I don't no.
14	exempt 20-year AA or higher municipal rated bonds	14	Q. Did anyone ever tell you that using
15	to the extent that the conditions for use of the	15	or disclosing the risk-free rate could lead to
16	long-term expected rate of return are not met."	16	cutbacks with respect to pension benefits?
17	Q. Am I right that if those conditions	17	A. No.
18	are met, GASB recommends using a single rate?	18	Q. Now, you state in your report that
19	A. Or a yield on the index of municipal	19	the 6.75 rate was heavily negotiated.
20	AA or higher bonds.	20	Do you recall that?
21	MR. WAGNER: Let's mark this as the	21	A. Yes.
22	next exhibit. This is Exhibit 9.	22	Q. What's the basis for that statement?
23	(Whereupon, Kopacz Exhibit 9 was	23	A. Conversations with various
24	marked at this time.)	24	stakeholders in this case.
25	BY MR. WAGNER:	25	Q. What did they tell you?
	Page 464		Page 466
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	Q. Have you seen Exhibit 9 is the	2	A. That the 6.75 was a heavily
3	GASB Statement Number 67.	3	negotiated rate.
4	Do you see that?	4	Q. You agree that it's lower than
5	A. It is.	5	historical rates that the PFRS and GRS have used,
6	Q. Have you seen it before?	6	right?
7	A. I have not seen the full standard,	7	A. Yes.
8	no.	8	Q. And it's lower than recent investment
9	Q. Okay. Can you turn to Page 19.	9	runs?
10	And can you read 40, and can you	10	A. That's correct.
11	agree with me that sets out the same standard we	11	Q. Would you have and you agree it's
12	saw in the release?	12	lower relative to peers?
13	A. Yes. What this basically says is	13	A. Yes.
14	that under the assumption that you have a funded	14	Q. I think you cite in your report that
15	pension plan, then the rate of return on the	15	peers are setting rates at 7.72, right?
16	pension plan investments is the rate to use or the	16	A. That's what the NASRA report says.
17	yield on the 20-year tax exempt muni bonds.	17	Q. Okay. And the NASRA report also
18	Q. Okay. We can put that aside for now.	18	reports that rates over the returns over the
19	A. Well, I mean it's really important.	19	last 25 years have exceeded 9 percent, right?
20	Q. Well, I'm not there's no question	20	A. I don't know. I'd have to go back
21	pending.	21	and look at it again.
22	A. Between whether it's a funded or	22	Q. That was the point I the note I
23	unfunded plan.	23	pointed out this morning.
24	Q. Okay. We will leave that to the	24	A. Do you want to look at it again?
25	pension experts.	25	Q. It's up to you. You can look at it
			12 (Pages 463 to 466)

	Page 467		Page 469
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	again. The left side of the page, first page.	2	favorably to feasibility, okay, in my assessment,
3	A. Yes. I think 10 years it's been 7;	3	it also presents a long-term risk to the City.
4	20 years it's been 8.2; and 25 years it's been 9.	4	Q. Did you strike that.
5	Q. And there are few there are few	5	You're not saying that any of the
6	major government-sponsored pension plans that use	6	pension funds' investments are risky, are you?
7	a rate lower than 6.75, correct?	7	A. I in order to achieve the rates of
8	A. There are some, yes.	8	return that are projected, that either 6.7 or the
9	Q. Well, there are few?	9	11, you have to have volatility which means you
10	A. Yes, on this list.	10	have to have some level of risk in return.
11	Q. Well, you also note in your report	11	Q. Have you looked at the well, are
12	that there are few.	12	there specific investments that you believe the
13	A. Yes.	13	pension funds have made that are risky?
14	Q. When you when you recommended	14	A. I at this point, I I don't have
15	disclosure of the risk-free rate, did you believe	15	that information in front of me.
16	that there were any downsides to disclosing that	16	Q. Do you have anything do you have
17	rate?	17	any information reflecting negatively on the
18	A. No.	18	pension advisors to the City?
19	Q. When you say the 6.75 was heavily	19	A. The current pension advisors?
20	negotiated, would you have would you do you	20	Q. Yes.
21	have a view as to whether the rate should have	21	A. That I'm not aware of. They're
22	been set based on an actuarial calculation as	22	different than the past advisors.
23	opposed to being heavily negotiated?	23	Q. Just a few more questions.
24	A. I have no view on that.	24	Are you aware of any information
25	Q. You just accepted what was presented	25	indicating that the trustees of the pension funds
	Page 468		Page 470
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	to you?	2	have breached their fiduciary duties?
3	A. Yes.	3	A. The new trustees?
4	Q. Now, you stated in your report that	4	Q. Any trustees?
5	you want the City to provide stewardship on this	5	A. My recollection is that there are
6	issue.	6	some pending legal actions against former
7	Do you recall that?	7	trustees.
8	A. I said it is an opportunity for the	8	Q. What about the current trustees?
9	City to provide stewardship.	9	A. That I'm not aware of, no.
10	Q. What did you mean by that?	10	Q. You also note on Page 128 that the
11	A. Just because everybody does it a	11	value of UAAL is 3.5 billion.
12	certain way doesn't make it right, doesn't make it	12	A. What page?
13	prudent. And I don't believe information is good	13	Q. Page 128.
14	or bad, it simply is. And I think this data	14	A. Yes.
15	point, given what the City has been through with	15	Q. Okay. Are you aware that the plan
16	its its underfunding of its pensions, its	16	sets the amount at 3.1 billion?
17	borrowing money to fund pensions, I think	17	A. I am referencing a specific point in
18	disclosure and sunshine would be a very good thing	18	time and a specific calculation by Milliman in
19	for the City going forward so that it doesn't get	19	2013.
20	in these kinds of difficulties again.	20	Q. I'm right just a few more
21	Q. Again, this is, for you, it's a	21	questions.
22	disclosure issue, right?	22	I'm right that most participants in
23	A. It is a disclosure issue. And the	23	the pension plan have already retired. Page 126.
24	reality is plans are going to be less funded over	24	A. Yes.
25	the next ten years. Now while that relates very	25	Q. Do you know what percentage of
	,		13 (Pages 467 to 470)

Page 471 Page 473 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 retirees live in the City of Detroit? not offering any conclusion as to whether the City 3 A. I do not. 3 has properly calculated the size of the pension 4 4 Is that relevant to you? O. claim, correct? 5 5 A. Correct. A. It is not. 6 On Page 128 and 129 you cite ASF, the And am I also right that you haven't 6 Q. 7 ASF issue. 7 done any due diligence with respect to the pension 8 funds asset allocations? 8 Do you see that? 9 I do. 9 A. Correct. A. 10 10 Q. What's your understanding of that MR. WAGNER: Nothing further. 11 11 issue? 12 12 In what sense? **EXAMINATION BY MR. NEAL:** Α. 13 13 Q. Well, you reference 387 million of Q. Good morning, Ms. Kopacz. 14 excess investment earnings credited to the annual 14 A. Good morning, Mr. Neal. 15 15 I prefer to question you in a witness savings funds. Do you see that? 16 box, like we did in April. But this will -- this 16 17 This is -- this is a -- this is taken 17 will do for now. 18 from Mr. Moore's declaration. 18 At the outset, just a brief apology. 19 19 I was defending a deposition of my client Okay. Do you understand what the ASF 20 20 yesterday. I had the opportunity to read the issue is? 21 21 draft of the transcript from yesterday and I A. I do. 22 Okay. And you understand that this 22 intend not to repeat anything, number one. O. 23 387 million was -- shouldn't have been paid out? 23 Number two, my questions are going to 24 MS. GREEN: Object to form. 24 relate almost entirely to DWSD, okay? 25 MR. ALBERTS: Objection. 25 Okay. A. Page 472 Page 474 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 And I have a couple of preliminaries BY MR. WAGNER: 3 3 that you may have covered, but these preliminaries Q. You can answer. I understand there's a dispute -will last about five minutes' time, so if you 4 A. 4 5 5 could indulge me. Q. Okay. 6 -- over the ASF. 6 A. Sure. A. 7 7 Right. And you understand that that So I want to confirm that the O. 8 8 387 million shouldn't be part of the pension documents and the sources that are listed in 9 claim? 9 Exhibit 2 of your report and meetings and the 10 10 MR. ALBERTS: Objection. communications that are listed in Exhibit 3, 11 reflect all the materials or interviews on which 11 MS. GREEN: Objection. 12 12 A. I don't know. you relied upon in preparing your report? 13 MR. WAGNER: All right. Why don't we 13 That is the intent of Exhibit 2. I 14 take a couple-minute break. I may be done. believe that is correct. 14 15 15 THE VIDEOGRAPHER: Time now is O. Is that also the intent of Exhibit 3 16 approximately 10:00 a.m. We're going off the 16 which relates to the communications? 17 17 No. The communications log -- and record. 18 (Whereupon, there was a brief recess 18 again, there was some question amongst my team as to whether the judge's requirement only related to 19 in the proceedings.) 19 20 THE VIDEOGRAPHER: The time is 20 my communications or to my entire team's 21 10:11 a.m. We're back on the record. 21 communications. In an abundance of caution, we 22 22 BY MR. WAGNER: did everybody's communications. 23 Q. Ms. Kopacz, just you couple of more 23 So -- and I would -- I would say we strived to get it as current and accurate and 24 questions. 24 25 I'm right that you're not -- you're 25 timely as we could.

Page 475 Page 477 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 Q. And in looking at Exhibit 2, am I of adjustment. 3 3 correct that you did not rely upon any of the Now, when you say in your prior 4 objections to the plan of adjustment that were 4 answer you spoke to finance people at the City. 5 filed by the objectors in the case? 5 A. Yes. 6 6 That's correct. Who would those individuals include? A. 7 O. And in looking at Exhibit 2, am I 7 I'm not looking for an exhaustive list. 8 correct in saying that you didn't rely upon any of 8 It would be the CFO. It would be the the fact or expert witness depositions, the 9 9 -- Pam Scales, the budget director in terms of how 10 transcripts that have been taken in the past 10 DSD and the City relate to one another. Speaking 11 several weeks? also with -- with people on the -- the mayor's 11 12 12 A. I've read nothing. staff. 13 And the only depositions that are 13 Q. Okay. So not just the emergency 14 reflected in Exhibit 2 were the ones that were 14 manager and his professional advisors? 15 taken in -- in different disputes such as 15 Oh. no. Oh. no. A. 16 eligibility or swaps; is that right? 16 Okay. Q. 17 A. Correct. 17 A. Right. 18 In terms of the DWSD management and 18 And going back to Exhibit 2 to your 19 consultants, so you did not read the deposition 19 expert report, am I correct in observing that the 20 transcripts of Sue McCormack, the CEO or director 20 only expert reports upon which you relied were 21 of DWSD; Cheryl Porter, the COO or Nicolette -those of the City experts? 21 22 The first name is Sue McCormack, the 22 And I can point you to them. Exhibit 23 CEO or director of DWSD; Cheryl Porter, the COO of 23 2, lines 46 through 49, 51 through 55. 24 DWSD; Nicolette Bateson, CFO of DWSD; or Bart 24 Yes. These are in terms of -- of --25 Foster or any consultants of DWSD? 25 the reason that they're here is there are various Page 476 Page 478 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 assumptions, for example, in Mr. Buckfire's report A. That's correct. 3 Q. Now, have you ever -- have you or 3 in terms of exit financing, I'm relying on his your team members ever have any communications 4 4 representation of obtaining exit financing. 5 5 with those individuals? For people like Beth Niblock and John 6 A. No, not to my knowledge. 6 Hill, those are included because we have cited 7 7 Is there a reason why neither you nor either factual comments that they've made about O. 8 anyone from your team spoke to DWSD management? 8 the state of the IT systems or in the case of John Yes. The -- originally DWSD was on 9 9 Hill, what he is intending to do to fix the my to-do list, okay. I spoke with counsel to the 10 10 accounting and the IT systems. bondholders, some of the bondholders on DWSD, 11 11 So... but, ves, those are -- whatever 12 okay, and I got an understanding of the issues. 12 is here is what's included somewhere in the 13 Obviously I'd read the plan of adjustment and the 13 report. 14 proposed treatment of the DWSD bonds. 14 Your expert report was served on July Q. I then had and my team had 15 15 18, correct? 16 discussions with finance people at the City on 16 A. I believe that's correct, yeah. 17 DWSD in terms of the enterprise nature of the 17 I want to talk about relatively 18 fund. I read various early on pleadings as it 18 current events. So between July 18th and today, 19 related to DWSD. And at the point in time where I August 1st, the objectors had their respective 19 20 realized that the interplay between my feasibility 20 deadline or deadlines as it relates to serving 21 assessment and DWSD was related to the 21 their expert reports. 22 \$428 million of pension funding, the transfer, 22 Have you had an opportunity to review 23 that -- again, because the -- that's what I had to 23 any of those? 24 focus on relative to DWSD. And that is simply 2.4 A. Not yet. 25 a -- a source of funding for execution of the plan 25 Do you intend to review them?

15 (Pages 475 to 478)

Page 479 Page 481 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 A. Yes. lists and these --3 Q. If any of those reports inform or 3 Α. Yes. 4 alter your opinion, do you intend to supplement 4 O. -- as reflected on Exhibit 4, are 5 your expert report? 5 those open requests? 6 6 A. Yes. A. Yes. 7 To the extent you don't supplement 7 They're not prioritized in any way? O. O. 8 8 your expert report, would that be, in essence, an A. No. 9 acknowledgment that the expert reports of the 9 O. Okay. 10 10 objectors have not altered or informed your No. A. Do you anticipate looking at any 11 opinion? 11 O. 12 additional materials? 12 Α. I don't know because I'm still --13 13 remember, I'm still waiting on information from Let's just go back to July 18th, starting with that point. Do you anticipate 14 14 the City. 15 15 looking at additional materials as they relate to Q. Yes. Right? So... the DWSD, its operations, its capital 16 16 A. 17 And that's reflected in Exhibit 4 of 17 expenditures, its debt, its future cash flows? 18 your report, correct? 18 I don't know. A. 19 Correct. 19 0. Sitting here today, have you done A. 20 20 that in the past week and a half? O. Now, is this -- does Exhibit 4 21 reflect information that you believe may be 21 I have not. 22 material? Let me phrase the question differently. 22 Do you intend to do it in the next O. 23 Is it reflective of all of your 23 week and a half? 24 24 outstanding requests or did you just intend to Α. I don't know. 25 provide a list of what is important to you? 25 Now, in preparing your report, there Q. Page 480 Page 482 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 are several instances in which you cite to either This is -- in terms of the -- the 3 3 information provided by or discussions you've had formal process we had with the City, okay, this 4 was the open request list as of the date of my 4 with Miller Buckfire, in specific Ken Buckfire and 5 5 his investment bankers; is that right? report. Okay. There are -- there is information 6 that I received shortly before I completed my 6 A. Yes. 7 7 report that I have not yet reviewed; the I don't want this to be a memory O. 8 test, I can give you the page numbers if it will 8 collective bargaining agreements we talked about help you. But I know in one instance and perhaps 9 yesterday. 9 10 10 So there are -- again, I did not have more than one, I shouldn't say one, that you spoke 11 11 with Mr. Buckfire and his team about exit the time to do an adequate review job on that so I financing; is that right? 12 didn't do it. And so there's -- there's 12 13 information here that I would still like to 13 A. That's correct. 14 14 You also spoke to Mr. Buckfire and receive and there is information that I have 15 15 received that I have not yet reviewed. his team about the City's access to capital 16 So at one time you had a much larger, 16 markets post -- post emergence? 17 17 Yes. I would imagine, request list for the City and A. And you spoke to Mr. Buckfire and his 18 you've been checking off boxes; is that right? 18 19 team about the monetization of certain assets 19 A. Yes. 20 2.0 including DWSD, right? More or less? O. 21 It was -- it was a dynamic list in 21 A. Yes. A. 22 22 that things got added, things got taken off as There was one other instance that O. they got supplied. 23 23 involves Wayne County property tax matters and I'm 24 not going to go into that, I promise you. 24 And by the time it came to serve your Q. 25 25 report on the 18th, you had a few open request Let's just go and focus on exit 16 (Pages 479 to 482)

Page 483 Page 485 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 financing, if we could. information packages that they were sending out to 3 First, did you have any 3 various potential funding sources. And that --4 communications with Mr. Buckfire, any members of 4 you know, he would -- he did not give me any 5 his team regarding the DWSD's need or anticipated 5 specific lenders that he was talking to. I didn't 6 6 need to access the capital market in the future? necessarily ask him for those, either. But he 7 A. I don't recall a specific 7 said there was interest, they had been working on conversation related to DWSD's capital market 8 8 it and he was highly confident that they were 9 9 access. going to be able to place the exit finance. 10 10 Q. Did you speak with anybody, at any When did you have these 11 time during your engagement, about DWSD's need or 11 conversations? 12 anticipated need to access the capital markets? 12 It should be in my log. It was --Α. 13 Again, I think it may have been part 13 probably sometime in July. 14 of the general conversation, but I don't recall --14 Ms. Kopacz, I'm not looking for the 15 15 I don't recall a specific response. exact date --16 Sorry. What do you mean by 16 It was -- it was -- it was within the 17 "response"? 17 -- I don't think it was the week before. I think 18 Well, the conversation that I had 18 it may have been like the second week -- it was Α. 19 with Mr. Buckfire and his team, with Mr. Doak and 19 after the 4th. 20 a variety of associates. We talked about a lot of 20 O. Okay. Very good. 21 things in terms of exit financing and access to 21 (Technical interruption.) 22 capital markets. We also talked about DWSD and 22 THE VIDEOGRAPHER: The time now is 23 the monetization of DWSD. 23 approximately 10:34 a.m. We're back on the 24 24 O. Okay. record. This is the beginning of Disk 25 Α. And I'm not sure that those two 25 Number 2. Page 484 Page 486 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 BY MR. NEAL: topics intersect because I don't remember a 3 3 specific conversation about it. Q. Ms. Kopacz, there was a small Fair enough. Let me give you an 4 4 technical glitch. I'm going to repeat one Q. 5 5 example. question or come close to repeating it. 6 6 And that is, I'm not looking for an Others have testified in this case 7 7 about DWSD's plan to access the capital markets exact date when you had these discussions about 8 for about \$150 million worth of new sewer 8 exit financing with Miller Buckfire, I'm looking 9 financing for capital improvements. 9 for the general time period. 10 10 I had a few -- I mean, really a few, A. Okay. 11 Have you been involved in that 11 two or three conversations with Ken or Jim Doak. Q. 12 process? 12 over the course of my assessment and I know there 13 13 was -- and like I said, I believe there was either A. I have not. a call or e-mail exchange because it was on my 14 14 Have you had any conversations with 15 anyone affiliated with the City, including DWSD, 15 white board to check on exit financing and I did 16 about that process? 16 that within a week or so of issuing my report. 17 17 Were any individuals involved in A. No. 18 Okay. Going back to accessing 18 those discussions other than you and your team, Q. 19 capital markets and the exit financing, can you 19 and the individuals you identified at Miller 20 just describe generally to me your conversations 20 Buckfire? 21 with the Miller Buckfire team about -- about their 21 Α. Not involved -- at about that time, I 22 22 also had -- Mr. Ravitch had met with Mr. Buckfire interaction with the capital markets and their 23 23 effort to obtain exit financing? and shared with me that he had had the same 24 24 My conversation with Mr. Buckfire, we conversation, in essence, that I had had; that

17 (Pages 483 to 486)

Mr. Buckfire was confident he was going to raise

25

25

talked about -- he supplied me with the

Page 487 Page 489 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 the 300 million at 6 percent. And the question effort to obtain exit financing? 3 3 was really whether or not that would be raised as Α. No. 4 4 a -- as a secured type of borrowing or unsecured. Did you discuss with anyone at the O. 5 Now, is this a meeting that -- that 5 Michigan Finance Authority? б 6 included Mr. Ravitch? A. I did not. 7 Mr. Ravitch had his own meetings and 7 O. There is a consultant -- I'll Α. 8 8 he just reported to me at about that same time. represent to you there's a consultant engaged by 9 9 And what did he report to you about both the DWSD and the City -- excuse me, both the 10 10 DWSD and the state, his name is Lee Donner of the the exit financing? 11 11 That Mr. Buckfire had represented First Southwest Company. 12 Did you speak with Mr. Donner? 12 that he was going to get the exit financing and 13 that, you know, he thought -- he still thought it 13 I did not. A. 14 was going to be around the 6 rate. 14 O. Did you have any discussions with 15 15 Mr. Buckfire about his views of the -- of the I had been watching high-vield muni 16 credit ratings that the City would receive 16 rates and thought it might be a little higher than 17 that and there was still an open question as to 17 post-emergence from Chapter 9? 18 whether or not you'd have to pledge whether it 18 A. No. 19 would have to be secured with tax revenue or not. 19 Q. Any conversation as to whether the 20 20 City's debt or series of debt would be above Did Mr. Ravitch express any views or 21 opinions to you on this issue, the City's efforts 21 investment grade or below investment grade upon 22 to obtain exit financing? 22 emergence? 23 23 A. No. A. No. 24 24 O. Did he express any views or opinions O. You do state, and I think you 25 25 repeated it accurately a few minutes ago, on Page to you as to what the anticipated or assumed Page 488 Page 490 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 interest rate would be? 2 90, that, "As of the date of this report it 3 3 appears that the assumed interest rate of 6 A. No. percent could be low for a high-yield instrument 4 Q. What exactly did you talk about with 4 5 5 Mr. Ravitch on the exit financing issue? like the proposed exit financing." 6 We were -- we were sitting in our 6 Do you see that? 7 7 office a couple of days before the report was A. I do. 8 8 issued. I had asked Mr. Ravitch to please review O. And what is that based on? 9 the pension section and the post-confirmation 9 We have been monitoring just 10 10 issue section -- the post-confirmation oversight high-yield muni bonds to see at what pricing 11 issues. And we were sitting in my office in New 11 they're selling at. And recently, you know, 12 York which has a white board and there were the 12 again, the -- the biggest issue that's come off 13 open issues list of things that I needed to check 13 during pendency of this case are the Puerto Rico 14 14 on and exit financing was there. bonds and they've been more in the 8 to 9 range. 15 And he said, oh, by the way, I talked 15 There have been -- there have been a 16 to -- I had breakfast or lunch or whatever, and 16 lot of issuances in around the high 5s. 17 had a conversation with Buckfire. 17 So again, the -- what's important to 18 How many conversations have you had 18 my assessment of feasibility is whether or not the 19 with Mr. Ravitch about the exit financing? 19 City gets the exit financing. It's less important 20 20 to the feasibility assessment what the interest A. I think that may have been the only 21 21 rate is. I mean, unless it's 15. one. 22 22 Did you discuss with -- let me make Sure. Q. 23 23 sure I've closed the loop. Right. So... A. 2.4 Did you have any conversations with 24 So let's play that out little a Q. 25 anyone from the State of Michigan about the City's 25 little bit.

18 (Pages 487 to 490)

Page 491 Page 493 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 A. Okav. Did Mr. Buckfire give you are a 3 O. So whether it's 6.5 percent or 7 3 download, so to speak, of his negotiations with 4 percent is not necessarily material to your 4 the counties about the formation of a regional 5 opinion in your report? 5 authority? 6 6 A. Correct. A. 7 Q. Did you speak to any underwriters, 7 O. Did you have any understanding of the 8 anyone on the buy side, any capital market 8 to'ing and fro'ing, so to speak, between the City participants about the City's efforts to obtain 9 9 and the counties in 2013 and 2014? 10 exit financing? 10 Tiny. Tiny understanding -- tiny. 11 A. I did not. 11 The issue of whether or not an 12 Did you do anything other than what 12 O. authority is created, I take it that's not 13 you've already testified today to test the 13 material to your opinion that the plan is feasible 14 assumptions that the City can obtain exit 14 under your definition? 15 financing at about the 6 percent interest rate? 15 It isn't because my task was to 16 A. I did not. 16 assess the plan as it stands. So, again, as 17 O. I want to switch gears a little bit 17 people have raised the issue of DWSD, while I 18 and talk to you about your conversations with 18 think it is -- would be a fascinating issue to 19 Miller Buckfire about the City's efforts to 19 look at, in the spirit of what my task is and how 20 monetize the DWSD assets. 20 long I had to do it, it was just not something 21 Can you describe those conversations 21 that I could -- I could consciously justify 22 to me? 22 spending time on. 23 Very brief. The meeting that I had 23 Going back, I'll just briefly on the Q. 24 with Ken and his team in June, we talked about 24 issue of exit financing. 25 DWSD. He was of the viewpoint then that there was 25 In your report, I think it's Page 492 Page 494 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 not going to be a transaction associated with DWSD 2 Section O, Page 192, you identify that as a risk. 3 and that was kind of the sum total of the 3 Is that fair to say? 192. Risks -- these are other risks 4 conversation. 4 A. 5 5 Q. So a couple of short conversations and opportunities section. Right. 6 would be accurate? 6 Yes. Q. 7 You know what, I'm sure when I 7 Α. Yes. 8 8 You have a subsection called, "Access initially met with Ken at the beginning of the 9 case, and he gave me his background in terms of 9 to Capital Markets." I believe that's Page 195. 10 how he got involved and what he was focused on, 10 Uh-huh. A. 11 and -- and I remember at that point in time he 11 So that is an identified risk of O. 12 said he did not envision something happening with 12 yours in your report, correct? 13 the DWSD assets. 13 A. 14 14 And then, obviously, during the Q. Other than what you told me about pendency of my assignment, the judge ordered the 15 15 your conversation with Mr. Ravitch, is that --16 parties back to mediation on that. And I met with 16 well, let me rephrase the question. 17 him, I think shortly after that happened or about 17 Did you have any other conversations the same time, and he said he still didn't 18 18 with Mr. Ravitch about what you've identified as a 19 envision anything happening. 19 risk in obtaining exit financing and access to 20 And once again, you know, for me, 20 capital markets? 21 DWSD became only an issue of the pension funding. 21 A. Not that I recall. 22 I want to broaden the question to 22 Ms. Ravitch (sic), I'm going to show include any representatives from Conway Mackenzie 23 23 you what's previously been marked in a prior 24 on this issue of monetization. deposition, Exhibit M. 24 25 A. No. no conversations. 25 A. I'm not Mr. Ravitch.

Page 495 Page 497 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 Q. I'm so sorry. Did I say that? some point? 3 Ravitch, Kopacz. 3 Again, because I said -- DWSD relates 4 only to -- in terms of my feasibility assessment, 4 Well --5 There you go. I apologize. 5 the transfer of money from DWSD relative to the Q. 6 б He's Russian, Polish, whatever, pension funding, okay. So given that assumption, A. right, I did not delve into DWSD issues. 7 7 right? 8 8 I apologize, Ms. Kopacz. Done. Finit. Q. 9 9 This is? I take it you and your team spent A. 10 time reviewing the City's 10-year projections and 10 O. I will identify it. Just take a -for the record, while you take a moment to look 11 40-year projections, correct? 11 Correct. 12 over this document, this has previously been 12 A. 13 marked as Porter Exhibit Number 12, Exhibit M to 13 Now, you may have answered this in 14 the May 5th, 2014 disclosure statement. It is 14 your prior answer, but let me just make sure. DWSD financial projections. 15 15 Does any part -- is there any line 16 On the second page of the exhibit, 16 item that you can recall in those 10-year 17 it's City of Detroit water and sewage disposal 17 projections or 40-year projections that relate to 18 fund 10-year projections. 18 DWSD's financial performance? 19 Have you -- have you seen this 19 The enterprise fund that is DWSD? 20 document before? 20 Q. Yes. 21 I have only seen this document in --21 No. A. 22 in the context of having printed out the May 5th 22 Q. So there's nothing in the 10-year 23 plan of adjustment disclosure statement. I have 23 projections or 40-year projections that are 24 24 not spent any time with this document. impacted by the amount of outstanding debt service 25 Did any members of your team spend 25 that DWSD has with respect to its bondholders, Page 496 Page 498 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 any time with respect to this document being 2 correct? 3 3 10-year projections for the water and sewage Correct. A. 4 There are no assumptions baked into 4 disposal fund? O. 5 5 the 10-year or 40-year projections as it relates I don't recall specifically, but I do 6 know at some point we did have one of our team 6 to the refinancing of the DWSD bonds, correct? 7 No. There is plan treatment of the 7 members initially slotted to look at DWSD, so 8 DWSD bonds. Right? But not -there may have been somebody who did look at it. 8 Who was that team member? 9 9 Q. Q. No doubt. 10 10 That would have been Mike Gaul or Al Not the -- the only general fund A. 11 linkage between DWSD, okay, and the City is DWSD's 11 Mink. 12 payment over that first ten years of the pension 12 (Cell phone interruption.) 13 THE VIDEOGRAPHER: I'm sorry. That 13 obligations. 14 14 Let's put the pension obligation shouldn't have happened. I'm sorry. 15 aside, I'm going to come to that. 15 BY MR. NEAL: 16 16 Q. Mike Gaul or --Are you aware of the so-called 17 17 interest rate reset that is being proposed under Al Mink. A. the plan with respect to the DWSD bonds? 18 Did either of those gentlemen 18 Q. actually look at these projections? 19 19 A. I am aware that the interest rate --20 Like I said -- I don't -- I don't 20 I believe the interest rate in the call provisions 21 know the answer to that. And the reason is 21 were proposed to be changed under the fourth plan. 22 22 I don't know what the fifth plan does. because I believe -- I mean, while it was 23 Did you or your team ever analyze 23 initially on the task list, I know that we took it 24 whether the rates that are being proposed under 24 off the list at some point. So... 25 25 Q. Why did you take it off the last at the plan are market or not?

Page 499 Page 501 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 A. it. No 3 Do you have any view or opinion with 3 A. I'll find it. 4 respect to the impairment of the bonds as it 4 If I had a page number, I would give Q. 5 relates to interest rate and call protection? 5 it to you. б 6 Yes. It is -- it's on 136 and it's A. No. A. 7 Q. So, is it accurate to say there's 7 on 137. 8 nothing in your expert report that goes to whether 8 With respect to the UAAL amount, did O. 9 or not the plan would be feasible or not if the 9 you or your team do anything to verify that the 10 DWSD bonds interest rates are reset and the call 10 428.5 million is an accurate calculation of DWSD's protection stripped? 11 share of the UAAL? 11 12 12 A. I believe that's correct in that No. My assumption is that that 13 the -- the treatment of the DWSD bonds in the plan 13 number was a given. 14 of arrangement does not impact my feasibility 14 A given in what sense? 15 assessment of the plan. Does that --15 In that it -- I have assumed that the 16 Yes. So it makes no difference with 16 \$428 million is correct for purposes of funding respect to your opinion whether or not those bonds 17 17 the pension treatment that is provided for in the 18 are impaired --18 plan. 19 That's correct. 19 A. Q. Did anyone affiliated with the City 20 20 tell you why they were structuring the O. -- correct? 21 Do you know how much or the amount of 21 transaction -- "the transaction" being the DWSD 22 the purported savings that the DWSD would achieve 22 pension contribution -- the way that they 23 if the bonds are impaired as contemplated under 23 structured it in the plan? 24 24 the plan of adjustment? Again, because it -- it is a source A. 25 A. I don't. 25 of funds that the City believed it could use to Page 500 Page 502 - MARTI KOPACZ - VOLUME II-1 1 - MARTI KOPACZ - VOLUME II-2 That number is not material to you? 2 fund the pension obligation going forward. 3 A. I don't know what the number is. 3 Would it change your opinion at all Whether that number is 300 million or 4 4 in terms of feasibility whether that amount was 5 5 600 million, it has no impact on the opinion that paid out over nine years or ten years or a longer 6 you are rendering in this case, correct? 6 period of time? 7 7 That's correct. It could. A. Α. 8 8 Let's turn to that, to use your Did you run any -- perform any 9 terminology, Ms. Kopacz, the linkage. And that 9 analysis over the impact that paying that money linkage is the 428.5 million pension contribution 10 10 out over a longer period of time would have on the that is to go from DWSD to the City, correct? plan's feasibility? 11 11 12 A. Correct. 12 A. I did not. 13 And what did you do to analyze the 13 So whether it's paid out over 30 amount and the proposed payments under the plan 14 14 years or nine years, you don't have a view as to 15 with respect to that amount? 15 whether or not that would impact the feasibility 16 There's a chart in my report that 16 of the plan? 17 identifies how that money comes into the City. I 17 It's not paid in -- it's paid more in had conversations with Ernst & Young as it relates the first year than and then equally over the 18 18 19 19 to those monies. subsequent years. So depending on if that was 20 20 spread over a 30 years, right, that could be --I had -- and I had other 21 conversations with -- it was a topic that I --21 that could be meaningful. I don't know. 22 22 Do you know historically, let's just when I met with the retirement systems and their 23 counsels, we talked about -- I can find it -- it 23 say going back five years, how much was paid in terms of DWSD's share of the UAAL? 24 comes in over ten years. 24 25 Q. Yes. Please take a moment to find 25 A. I don't.

Page 503 Page 505 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 Q. Do you know why the first year number where it became evident to me in trying to do --3 3 for the payment is larger than the subsequent again, trying to understand the plan, the 4 4 year's? baseline, the RRIs, the long-term projections, 5 A. I don't. 5 vis-a-vis the budget and the reasonableness of the 6 6 Q. I want to go back to Porter Exhibit totality of projections for how the City's going 7 12 just for a few moments. And remember that 7 to operate. 8 document is Exhibit M to the May 5th, 2014 8 And during -- and I participated in a 9 9 disclosure statement. lot of what the mayor referred to as his budget 10 10 A. Uh-huh. review meetings, but where the purpose was to meet 11 Do you have any knowledge as to 11 with the department heads to understand if they 12 12 whether any DWSD employees and consultants were believed they could meet the projections and the 13 consulted with regard to the creation of the water 13 plan in the POA. 14 and sewage disposal fund 10-year projections? 14 Q. Did you meet with department heads? 15 I'm sorry. 15 I did. A. A. 16 Yes. Do you know if any DWSD 16 And the meetings with department 17 employees or consultants were consulted with 17 heads that you referred to in your answer before 18 respect to the creation of these 10-year 18 the last one, those were meetings that you were --19 projections? 19 you and your team members were involved in? 20 A. I have no knowledge one way or 20 Most of them I did. Occasionally, 21 another. 21 depending on the department, others of my team 22 Would it surprise you that several 22 participated in. 23 members of the DWSD management have testified that 23 And one of the purposes of those 24 they had no input into the creation of this 24 meetings, I would imagine, is that you wanted the 25 Exhibit M. Porter Number 12? 25 make sure department heads and the City and its Page 504 Page 506 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 professional advisors were on the same page, so to Would it surprise me? 3 3 Q. Would it surprise you? speak? A. 4 No. 4 A. Well, the beginning of those 5 5 O. You touch upon this in your report, meetings, it was only the department heads and the 6 correct, and that is, the -- I'm going to use this 6 mayor's staff. And then as those meetings 7 7 word and you can correct me if you don't like it progressed and it became obvious that department 8 heads didn't understand how they fit into the 8 -- the disconnect between the City employees and 9 the City professionals? 9 plan, that then representatives from E & Y and 10 10 Yes. Conway started attending. A. 11 11 O. Would you agree that in some Q. Do you know if the department heads 12 instances there's a disconnect between the 12 at DWSD know how they fit in with the plan? 13 projections prepared by the City's professional 13 A. I have no idea. 14 14 advisors and the views, opinions and projections Are you aware that DWSD itself 15 prepared by the City's employees, correct? 15 generates its own internal projections? 16 A. Yes. 16 A. I have no knowledge one way or 17 Q. Where have you seen that? 17 another. 18 I've seen that in the operating 18 So you did not -- neither you nor A. 19 departments within the general fund. 19 anyone on your team evaluate any DWSD internal 20 Can you give one example? 20 projections? Ο. 21 Fire department. 21 A. That's correct. A. 22 22 And where would the disconnect lie You've not done a comparison of DWSD 23 between the fire department and the City? 23 internal projections with the 10-year projections 24 reflected in Porter 12? 24 In the -- most of it lies in the 25 RRIs, in the development of the RRIs. And that's 25 A. No. 22 (Pages 503 to 506)

Page 507 Page 509 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 Q. Now, there's a section on DWSD in A. I have not. 3 your report, under Section O, other risks and 3 So whether they could only pay 4 4 20 million a year versus 60 million a year for operations --5 5 their UAAL contribution, how that impacts A. Opportunities. 6 6 Excuse me, you're right. feasibility is not something you've analyzed? 7 7 Opportunities. So if you could turn A. Not specifically. 8 There's a reference also baked into 8 to Page 196. O. 9 9 Uh-huh. this sentence. I want to see if it's something A. 10 10 So DWSD, in your view, has very different than what you've already disclosed. little impact on the general fund; is that 11 "...to a significant loss of 11 12 customers impairing its financial prospects." correct? 12 13 13 Is that also unknown and unknowable? A. That's correct. 14 O. Then you state, "DWSD does play a 14 A. Yes. 15 significant role in funding the City's pension 15 You're not aware, sitting here today, O. obligations during the forecast period." 16 of any event on the near horizon that could result 16 17 Do you see that statement? 17 in a significant loss of customers? 18 18 That's correct. Yes. A. A. 19 19 You have a footnote and that is the Q. It could happen or it couldn't, O. 20 428 we were talking about earlier, correct? 20 correct? 21 That's correct. 21 A. I don't know. 22 My questions concern the next simply 2.2 Have you had any communications with O. 23 one sentence: "In the event of a significant 23 Mr. Ravitch about the DWSD pension contribution? 24 24 disruption to the DWSD operations, significant A. 25 loss of customers impairing its financial 25 O. Can you tell me all of your Page 508 Page 510 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 prospects, or in the event that the DWSD 2 conversations with Mr. Ravitch as they concerned 3 contributions are not made according to the POA, 3 the DWSD? 4 this could negative impact on the outcome of the 4 A. I don't believe we ever talked about 5 5 POA." DWSD at any level. 6 Do you see that? 6 Okay. I'll represent it's more 7 A. Yes. 7 valuable than the art, but I'm not asking you to 8 Q. And what significant disruption to 8 respond to that. Others have different opinions 9 the DWSD operations are you referring to there? 9 in this very room, but I'll move on. A. If something happened at DWSD such 10 10 Did you have any conversations with that they can't not make the contributions to the 11 11 Mr. Ravitch about any of the expert reports that were submitted by the DWSD bond insurers or the 12 pension funding, that will have a negative impact 12 13 on the results of the City's ability to meet the 13 U.S. Trustee as Indenture Trustee? 14 14 obligations in the POA. My prior answer was the sum total of 15 I don't know what they could be. You 15 my answer. I don't believe Mr. Ravitch and I have 16 could have all the water mains blow, for all I 16 ever talked about DWSD. I'm not sure he knows 17 know. I have no idea what they could be. 17 what DWSD stands for. This is simply a -- this is an 18 18 Q. Do you have any views or opinions unknown and unknowable in my perspective. But if with respect to what the projected rate increases 19 19 20 something happens where DWSD can't contribute as 20 are under the plan with respect to water and sewer 21 its envisioned, that would have -- I would have to 21 rates? 22 reevaluate, you know, my thoughts on whether or 22 A. I don't. I know the cost that the not the POA obligations would be met. 23 23 City's paying is going up. But again, you've not done a 2.4 Do you know whether there is, to 24 25 sensitivity analysis in that regard? 25 adopt a term in your report, a tipping point with

23 (Pages 507 to 510)

Page 511 Page 513 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 respect to those -- those costs? I don't mean to be flip, but couple 3 A. I don't. 3 of things. One, it says preliminary to be 4 4 updated. So I don't know if there has been any Q. Last exhibit I want to show you, 5 previously marked as Orr Exhibit Number 18. 5 changes to that. And quite frankly, this is more 6 6 While you're looking through it, I'm information than I think I can deal with in a 7 going to represent to you, Ms. Kopacz, that Orr 7 90-second review. 8 Exhibit 18 has the title "Feasibility Report" and 8 So I guess I would say I just don't 9 9 we'll get to what that means in a second. think it would be very professional if I said one 10 10 I'll represent to you that this is a thing or another about this. 11 document prepared by the rate consultant for DWSD. Q. All right. Well, very good. I'm 11 It's fairly current. It's a July 17, 2014 going to just walk you through it. It shouldn't 12 12 13 13 document. take very long. 14 Now, it would surprise me if you said 14 A. Okay. 15 yes, but let me ask you: Have you seen this 15 O. The first two paragraphs deal with 16 document before? 16 sewage disposal rates. Is that something that you 17 A. No. 17 have studied as part of this engagement? 18 18 No. But the only thing I know about Do you know what a feasibility study 19 19 or report is as that term terminology is used in sewage disposal rates is the -- the sewage rates 20 the public finance context? 20 the City is paying itself, have -- are expected to 21 A. I -- I have -- I have been exposed to go up and have gone up. Because, again, the way 21 22 that term before relative to public financing 22 that the City is being charged for sewer has 23 projects. So, generally, yes. Specifically as it 23 changed this year versus previously. 24 relates to this, obviously not. 24 O. But whether or not the sewage 25 What's your general understanding of 25 disposal rates are above or below average of those Page 512 Page 514 - MARTI KOPACZ - VOLUME II-1 1 - MARTI KOPACZ - VOLUME II-2 why a feasibility report is prepared? 2 and comparably sized cities --3 3 To assess whether or not a project, I would have no knowledge. A. Same question as it relates to the 4 for example, you know, an industrial revenue bond 4 Q. 5 5 issue or, you know, something like that would make water rates. 6 sense whether or not it would be rate feasibility 6 A. I have no knowledge. 7 7 around public utilities, those sorts of things. And bullet point 3 or paragraph 8 8 numbered 3 as it relates to the CIP, the capital If you could turn to the very last 9 page and my question for you is -- I'm very close 9 improvement plan, fair to say you have not 10 10 to wrapping up -- if you could just take a moment reviewed DWSD's capital improvement plan? 11 and read the facts and opinions that are set forth 11 I have not. 12 1 through 6 on this last page. 12 O. Point number 4, the department's 13 This is A-25? 13 current fiscal policies, have you reviewed the A. 14 14 Yes. My question is going to be do department's current fiscal policies? Q. 15 you have any basis to disagree with any of the 15 A. I have not. 16 facts and opinions set forth in 1 through 6 on 16 And in the last two points, point 17 this page? 17 number 5, whether or not the revenues pledged as 18 Okay. Can you tell me what the CIP 18 security for the DWSD bonds are projected to be A. 19 is? 19 sufficient to comply with rate covenants, 2.0 20 et cetera, is that something you've looked at? That's an acronym for capital Q. 21 improvement plan. 21 I have not. A. 22 22 And the coverage requirements that A. Okay. Okay, I've read it. 23 Okay. Do you have any reason to 23 are referenced in Paragraph 6 with respect to the 2.4 disagree with any of the facts or opinions set 24 bonds, is that something you've looked at? 25 forth here? 25 No. A.

Page 517 Page 515 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 Q. And you didn't do anything to analyze Q. In reviewing the transcript from 3 3 yesterday, I believe Mr. Stewart asked you at the whether DWSD would have the financial capability 4 4 to make the payments; you just relied on the start if you had any misgivings or any conclusions 5 that you weren't confident about in your report. 5 assumption they could make the payments? 6 6 Given the past day and a half of A. 7 7 Q. And you -- and because you didn't questioning, do you have anything? 8 8 review any DWSD financial projections, you have no I'm still -- no, I'm still really opinion as to whether any financial projections 9 comfortable with what we did, given the scope of 9 10 10 are reasonable; isn't that right? our assignment, given the best information 11 That's correct. 11 available. And I really haven't changed any of my A. 12 And you have no opinion as to whether 12 thoughts in the last day and a half. 13 13 or not DWSD is viable after confirmation of the MR. WAGNER: Very good. I have no 14 further questions. I yield to others. 14 plan, do you? 15 15 A. Like I said, I don't have any MR. BRILLIANT: I'm not going to have 16 perspective or point of view on DWSD. 16 very much time. Do you want to take a 17 few-minute break and we'll switch seats. 17 Okay. So when you say in your report THE VIDEOGRAPHER: The time is 18 that the plan is feasible, you mean this the plan 18 19 as relates to the general fund is feasible based 19 11:16 a.m. We're going off the record. 20 on the assumptions contained in your report, but 20 (Whereupon, there was a brief recess 21 in the proceedings.) 21 you have no opinion as to whether the DWSD portion 22 THE VIDEOGRAPHER: The time is 2.2 of the plan is feasibility; is that correct? 23 11:26 a.m. We're back on the record. 23 That's correct. A. 24 24 O. Mr. Neal had asked you about 25 25 conversations that you had with respect to **EXAMINATION BY MR. BRILLIANT:** Page 516 Page 518 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 O. Ms. Kopacz -monetization of DWSD. 3 3 THE VIDEOGRAPHER: Your microphone, A. Yes. 4 4 sir. O. And he'd asked you about 5 5 conversations with Miller Buckfire. I'm going to try to just fill in some 6 gaps and try not to repeat things and I hope we 6 A. 7 7 can do this pretty quickly. And he asked you about conversations O. 8 8 So the first thing I wanted to ask with Conway and Mackenzie. 9 9 you about is with respect to the DWSD, in Α. Yes. answering some questions from Mr. Neal you said 10 10 Were there conversations that you had that the only thing that you looked at in 11 about the monetizations of DWSD with anybody else? 11 connection with DWSD was in connection with the --12 12 A. Not to my recollection. 13 the pension payments; is that right? 13 When was it that you decided that the 14 14 That's correct. feasibility analysis would only be limited to the A. And what did you do in connection 15 general fund and -- and not to the enterprise 15 funds? 16 with that? You just assumed that DWSD would make 16 17 the payments? 17 A. Because the plan of adjustment 18 I had conversations with the City and 18 projections only relate to the general fund. 19 the City's professionals and conversations with --19 Okay. But when -- so when was the 20 I know counsel to the retirement systems and to 2.0 decision that you would only -- 'cause in the 21 some of the people that were involved in that. 21 disclosure statement, right, there's -- there's 22 22 And basically you just made the the 10- and 40-year projections for the general 23 assumption that DWSD would be able to make those 23 fund, correct? 24 24 payments? A. Right. Yes. A. I did. 25 25 And then -- and then there are also

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Page 519 Page 521 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 projections for DWSD; is that right? Okay. But -- but you made no 3 3 A. I'd have to look at it again, but, analysis as to whether or not DWSD, after the 4 4 confirmation, will be feasible or viable; isn't yes, I believe there were. 5 Q. Okay. So when was the decision made 5 that right? 6 6 to only review the reasonableness of the A. That is correct. 7 projections as they related to the general fund? 7 Q. And so, again, I just want to 8 When did you make that decision? 8 understand, you know, why you decided not to 9 9 I don't recall specifically. include an analysis of DWSD. 10 10 Q. Was it early on in your process? Did the City ask you not to do that It was multiple times in my process. 11 or you just concluded you didn't have enough time? 11 I think originally, again, when I -- when I got 12 12 Or what was -- what was the rationale for that? involved in April, I didn't understand enough 13 13 The rationale was the -- the risks, 14 about the case, the projections. I didn't 14 if you will, in the plan of adjustment are in the 15 15 understand the projections. And as I got more projections that relate to the general fund, okay. involved in it, I realized that the plan really 16 DWSD had been a standalone 16 17 only included the general fund, not so much the 17 self-sufficient enterprise system for a long time, 18 enterprise fund. 18 okay. Yes, it is adjusting its debt as part of 19 19 the plan, but it doesn't -- because it doesn't And it probably was the original --20 it was probably the first conversation with John 20 require a subsidy from the City like DDOT does and 21 Hill when I really got a much better understanding 21 it doesn't impact the general fund, in terms of my 22 22 of the projections in the plan of adjustment. scope and in terms of what I believe the judge 23 23 Q. So when you say the plan only wanted me to do was to look at the plan, the 24 24 included the general fund. When you're talking 10-year, the 10/40 years and the RRIs relative to 25 about plan, are you talking about --25 the general fund. Page 520 Page 522 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 A. I'm talking about the 10-year, the Okay. And when you say that's what 3 3 RRIs and the 10-year, 40-year. you believe the judge wanted you to do, did So we can identify the exhibits to 4 Judge Rhodes tell you that or is that --4 5 5 the disclosure statement as probably the best way A. No. 6 6 O. -- just an assumption that you made? to do it. 7 7 Okay. I was, at this point, just That's an assumption that I made. Α. Q. 8 asking you a different question. Did you discuss with, you know, the 8 9 City or any of its counsel or advisors whether 9 You used the word "plan." Are you 10 10 talking about the plan of adjustment? DWSD should be included in your feasibility 11 11 analysis? A. 12 O. So when you say the plan of 12 A. I have talked to the City a couple of 13 adjustment only includes the general fund, but 13 times about DWSD. I've talked to the -- some of 14 14 the bondholder lawyers relative to DWSD, to -- to, DWSD is part of the City, it's a department of the 15 you know, confirm my belief that DWSD's linkage to 15 City, correct? 16 Α. 16 the City, right, is really only through this It is. 17 17 contribution of pension monies over the -- over And its debt is being adjusted 18 pursuant to the plan of adjustment; isn't that 18 the next ten years. 19 19 right? Did you have a conversation in early 20 2.0 July with Ms. Lenox about DWSD? A. 21 And its services that it provides to 21 A. I did. Q. 22 22 And do you remember who initiated both Detroit residents and to residents outside of Q. 23 23 the City, are important, aren't they? Water and that conversation? 24 24 sewage? I called -- I called Ms. Lenox and

26 (Pages 519 to 522)

she called me back. And again, there was -- there

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A. Yes.

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Page 523 Page 525 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 was something that happened that prompted the on the 18th. So sometime around July 4th? 3 call, I don't remember what it was, but I 3 Right after July 4th. A. wanted -- you know, once again, to talk with her 4 That's when people started to --4 O. 5 about anything that was going on in the DWSD 5 We started -- we started writing. A. 6 mediation that could impact what I was doing. 6 THE REPORTER: Just let him complete 7 And so was that call on July 10th or 7 the question before you respond. 8 THE WITNESS: Thank you. I'm sorry. 8 roughly? 9 That sounds about right. 9 BY MR. BRILLIANT: A. 10 10 Q. Okay. And how long did the call Then after you started writing, did you share any of your preliminary opinions or 11 last? 11 12 drafts of the report with anybody outside of your A. Very short. Probably five minute or 12 13 so less. 13 team? 14 Okay. And do you remember what you 14 A. We shared the original feasibility Q. 15 asked her and what she told you? 15 definition with Jones Day. And as I testified 16 before, I shared original drafts of the pension A. I remember I was sitting at the 16 17 Marine Air Terminal waiting on a plane when she 17 and the post-confirmation oversight sections with 18 called and I said, Are there any updates on the 18 Mr. Ravitch. 19 DWSD mediations, negotiations or whatever, that, 19 And did -- after you shared the O. 20 you know, I should be thinking about, considering, 20 original feasibility opinion with Jones Day, did 21 that could have an impact on the plan? She told 21 you make any changes to that section? 22 me no, and that was the end of the conversation. 22 A. Yes. 23 When -- I think you testified earlier 23 MR. LERNER: I'm going to object, you 24 24 mischaracterized her statement. She did not that your team had done the first draft of the 25 plan as it related to pensions and then you edited 25 say she shared her feasibility opinion with Page 524 Page 526 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 Jones Day. it. What about the rest of your -- of your 3 report, did you do the initial --3 MR. KANE: Section. A. Well, some sections, some -- we 4 4 MR. LERNER: The standard, the 5 5 divided the writing amongst the team based on the definitions is what we shared. 6 areas that people had -- had worked on primarily. 6 THE WITNESS: The standard. 7 7 And then whoever wrote, gave their drafts to other BY MR. BRILLIANT: 8 8 people to edit and that's how we developed the That's what I meant to say. 9 report. 9 After you shared the original 10 Okay. Did you do the initial 10 standard section with Jones Day, did you make any O. 11 drafting on any portion of the reports? 11 changes to that section? 12 I did the initial drafting on 12 A. I'm sure we did. 13 context, summary -- I mean, the -- the -- I think 13 Did you make any changes that were 14 14 we changed the title. I think it was called requested by Jones Day? 15 statement of opinion. It started -- it originally 15 A. I never heard back from Jones Day. 16 started life as the executive summary and I 16 So you gave it them and they never Q. 17 17 commented on it? believe we -- I think we called -- yeah, statement 18 of expert's opinion. I did that. 18 They did not. A. 19 When did -- when did you start 19 Q. Is it possible they commented to any 20 putting -- you and your team start putting I guess 20 of the members of your team? 21 pen to paper, but I guess the reality is nobody 21 They did not. A. 22 22 uses a pen and paper anymore, but when did you And then after you shared with Mr. Ravitch the -- the pensions section, did you 23 start drafting the report? 23 24 A couple of weeks before it was due. 24 discuss it with him? 25 So it was due on the -- you filed it 25 We did. A.

27 (Pages 523 to 526)

Page 527 Page 529 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 And did you make any changes after In testimony that you gave really 3 just this morning with Mr. Neal, you were talking 3 you shared it with him? 4 4 a little bit about the -- a feasibility report A. 5 Q. Were any of the changes things that 5 that he showed you and he asked you a couple of б 6 questions about the last page of that and some of he had suggested? 7 No. 7 the assumptions that are on it. And during the Α. 8 Did you share that section with 8 course of that interchange, you relayed some Q. 9 9 Mr. Kiernan? information that you had about sewage rates. 10 10 So my question to you is, from whom A. No. O. Do you know if Mr. Ravitch shared it 11 did you gather or learn that information about the 11 sewer rates? with March Kiernan? 12 12 13 13 A. I don't know. A. It is in the projections. So, while 14 O. When you met with Mr. Kiernan, had 14 my team was looking at the various projections and 15 you already shared the draft of the pension 15 the models, okay, we saw changes in utility costs section with Mr. Ravitch? 16 and as we did diligence on those, found some of 16 17 Α. No 17 that was in sewer, some of it was in water, some 18 18 of it was electric, okay. Did you have any discussions with 19 Mr. Kiernan about the pension section? 19 The other point of reference that I 20 20 have is from my meeting with the department heads Α. No. 21 Prior to sharing your report with the 21 for recreation. And in their budget, they have an O. 22 judge after you finalized it, signed it, sent it 22 increased cost associated with utilities that, in 23 to the judge in the e-mail that we -- that you 23 part, was the result of being charged differently 24 24 for sewer than they had been charged before. testified about vesterday, did you give any kind 25 of overview or indication to the City or any of 25 I believe, based on all of your Page 528 Page 530 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 its advisors as to where you were coming out with testimony, that I know the answers to this. But 3 3 just to sort of tie the loop around this your report? A. No. 4 4 information, despite having learned of this 5 5 information during the course of your report, it MR. BRILLIANT: I don't have anything 6 6 did not form the basis for nor did it influence further. 7 7 THE VIDEOGRAPHER: We're going to go any of the opinions in the report, correct? 8 8 off the record for a moment. The time is A. That's correct. 11:39. We're going off the record. This is 9 9 And having gained this information, 10 the end of Disk Number 2. 10 you did not reach out to speak to anyone in DWSD (Whereupon, there was a brief recess 11 11 to confirm it or get further information relating 12 in the proceedings.) 12 to the rates that you've outlined? 13 THE VIDEOGRAPHER: This is still Disk 13 No. I was simply doing diligence on 14 Number 2, the time is 11:40 and we're back on 14 the City's operating cost for utilities, and those 15 15 prospective rates changed from the historicals. the record. 16 EXAMINATION BY MS. QUADROZZI: 16 And so as part of that inquiry, I learned of a 17 Good morning. 17 change in billing practices in terms of sewer and Q. 18 A. Good morning. 18 I learned of changes in electric cost as it We've spoken a couple of times over 19 19 relates to moving over to DTE as an energy 20 the course of the two days that we have been here, 20 provider as opposed to the City billing itself. 21 but just to be clear, I represent Oakland County 21 I want to ask you just a couple of 22 22 in connection with the case and I'm just going to questions based on the portion of your report that 23 23 ask you a couple questions. And as the other does relate to DWSD and you went over that this lawyers have said, I'm going to try not to 24 morning again with Mr. Neal. 2.4 duplicate. 25 25 So that's Page 196 and 197.

28 (Pages 527 to 530)

Page 533 Page 531 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 A. Uh-huh. stepping in and out to try to get hold of the 3 In particular, the sentence, the 3 judge. O. 4 4 final sentence of that paragraph, the sort of A. Okay. 5 carryover sentence, you discuss with Mr. Neal the 5 Q. So I apologize if these questions 6 6 phrase of that sentence talking about that a were asked. 7 significant loss of customers impairing DWSD's 7 But what I want to ask you about is 8 8 financial projects could negatively impact the there was testimony yesterday about a couple of 9 9 outcome of the plan of adjustment. dinner parties and the one I want to focus on, 10 10 And during your testimony with because I believe that your testimony was that at 11 one of them you were sitting at a table with Tom 11 Mr. Neal, you testified that this section, 12 Lewand: is that correct? 12 particularly the one that I just pointed you to, 13 was an unknown and, in fact, was unknowable. 13 A. Yes. 14 Do you remember that testimony? 14 Q. And can you tell me what -- two 15 15 questions. One, how did Mr. Lewand come to be a A. I do. 16 party or an invitee to the dinner party; and two, 16 My question is this: Did you -- and 17 I'm focusing on the last part of your answer; not 17 what did you and Mr. Lewand discuss? 18 so much the unknown, but the unknowable. 18 A. I don't know how Mr. Lewand became an 19 19 Did you, during the course of your invitee. I don't. I had nothing to do -- I was 20 20 simply an invited guess. So I have no idea who work here, do anything to try to determine if, in 21 fact, any of those things that you categorized as 21 made the guest list other than we were at the 22 unknowns were, in fact, unknowable? 22 Blusteins' home. 23 At this point, no. 23 A. The conversation that I had with Tom 24 24 O. And why not? was part of the large table discussion and we 25 25 talked about Mr. Lewand's recent previous career A. Again, the -- the tasks that I had to Page 532 Page 534 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 accomplish, the time frame that I had to do it in, as an artist and that the mayor had convinced him 3 okay. The importance that DWSD has to the plan of 3 to join the administration in an economic 4 adjustment projections related to the general 4 development and planning role. 5 5 fund. Okay. The -- again, it goes back to the Did you talk at all with Mr. Lewand 6 linkage and it's the pension issue. Okay. 6 about his career before his art sojourn as a 7 7 Would I -- had I had more time, I special master to Judge Feikens in connection with 8 the Clean Water Act case that DWSD was a party in 8 probably would have done more work on DWSD. Okay. 9 But it is simply a -- the most important thing for 9 for 30 years? 10 me to do was to look at the plan projections, to 10 A. No, never heard that. 11 understand what those were, to assess the 11 MS. QUADROZZI: Okay. I have no 12 feasibility. 12 further questions. 13 The linkage in to -- with DWSD is a 13 MR. KANE: Does anyone else have any 14 single line item of pension funding. Okay. So it 14 questions? 15 just -- it is -- I don't mean to be disrespectful 15 MS. GREEN: Am I the only one? Am I 16 of DWSD, I know it's something that's very, very 16 last? 17 important, I know lots of people in this case care 17 (Discussion held off the record.) 18 very deeply about it. But at this juncture, I had 18 MS. GREEN: Do you have any 19 to use my best efforts to deliver my opinion and 19 questions? Do you want me to go or do you 20 my report and where DWSD fits into it, according 2.0 want to go? 21 to my assumption, is in that line item relative to 21 MR. ALBERTS: You can go. 22 pension funding. 22 THE VIDEOGRAPHER: If I could ask you 23 Q. Let me ask you one other question and 23 to put your mike on. Thank you. 24 I'm going to apologize because it relates to an **EXAMINATION BY MS. GREEN:** 24 25 25 area of your testimony yesterday where I was My name is Jennifer Green and I

29 (Pages 531 to 534)

Page 535 1 - MARTI KOPACZ - VOLUME II-2 represent the two retirement systems for the City 3 of Detroit. We met very briefly at your interview 4 months ago and I don't believe we've spoken since, 5 but I'll be brief. 6 A lot of my questions actually were 7 asked this morning by Jonathan Wagner. So I 8 apologize, I may have to jump around a little bit 9 because I'm going to try not to repeat the same 10 questions that he had.

If we go to Exhibit 1 which is a copy of your report, Page 127.

- A. Page 127. Uh-huh. Okay.
- Q. There is a paragraph in the middle --
- A. Uh-huh.

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Q. -- where you state that, "A number of different practices have contributed to a significant funding shortfalls in the two pension plans. The retirement systems utilized unrealistic rate of return assumptions and manage the pension plans in accordance with questionable investment strategies that result in a considerable underfunding of their respective plans."

- MARTI KOPACZ - VOLUME IIin my firm met with a similar group of people of

-- that represented the pension funds and we talked about -- they shared with me a history of the investments around the retirement systems, the

the investments around the retirement systems, th investments that were made, and I believe it was during the during the Kwame administration into alternative -- what you would call alternative

9 investment vehicles; the -- the smoothing that had 10 occurred and the stretching out of the unfunded 11 obligations over a relatively 30-year period. But 12 the -- this really comes from that conversation.

- Q. Okay. So, it is your testimony that the retirement systems themselves told you that they utilized an unrealistic rate of return assumption?
- A. The people that I met with, I believe it's in your offices at -- across the street from the KMAK.
 - Q. And who --
- A. Shared with me.
 - Q. Someone specifically on behalf of retirement system opined to you that they --
 - A. Mr. Overbeke (sic) and Mr. -- and I think it was -- the gentleman who was a lawyer,

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Page 537

- MARTI KOPACZ VOLUME II-
- A. I do.
- Q. With respect to your contention that the systems used questionable investment strategies that resulted in considerable underfunding, you don't cite any particular third party in a footnote as you have in other sections.

Do you see that?

Do you see that?

- A. There is no footnote related to that paragraph.
- Q. Okay. So what did you rely on in reaching this conclusion?
- A. This -- a lot what -- the conversation that I had with Mr. Clark -- we can go back to my log and I -- I am sorry to say I have forgotten all of the people were -- that were at that meeting, but I was at a meeting with both retirement systems, their counsel and their lawyers at Clark Hill, very shortly after I was retained in this matter.

And it was during that -- here it is -- Robert Gordon, Joseph Turner, Ronald King, Michael VanOverbeke, those individuals, I had a meeting with them.

And then subsequently I know people

- MARTI KOPACZ VOLUME IIbut is also general counsel now for the funds.
 - O. Michael VanOverbeke?
 - A. He's one of them --
 - O. Or Joe Turner?
 - A. I think it's Joe Turner.
 - Q. What I'm trying to get at, your testimony is that during that meeting they specifically told you --
 - A. About --
 - Q. -- that they believed -- MR. KANE: Wait for her to finish.
 - Q. Let me finish the question.
 - -- that there was an unrealistic rate of return assumption that was utilized by the system? Or is that your extrapolation based on what was said at the meeting?
 - A. The -- we talked very specifically about the recent history of losses, investment losses at the retirement system; how they had used a seven-year smoothing period to make the shortfalls less obvious; how they had implied amortization periods that were extended for funding the unfundeds; and how all of that ended up creating, you know, again, a perception or a

30 (Pages 535 to 538)

Page 539 1 - MARTI KOPACZ - VOLUME II-2 reality of the underfunding of the plans. As well 3 as the 13 checks and those sorts of things. We 4 talked about all of that. Do you have any understanding of what 5 6 would be a typical smoothing period utilized by 7 other public pension plans? 8 I don't. A. 9 So if someone from the retirement O. 10 systems told you that a seven-year smoothing period was used, you would have no basis to 11 experience. compare that with other plans to know if that was 12 Q. typical? 13 A. I would -- I would have to undertake 14 to research that. I wouldn't have my own 15 16 independent knowledge of what that was. Same with amortization period 17 utilized by public pension systems. Would you 18 A. have any basis to know whether a 20-year 19 Q. amortization period versus a 30-year amortization 20 21 period.

told you certain facts -- when I say "we," the retirement systems gave you certain facts about

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- MARTI KOPACZ - VOLUME IIthe smoothing period used and amortization period used. And then you extrapolated an opinion that based on that there were unrealistic rate of return assumptions and questionable investment strategy?

Or a ten or a five. No, I would not.

Okay. So just to narrow it down, we

No. What my question in the meeting, right, to start, one of my basic questions would be, okay, how did these things get in this condition. Right.

Who else from your team attended this O. meeting?

At that meeting, just myself. A.

In the second meeting?

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A.

Then there were -- there were --Α. second meeting, there were some calls that would have involved Michael Gaul, Bob Childree, maybe Brian Gleason. I don't know. I would think they would be in the log.

What are Mr. Gaul and Mr. Childree's particular experience as relates to pensions, public pensions?

A. I don't know that Michael has any specific experience. Mr. Childree is very experienced with public pensions, having been the - MARTI KOPACZ - VOLUME II-

Page 541

comptroller of the State of Alabama for 23 years and the former president of the Government Finance Officers Association for a number of years. And I believe he's -- he is a current advisor or recent past advisor to the GASB, the Government Accounting Standards Board on these matters.

Do you know -- I'm sorry -- do you know if either one has any actuarial experience?

I don't believe either has actuarial

Do you know if either has sat on a board for a public pension system?

I believe Mr. Childree has.

Do you know how long the meeting between Mr. Gaul, Mr. Childree and the retirement systems lasted?

I don't.

In reaching your conclusion on Page 127, I believe you testified this morning that you never looked at the investment policies for the system.

A. I did not.

> Q. Do you know if your team looked at those?

> > Page 542

- MARTI KOPACZ - VOLUME II-A. I don't know.

Do you or your team -- do you know if you or your team looked at the historical asset allocation mix for the system?

I believe someone did, yes.

Okay. Do you know where those are listed on the chart of documents that you looked at?

A. I don't.

The underfunding issue that is spoken about in this paragraph, was that discussed only at the meeting with you and a representative of the retirement systems or was it discussed at the meeting with Mr. Gaul and Mr. Childree as well?

I'm sure it was discussed at all of the meetings.

Did you or your team consult with any of the systems investment consultants in reaching this conclusion?

I -- I believe that Mr. Gaul and/or Mr. Childree participated in meetings or calls with the pensions' advisors, the pension systems' advisors.

Q. Do you know who NEPC is?

31 (Pages 539 to 542)

Page 543 Page 545 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 A. I don't. specific ones that are set forth at the 3 Do you know who Wilshire Investments 3 beginning of the report. Q. 4 is? 4 THE WITNESS: Right. 5 5 BY MS. GREEN: Only just -- I don't know them A. 6 6 specifically. Q. I guess what I'm trying to ask is, 7 7 they told you certain facts about amortization Do you know their role within the Ο. 8 8 system -periods, smoothing, things of that nature. You 9 A. I know --9 just stated you have no basis to compare those to 10 10 MR. KANE: Wait for her to finish. anything. So my question --11 We're getting close to the goal line, if you 11 A. I relied --12 want to get out. We're still going to get 12 O. -- is, how do you know they're 13 13 their steadily. questionable practices? 14 THE WITNESS: We're still going to 14 I relied on what the general counsel get there. 15 15 of the two systems told me. BY MS. GREEN: 16 16 Your testimony is that he used the 17 Q. Do you know if those are the 17 word "questionable practices" about his own 18 investment consultants that your team would have 18 client? 19 19 met with? They are talking about the systems A. 20 20 prior to when those people got involved. A. I don't know. 21 Do you know if anyone from your team 21 You're saying before they had any Q. 22 met with the chief investment officer for the 22 personal knowledge they were speaking of prior 23 retirement systems? 23 history? 24 24 A. I don't know. A. My question was, how did the system 25 25 Does the name Ryan Bigelow ring a get to this point? Okay? But I believe Mr. Q. Page 544 Page 546 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 bell? Turner and Mr. Overbeke are new to the systems in 3 3 their role as both lawyers and general counsel. It does not. A. 4 Q. Would it be fair to say if I didn't 4 Okay? 5 5 see his name on any of the meeting lists or I am not talking about the systems 6 communications logs, that you did not consult with б today moving forward. I am talking about how did 7 7 Mr. Bigelow prior to reaching a conclusions about the systems get in this underfunded predicament. 8 8 Do you understand generally that the investment practices of the system? 9 9 A. That's probably correct. retirement systems were fully funded as of 2007? 10 10 You testified earlier under I don't know when they were last O. 11 11 questioning from Mr. Wagner that you had no fully funded. 12 particular quarrel with the asset mix and that you 12 Did you know that according to, for 13 did not actually analyze the asset mix? 13 instance, the general retirement system's annual 14 That's correct. 14 actuarial report from June 30th, 2008, that it was A. 15 15 101 percent funded? Okay. So if you didn't look at the 16 asset mix, what else did you base your opinion on 16 A. I don't know that. 17 that the systems investment strategy is 17 In 2008? Q. 18 questionable? 18 A. I don't care about that. 19 The representations that were made in 19 Okay. Why wouldn't you care about 20 20 when the time of underfunding occurred? the meeting that I personally had in your offices 21 with the pension system representatives. 21 I care about the impact the 22 22 MR. KANE: Can I interject something underfunded systems have on the plan of adjustment 23 23 similar to what I did yesterday. I don't and the City's obligations to fund pensions going quarrel with the term "opinion" as long as 24 24 forward. 25 it's little O, recognizing her opinions are 25 If you flip to the next page of your

Page 549 Page 547 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 report, Page 128. where you got that information? Is that from the 3 A. Uh-huh. 3 Moore declaration or is that from conversations? 4 4 There is a statement, "In addition to Okay. Let me clarify this. The 5 issues involving the aggressiveness of the rave 5 information that is in the first bullet is 6 return assumption used to determine funding 6 information that I got from my initial meeting 7 levels, also contributing to the increase of the 7 with the systems -- with the pension systems. 8 UAAL were a number of questionable activities 8 Okay? It is the same information that my team 9 9 engaged in by the retirement system." generally got from their meetings, conversations 10 Do you see that part? 10 and diligence. Okay? 11 What we chose to do in the report is A. I do. 11 12 12 to use the precise verbiage that Mr. Moore used. O. At the -- there's several bullet 13 13 points. Okay? 14 Uh-huh. 14 Okay. And the next sub bullet point, A. 15 At the bottom, there's a footnote. 15 that begins with "using actual market returns..." O. 16 16 A. Yes. 17 O. And it appears to be referring to the 17 O. Is that also from the Chuck Moore --18 Charles Moore declaration that was filed as docket 18 This is all from the Chuck Moore. A. 19 number 13 on the docket in the bankruptcy case. 19 Okay. And the next paragraph that O. 20 Do you see that? 20 begins "GRS trustees..." 21 Yes. 21 Yes. A. A. 22 Did everything in this paragraph, the 22 O. That's also from Moore? O. 23 breakdown of bullet points, come from the Chuck 23 A. Yes. 24 Moore declaration? 24 O. And the next bullet point which 25 I believe it did. 25 begins, "The City periodically deferred..." Page 548 Page 550 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 2 that's from Chuck Moore as well? So you wouldn't have any personal 3 knowledge or you didn't do any investigation into 3 A. Yes. 4 the facts that are listed in bullet point fashion 4 Q. And the last paragraph that says, 5 5 "Retirement system officials have been accused or from Pages 128 to 129? 6 No, that's not correct. 6 indicted of material fiduciary misconducts A. 7 7 You do have personal knowledge? allegedly during the pension of necessary O. 8 liquidity and contributing to the underfunding of 8 I -- I talked with -- at my initial the retirement systems." 9 meeting with the systems, the pension systems, we 9 10 10 talked about all of these issues. I've talked Was that also from the Chuck Moore 11 11 Affidavit? about them on a conference call with Mr. Miller 12 from Jones Day. Okay? I've talked to Mr. Moore 12 A. Yes. 13 about these issues. I attended the employee new 13 Q. Okay. Let's take a look at the --14 14 pension plan meeting in which these topics got MS. GREEN: I think it will be 15 raised in terms of the 13 check program and the 15 Exhibit 10, I could be way off. Exhibit 10. 16 ASF. 16 (Whereupon, Kopacz Exhibit 10 was 17 marked at this time.) So, these -- these are -- we chose to 17 Q. Okay. Footnote 47 states that the --18 use the verbiage that Mr. Moore had used in his 18 MR. BLANCHARD: What document is 19 declaration. But separate and apart, I and 19 20 members of my team have had discussions about 20 that? 21 these facts and issues, if you will, with several 21 MS. GREEN: The Chuck Moore 22 22 other people involved. declaration. 23 O. Let's go through them one by one. 23 MR. BLANCHARD: Thanks. 24 A. 2.4 BY MS. GREEN: Sure. 25 The first bullet point, do you know 25 Q. Footnote 47 states that the Chuck

Page 553 Page 551 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 Moore declaration, Page 10, is what is being accused of wrongdoing. And my recollection is 3 3 relied upon for all of those statements that we that some of them were or were going to jail or 4 4 something along that way -- line. just went through. 5 5 A. Okay. Who do you contend from the systems 6 6 told you that these accusations or indictments Q. If you flip to Page 10 of his 7 declaration, take time to review it, do you see 7 actually led to what you state in here was anything where Chuck Moore states that retirement 8 draining the pension of necessary liquidity? 8 9 9 system officials have been accused or indicted of A. Like I said, I don't -- I am 10 10 struggling because I believe there is a citation any type of fiduciary misconduct? 11 I don't see anything on Page 10 of 11 error in this report. 12 12 this document that is in this verbiage. This THE VIDEOGRAPHER: Excuse me. You're 13 looks like this is an error at some point. 13 rubbing your mike, it's --14 Q. Okay. Do you see anything in the 14 MS. GREEN: Sorry, I think it's my 15 affidavit -- in his declaration that discusses 15 hair touching it. 16 16 THE VIDEOGRAPHER: Sorry about the alleged --17 A. This is -- I'll be honest with you, 17 interruption. 18 this is not the declaration that I thought we were 18 Right, I apologize. I don't believe 19 citing. It is a much, much thicker document from 19 that what you showed me as docket number 13, okay, 20 Chuck Moore. 20 does not comport with what we have cited as the 21 Q. Do you agree that it says docket 21 source of this verbiage. Okay? 22 22 number 13 at the bottom? I have -- all of these points were 23 A. I absolutely agree that's what this 23 communicated, okay, to me by people, all right, 24 says and that's what this looks like in terms of 24 not the -- definitely not this document. Okay. 25 what you've handed to me. But I don't believe 25 So, there's a -- there is an error. Page 552 Page 554 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-1 2 2 this verbiage came from this declaration. There is a -- there's some mistake here and I 3 Q. Okay. 3 don't know what it is, I will obviously get to the 4 A. I think there -- again, there is a 4 bottom of it. But the -- the verbiage that's 5 5 very -- there is a much more -- there's a thick, here, by and large comports with my understanding 6 like -- hundred page Chuck Moore document that I 6 of at least some of the reasons why the pension 7 7 believe should be cited down here, must be because systems and funds became underfunded. 8 8 this isn't it. Do you know when these indictments or 9 9 Q. So you think this is an error? these breaches of fiduciary duty occurred? 10 10 This is an error. This is not --A. Sometime prior to the bankruptcy. this is -- yeah, there's something --Do you know who or which individuals 11 11 12 Q. Aside from the Chuck Moore 12 are being referenced in this bullet point? 13 declaration, assuming you find the proper 13 A. I would -- I wouldn't have any 14 document, do you have any other basis or personal 14 knowledge of who they were. 15 The portion of that sentence that 15 knowledge to make the statement that is the last 16 bullet point? 16 states that that activity contributed to the 17 17 underfunding of the retirement systems, is it your I was told that, again, during the 18 meeting with the pension systems in your office. 18 testimony that someone from the retirement systems actually told you that their underfunding was due 19 Q. You were told --19 20 20 to the activities listed in this paragraph? That --A. 21 O. -- that -- let me finish the 21 I don't have a specific recollection 22 question -- that these activities actually caused 22 of the -- of this statement. Like I said, I am 23 the underfunding to the systems? 23 generally aware of all of the points that are made I'm not -- I was told that there were 2.4 in these bullets. Okay. Rather than write our 24

34 (Pages 551 to 554)

own language, we chose to use someone else's

people involved in the pension systems who were

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Page 555 Page 557 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 declaration which has been incorrectly cited. recollection, is it something you feel comfortable 3 3 So what I'm trying to get at are you leaving in your report as part of your conclusion? 4 A. I don't know until I can figure out 4 really relying on the Chuck Moore declaration or 5 are you relying on statements from people within 5 why a document is cited in error. I can't answer б 6 the system? that question. 7 7 You stated earlier that you didn't A. I'm relying on statements from within O. 8 think it was important to know the timing of the 8 the system, right. And I believe my intent was to 9 9 have -- to use verbiage that was already part of underfunding. 10 10 the proceedings. A. I don't. 11 And why is that? Can you explain 11 Q. Okay. Did you take notes, handwritten notes at this meeting? 12 that a little more? 12 13 13 A. I don't recall. A. I am only tasked with looking at the 14 O. If the attendees from the retirement 14 feasibility of the plan going forward. 15 15 So if your testimony was that any systems disagreed with your characterization that 16 16 they ever told you that these activities led to sort of alleged misconduct with regard to 17 draining of pension fund liquidity or contributing 17 questionable investment strategies occurred during 18 to the underfunding, would you have specific 18 the Kwame Kilpatrick administration, do you 19 19 understand what time period that would be from? recollection to be able to refute that? 20 20 It would be -- yes, it would be back A. I -- like I said, I don't know. I 21 have -- I don't know what I -- I haven't looked at 21 before the Bing administration. 22 this for a long time. I'm sorry. 22 So after the Kwame Kilpatrick 23 Q. Okay. Did you attempt to quantify 23 administration, you do understand the systems were 24 24 then fully funded, correct? the actual economic impact that you attribute to 25 25 I don't know that. this misconduct? Page 556 Page 558 - MARTI KOPACZ - VOLUME II-1 1 - MARTI KOPACZ - VOLUME II-2 2 Okay. In your report you seem to A. I did not. 3 3 opine on the cause of the underfunding as you seem Q. Did you ever speak to Chuck Moore about this portion of his declaration, the larger 4 4 to be attributing it to certain questionable 5 5 one, I suppose? investment strategies. That's why I'm asking 6 6 about the timing of when we became underfunded. A. I have talked to Chuck Moore and 7 7 So I just want to clarify, you have members of my team have talked to Chuck Moore 8 8 extensively about pensions and all of these no idea when the systems became underfunded, 9 9 issues. correct? 10 10 Did you independently verify the four As I sit here today, I do not know O. 11 11 or five bullet points that are here? the specific date when the funds -- the pension 12 Okay. I've just explained to you 12 systems became underfunded. 13 that my instructions to my team were to cite 13 And I believe there was some 14 information that already existed on the record. 14 testimony yesterday in your deposition regarding 15 15 Okay. This is an error. I don't know how many the Great Recession and it's impact on the City of 16 times I have to say this. Okay? 16 Detroit. And if I used the phrase the Great 17 17 Recession, do you understand I generally mean the O. So it's a no? 18 The answer is, I -- when I read this 18 economic downturn from 2008 to 2009? A. I said, I want this cited. Right? Because I 19 19 A. Yes. 20 would -- I'm sure I would have written it 2.0 Do you know who Tom Terry is? Q. 21 differently. I probably wouldn't have put it in a 21 A. I don't. 22 22 bullet format. Okay? I believe that Mr. Neal asked you

35 (Pages 555 to 558)

during questioning whether you intended to review

the expert reports that were issued by all of the

experts in this case?

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24

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So if it is an error and it's not in

the Chuck Moore declaration and it may be in the

other one and you don't have independent specific

23

24

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Page 559 Page 561 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 I may. that's speaking. Can you mute your phone, A. 3 Okay. Are you aware that Mr. Terry 3 please. 4 has been named as an expert related to pension 4 O. If Mr. Ecochinco opines that the fact 5 issues in this case? 5 is that the unpredictable severe turn down in 6 6 A. I don't. investment market returns brought about by the 7 7 Would you have a basis to disagree 2008, 2009 decline in global equity values is the O. 8 key reason for the increase in the UAAL, would you 8 with Mr. Terry's conclusion that upon examination 9 9 it is clear that the GRS UAAL is largely have a basis to disagree with that? 10 10 attributable to adverse investment experience A. I have no idea. 11 since 2007, and not due to any sort of systemic or 11 Would you have a reason to disagree 12 12 deliberate underfunding of the plan caused by the with Mr. Bigelow, who we spoke about earlier, the 13 13 chief investment officer for the systems, if he actuarial funding policy? 14 A. I have no idea. 14 were to testify that the predominant cause of the 15 15 systems in underfunding was also was the Great O. Would you have a basis to disagree 16 with his statement that due in large part to the 16 Recession? Would you have a basis to disagree 17 actuarial losses experienced in the severe 17 with that? 18 economic downtown from 2008 to 2009, the GRS's 18 A. I don't know. 19 UAAL has since grown substantially and that this 19 Q. You were presented earlier with a 20 increase is largely due to the unforeseen 20 chart showing return rates. I think it's Exhibit 21 investment performance in fiscal years 2008 and 21 4. Prior to seeing this document, were you aware 22 2009? 22 of the year-to-year funding -- or, I'm sorry, 23 23 assumed rate of return -- returns achieved by the A. I have no idea. 24 24 O. Would you have a basis to disagree systems? 25 with his conclusion that the current underfunding 25 A. I am -- I was aware of the assumed Page 560 Page 562 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 liability is not the result of, as the City rate of return. 3 3 claims, alleged systematic underfunding over the Q. I'm sorry, like the year to year, last several decades, but instead, is largely due what was actually achieved, the actual investment 4 4 5 5 to the Great Recession? experience on behalf of the systems? 6 6 I have seen information like that I have no idea. A. A. 7 7 O. Would you have a basis to disagree before. with his conclusion that GRS's experience is 8 8 O. Okay. Can I draw your attention to the 2008 line? 9 hardly unique, pension plans and other 9 10 institutions across the country had similar 10 Yes, I see that. A. 11 11 experiences? For GRS it shows investment loss of O. 12 A. I don't know. 12 negative 25.65. 13 Are you familiar with the expert 13 Do you see that? 14 14 report issued by Joseph Ecochinco on behalf of A. I do. 15 Oakland County? 15 O. For PRFS, it's 24.63 loss? 16 Α. No. 16 Α. That's correct. 17 O. Would that be one of the expert 17 Do you have an understanding of what 18 reports that you would perhaps review? 18 typical losses were to other public pension 19 A. Maybe. 19 systems in the year 2008 due to the Great 20 Do you understand that Mr. Ecochinco 20 Recession? 21 has been retained as a pension issues related 21 A. I have not looked at that right now. 22 22 Did you consult any publications or person? studies to compare how the Detroit retirement 23 I have no knowledge of that. 23 24 MR. LERNER: Excuse me. There's 24 systems faired compared to other public pension 25 someone on the telephone at the deposition 25 systems?

Page 563 Page 565 1 1 - MARTI KOPACZ - VOLUME II-- MARTI KOPACZ - VOLUME II-2 2 A. I did not. one that you recall looking at? 3 Q. Do you think that that would be 3 A. I -- I have not looked at this. 4 4 Okay. The title of the document is relevant to your conclusion that questionable 5 investment strategies were utilized by the 5 Public Funds Survey Summary of Findings for Fiscal 6 6 systems, would that cause their underfunding? Year 2008. It was released in 2009. 7 7 I am -- as I said, before I am If you go to Page 2 on the left-hand 8 reciting information that I received from pension 8 column, in the second paragraph it states: "The 9 9 system people. Okay. And what is important to me market decline in 2008 resulted in a median 10 is the level of underfunding in the pension 10 investment return for public pension funds of 11 systems as of the filings and today and how that 11 negative 25.3 percent for the year." 12 is going to be dealt with in the future. 12 Do you see that portion? 13 And you understand that the 13 I do, it's highlighted. A. 14 underfunding as of the filing, if we look at this 14 O. And in comparison to the investment 15 losses that were incurred by the Detroit 15 document --16 16 retirement systems in 2008, if you compare those Which document? A. 17 Q. Exhibit 4. 17 to Exhibit 4, does it appear that our investment 18 A. This doesn't give anything on 18 losses were actually in line with the median 19 19 investment losses for other public pensions? underfunding. 20 20 The numbers appear to be similar, I understand that. You already 21 stated you didn't know that it was fully funded in 21 yes. 22 22 2000 -- the end of 2007, correct? If the systems fared in line with Q. 23 I don't know one way or another. 23 what other public pension -- how other public A. 24 24 pension systems performed, does that change your Okav? 25 25 opinion at all as to whether questionable O. Okay. Did you review any data from Page 564 Page 566 1 - MARTI KOPACZ - VOLUME II-1 - MARTI KOPACZ - VOLUME II-2 the United States Census Bureau related to public 2 investment strategies are what caused their 3 3 underfunding? pensions? 4 4 A. I did not personally, no. A. Ms. Green, with all due respect, 5 5 You testified earlier that you were okay, I really don't, at the end of the day, care 6 not familiar with NCPERS -- it was used earlier, 6 about how they got underfunded. Okay? They are 7 7 it's N-C-P-E-R-S. Mr. Wagner showed you a underfunded. There is treatment in the Plan of 8 8 document I believe from NCPERS. Reorganization -- Plan of Adjustment that I have 9 9 A. He did. to assess relative to feasibility. 10 10 Are you familiar with the I understand you and your client O. 11 organization NASRA? really don't like the verbiage that's in my 11 12 I am -- yes, I am familiar with that 12 report. Okay? I get that. But I simply don't 13 trade association because we used some of their 13 care about how they got there. I only care about where they are today and what's going -- what 14 14 information. 15 Did you happen to consult the public 15 their treatment is in the Plan of Adjustment. 16 funding survey for fiscal year 2008 published by 16 So I am not going to have any 17 17 opinion, any point of view, any perspective on NASRA? 18 anything that happened in 2008, 2007, 1997 or 18 A. I would have no need to do that. 19 19 MS. GREEN: Okay. I'm going to mark whatever. 20 20 this as Exhibit 11. So would you agree with me that the 21 (Whereupon, Kopacz Exhibit 11 was 21 portion of your report on pages 127 and 128 is 22 22 marked at this time.) largely irrelevant? 23 23 BY MS. GREEN: MR. KANE: Objection. You can 2.4 24 So you stated you may have looked at answer. 25 some NASRA publications. But this one -- is this 25 It is a recitation of what I believed

37 (Pages 563 to 566)

	Page 567		Page 569
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	at the time to be, arguably, facts.	2	interviews, was it your practice to take notes?
3	Q. If we looked at the facts today that	3	A. Yes.
4	appear to not support what's in your report, and	4	Q. Okay. And did you retain your notes
5	as Mr. Neal asked you previously, will you be	5	for the meetings you had?
6	reissuing a report or supplementing your report or	6	A. For the most part, yes.
7	changing any parts of your analysis based on new	7	Q. Do you know if that was true of the
8	facts that you've learned either from	8	others in your group?
9	MR. BLANCHARD: Objection.	9	A. I don't know.
10	A. I don't think so I don't believe	10	Q. Okay. Very good.
11	that any of the items that are cited on Page 128	11	Now, with respect to your report,
12	and 129 are significantly materially incorrect.	12	there is a mention and I will tell you I don't
13	Okay? And they are simply words to help the	13	know where it is of OPEB?
14	reader appreciate some of the reasons that the	14	Do you understand what OPEB is?
15	pension funds today are underfunded.	15	A. I do.
16	Q. Did you do an analysis of how much	16	Q. It's basically healthcare that is
17	the City owes in unpaid annual employer	17	being provided to employees and retirees; is
18	contributions to each of the systems and how that	18	that
19	impacted the underfunding?	19	A. Other healthcare and other
20	A. I'm sorry. Could you repeat that?	20	insurances.
21	(The requested question was read back	21	Q. Okay. Other post-employment
22	by the reporter.)	22	A. Employment benefits, right.
23	A. I don't know the answer to that.	23	Q. Okay. Do you understand how the
24	THE VIDEOGRAPHER: We have to change	24	fourth amended and now the fifth amended Plan of
25	tape.	25	Adjustment treats OPEB obligations?
	Page 568		Page 570
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	MS. GREEN: I think it's time to	2	A. I haven't read the fifth. The
3	change tape.	3	fourth, yes.
4	THE VIDEOGRAPHER: Thank you. The	4	Q. Okay.
5 6	time now is approximately 12:30 p.m. We're	5 6	A. Yes.
7	going off the record. This is the end of Disk Number 2.	7	Q. Okay. And what is your understanding of the treatment of OPEB for retirees?
8	(Whereupon, there was a brief recess	8	
9	in the proceedings.)	9	A. For people who are retirees, generally eliminated.
10	THE VIDEOGRAPHER: The time now is	10	Q. Do you understand that there will be
11	approximately 12:37 p.m. We're back on the	11	money placed into VEBAs for those people?
12	record. This is the beginning of Disk	12	V-E-B-A, all caps, which I believe is
13	Number 3.	13	stands for Voluntary Employment Benefits
14	rumoer 3.	14	Association.
15	EXAMINATION BY MR. ALBERTS:	15	A. Yes.
16	Q. Good afternoon, Ms. Kopacz.	16	Q. Did you consider the payment of
17	A. Good morning. Good afternoon.	17	towards those VEBAs in your analysis of
18	Q. I think we just passed the noon hour.	18	feasibility?
19	My name is Sam Alberts, I'm from	19	A. I believe those payments are included
20	Dentons and I represent the official committee of	20	in the City's projections.
21	retirees. I just have a few questions and I think	21	Q. Okay. Did you find that the amount
22	I may be the last one here so hopefully we can get	22	affect payment paying toward VEBAs affected
23	you out of here.	23	feasibility in your view?
24	A. Okay.	24	A. I don't recall that it did.
25	Q. Ms. Kopacz, you when you conducted	25	Q. Okay. All right. If it had been a
			38 (Pages 567 to 570)

	Page 571		Page 573
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	concern, do you think you would have listed that	2	Q. Is that what you did?
3	in your report?	3	A. That is what I did.
4	A. Yes.	4	Q. Paragraph 3, I'm going to paraphrase,
5	Q. Okay. Did you speak with anybody	5	says you're not supposed to do anything else
6	from Siegel Consulting in in creating your	6	unless the Court orders you to do it.
7	report?	7	Do you agree with that
8	A. I did not.	8	characterization?
9	Q. Okay. Do you know who Siegel	9	A. Yes. Paragraph 2 above, are the only
10	Consulting is?	10	matters that the Court's expert is authorized
11	A. I do not.	11	authorized to investigate, reach a conclusion on
12	MR. ALBERTS: Okay. I have no	12	or testify about.
13	further questions.	13	Q. Has the Court ever ordered you to
14	MR. KANE: I want to ask you just a	14	prepare your own financial projections for the
15	couple of questions for the record, just to	15	City or take the data underlying the City's
16	clean up a couple of things.	16	financial projections and apply other valuation
17	EXAMINATION BY MR. KANE:	17	methodologies, approaches I should say
18	Q. So one is you were asked yesterday	18	projection or forecasting methodologies or
19	about prior expert testimony.	19	approaches to it?
20	Do you remember that?	20	A. No.
21	A. I was. I do.	21	MR. KANE: Thank you. That's it.
22	Q. To your knowledge, is your prior	22	THE VIDEOGRAPHER: Anybody on the
23	expert testimony was that disclosed in your	23	phone have any questions?
24	application that was filed with the Court?	24	Okay. Thank you. This concludes the
25	A. It was.	25	August 1st, 2014 videotaped deposition of
	Page 572		Page 574
1	- MARTI KOPACZ - VOLUME II-	1	- MARTI KOPACZ - VOLUME II-
2	Q. Okay. You were asked yesterday about	2	Marti Kopacz, day 2 of this deposition.
3	not preparing your own financial projections and	3	The time is approximately 12:43 p.m.
4	not taking the data underlying the City's	4	We're off the record and finished for the
5	projections and applying other methodologies or	5	day. There are three DVDs to today's
6	approaches or pharmaceutical double blind issues	6	deposition.
7	to them.	7	(Whereupon, the deposition concluded
8	Do you remember that?	8	at 12:43 p.m.)
9	A. I do.	9	· · · · · · · · · · ·
10	Q. Take out Exhibit 2 to your	10	
11	deposition.	11	
12	So, look at Paragraph 2B. And what	12	
13	is what is that Exhibit 2 is the order	13	
14	appointing you as the Court's independent expert,	14	
15	correct?	15	
16	A. Yes.	16	
17	Q. What does Paragraph 2B direct you to	17	
18	do with respect to the financial projections?	18	
19	Can you just read it?	19	
20	A. Yes. "The Court's expert witness	20	
21	shall investigate and reach a conclusion on, B,	21	
22	whether the assumptions that underlie the City's	22	
23	cash flow projections and forecasts regarding its	23	
24	revenue, expenses and plan payments are	24	
25	reasonable."	25	
45			

39 (Pages 571 to 574)

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Page 575
             - MARTI KOPACZ - VOLUME II-
 1
 2
             ACKNOWLEDGEMENT
 3
 4
       STATE OF NEW YORK
 5
                     ) ss.
       COUNTY OF NEW YORK
 6
 7
 8
          I, MARTI KOPACZ, hereby certify that I have
 9
       read the transcript of my testimony taken under
10
       oath in my deposition of August 1, 2014; that
       the transcript is a true, complete and correct
11
12
       record of my testimony, and that the answers on
13
       the record as given by me are true and correct.
14
15
               MARTI KOPACZ
16
17
18
       Subscribed and sworn
19
       to before me on this the
                                      , 2014.
20
                day of
       Notary Public, State of New York
21
22
23
24
25
                                            Page 576
 1
             - MARTI KOPACZ - VOLUME II-
 2
              CERTIFICATE
 3
       STATE OF NEW YORK
 4
                   ) ss.
 5
       COUNTY OF NEW YORK
 6
 7
         I, HOPE LYNN MENAKER, a Notary Public within
 8
       and for the State of New York, do hereby certify:
 9
         That MARTI KOPACZ, the witness whose
10
       deposition is hereinbefore set forth, was duly
11
       sworn by me and that such deposition is a true
       record of the testimony given by the witness.
12
13
          I further certify that I am not related to
14
       any of the parties to this action by blood or
15
       marriage, and that I am in no way interested in
16
       the outcome of this matter.
17
              IN WITNESS WHEREOF, I have hereunto
18
       set my hand this August 4, 2014.
19
20
21
               HOPE LYNN MENAKER
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40 (Pages 575 to 576)

EXHIBIT 9

Amendment No. 7 to Statement of Work (Exhibit 4568)

Amendment No. 7 to Statement of Work

This amendment, dated July 17, 2013 and effective as of June 1, 2013 (this "Amendment") amends the Professional Services Contract, dated as of October 28, 2011 and effective as of May 16, 2011 and amended by Amendments 1- 6 (the "Prior Amendments") dated November 1, 2011, March 1, 2012, July 1, 2012, October 23, 2012 and December 3, 2012, April 4, 2013 respectively (as so amended, the "Original Agreement" and as modified by this Amendment, the "Agreement"), between Ernst & Young LLP ("we" or "EY") and the City of Detroit – Finance Department ("you" or "City"). Capitalized terms used, but not otherwise defined, in this Amendment shall have the respective meanings ascribed to them in the Original Agreement and identical terms defined in this Amendment and in the Original Agreement shall have the respective meanings ascribed to them herein. Except as modified by this Amendment, all terms and conditions of the Original SOW shall continue

Except as modified by this Amendment, all terms and conditions of the Original SOW shall continue in full force and effect and be unaffected by this Amendment.

Clarifications

For the avoidance of doubt, each of the parties acknowledges and agrees as follows: (i) the date of the Agreement is deemed to be October 28, 2011, the date on which the Purchasing Director of the City of Detroit signed the Original Agreement (prior to the Prior Amendments), and the effective date of the Agreement is May 16, 2011 as contemplated by Section 4.02 of the Agreement; (ii) each of the Prior Amendments states that it amends a statement of work entered into by the parties on June 16, 2011, but that no such statement of work was executed; (iii) the Prior Amendments actually amended Exhibit A (with respect to scope of the Services and timetable for performance) and Exhibit B (with respect to fees) of the Agreement; and (iv) each of the Prior Amendments shall be deemed an amendment to the Agreement and be in full force and effect with respect to the subject matter thereof, notwithstanding the incorrect reference to a statement of work.

Engagement Team

Gaurav Malhotra (Engagement Partner) will lead the EY team overall in providing the restructuring services described herein (the "Services") and will be supported by other senior members including Joseph Fontana (Partner) in connection with the public lighting department and Robert Cline (Director) in connection with long term tax revenue estimates. If any of these individuals ceases to provide Services to the Client pursuant to the Agreement, EY will so advise the Client and, if that person is replaced, provide the Client with the name of that professional's replacement. Other staff not identified herein may be utilized as required to conduct our work in an efficient manner.

Scope of services

Exhibit A of the Original Agreement is hereby amended and supplemented by adding the following additional activities (the "Additional Summer 2013 Services" and together with the services provided for under the Original Agreement, the "Services") to be performed by EY from and after the date hereof:

Financial restructuring and plan development:

- Assist the City in the development of a financial restructuring plan to:
 - o establish a framework to evaluate the long term financial resources available to the City's general fund to perform core functions;
 - o evaluate cash flows available to fund current and legacy liabilities under alternate scenarios; and
 - o evaluate liquidity implications of restructuring the City's outstanding debt and contingent liabilities;
- Assist the City in the preparation of a ten year financial forecast for the City's general fund;
- Prepare sensitivity analysis that explains the relative reliance on certain assumptions within the ten-year forecast;
- Assist the City with cash flow forecasting for the City's general fund and reporting under various restructuring scenarios;
- ▶ Design and prepare a short term liquidity management/cash flow template that incorporates detailed sources and uses of cash (13-week cash flows) and related budget to actual variance analysis for the City's general fund;
- Evaluate alternate scenarios for the City to manage its exposure to other post employment benefit OPEB liabilities (alongside Milliman);
- Assist the City in evaluating the financial impact of its negotiations with counterparties including unions, debt holders, swap counter-parties, retirees, as needed; and
- Exactivities.

Preparation of 10-Year tax revenue estimates for the General Fund:

- Evaluate existing 10-year static revenue estimates;
 - o In connection with this activity, the City shall provide EY with access to the underlying key economic variable forecast that drives the current 10-year tax base forecast. In addition, EY will work with the economists in the Office of Revenue and Tax Analysis in the Michigan Department of Treasury to evaluate the State's revenue sharing estimate and any available state forecast for future years.
- ▶ Prepare a revised 10-year estimate of the major City revenue sources based on economic trends:
 - o In connection with this activity, EY will apply current-law tax rates to the new tax base estimates in deriving a revised 10-year revenue forecast.

- Prepare 10-year forecasts for alternative tax scenarios as reasonably requested by the City;
 - o EY will prepare estimates of General Fund tax revenue for alternative tax structures selected by the City. EY's estimates will be based on the revised economic and tax base forecasts referenced above. In this step of the project, at the City's request, EY will provide the City with general feedback and tax policy perspectives on possible changes in the existing City tax structure. However, EY will not make specific tax policy recommendations for tax structure changes.
- EY will assist Client in evaluating the expected economic impacts on the City of Detroit's economy of selected tax reform options. To estimate the "dynamic" economic impacts of tax policy changes, EY will use the Regional Economic Models, Inc. ("REMI") model of the City economy; and
- EY will estimate the expected increase in Detroit tax collections due to a stronger economy under various scenarios mutually agreed by the parties and will estimate the tax collection increases that may accrue to the State of Michigan under such circumstances.

Please note that this workstream was commenced in May, 2013 and the fees incurred through May 31 for this workstream are \$93,479 which has been billed separately.

Public Lighting Department Transaction Diligence:

- Assist the Public Lighting Department ("PLD") in evaluating the restructuring;
- Conduct interview with appropriate personal of PLD and other professionals;
- Assist Client in engaging third-party engineering study in order to assess any proposal to replace Client's T&D system, including capital and operations and maintenance costs;
- Understand the current revenue profile (i.e., KWh sales, tariff rate, customer population, etc). Recommend if Client should immediately increase the tariff rate to existing customers to reduce the current losses Client is bearing because the cost to provide electricity is higher than Client's cost to procure power and deliver it to its customers;
- ▶ Gather and compile preliminary data on assets and liabilities for assessment purposes, including potential scrap value;
- Identify interdependencies between DTE Energy and PLD, if any;
- ► Consider Client's options with respect to the Mistersky Power Plant (e.g., abandon in place or "brownfield" option); and
- ▶ Prepare draft findings to Client regarding the foregoing matters.

Please note that the workstream above was covered under Amendment 6 which will be billed separately. Additional activities related to the PLD restructuring beyond June 1, 2013 will include the continuation of the workstreams above, evaluation and analyses of third-party proposals and recommendations on the City's long term approach for PLD.

- Upon the City's request in the event that the City considers filing for Chapter 9, EY will provide the following services:
 - Assist management with respect to pre-bankruptcy contingency planning and post-bankruptcy implementation;
 - Assist the City's legal advisors with the preparation of first day motions;
 - Interface with the claims agent, as required; Provide financial analyses as reasonably requested by the City in connection with its potential resolution of claims;
 - Assist the City and its legal advisors in the preparation of the Schedule of Liabilities;
 - Assist the City with its establishment of a critical vendor program;
 - Assist the City with communication and reporting to various parties in interest, including creditors and their advisors;
 - Advise and assist management from a financial (and not legal) perspective in the development and preparation of the Plan of Reorganization and Disclosure Statement;
 - Provide a written declaration concerning the facts of EY's performance of the Services to date and the results thereof; and
 - Assist the City with the coordination and production of financial information required by various constituents and their legal and financial advisors.
- Provide additional assistance as requested by you and agreed by us in connection with the foregoing activities.

For the avoidance of doubt, the Services do not include EY serving as an expert witness in connection with your Chapter 9 proceedings or otherwise.

Timetable

The Section of Exhibit A of the Original Agreement entitled "Timetable" is hereby amended and supplemented by adding the following: "We expect to perform the Additional Summer 2013 Services during the period from June 1, 2013 to December 31, 2014. Changes to this time schedule may be agreed in writing by the parties."

Fees

Exhibit B of the Original Agreement is hereby amended and supplemented by adding the following:

"Our fees for the Additional Summer 2013 Services effective June 1, 2013 will be based upon the actual time incurred by our professionals at 65% of our standard hourly rates." Our Discounted Billing Rates are included in Annex A.

For any period prior to a potential Chapter 9 bankruptcy filing and beginning June 1, 2013, EY will cap its fees to the lower of actual time incurred at the above mentioned rates or \$250,000 per week.

For purposes of clarity, the above cap will not apply in the event the City files for Chapter 9 bankruptcy. Following a Chapter 9 filing, our fees will be based on the actual time incurred by our professionals at 65% of our standard hourly rates. The monthly fees will be subject to a 10% holdback that will be payable upon the confirmation of a Plan of Adjustment of Debts by the Bankruptcy court by December 31, 2014. In the event a Plan of Adjustment of Debts is not confirmed by December 31, 2014, the cumulative holdback amount will not be payable.

We may revise these rates from time to time upon notice to you.

In addition, you shall reimburse EY for its direct expenses incurred in connection with the performance of the Additional Summer 2013 Services, which shall include reasonable and customary out-of-pocket expenses for items such as travel (air fare and ground transportation), hotel, meals, accommodations, telephone, facsimile, overnight mail, messenger services and other expenses specifically relating to the applicable Services.

We will be billing our fees and expenses on a bi-weekly basis and our invoices are due upon receipt. Your obligation to pay our fees is not contingent upon the results of the Services (including, without limitation, the Additional Summer 2013 Services) or the consummation of any transaction. As you are aware, our existing contract requires the payment of invoices upon receipt.

If you file for bankruptcy protection under Chapter 9 of the Bankruptcy Code, you shall pay all of our outstanding invoiced amounts to us in immediately available funds by wire transfer before you commence the case. If you file for bankruptcy protection under Chapter 9 of the Bankruptcy Code, you shall pay all of our outstanding invoiced amounts to us in immediately available funds by wire transfer before you commence the case.

Responsibilities

Client accepts responsibility for the results of the Additional Summer 2013 Services. Client's approval of any Services shall not constitute a waiver of any of its rights under this Amendment. Client further agrees to establish and maintain internal controls in connection with the Services, including monitoring EY's performance under this SOW.

Contacts

The City's contact for the Additional Summer 2013 Services will be Kevyn Orr. EY's contact for such Services will be Gauray Malhotra.

In witness whereof, the parties have executed this Amendment as of the date set forth above.

Ernst & Young LLP

By: Jamanathall

Name: GAURAV MALHOTRA

Title: PRINCIPAL

City of Detroit

Зу: _

Name: KEVYN D. OR

THE EMPROSICT INFRANCEIC

The terms of this Amendment, the SOW and the Agreement are hereby approved and ratified in all respects as valid and binding obligations on the City of Detroit:

By:

Kevyn D. Orr

Enjergency Manager

City of Detroit

Annex A: Discounted Billing rates

<u>Title</u>	Discounted Billing Rates
Partner/Principal	\$693 - \$805
Senior Manager	\$555 - \$658
Manager	\$455 - \$550
Senior	\$350 - \$410
Staff	\$185 - \$225